57th ANNUAL REPORT

For the Year Ended December 31, 1948

National Lead Company

INCORPORATED DECEMBER 8, 1891

Executive Offices: 111 Broadway, New York 6, N. Y.

THE PRESIDENT'S MESSAGE

March 10, 1949

To the Stockholders of National Lead Company:

THE OPERATIONS of your Company during the year 1948 reflected primarily a continuation of the conditions which have existed since the close of World War II. Prices of most of the basic raw materials used continued to rise. The shortages of these materials, which have been pointed out in prior reports, continued during the year. The Company was still engaged in great degree in meeting the increased post-war demand for its products.

As in 1947, the Company's dollar volume of sales reached a new high and the net earnings for the period were the largest ever reported by the Company. It should be noted in this connection, however, that the reduction in the purchasing power of the dollar, which has taken place over the last decade, has had very much the same effect on a corporation's finances as it has had on those of individuals. While the Company last year sold more goods, in terms of dollars, and earned more money, its costs in most respects were also higher. Under today's conditions it becomes necessary to achieve larger earnings merely to maintain a healthy financial condition. It is a source of satisfaction that your Company was able to do this in 1948.

EARNINGS

Net income for 1948 amounted to $13,304,355, as compared to $12,180,132 for the preceding year. The 1948 earnings are equal to $3.62 per share of Common stock outstanding, after payment of the regular dividends on the Company's Preferred stock. In 1947 the net income earned per Common share was $3.27. The increase in earnings reflects primarily the greater volume of sales achieved in 1948.

The above earnings include dividends received from domestic companies not wholly owned and from foreign subsidiaries. It is estimated that the Company's equity in the net undistributed earnings of these affiliates and

Financial Highlights

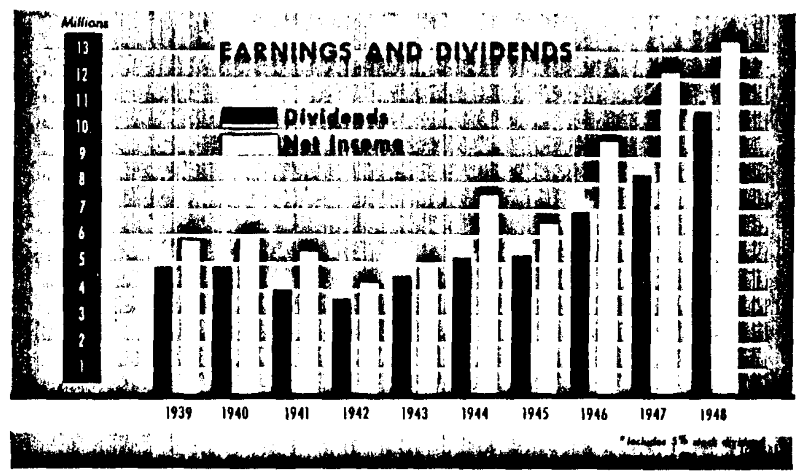
	1948	1947
SALES	$320,457,301	$268,026,394
EARNINGS	13,304,355	12,180,132
TAXES	15,769,774	14,046,827
DIVIDENDS, Per Share	1.25 (plus 5% stock dividend)	2.00
EARNINGS RETAINED FOR USE IN THE BUSINESS	2,547,341	3,939,481

subsidiaries, excluding those located in Continental Europe, for the year 1948 amounts to 44¢ per share on the Common stock. This compares with 29¢ per share reported for 1947, the increase reflecting the fact that, while operations of these companies have been successful, working capital requirements and other restrictions have made necessary the retention of a larger portion of the earnings in these businesses.

DIVIDENDS

Of the total of $13,304,355 earned during the year, $5,954,649 was distributed in cash dividends to the stockholders. Holders of the Preferred shares received regular dividends amounting to $2,085,512. The remainder was paid to the Common stockholders in the form of quarterly payments of 25¢ per share and an extra dividend of 25¢ per share which was paid in December.

In addition to $1.25 per share in cash, the holders of the Common stock received in December a dividend of one share of Common stock for each twenty shares held. A total of 154,915 shares was distributed in this manner. To record this stock dividend, a charge of $4,802,365 was made against Earned Surplus, reflecting a market value of $31.00 per share. The par value of the shares involved, $1,549,150, was credited to Capital Stock account and the balance of $3,253,215 was transferred to Capital Surplus.



By paying part of 1948 Common dividends in stock, your Company was able to finance increases in inventories and plant investment, among others, while at the same time continuing the return to stockholders in a reasonable relationship to earnings.

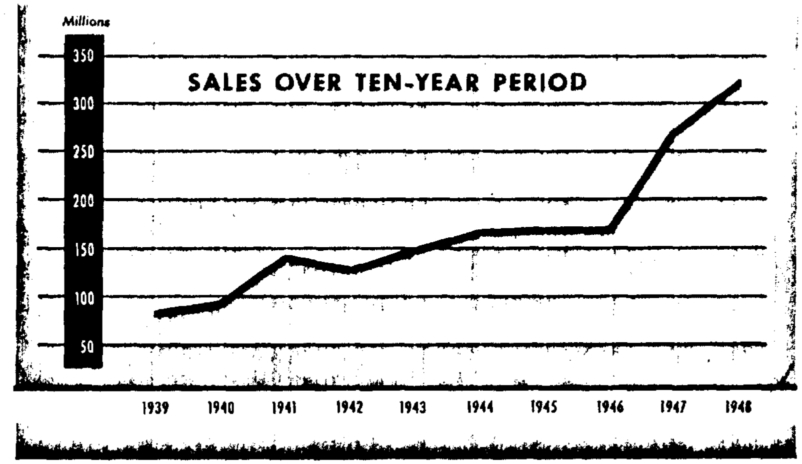
The aggregate of the charges to Earned Surplus for cash and stock dividends paid during the year on the Common stock amounted to $2.80 per share outstanding. Cash dividends paid on the Common stock during 1947 totaled $2.00 per share. Earned Surplus account increased $2,547,341 in 1948 over the balance at December 31, 1947.

SALES

Total sales for the year 1948 amounted to $320,457,301, an increase of 20% over the $268,026,394 reported for the preceding year. In some lines, higher prices were responsible for the rise in sales; in others, larger physical volume was the cause.

In those portions of the Company's business where lead is an important raw material there were slight decreases in tonnages shipped during 1948, when compared with the previous year. In terms of dollars, however, these sales showed an actual increase as a result of the price increases put into effect by producers of primary lead during the year. At December 31, 1947, the price of common pig lead (New York) was 15¢ per pound. After successive increases to 17½¢ on April 5, 1948, and 19½¢ on July 28, 1948, common pig lead reached an all-time high of 21½¢ per pound on November 1, 1948. This was the price which prevailed at the close of the year, as opposed to a figure of 6½¢ in effect at the close of World War II. It has been pointed out in prior reports, and is here noted again, that these price increases have had a negligible effect upon the earnings of the Company, which is a fabricator rather than a producer of raw lead.

Rotary kilns used in processing of titanium dioxide pigments at Sayreville, N. J., plant.



Substantially greater tonnages of material were shipped during 1948 by the Titanium and Baroid Sales Divisions of the Company. Expansions of productive capacity, which had been under way since the close of the war, became effective during the year. The Company was thus better able to meet the demands of its customers for larger quantities of these products than had previously been available.

TAXES

The total tax expense of the Company for 1948 was $15,769,774, exceeding the all-time high of $14,046,827 reached in 1947. Expressed in terms of each share of Common stock outstanding, this amount was equivalent to $5.09, or almost twice the value represented by the dividends paid to Common stockholders during the year.

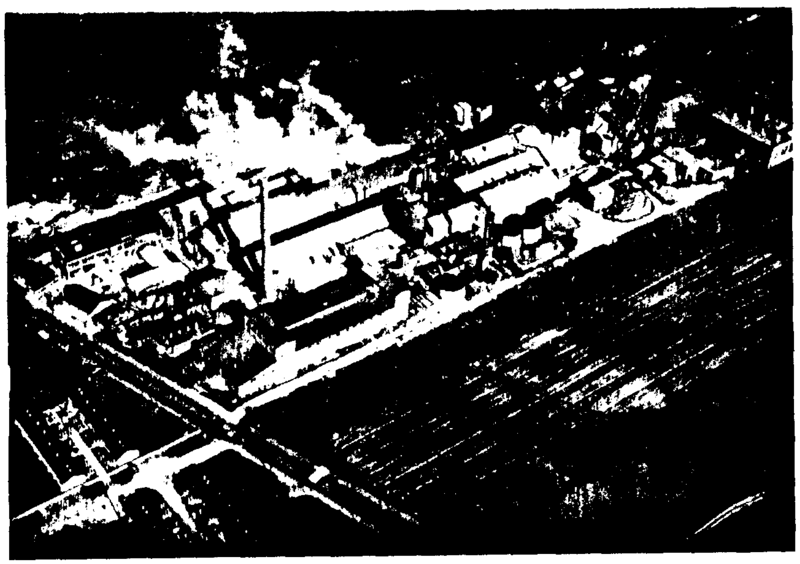
The increase in the Company's tax bill over the year 1947 reflects the increase in earnings for the year.

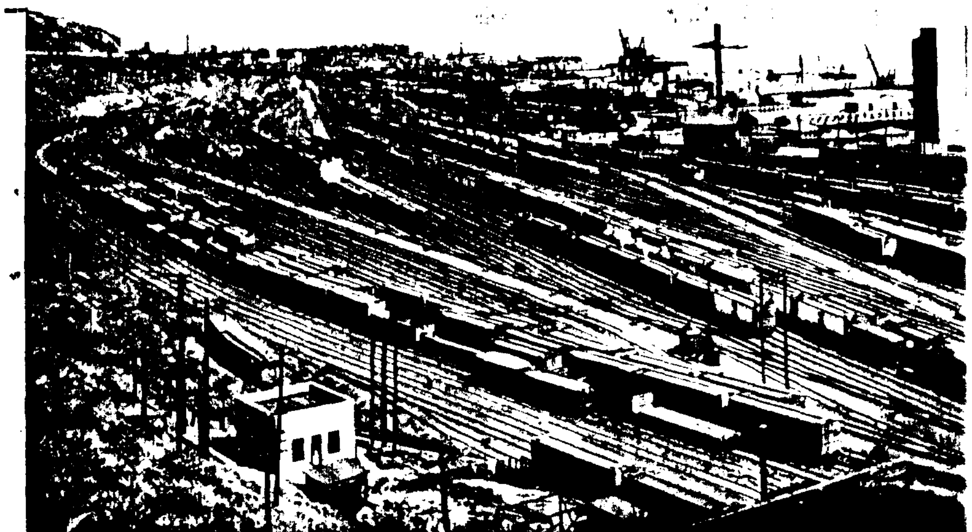
PLANT INVESTMENT

Expenditures for additions to plant account during the year totaled $13,208,521. Partially offsetting this increase was the retirement of fully depreciated and obsolete buildings, machinery and equipment, with a total book value of $1,636,046. In addition, one of the Company's plants that was carried on the books at a gross cost of $432,408 and whose production had been transferred to another location, was sold during the year. The net increase for the year in plant, property and equipment was $11,140,067, bringing this account to a new high of $133,879,240.

The additions to plant account represent largely a continuation of the program of expansion begun after the close of World War II. The major portion of the total of $13,208,521 cited above was expended to increase production of the Company's Titanium, Baroid and Magnus Divisions. Also

Niagara Falls, N. Y., plant of Titanium Alloy Manufacturing Division.

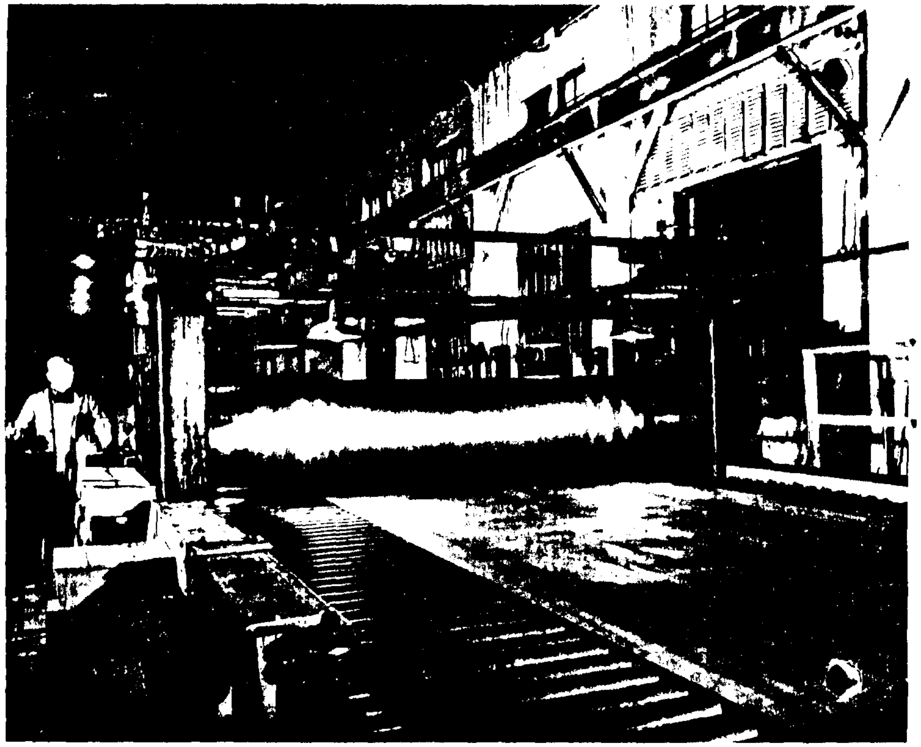




Bearings and lubricating equipment are supplied to leading railroads by the Magnus Metal Division.

included in this figure is the cost of the Company's new paint factory at Los Angeles, Calif., and of the assets acquired from The Titanium Alloy Manufacturing Company, which transaction is discussed elsewhere in this report.

Over the past four years the Company has expended a total of $42,-092,614 for additions to its plants, property and equipment. The items comprising this total have been discussed in detail in the Annual Reports for the various years in which the expenditures were made. The curtailment of plant expansion made necessary during the war period, together with the substantial growth which has taken place in the demand for certain of the Company's products, made the investment of the Company's funds in this manner desirable and advantageous. The increases in output of the Company's products resulting from this program have already been men-



Sheet lead mill in Perth Amboy, N. J., factory.

tioned as contributing to the increase in sales volume reported for 1948.

Depreciation, depletion and amortization charged against earnings during the year aggregated $3,752,969, as compared to $3,115,447 for the year 1947. The increase in the amount of this charge reflects depreciation on new plant installations added to the property account during 1947. The balance of the depreciation reserve at December 31, 1948, $59,856,625, reflects not only the normal charge against earnings but also the addition of the reserve applicable to the assets acquired from The Titanium Alloy Manufacturing Company and the withdrawal of the reserves applicable to the property retired or otherwise disposed of during the year.

The net property account at the end of the year carried a balance of $74,022,615, as compared with $65,331,325 at the close of 1947.

INVENTORIES

The Company's gross inventories, as reported on the Balance Sheet, increased from $44,550,399 to $59,118,313 over the twelve months of 1948. During the same period the inventory reserve increased $5,810,483, to a year-end balance of $22,538,007.

The gross value of the inventories carried in connection with the Company's activities in the non-ferrous metals field showed an increase of $10,969,950, primarily as the result of changes in metal prices. Under the Company's normal stock system of inventory valuation, the effects on earnings of this increase were minimized by the additions made to the inventory reserve.

The balance of the increase in gross value is represented by larger physical quantities of material carried in inventory in other phases of the Company's business. During the past four years, demand for such products as titanium pigments and drilling mud compounds has been so great that it has been necessary to operate with stocks on hand which were, in many cases, below the level desirable to provide efficient and prompt service to customers. Increased production during the year permitted these inventories to increase somewhat, so that at the year-end they stood at levels which were more satisfactory when viewed in the light of the volume of business being done.

Although inventories of certain products were enlarged during the year in the interest of more effective operations, strict control continues over physical quantities in all lines.

The Company has for a number of years been considering the advantages which would accrue were it to adopt one of several systems of valuing inventories, including the last-in first-out method, to replace the normal stock system presently employed. The studies which have been made in this connection indicate that the financial benefits which would result over a given period would not be important enough to warrant the change, especially in view of the fact that the present method is well suited to the Company's business and has served over many years to minimize the effects of market fluctuations on its earnings.

CAPITAL REQUIREMENTS

Over the past four years the Company has been faced with a steadily growing need for working capital for use in the conduct of its business. The substantial investment in fixed assets to provide increased production capacity has been an important factor in this picture. Of equal significance has been the effect of the rising cost of labor, materials and other operating expenses upon the amounts invested in trade receivables and inventories, both of which reflect directly the increased sales volume which has been achieved.

With the present program of expansion of capacity virtually completed, it is not anticipated that cash requirements for this purpose will be as extensive as they have been in the recent past. It must be borne in mind, however, that current rates of depreciation are based upon original costs rather than today's higher replacement cost and that this fact must be taken into consideration in determining how much of the Company's earnings are to be reinvested in the business.

It would likewise appear that requirements for funds to maintain the Company's current position have reached a peak, barring the possibility that further price increases, particularly in metals, may occur. Your Management had hoped that it would be possible to meet these requirements out of existing funds and reserves. However, seasonal fluctuations in the Company's business have made necessary the borrowing of small amounts on a short-term basis. It is expected that these loans will be liquidated during the year.

FOREIGN OPERATIONS

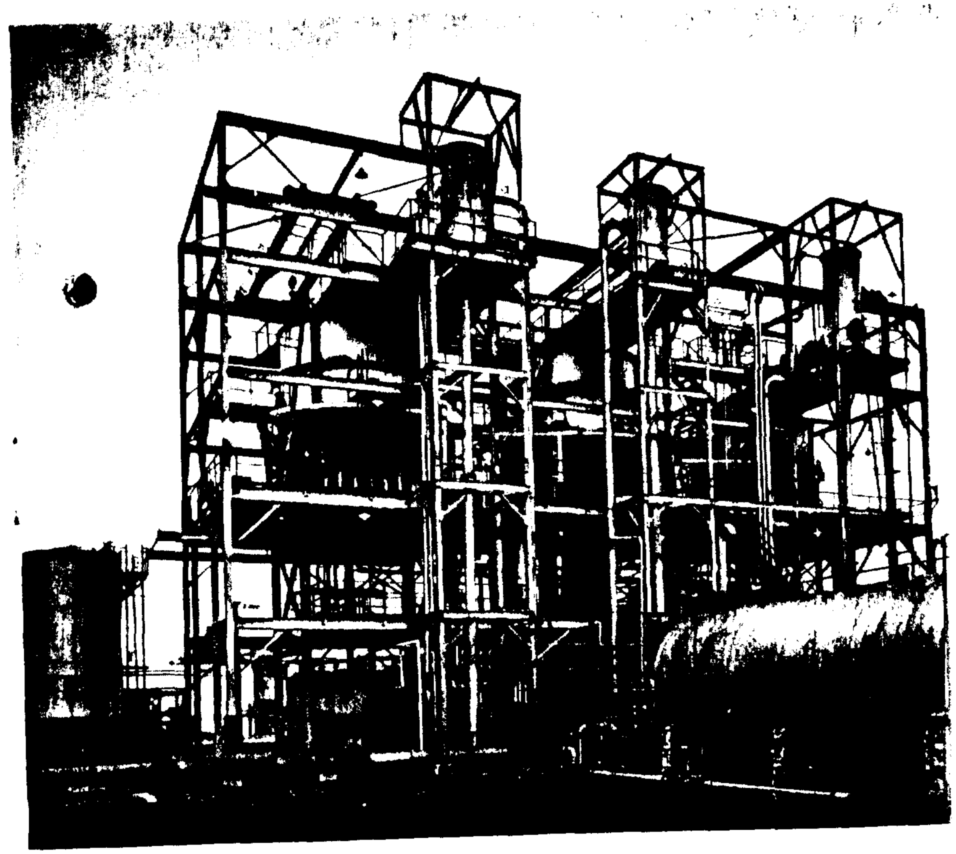
There has been little change in the status of the Company's foreign investments during the past year. Dividends received from foreign corporations during 1948 were substantially less than in the preceding year, in which payments aggregating almost $1,700,000 were received from the Company's subsidiaries in Canada and the Argentine. Although earnings in both of these countries have been most satisfactory, no dividends were remitted by these companies in 1948. In the Argentine, exchange restrictions have limited the transfer of funds, and in Canada, expanding capital requirements made the retention of earnings desirable.

Reference was made in the 1947 Annual Report to the sale of the Company's stock interest in British Titan Products Co., Ltd. During 1948 the Company was successful in liquidating a portion of the funds received, to realize an amount approximately equal to the cost of the shares formerly held. The balance of the funds will be invested as permitted under the exchange control laws of Great Britain.

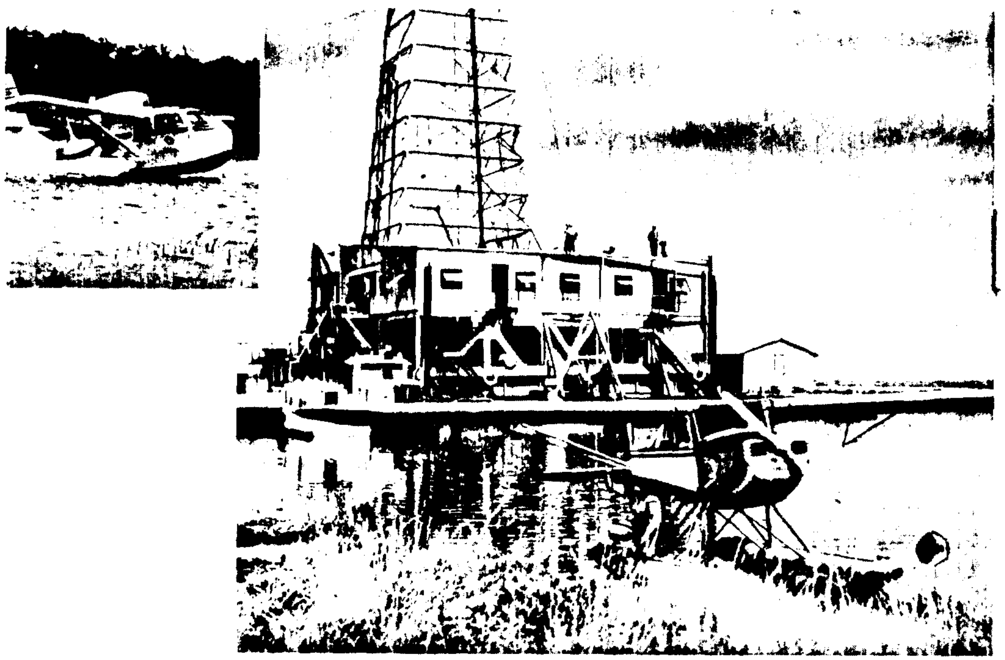
Thus far, unsettled conditions in Japan and Germany have made it impossible for the Company to determine upon what basis its affiliates in those countries will operate in the future. Close contact is being maintained with the problem and it is hoped that a clarification of the present picture will be possible in the not-too-distant future.

Through its newly organized Titanium Alloy Manufacturing Division, the Company is now operating a subsidiary unit in Australia, which produces zircon and rutile for use as raw materials in the Division's plant at Niagara Falls, N. Y., and for sale abroad.

Three-unit acid concentrating plant, designed and installed by the acid recovery department, equipped with Company-produced lead-lined pipe, sheet lead and lead-lined valves.



The Baroid Sales Division flies service engineers to remote oil fields.



PERSONNEL CHANGES

In June of 1948, David A. Merson and Harry C. Wildner, directors of the Company, were elected vice presidents. Mr. Merson has been manager of sales of paints, pigments and oil products and has been associated with National Lead Company since 1923. Mr. Wildner has been comptroller since 1946 and began his career with the Company in 1921.

Effective July 1, 1948, John B. Henrich was appointed secretary of the Company. He succeeds Henry O. Bates, who retired on that date after forty-five years of service. Mr. Henrich joined the Company in 1935 and has been assistant secretary since 1943.

In recent months the Board of Directors has accepted with regret the resignations from the Board of Fletcher W. Rockwell, Joseph J. Morsman and William H. Croft, Jr.

Mr. Rockwell had fifty-two years of Company service, beginning his career in 1897 as superintendent of the Southern White Lead Works in Chicago. He became production manager of the entire Company in 1920, a member of the Board of Directors in 1926, a vice president in 1937, and president in 1938. In 1947 he became Chairman of the Board, which position he held at the time of his retirement.

Mr. Morsman began his service in 1893 as an engineer with the Carter White Lead Company in Omaha. He was later successively treasurer, vice president and president of that company. In 1929 he became assistant manager of the Chicago Branch of National Lead Company and nine years later was elected a director.

Mr. Croft, Jr., who joined the Company in 1927, continues as first assistant general manager of the Magnus Metal Division.

Your Management has decided that, under present conditions, a reduction in the number of directors from fifteen, as provided for in the By-laws, to twelve will add much to the effectiveness of that body, and an amendment to the By-laws of the Company effecting this change will be presented to the stockholders at the Annual Meeting. In view of this proposal no successors have been designated for those whose resignations are reported above.

It is with deep regret that we report the death on December 23, 1948 of James L. Caruth, manager of the Pacific Coast Branch of the Company. Mr. Caruth had been associated with the Company since 1923, receiving his twenty-five-year service watch a few months before his untimely death. Prior to being selected to direct the Pacific Coast office, he had served with distinction as manager of the Cleveland Branch. Mr. Caruth had earned and deserved the admiration and respect of all who were privileged to work with him during the years of his service. His passing at the early age of fifty-two years is a great loss to the Company.

EMPLOYEE RELATIONS

It is gratifying to report that employee morale continued on a high plane during the past year. The increases in production capacity which were achieved at certain of the Company's plants during the year were made possible by the cooperation and loyalty displayed by the personnel in those units.

It is interesting to note that during the year a total of 20,000,000 man-hours was worked in the Company's plants, while the total time lost as the result of work stoppages amounted to only six one-hundredths of 1% of that figure.

In December of 1948 there was authorized, in line with practice followed in the preceding year, the payment of extra compensation in an amount equivalent to 6% of the initial $6,000 of compensation earned during the first eleven months of the year. In addition, the Company has again made a payment for the account of eligible employees into the Profit-Sharing Trust which was established in accordance with the plan approved by the stockholders in 1945.

Gold watches presented to those with twenty-five years of service now number 1,144, an increase of 140 over the 1,004 which had been awarded at this time last year.

LITIGATION

The Company is continuing to carry out the provisions of the decree against the Company and others in the civil suit by the Government involving charges of violation of the anti-trust laws in connection with its titanium pigment business. The Company recently was granted by the court an extension of time to October 1, 1949, for submitting a plan under the decree either for the sale of the Company's interests in its partly owned companies in Germany and Japan or, in the alternative, for the purchase by the Company of the interests of others in these companies.

With respect to the indictment against the Company, a subsidiary and three individual employees that had been pending since June 1943, pleas of nolo contendere were entered on March 1, 1949, and fines were paid by the Company in the aggregate amount of $25,000. Of this amount, the Company, acting upon the advice of counsel, paid $15,000 on behalf of the individuals since the latter, in order to expedite the disposition of the case without trial, changed their pleas from not guilty to nolo contendere at the request of, and for the benefit and convenience of, the Company.

Since the facts alleged in the indictment were the same as the facts alleged in the corresponding civil suit mentioned above, which was tried in 1944 and 1945, and since those facts related to transactions that occurred mainly in the 1920's and early 1930's and which no longer affect the conduct

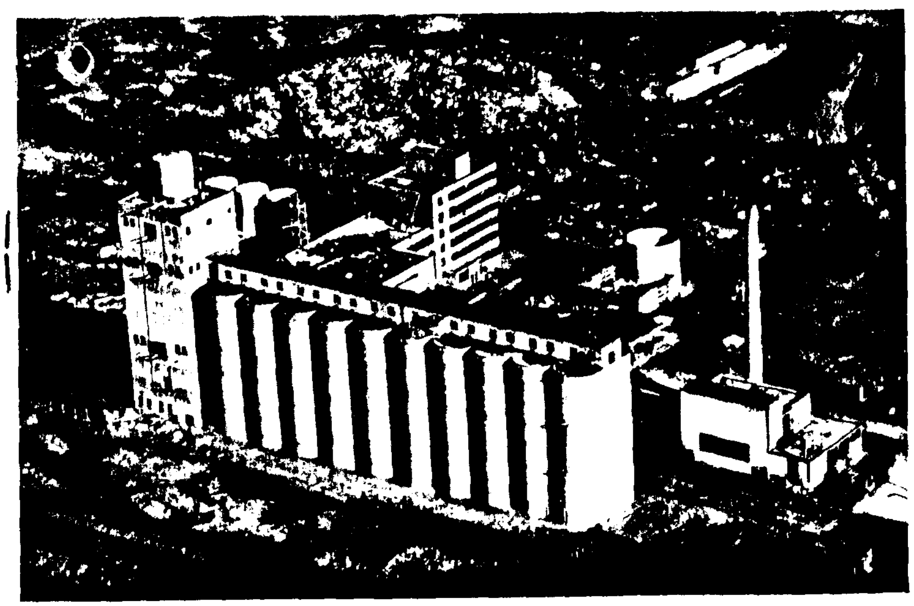
of the Company's business, further litigation was deemed to be an unnecessary expense and wasteful of the time and energy of employees engaged in the business of the Company.

No decision has as yet been handed down by the Federal Trade Commission in the case against the Company and others involving alleged violation of the Federal Trade Commission Act and the Clayton Act with respect to white lead and lead oxide sales.

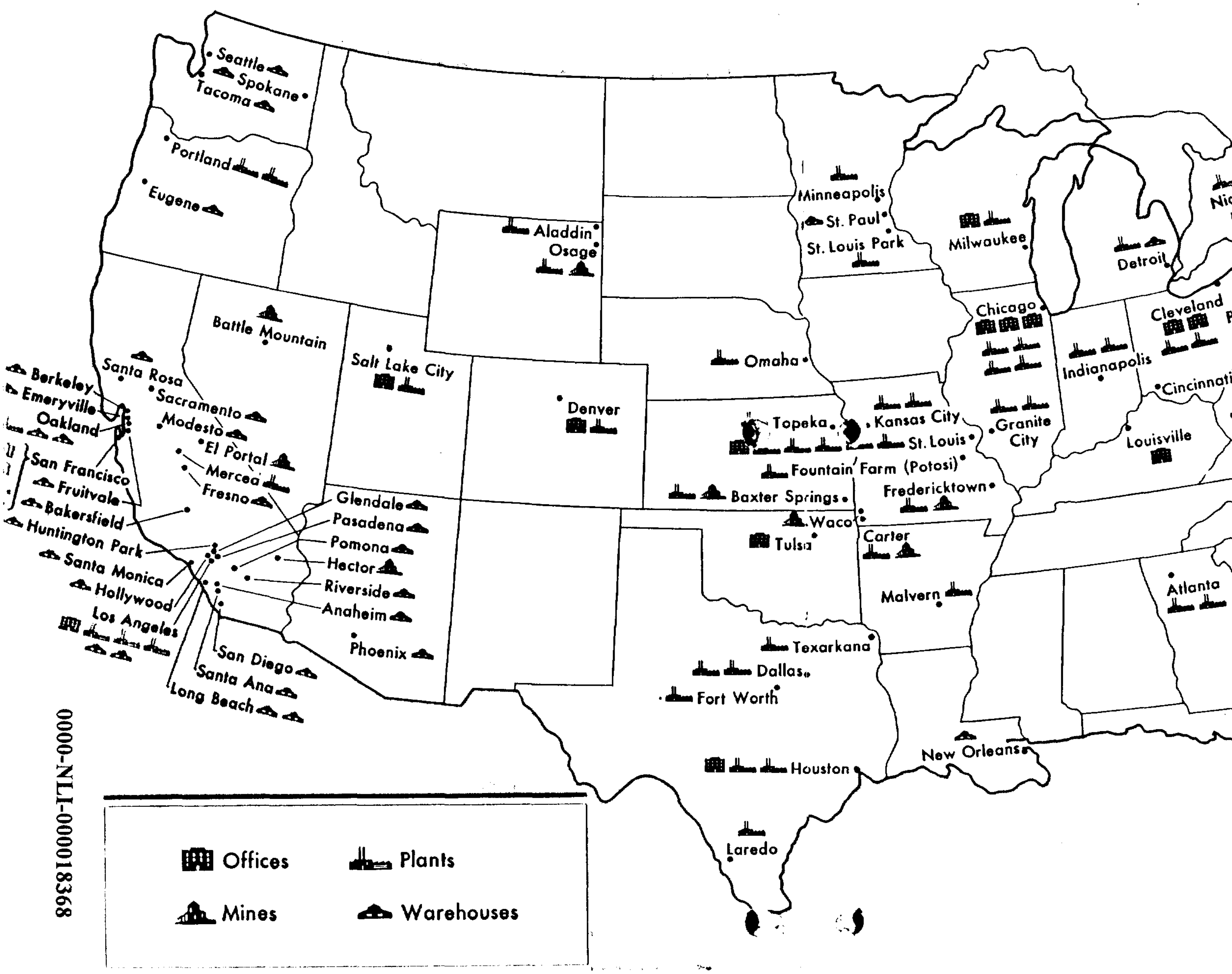
NEW FIELDS OF ACTIVITY

In August of 1948, the Company acquired a majority interest in the Minnesota Linseed Oil Company of Minneapolis, Minn. Construction of a new oil crushing plant has recently been completed by that company and National Lead Company's requirements of raw linseed oil will, in the future, be supplied from that source. Operations have ceased at the oil crushing units of the Company in Philadelphia, Pa., and Brooklyn, N. Y. These plants were operated in the past with flaxseed from the Argentine, which is no longer available. It is felt that the new arrangement and the

New Minneapolis factory of Minnesota Linseed Oil Company.



National Lead Company Facilities in the Un



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availability of more modern plant facilities made possible thereby, will result in substantial economies.

Also in the past year, the Company purchased certain of the assets of The Titanium Alloy Manufacturing Company, which was engaged chiefly in the production and sale of compounds of zirconium and titanium. This acquisition has enabled the Company to diversify the line of products currently being supplied to the ceramic, chemical and steel industries. The Titanium Alloy Manufacturing Division which was set up in this connection operates a plant at Niagara Falls, N. Y., and mineral deposits in Australia.

Over the past few years, the Company's laboratories and sales personnel have been cooperating in the development and introduction of a new lead pigment for use in paint manufacture to be sold under the trade name "45X." Customer acceptance of the new product has been most gratifying and expansion of plant capacity to double present output is now under way.

In recent months much has been written in the press and elsewhere concerning metallic titanium, which has many properties desirable for industrial uses. As an adjunct to the Company's business in various compounds of titanium, extensive research and development are being carried on toward the goal of large-scale production of titanium metal. The material is being produced at present in laboratory pilot plants and it is expected that the near future will see the translation of these techniques into plant scale operation.

FOR THE FUTURE

Since the end of 1948 there has been some decline in the level of general business activity which prevailed during most of that year and many industries now find themselves faced with a buyers' market. It is too early to measure accurately the effect which this trend may have upon your Company's affairs. One result has been a change in the demand for lead, to the point where the metal is now in relatively free supply. This fact will operate to eliminate one of the principal problems which has faced the Company over the last few years.

The Company has substantial interests in several domestic affiliates which are not wholly owned, including Baker Castor Oil Company, Morris P. Kirk & Son, Inc., and Master Metals, Inc. These companies contribute materially to operating income. Your Management will continue its present policy of taking an active interest in these affiliates and their operations.

Company employees are well aware of the additional responsibilities which will accompany the return of a competitive market and are well equipped to undertake them. Much emphasis has been laid on their approach to sales problems over the last few years, in anticipation of the return of competitive conditions. It is believed that our people have been well schooled to maintain the Company's position in the markets where it competes.

In close cooperation with other units, the Company's laboratories will continue their functions of research and development. Many of the new products offered by the Company have resulted from projects instituted and carried out by its research personnel and it is believed that the careful and intelligent appropriation of funds for further study will be an important factor in the continued growth of the Company.

There has been followed the practice begun last year of including with the Annual Report, for the information of the stockholders, enclosures portraying the type of advertising which will be employed in a number of magazines with national circulation in connection with the Company's "Dutch Boy" paint products.

The total number of stockholders at the end of 1948 was 19,633, as compared with 18,977 at the beginning of the year.

This report will be presented to the Stockholders at their Annual Meeting which will be held on April 21, 1949 at the principal office of the Company in Sayreville, N. J.

In the reports for prior years we have repeatedly made mention of the importance in the Company's operating picture of the cooperation and loyalty of its employees. Your Management feels that they have contributed a great deal to the solution of the many problems which have grown out of World War II and that they will continue to do their part in meeting those which changing conditions may bring.

By Order of the Board of Directors,

J. A. Martino

President

National Lead Company

AND ITS WHOLLY OWNED DOMESTIC SUBSIDIARIES

Comparative Consolidated Balance Sheets

DECEMBER 31, 1948 AND 1947

ASSETS

	1948	1947
Current assets:		
Cash	$ 9,304,183	$ 12,953,907
United States Government securities, at cost (approximately equivalent to amounts at market quotations) (Note 1)	1,995,014	10,970,769
Other marketable securities, at cost less reserves of: 1948, $522,892; 1947, $522,892 (at market quotations: 1948, $2,965,279; 1947, $3,364,372)	529,431	529,428
Accounts and notes receivable, less reserves of: 1948, $1,962,363; 1947, $1,481,349	28,013,657	21,380,118
Notes receivable from employees	106,649	81,309
Inventories (Note 2)	59,118,313	44,550,399
Total current assets	99,067,247	90,465,930
Investments (at cost or below) in and advances to unconsolidated subsidiaries, less reserves of: 1948, $4,305,711; 1947, $4,014,414 (Note 3)	7,962,526	4,313,753
Miscellaneous investments, at cost or below, less reserves of: 1948, $846,778; 1947, $846,778	794,190	1,014,584
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: 1948, $59,856,625; 1947, $57,407,848	74,022,615	65,331,325
Patents and licenses, less amortization	117,022	177,125
Prepaid expenses, deferred charges, etc.	1,497,504	1,551,721
	$183,461,104	$162,854,438

National Lead Company

AND ITS WHOLLY OWNED DOMESTIC SUBSIDIARIES

Comparative Consolidated Balance Sheets

DECEMBER 31, 1948 AND 1947

LIABILITIES

	1948	1947
Current liabilities:		
Accounts payable and accrued liabilities	$ 13,683,127	$ 12,328,171
Payable to unconsolidated subsidiaries	842,966	441,952
Provisions for taxes, including federal taxes on income	20,709,584	17,366,096
Dividends payable February 1, 1949 and February 2, 1948 on Class B preferred stock	123,600	116,193
Total current liabilities	$ 35,359,277	$ 30,252,412
Reserves:		
Fire insurance	$ 4,797,284	$ 4,797,284
Employer's liability	426,664	426,664
Pension	3,354,018	3,356,207
Contingencies	4,080,358	4,080,358
Inventory (Note 2)	22,538,007	16,727,524
	$ 35,196,331	$ 29,388,037

CAPITAL

	1948	1947
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: 1948, 3,253,225 shares (including fractional scrip for 2,580 shares); 1947, 3,098,310 shares	32,532,250	30,983,100
	67,227,550	65,678,400
Capital surplus	4,523,071	485,295
Earned surplus	44,645,883	42,098,542
	116,396,504	108,262,237
Less, Reacquired capital stock, at cost (Note 4)	3,491,008	5,048,248
	$112,905,496	$103,213,989
	$183,461,104	$162,854,438

The accompanying notes to financ[illegible]state ment[illegible] integral parts of these statements.

Comparative Consolidated Statements of Income and Earned Surplus

FOR THE YEARS ENDED DECEMBER 31, 1948 AND 1947

	1948	1947
Sales, less returns and allowances (Note 5)	$320,457,301	$268,026,394
Cost of sales (Notes 2 and 5)	$258,813,084	$217,590,137
Depreciation, depletion and amortization	3,752,969	3,115,447
Administrative, selling and general expenses	30,222,609	23,921,822
Taxes, other than federal taxes on income	2,467,619	2,322,542
	$295,256,281	$246,949,948
	$ 25,201,020	$ 21,076,446
Other income (Note 6)	1,911,787	2,827,971
	27,112,807	23,904,417
Other charges and additions to reserves (Note 7)	506,297	—
Net income before provisions for federal taxes on income	26,606,510	23,904,417
Provisions for federal taxes on income (Note 8)	13,302,155	11,724,285
Net income for the year	$ 13,304,355	$ 12,180,132
Earned surplus balance, January 1	$ 42,098,542	$ 38,159,061
Net income for the year	13,304,355	12,180,132
	$ 55,402,897	$ 50,339,193
Dividends:		
On Class A preferred stock, $7 per share	$ 1,605,926	$ 1,594,551
On Class B preferred stock, $6 per share	479,586	464,772
	2,085,512	2,059,323
On common stock:		
In cash, $1.25 per share in 1948, $2.00 per share in 1947	3,869,137	6,181,328
In stock, 5 per cent in 1948; paid by issuance of 154,915 shares of common stock capitalized at market value (based upon quoted market price averages) of $31 per share	4,802,365	—
	$ 10,757,014	$ 8,240,651
Earned surplus balance, December 31	$ 44,645,883	$ 42,098,542

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

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Comparative Consolidated Statements of Capital Surplus

FOR THE YEARS ENDED DECEMBER 31, 1948 AND 1947

	1948	1947
Capital surplus balance, January 1	$ 485,295	$485,295
Capital surplus arising from acquisitions of net assets of other companies for capital stock of National Lead Company	784,561	—
Excess of aggregate market value (based upon quoted market price averages) over aggregate par value of 154,915 shares of common stock issued as a 5 per cent stock dividend	3,253,215	—
Capital surplus balance, December 31	$4,523,071	$485,295

Notes to Consolidated Financial Statements

1. United States Government securities include the following cost amounts deposited at the respective balance sheet dates:

	December 31 1948	December 31 1947
In connection with self-insurance of workmen's compensation risks, etc.	$ 940,014	$770,000
As collateral for bank loans of an unconsolidated subsidiary	1,000,000	—
	$1,940,014	$770,000

2. 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, through the inventory reserves, 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 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, 1948 and 1947.

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

3. 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.

In August, 1948, the company acquired a majority interest in Minnesota Linseed Oil Company, a newly formed company organized by National Lead Company and an outside interest. Also in 1948, the company acquired additional shares of stock of Antilles Minerals, S. A., and now holds a majority interest therein. Both of these investments are included among the investments in unconsolidated subsidiaries as of December 31, 1948.

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 and one small South American company) exceeded its investments in and advances to such subsidiaries, after deducting applicable reserves on the books of National Lead Company, by approximately $7,790,000 at December 31, 1947 and $10,120,000 at December 31, 1948, representing increases in such excesses of approximately $760,000 in 1947 and $2,330,000 in 1948. These increases are after dividends paid by unconsolidated subsidiaries and included in net income of the consolidated group of $1,996,815 in 1947 and $291,658 in 1948.

Notes to Consolidated Financial Statements—Continued

Unaudited financial statements as of September 30, 1948 and 1947 received from the Continental European subsidiaries (other than the German subsidiary) indicate that National Lead Company's equity in the net assets thereof approximated the following foreign currency amounts at the respective dates:

	September 30 1948	September 30 1947
Norwegian kroner	11,870,000	9,670,000
Belgian francs	24,670,000	16,140,000
French francs	5,980,000	4,280,000

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

4. Reacquired capital stock, carried in the balance sheets at first-in, first-out costs, comprises:

	December 31, 1948 No. of Shares	December 31, 1948 Costs	December 31, 1947 No. of Shares	December 31, 1947 Costs
Preferred Class A	9,383	$1,147,727	15,883	$2,006,316
Preferred Class B	20,877	2,343,281	25,815	2,925,066
Common			7,646	116,866
		$3,491,008		$5,048,248

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

6. Other income comprises:

	1948	1947
Dividends received (including $291,658 from unconsolidated subsidiaries in 1948 and $1,996,815 in 1947)	$1,355,040	$2,526,793
Interest, profits on sales of fixed assets and miscellaneous (net)	385,696	194,787
Group life insurance dividends	171,051	106,391
	$1,911,787	$2,827,971

7. Other charges and additions to reserves for 1948 comprise:

Payment in settlement of litigation instituted in 1947	$215,000
Addition to investment reserve, covering excess of cost over equity in an unconsolidated subsidiary	291,297
	$506,297

8. Numerous differences exist between taxable income and book income, including fluctuations in the "normal stock" reserves; percentage depletion; and, as to the year 1947, payments of $1,063,306 for purchases of past service annuities, deductible for tax purposes but charged on the books to reserve for pensions.

GENERAL:

The portal to portal suits mentioned in the 1946 and 1947 annual reports have now been either dismissed or withdrawn.

Reference is made to comments included in the president's report covering the status of the civil suit and the indictment by the Government against the Company and others involving charges of violation of the Anti-Trust Laws in connection with its titanium pigment business.

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

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.

0000-NLI-000018372

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, 1948 and 1947 and the related statements of income and surplus for the years then ended. 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. We have also examined or reviewed, or have received reports of other independent public accountants upon their examinations of, the balance sheets and related statements of income and surplus of the domestic subsidiaries more than 50 but less than 100 per cent owned, and of all foreign subsidiaries except Continental European and one small South American company, for their respective 1948 and 1947 fiscal years.

As mentioned in the 1946 and 1947 annual reports to stockholders, the Company deviated from the "normal stock" principle at December 31, 1946 by providing reserves for deficiencies in normal quantities on the basis of prices lower than the then current market, and by including in the "normal stocks" secondary metals at prices lower than the prices of the primary metal content, with the result that net income for 1947 is approximately $1,938,000 lower than would otherwise have been the case. No such deviation occurred at either December 31, 1947 or 1948.

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 surplus present fairly the consolidated financial position of National Lead Company and its wholly owned domestic subsidiaries at December 31, 1948 and 1947 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

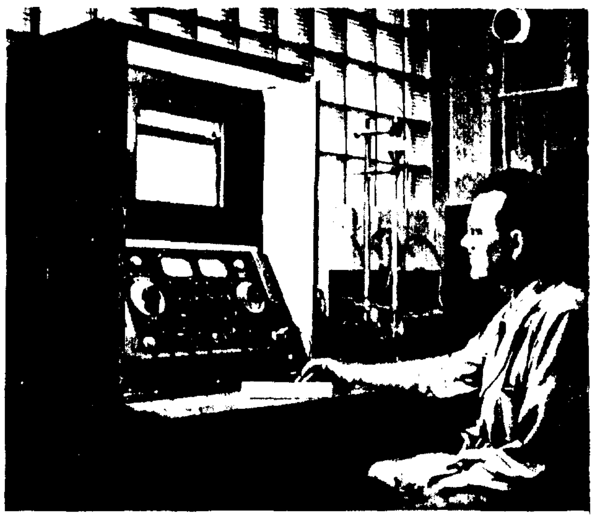
New York, March 1, 1949.

TEN YEAR REVIEW OF OPERATIONS

	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
Net Sales	$80,906,329	$90,696,461	$139,192,540	$127,679,608	$148,622,919	$166,168,715	$167,562,928	$167,447,243	$268,026,394	$320,457,301
Net Income before Taxes	7,479,159	8,624,233	15,391,354	12,154,827	13,537,168	18,304,136	11,218,228	16,713,479	23,904,417	26,606,510
Federal Taxes on Income	1,698,659	2,521,531	10,015,669	7,908,457	8,336,291	10,740,382	4,679,720	7,036,395	11,724,285	13,302,155
Net Income	5,780,500	6,102,702	5,375,685	4,246,370	5,200,877	7,563,754	6,538,508	9,677,084	12,180,132	13,304,355
Earned Per Share of Common Stock	1.23	1.34	1.10	0.72	1.03	1.79	1.45	2.46	3.27	3.62
Preferred Dividends	1,961,323	1,961,323	1,968,323	2,031,323	2,031,323	2,031,323	2,059,323	2,059,323	2,059,323	2,085,512
Common Dividends	2,708,213	2,708,213	1,931,668	1,545,332	2,317,998	3,090,664	3,090,664	4,635,996	6,181,328	8,671,502
Current Assets:										
Cash	11,294,414	11,167,758	9,359,040	9,282,565	12,742,150	10,313,702	9,571,663	11,681,055	12,953,907	9,304,183
U. S. Government and other Marketable Securities	3,263,078	3,008,470	2,077,788	5,21[illegible],381	17,002,791	16,131,607	17,902,254	18,393,548	11,500,197	2,524,445
Notes and Accounts Receivable	8,274,623	10,678,525	15,056,312	11,913,477	12,560,223	14,859,530	15,171,135	15,573,093	21,461,427	28,120,306
Inventories†	19,300,473	19,604,317	23,380,565	25,444,442	21,787,559	23,601,398	29,361,453	32,617,337	44,550,399	59,118,313
Total Current Assets	42,132,588	44,459,070	49,873,705	51,850,865	64,092,723	64,906,237	72,006,505	78,265,033	90,465,930	99,067,247
Total Current Liabilities	6,503,002	6,836,080	16,300,666	15,992,762	19,054,627	21,566,069	16,843,516	22,410,068	30,252,412	35,359,277
Net Working Capital	35,629,586	37,622,990	33,573,039	35,858,103	45,038,096	43,340,168	55,162,989	55,854,965	60,213,518	63,707,97[illegible]
Gross Property Account	77,867,230	79,504,811	89,545,627	93,474,782	94,198,239	98,025,024	100,794,666	106,793,660	122,739,173	133,879,24[illegible]
Reserves for Depreciation, Depletion and Amortization	31,313,826	32,436,827	34,348,004	36,687,351	41,464,768	46,250,242	55,147,610	56,018,905	57,407,848	59,856,62[illegible]
Net Property Account	46,553,404	47,067,984	55,197,623	56,787,431	52,733,471	51,774,782	45,647,056	50,774,755	65,331,325	74,022,61[illegible]

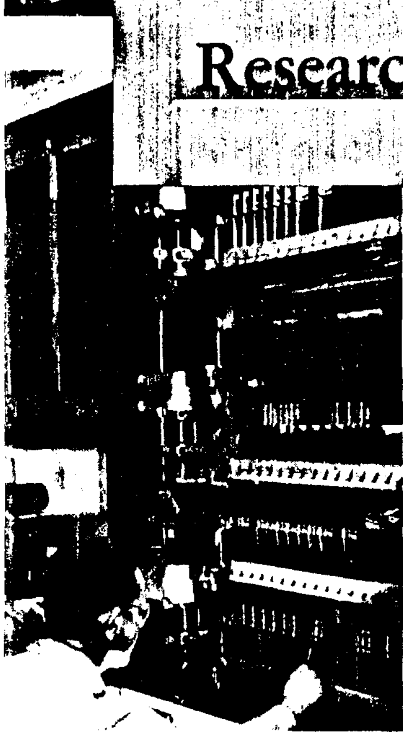
* Includes cash dividends of $3,869,137 and 5% stock dividend valued at $31 per share.
† Inventories for 1939 to 1944, inclusive, are shown net of normal stock reserves.

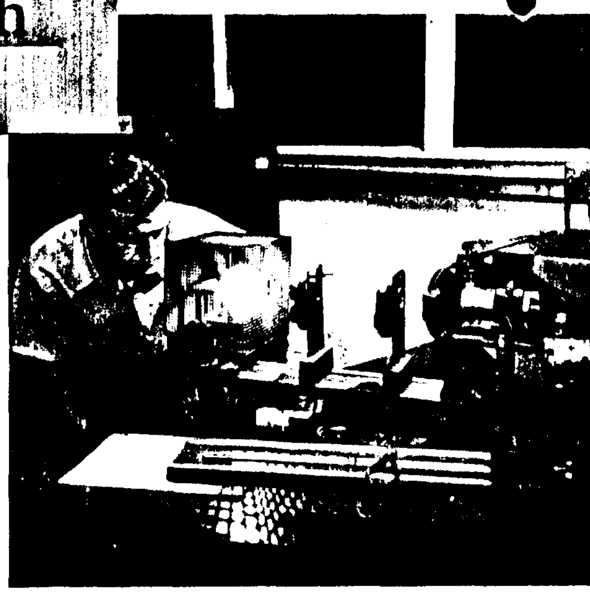
• (*Left*) *Paint mill in laboratory makes paint for testing.* (*Below*) *This polarograph rapidly determines chemical composition of many materials.*



Research

• (*Below*) *Analysis of materials for minute quantities of metals is made by spectrograph.*





• (*Left*) *Endurance limit of metals is determined by repeated flexing in fatigue-testing*

• *Gold watches were awarded to 140 employees on completion of twenty-five years of Company service.*

• *This plant baseball team won city championship in 1948.*

• *Plant recreation centers attract*

BRANCHES AND DIVISIONS

ATLANTIC BRANCH, — 111 Broadway, New York
H. F. Freiherr, W. F. Hurley, *Managers*

BAROID SALES DIVISION, — 830 Ducommun St., Los Angeles
Geo. L. Ratcliffe, *General Manager* — *Oil Well Drilling Mud Service*

BALTIMORE BRANCH, — 214 West Henrietta St., Baltimore
H. A. Getz, *Manager*

CHICAGO BRANCH, — 900 West Eighteenth Street, Chicago
W. P. Carroll, *Manager*
MILWAUKEE, WIS., 744 No. Fourth Street
DETROIT, MICH., 1627 W. Fort Street

CINCINNATI BRANCH, — 659 Freeman Avenue, Cincinnati
H. W. Hundley, *Manager*
LOUISVILLE, KY., 1320 Heyburn Building
ATLANTA, GA., Bishop Street

CLEVELAND BRANCH — 1776 Columbus Road, Cleveland
E. E. Busse, *Manager*
BUFFALO, N. Y., 116 Oak Street
PITTSBURGH, PA., 1376 River Avenue, N.S.

DE LORE DIVISION, — Carondelet, St. Louis
A. J. Wetzel, *Manager* — *Barium Sulphate and Calcium Sulphate Pigments*

E. W. BLATCHFORD CO. BRANCH, — 63 Park Row, New York
R. F. Kielich, *Manager* — *Type Metals and Blatchford Base*

EVANS LEAD DIVISION, — Charleston, W. Va.
R. M. Evans, *Manager* — *Manufacturers of Lead Oxides*

JOHN T. LEWIS & BROS. CO., — 2607 East Cumberland Street, Philadelphia
J. W. Gardiner, Jr., *President*

MAGNUS METAL DIVISION, — 111 Broadway, New York
W. V. Burley, *General Manager* — *Brass Founders*

NATIONAL LEAD CO. OF MASS., — 800 Albany Street, Boston
G. A. Savage, *Vice President*

PACIFIC COAST BRANCH, — 2240 Twenty-fourth Street, San Francisco
D. D. Roberts, *Manager*
LOS ANGELES, CAL., 3113 East 26th Street
SEATTLE, WASH., 973 John Street

ST. LOUIS BRANCH, — 722 Chestnut Street, St. Louis
G. H. Worrall, *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

ST. LOUIS SMELTING & REFINING DIVISION, — 722 Chestnut Street, St. Louis
Jean McCallum, *Manager*

TEXAS MINING & SMELTING DIVISION, — Laredo, Texas
O. D. Niedermeyer, *Manager* — *Metallic Antimony and Antimony Oxides*

TITANIUM ALLOY MFG. DIVISION, — 111 Broadway, New York
Winthrop Sargent, *Manager* — *Products of Titanium and Zirconium*

TITANIUM DIVISION, — 111 Broadway, New York
C. F. Garesche, *General Manager* — *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
COOPER 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
J. PAUL KIRK, *President* — *Manufacturers of Lead Alloys and Oxides*

MAGNUS BRASS MFG. CO.,* — Cincinnati
W. V. BURLEY, *President* — *Manufacturers of Locomotive Specialties*

MAGNUS METAL CORPORATION,* — Chicago
W. V. BURLEY, *President* — *Brass Founders*

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

MINNESOTA LINSEED OIL CO., — Minneapolis
E. H. RUSSELL, *President* — *Manufacturers of Linseed Oil*

NATIONAL LEAD CO. S. A. (ARGENTINA),*
J. D. TIERNEY, *President* — Avenida Presidente Roque Saenz Pena 567, Buenos Aires

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
J. A. MARTINO, *President* — *Distributors of Titanium Oxide Pigments*

* *Wholly owned.*

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

Basic Carbonate White Lead	Copperas-Iron Sulphate
Basic Silicate White Lead (45X)	Zinc Sulphate
Lead Acetate	Zinc Chloride
Lead Silicates	Copper Sulphate
Lead Oxides	Sodium Sulphide
Calcium Carbonate	Antimony Oxides
Barium Sulphate	Lead Chemicals for the Plastics Industry

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

0000-NLI-000018376

OTHER METAL PRODUCTS

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

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	

TITANIUM ALLOY MANUFACTURING DIVISION

Ferro Alloys of Titanium	Titanium Dioxide (natural Rutile)
Titanium Metal	Zirconium Chemicals
Titanates	Zirconium Ceramic Materials

TITANIUM PIGMENTS
Sold under the TITANOX brand name

Titanium Dioxide (Rutile)	Titanium Calcium Pigments
Titanium Dioxide (Anatase)	Titanium Dioxide (Technical Grade)

GENERAL PRODUCTS

Magnetite-Iron Concentrates	Oil Well Drilling Mud Compounds
Magnetite Sinter	Linseed Oil Cake and Meal
Ilmenite Concentrates	Expansion Bolts
Journal Lubricator Pads	Screen Plates for Paper Mill Industry
Locomotive Lubricating Devices	Small Steel Containers

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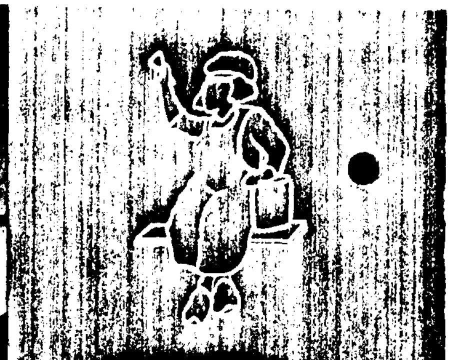


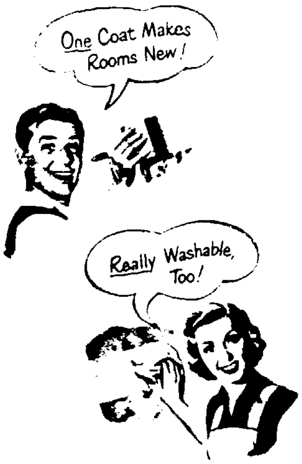
ST. LOUIS

Signs like these acquaint millions of people all over the country with "Dutch Boy" products.

HOLLYWOOD

BROOKLYN

Give it the Once Over... and you'll be won over to "Dutch Boy" WONSOVER!



To make rooms smile brightly
... just WONSOVER *lightly*

Once Over with WONSOVER . . . and old walls disappear . . . under this velvety, flatteringly flat "decorator" paint!

Once Over with WONSOVER . . . the up-to-the-minute one-coat interior finish that not only *covers* in *one* coat . . . but really *washes clean*, again and again! It's a real *oil* paint, scientifically blended by the "Dutch Boy's" master hand.

Once Over with WONSOVER. Covers most surfaces in one coat—walls, woodwork, wallpaper. Goes on with *creamy smoothness.* Leaves no unpleasant odor!

All this and WASHABLE, too! Your beautiful new room can be *kept* new-looking. Dirty fingerprints, disfiguring smudges, children's pencil marks *can't sink in*—so they *wash right off* with soap and water!

Once Over with WONSOVER . . . in soft, subtle shades . . . new deep tones . . . fresh tints . . . as well as white and off-white.

Once Over with WONSOVER and you'll be won over to Wonsover! Get it from your "Dutch Boy" dealer. You'll find his name in your classified telephone book.

National Lead Company

FREE COLOR FOLDER!
Shows actual samples of the complete range of "Dutch Boy" Wonsover colors. For your copy, mail coupon to Dept. 49, care of nearest office listed below.

MAIL COUPON TODAY!

NATIONAL LEAD COMPANY,
Dept. 49, New York 6; Buffalo 3; Chicago 8; Cincinnati 3; Cleveland 13; Pittsburgh 12; St. Louis 1; San Francisco 10; Boston 6 (National Lead Co. of Mass.); Philadelphia 25 (John T. Lewis & Bros. Co.).

Please send "WONSOVER" Color Folder to

Name ....

Address ....

City .... Zone State ....

This advertisement scheduled for March issues of national magazines

0000-NLI-000018378

Caps Off! to BLENDED Paint for Lasting Beauty!

To keep Your Home Bright My Paint's Blended Right... Ready-mixed, in Colors or White!

Bright as the "Dutch Boy's" bright blue cap ... sparkling as the sun on his golden hair ... lasting as his cheery smile ... *that's "Dutch Boy," the Paint with the Happy BL-ENDING!*

Why is "Dutch Boy" Paint BLENDED? Because different parts of a house call for different *types* of paint.

And blending brings you the right combination of the right ingredients to do each job right ... blended by the master hand of the "Dutch Boy" whose fame as a paint-maker is nation-wide.

So choose ... from White or Tints, Trim Colors, Porch & Deck Paint, or Primer ... the "Dutch Boy" Paint that's blended just right to KEEP your home bright!

Look for your "Dutch Boy" Dealer's name in your classified telephone directory. Mail the coupon for free booklet.

1. BRIGHT WHITE *Blended* to Clean Itself!

—"Dutch Boy" Bright White is specially blended to be *self-cleaning!* The surface continually renews itself ... permits rain to wash away dirt. Sets a new standard for hiding! Gives a dazzling white finish that *stays* white!

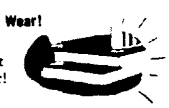
2. TINTS *Blended* to Stay True!

"Dutch Boy" Tints are beautifully crisp and fresh ... and they're expertly blended to assure *lasting, uniform* color!

3. TRIM COLORS *Blended* to Stay Bright!

"Dutch Boy" Sash & Trim Colors add the finishing touch to your home's protection. They're blended to *hold* their bright, gay gloss! Wonderful for garden furniture, too!

4. PORCH & DECK *Blended* to Stand Wear!



"Dutch Boy" Porch & Deck Paint is blended for extra toughness. It laughs at punishment from foot traffic and weather!

5. PRIMER *Blended* to Seal, Hide and Hold!

An undercoat of great sealing and hiding power, that holds fast. When used under a topcoat of "Dutch Boy" Bright White or Tints you get a superior two-coat job...*even on unpainted wood!*

National Lead Company

FREE Color-Scheme Booklet!

Over 40 full-color illustrations show you how to style your home for Blended Beauty with the new "Dutch Boy" Paints. For your free copy, address Dept. 46, care of the nearest office listed below.

MAIL COUPON TODAY!

NATIONAL LEAD COMPANY,

Dept. 46 (Address nearest office) New York 6; Buffalo 3; Chicago 8; Cincinnati 3; Cleveland 13; Pittsburgh 12; St. Louis 1; San Francisco 10; Boston 6 (National Lead Co. of Mass.); Philadelphia 25 (John T. Lewis & Bros. Co.).

Please send me a free copy of your new color-illustrated booklet: *"Blended" Beauty For Your Home.*

Name ....

Address ....

City .... Zone .... State ....

This advertisement scheduled for March and April issues of national magazines

0000-NLI-000018379