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NATIONAL LEAD COMPANY

Seventieth Annual Report

1961

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Contents

National Lead Company

Board of Directors

George B. Coale
Graham W. Corddry
Alfred H. Drewes
John B. Henrich
J. Paul Kirk
Frank J. Koegler
Joseph A. Martino
David A. Merson
Joseph H. Reid
Winthrop Sargent, Jr.
William J. Welch
Harry C. Wildner

Executive Committee

Chairman
Joseph A. Martino

Graham W. Corddry
Alfred H. Drewes
John B. Henrich
David A. Merson
Joseph H. Reid
William J. Welch
Harry C. Wildner

Executive Officers

President
Joseph A. Martino

Vice-Presidents
George B. Coale
Graham W. Corddry
Alfred H. Drewes
Frank J. Koegler
Claude M. Merrell
David A. Merson
Joseph H. Reid
William J. Welch

Secretary
John B. Henrich

Treasurer
Thomas F. Owens

Comptroller
George A. Dewey

Assistant Secretaries
John J. Lawlor
Thomas P. Mesick

Assistant Treasurer
Michael Uss

Assistant Comptrollers
Albert H. Hoffman
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
1 Chase Manhattan Plaza
New York 15, N.Y.

Old Colony Trust Company
45 Milk Street, Boston, Mass.

National Trust Company Limited
14 King Street East
Toronto, Canada

Registrars of Stocks:
Bankers Trust Company
16 Wall Street, New York 15, N.Y.

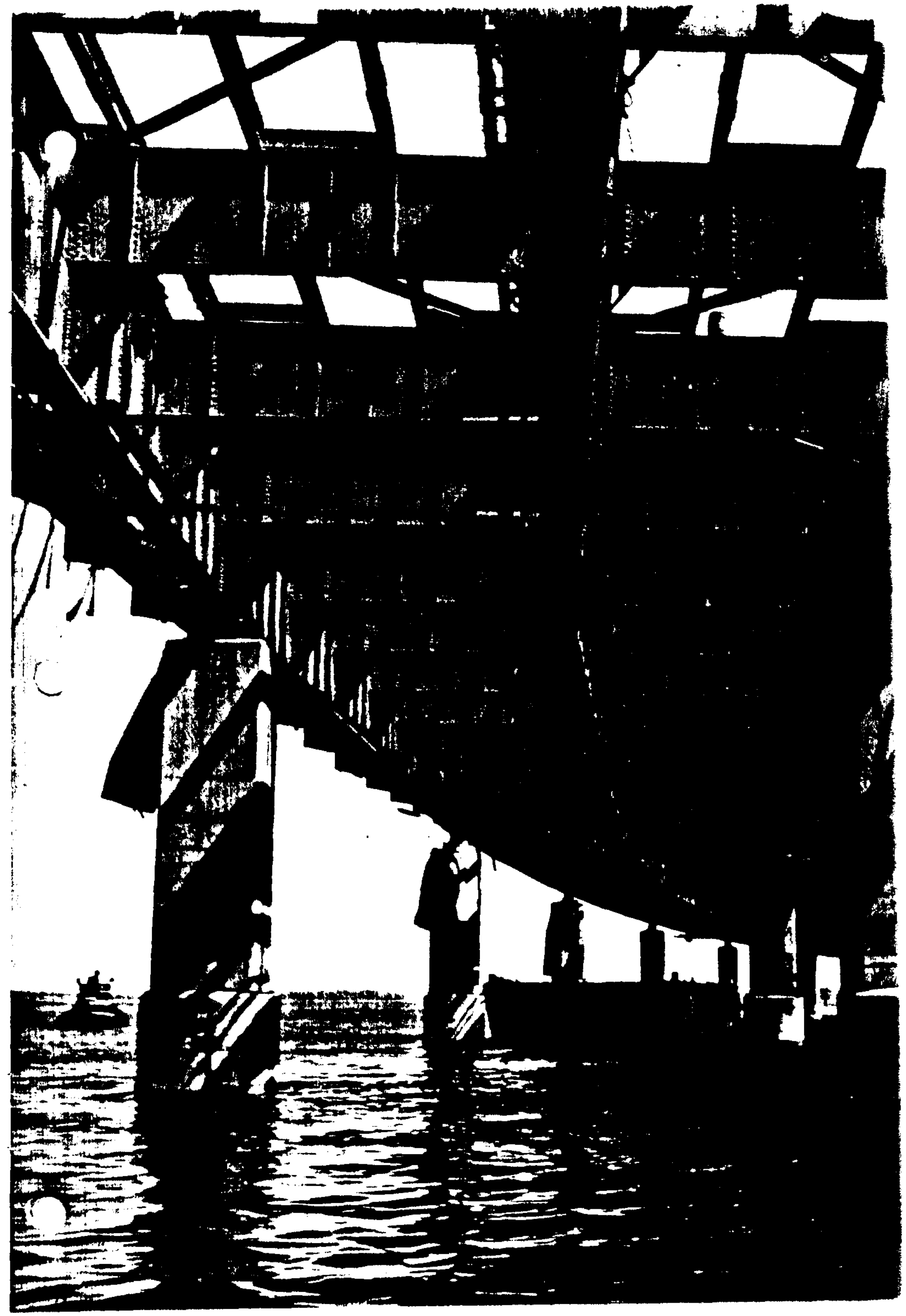
The First National Bank of Boston
45 Milk Street, Boston, Mass.

The Royal Trust Company
66 King Street West
Toronto, Canada

Financial Highlights

	1961	1960 Restated*
Net Sales	$555,672,358	$562,021,983
Net Earnings	$ 51,741,753	$ 52,406,131
Net Earnings Per Common Share	$ 4.24	$ 4.29
Cash Dividends	$ 40,197,725	$ 40,193,025
Common Dividends Per Share	$ 3.25	$ 3.25
Taxes:		
Income Taxes	$ 46,695,016	$ 48,163,860
Other Taxes	$ 10,390,117	$ 10,121,341
Retained Earnings	$ 11,544,028	$ 12,213,106

*Conformed to new basis of consolidation



Paint on Bronx Approach of Throgs Neck Bridge, New York City, was pigmented with M50 anticorrosive pigment, a development of National Lead Company research.

To the Shareholders:

The mild business recession which affected the nation's economy during the latter part of 1960 came to an end early in 1961. The industrial pace then quickened and has been accelerating gradually since that time. National Lead Company's business, with product lines reaching into virtually every segment of industry, has closely paralleled the upswing of the over-all economy. The results of your Company's world-wide operations are set forth for your review in this 70th Annual Report.

Basis of Reporting

Recognizing the increasing importance of its activities outside of the North American continent, the Company has further broadened the scope of consolidation in presenting financial statements.

The consolidated financial statements for 1961, therefore, include all wholly owned United States and Canadian subsidiaries and, for the first time, all other major wholly owned subsidiaries. This change in the basis of reporting has been made feasible in large part by a substantial improvement in the international currency exchange situation. To make comparisons more meaningful, the 1960 figures have been restated to conform to the new basis of consolidation. The income of the unconsolidated subsidiaries is reflected in the statements only when received in the form of dividends.

Sales and Earnings

National Lead Company's 1961 consolidated sales and earnings closely approximated those of the prior year. Sales were $555,672,358 compared with $562,021,983 in 1960. Consolidated net income amounted to $51,741,753 in 1961 and $52,406,131 for the previous twelve months. After deducting $2,181,161 of preferred stock dividends, the earnings per share of common stock were $4.24 and

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$4.29 for the years 1961 and 1960 respectively. Earnings for 1961 were based on 11,698,412 common shares outstanding at year end compared with 11,696,812 shares outstanding at December 31, 1960.

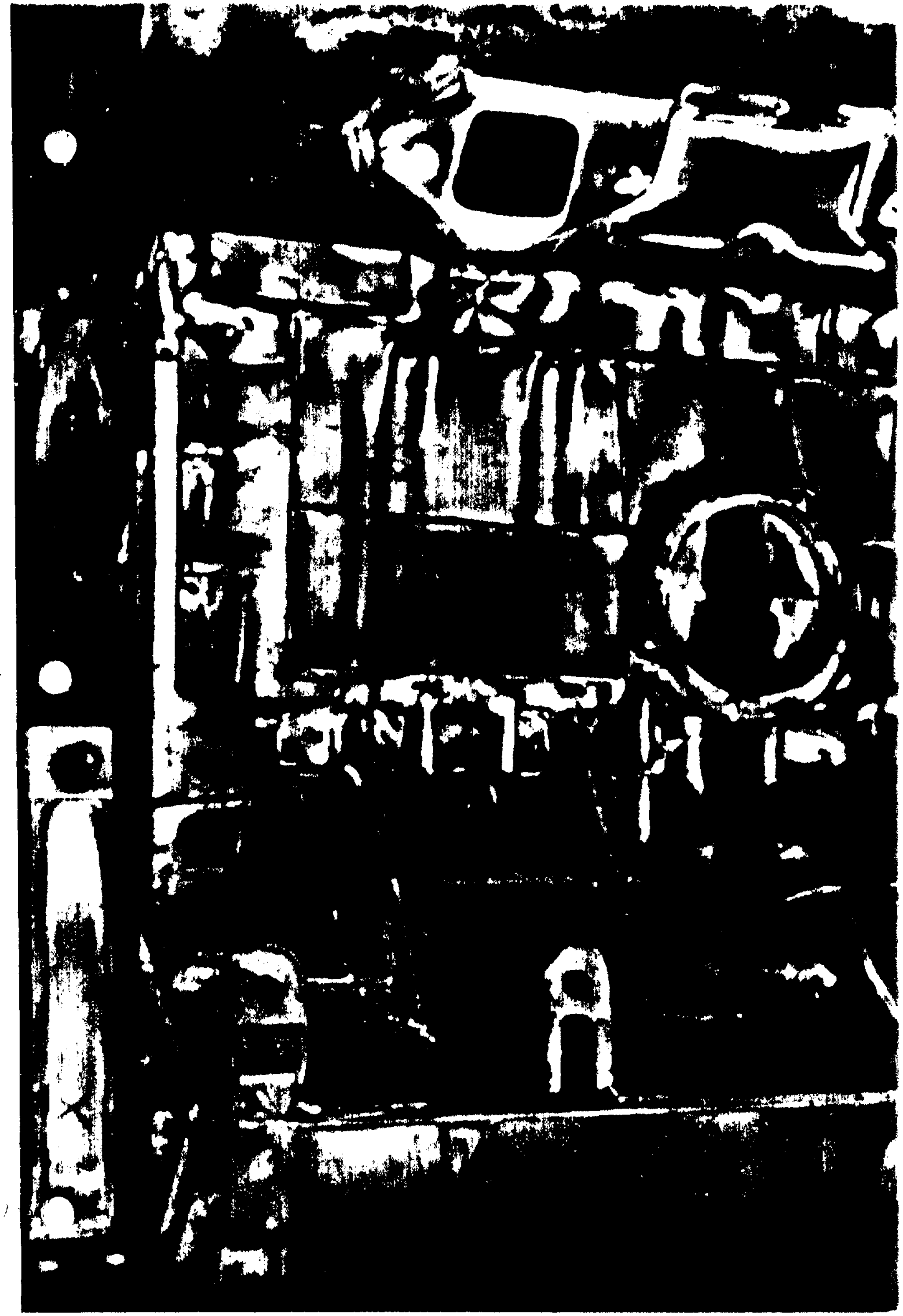
Minor reduction in sales volume was the main reason for the slight change in net income. However, it is gratifying to report that all of the Company's divisions operated profitably during the year and in many cases improved their competitive positions.

Although the sales of most product groups showed minor variations from the previous year, oil well drilling materials, screws and fasteners, lead chemicals and gelling agents registered satisfactory increases. A slight improvement in oil well drilling activity was more than proportionately reflected in sales of the products with which the Company serves this industry. Sales of screws and fasteners reached a level that severely taxed the Company's production facilities. Customer demand for lead chemicals, gelling agents and related products developed under the Company's research program, continues to improve year by year. Lead chemicals are employed primarily as stabilizers by the plastics industry and gelling agents are widely used in the paint and grease industries.

Dollar sales of die castings and some other fabricated metal products marketed by the Company were somewhat lower in 1961 without, however, any significant change in earnings in these categories. These products are generally priced in close conformity with the metal markets. Since the prices of base metals were lower in 1961 than in the previous year, dollar volume was thereby affected. At the present time, demand continues strong in these areas and there are indications that the volume of die cast aluminum engine blocks will be somewhat greater this year.

The United States Government has established quotas on

Die cast aluminum engine block is subjected to photographic stress analysis. Doehler-Jarvis engineers use this technique in the design of die castings.



imports of pig lead without, however, placing any corresponding restriction on imports of finished products made from this metal. The Company, therefore, continued to feel the effects of foreign competition in lead oxides and fabricated goods during 1961.

The sales of paints, and also barium, lead and titanium pigments, and other raw materials for the paint industry make up a substantial segment of the Company's business. Domestic sales of these products were affected in a minor degree by unfavorable weather over much of the country during the normal painting season. Titanium pigments have another major market in the paper industry, where increasing usage is most gratifying. Sales of titanium pigments held up well in overseas markets in 1961.

The industries which purchase such items as journal bearings, special purpose titanium and zirconium chemicals and compounds, and high temperature refractory materials did not react to the upswing in general business activity until the latter part of 1961. Consequently, although the sales of these Company products were highly satisfactory during the fourth quarter, for the year they did not match the volume enjoyed in 1960.

The Company's precious-metal business, which includes gold, silver and the platinum group of metals, continues to turn in a creditable performance. It is becoming increasingly difficult to keep pace with the demand for silver chloride used in the manufacture of sea water batteries.

During the year the Company profitably disposed of its majority stock interest in Minnesota Linseed Oil Company which had been acquired in 1951. The decision to sell this stock was influenced by the declining importance of natural drying oil products as vehicles for the paint industry. Synthetic materials have been increasing in importance in this application and many of those required by the Company are produced in its own plants.

Dividends

The Company's dividend payments to shareholders in 1961 totaled $40,197,725 or 78 per cent of earnings after taxes. Regular quarterly payments to the preferred shareholders totaled $2,181,161 for the year. Common shareholders received total dividends of $38,016,564, the highest cash pay out in the Company's history. Dividends on the common stock amounted to $3.25 a share, the same rate paid in 1960.

After dividend requirements there remained $11,544,028 of net earnings which were added to earned surplus for the future development and growth of the Company.

Taxes

The Company's provision for all taxes decreased from $58,285,201 in 1960 to $57,085,133 in 1961 in line with lower taxable income. The total tax bill for the year was equivalent to $4.88 for each outstanding share of common stock or approximately 10¢ for each dollar of sales. State income, franchise and various other direct taxes totaled $10,390,117 for the year.

Financial Position

The Company's financial strength is reflected in the consolidated balance sheet as of December 31, 1961 which showed total assets of $431,161,102. This is an increase of $17,626,028 over the corresponding figure at December 31, 1960. The net earnings retained in the business accounted for most of the increase. The working capital of the Company, which is the excess of the current assets over the current liabilities and a measure of financial liquidity, showed an increase of $8,584,997 during the year and by the end of 1961 it had reached the record high level of $166,913,227. Inventories which are the largest individual item in the current assets are carefully controlled in conformity with the Company's business requirements. Shareholder equity increased by $11,673,296 during 1961.

The company's open pit mine at Tahawus, New York, has furnished over five million tons of ilmenite (titanium ore) since 1942. Mining operations on an extension of this ore body will begin this year.

Plant Investment

The gross investment in plant, property and equipment at the end of 1961 totaled $347,040,211. Capital expenditures in 1961 were $17,643,615 as compared with the 1960 amount of $24,262,052.

In 1961 the charge for depreciation, depletion and amortization amounted to $13,743,848. The corresponding figure for the preceding year was $13,821,910.

The Company operates five titanium pigment plants, two of which are located in the United States and the others in Canada, Belgium and West Germany. Capacity has been recently increased at the Canadian plant to keep pace with the growing Canadian market. Expansions are also under way at the Belgian and German plants and are expected to be completed during the coming year. Both of these plants are strategically located to take advantage of the European Common Market.

Almost all of the Company's requirements for ilmenite used in the domestic production of titanium pigments are now supplied by its own mine at Tahawus, New York. Stripping operations are under way on an extension of the existing ore body which will assure the continuance of an economical ore supply for many years to come.

During 1961 the Company's production of lead shot was transferred from Omaha, Nebraska, to Granite City, Illinois where a new and highly efficient shot tower has been erected. With this increased capacity the Company will be able to meet the needs of a growing market for lead shot for ammunition, gamma radiation shielding and leaded steels.

Approval has been given to enlarge production facilities for screws and metal fasteners. As noted above, present equipment has been running at top capacity.

Economic considerations, resulting from depressed metal prices and depletion of the lead and cobalt ore bodies, made it desirable to close down the Company's mine at Fredericktown, Missouri and liquidate the operation.

The research and development laboratory at Hightstown, New Jersey, under construction since May 1961, is scheduled to be opened late this year. This new facility should provide an environment which will encourage continued development of new and improved products and processes which are essential to the Company's growth and progress.

Unconsolidated Affiliated Companies

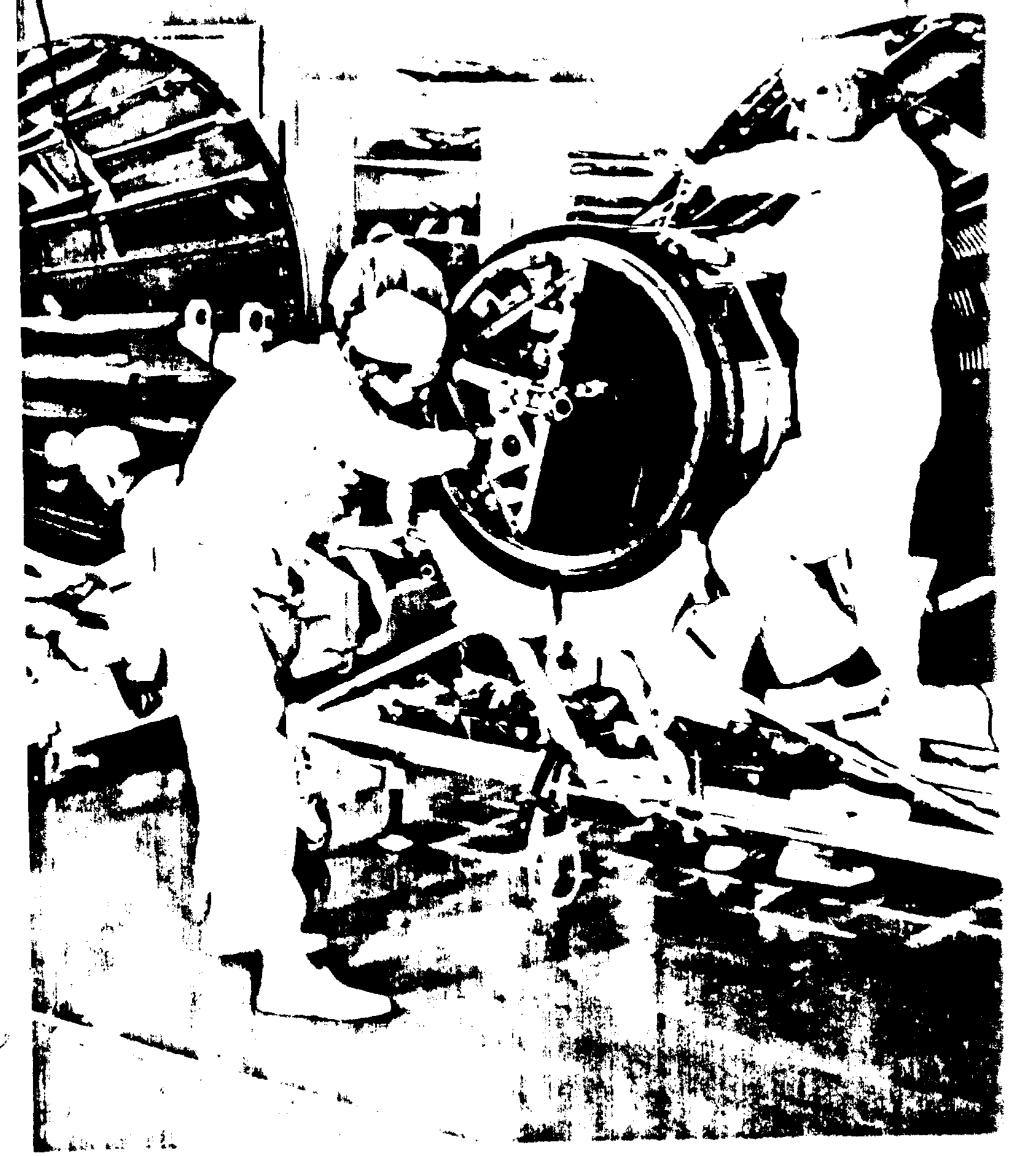
Titanium Metals Corporation of America has completed its first decade as the leading fully integrated producer of titanium metal. Earnings for the year 1961 amounted to $1,798,000 on sales of $34,660,000, compared with $1,023,000 and $28,523,000 respectively for the year previous. Dividends of $500,000 were paid in 1961 to each of the joint owners, National Lead Company and Allegheny Ludlum Steel Corporation.

Much of the increase in 1961 sales of the metal was accounted for by stepped-up activity in defense areas and space exploration. Titanium alloys' unique properties of high strength, light weight and rigidity at elevated temperatures, favor their use in applications which, literally, are as new as the metal. Many National Aeronautics and Space Administration projects currently in the news employ titanium metal furnished by TMCA.

These spectacular uses of titanium in no way overshadow its more prosaic place in the chemical processing field. Here the metal, thanks to unusual corrosion resistance properties, has virtually unlimited tonnage possibilities.

In preparation for the increasing demand for titanium in the mill shapes most widely used, TMCA began a $14 million expansion program at its Toronto, Ohio, plant early this year. Continuous rolling and vacuum annealing

Titanium metal supplied by TMCA is used extensively in the production of NASA's Mercury Project space capsules.



equipment is being installed to produce wide titanium sheet. This investment is in addition to a $2 million outlay in 1961 to enable the Toronto plant to turn out seamless and welded titanium tubing.

Morris P. Kirk & Son, Inc., headquartered in Los Angeles, which is engaged in the production and sales of lead and zinc alloys, lead oxides and fabricated metals, enjoyed a satisfactory year. In addition, Kirk operates extensive secondary metal converting facilities.

Pioneer Aluminum, Inc., a subsidiary of Morris P. Kirk & Son, Inc., reported a most successful year as a result of expanding activity in the aircraft industry. Its business as a major distributor of aircraft aluminum shapes and tooling materials has been carried on for the past year in new centralized facilities in Los Angeles.

During 1961, the Company purchased additional shares of The Baker Castor Oil Company, increasing its ownership from 52 per cent to 69 per cent. This subsidiary which produces castor oil and chemical derivatives in plants located at Bayonne, New Jersey and Los Angeles, continued to report satisfactory earnings. Baker is directing much effort, on the one hand, to widening its markets by uncovering new uses for castor products and, on the other hand, to developing adequate and competitive domestic sources of castor beans by supporting agronomy programs for castor bean production in the United States.

Capitalizing on the know-how of its Doehler-Jarvis Division, the Company has expanded its die casting operations overseas, operating through affiliated companies in England, Argentina and Brazil. Industrias Doehler do Brasil, S.A., which began production in 1960, attained full business status during 1961. Doehler Argentina S.A. commenced production in 1961. Metal Castings Doehler Limited at Worcester, England has been equipped with modern machines designed for die casting components comparable in size and complexity to those produced by Doehler-Jarvis in the United States.

Operations carried on by Company affiliates in the Philippines, Australia and West Germany were satisfactory. Affiliated producers of oil well drilling materials in Trinidad and Italy performed well during the year. Restricted drilling activity in Venezuela has seriously hampered business in that area.

Total sales of Company subsidiaries and affiliates which are not consolidated approximated $94,900,000 for the latest twelve-month period. Included in these sales figures are those for Minnesota Linseed Oil Company for their fiscal year ended July 31, 1961. National Lead Company's equity in the total combined net income of these companies was about $1,355,000 and the dividends received from them amounted to $3,027,000, including a substantial dividend from Minnesota Linseed Oil Company received prior to the sale of the Company's interest. At the end of 1961 the Company's equity in the net assets of these subsidiaries exceeded the Company's net investment and advances to them by about $12,765,000.

New Products and Processes

Research has resulted in the recent development of improved titanium dioxide pigments for the paint industry. One new pigment provides markedly higher opacity and better color in water reducible latex paints as well as ease of dispersion and excellent exterior durability; another, designed for use in house paints and enamels, gives improved opacity, whiteness and very high gloss. An additional titanium dioxide pigment has been developed for use in cosmetics. This pigment has exceptionally high purity and meets the rigid specifications of the cosmetic industry.

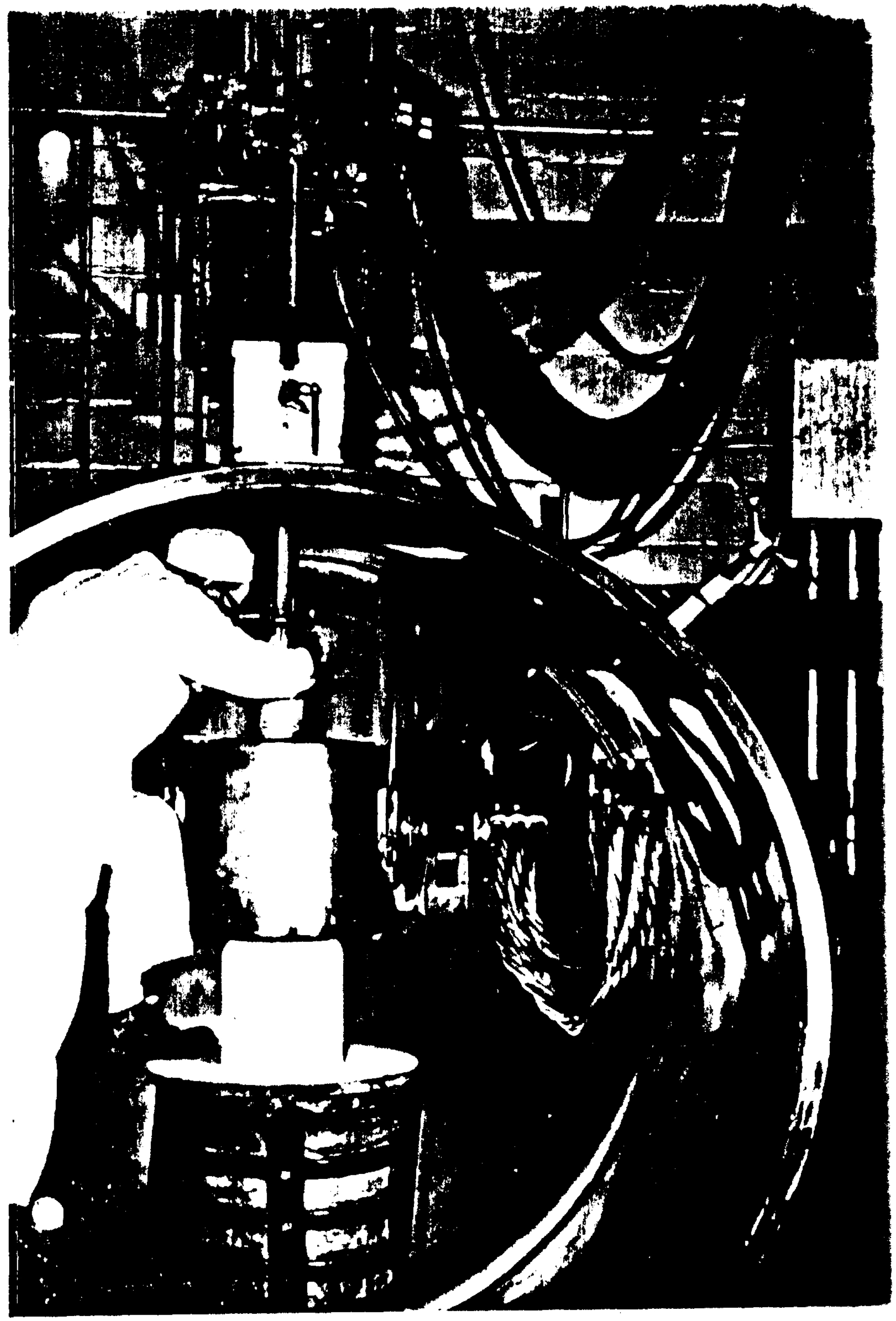
The Company is maintaining its position of leadership in the design and fabrication of gamma radiation shielding, having built and delivered numerous shieldments to the sites of power and research reactors and to industrial concerns using radioactive isotopes. In addition to its lead shielding business, the Company continues its work in uranium not only as a contract operator for the Atomic Energy Commission but also as an independent supplier of fuel elements. While uranium is generally thought of in relation to nuclear applications, it has found an appreciable market in the aviation industry where in its depleted state the super-heavy metal is used for airplane counterweights. It is also being tested for certain ordnance items.

It might be noted here that the Company is putting to practical use the knowledge of its nuclear trained personnel in research aimed at product improvement. This work is being carried on as part of its participation in Industrial Reactor Laboratories, Inc. at Plainsboro, New Jersey.

In the area of national defense the Company has demonstrated on numerous occasions its capabilities in the engineering and production of military hardware. Currently active in the defense program, the Company is producing almost three hundred thousand die cast components for underwater signal devices.

High temperature refractories newly developed by the Company are being successfully used by the steel industry under the increasingly severe operating conditions encountered in modern furnaces. Specialized types of refractories are likewise finding wide acceptance in the fiber glass industry.

The Company pioneered the development of single crystals of strontium titanate for optical systems involving the infrared region of the spectrum. More recently, single crystals of titanium dioxide and calcium tungstate, both pure and with additions of other metallic compounds, have been developed for use in microwave and light amplification systems.



Electric arc vacuum melting furnace at Nuclear Metals Division, Albany, New York, plant, for thorium, uranium, zirconium and other refractory metal castings.

The Company has made considerable progress in the development of vacuum and high pressure die casting systems, and also fully automatic die casting machines. The vacuum method, which has been patented, produces castings that are more homogeneous and, therefore, stronger than those cast in conventional machines. It is used for parts that must meet unusual soundness and strength requirements. Both vacuum and high pressure systems can produce castings in aluminum, magnesium and zinc. A number of the fully automatic die casting machines are already in operation at various Doehler-Jarvis plants.

A study has been undertaken to determine whether an established electric furnace smelting process for converting ilmenite into slag for use in the production of titanium pigments can be successfully applied to ilmenite mined in Norway by the Company.

An accelerated research and development program is under way in connection with the encapsulation of individual fibers or particles of various materials in polyethylene. Production of encapsulated cellulose is expected to begin this year at a new plant at Sayreville, New Jersey.

Continuing interest in foreign countries offers the most promise at the present time for the R-N process for the direct reduction of iron ore.

Shareholders and Employees

At the end of 1961 there were 40,811 National Lead Company shareholders. Individuals, including joint owners, make up approximately 77 per cent of the total. The remaining 23 per cent consists mainly of investment funds, trusts and estates, insurance companies, charitable, educational and religious institutions.

The active interest shown by shareholders, as evidenced by attendance at annual meetings, high percentage of stock voted, and response to various communications, is greatly appreciated. The Company was awarded an "Oscar of

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Industry" for the best 1960 annual report in the paint and coatings industry.

The Management looks forward to welcoming those shareholders who will attend the Annual Meeting to be held on April 19, 1962 at Sayreville, New Jersey.

Employees of National Lead Company and wholly owned subsidiaries numbered 21,380 at the end of the year. Over 10 per cent of these employees had service of twenty-five or more years and at least 50 per cent were employed for ten or more years.

There were no important work-stoppages in 1961 and labor relations continued on a generally amicable basis.

Changes in Organization

In April 1961, Graham W. Corddry and Claude M. Merrell were elected vice presidents of the Company.

Mr. Corddry, manager of the Titanium Division, is also a director and a member of the executive committee. He has been with the Company since 1932.

Mr. Merrell directs the Company's foreign operations. He joined the Company in 1935 as a member of the auditing staff. In 1949 he became president of National Lead Company, S.A. at Buenos Aires, Argentina and in 1958 returned to New York to assume his present duties.

In June 1961, Thomas F. Owens was appointed treasurer of National Lead Company, succeeding Joseph J. Morsman, Jr. Formerly assistant comptroller, Mr. Owens has been with the Company since 1934.

Looking Forward

As this report is written Company operations are at a reasonably high level and the outlook for the coming months appears promising.

Looking to the future, the Company is so oriented that prompt and full advantage can be taken of emerging markets and investment opportunities. As in the past, the Company is in an excellent position to meet the needs of new industries as they appear on the scene. Plastics, synthetics, electronics, nuclear energy, space exploration — each of these new fields in turn has found National Lead Company a ready and dependable source of supply for products unknown and unneeded a generation or so ago.

Thus situated, and fortified by the cooperation of shareholders, the continuing support of customers and the loyalty of its employees, the Company looks to the future with optimism.

By Order of the Board of Directors

J. A. Martino

President

March 19, 1962.

The seventieth Annual Meeting of the shareholders of National Lead Company will be held at the principal offices of the Company in Sayreville, New Jersey, at the foot of Chevalier Avenue on Thursday, April 19, 1962, at 11:00 a.m. All shareholders are cordially invited to attend.

National Lead Company Financial Statement for 1961

National Lead Company and its Consolidated Subsidiaries

Balance Sheets

December 31, 1961 and 1960

Assets	**1961**	**1960** Restated*
Current assets:		
Cash and certificates of deposit	$ 47,268,412	$ 43,850,682
Government, state and municipal obligations, at cost (approximates market)	16,733,057	15,243,232
Other marketable securities, at cost (at market quotations: 1961, $4,720,000; 1960, $3,890,000)	3,518,059	2,459,683
Accounts and notes receivable, less reserves: 1961, $1,843,144; 1960, $1,819,972	64,742,911	58,274,374
Inventories (Note 2)	109,844,764	107,730,151
Total current assets	242,107,203	227,558,122
Notes receivable under Stock Option Incentive Plan (Note 3)	460,934	597,811
Investments in, at cost or below, and advances to unconsolidated subsidiaries, less reserve of $3,406,163 (Note 4)	15,214,102	14,303,426
Miscellaneous investments and advances, at cost or below, less reserve of $754,705 (Note 5)	3,589,236	3,855,327
Plant, property and equipment (including intangibles of $20,692,311 not being amortized) at cost, less reserves for depreciation, depletion and amortization: 1961, $181,569,212; 1960, $172,980,588	165,470,999	162,088,918
Prepaid expenses and deferred charges	4,318,628	5,131,470
	$431,161,102	$413,535,074

*See Note 1

Liabilities	**1961**	**1960** Restated*
Current liabilities:		
Accounts payable and accrued liabilities	$ 36,729,339	$ 32,494,227
Provisions for taxes	38,329,360	36,600,388
Dividends on Class B preferred stock	135,277	135,277
Total current liabilities	$ 75,193,976	$ 69,229,892
Inventory reserve (Note 2)	$ 11,326,492	$ 11,337,844
Capital		
Capital stock:		
Preferred Class A, 7 per cent cumulative, noncallable, par value $100; shares authorized 250,000, issued 243,676	$ 24,367,600	$ 24,367,600
Preferred Class B, 6 per cent cumulative, noncallable, 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: 1961, 11,703,372; 1960, 11,701,772 (Note 3)	58,516,860	58,508,860
	93,212,160	93,204,160
Capital surplus (Note 3)	36,134,146	36,012,878
Earned surplus	217,926,931	206,382,903
	347,273,237	335,599,941
Less, Reacquired capital stock, at cost (Note 6)	2,632,603	2,632,603
	$344,640,634	$332,967,338
	$431,161,102	$413,535,074

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The accompanying notes are an integral part of the financial statements.

National Lead Company and its Consolidated Subsidiaries

Statements of Income and Earned Surplus

For the Years Ended December 31, 1961 and 1960

	1961	1960 Restated*
Net sales	$555,672,358	$562,021,983
Cost of sales (Note 2)	$358,003,305	$361,140,679
Depreciation, depletion and amortization	13,743,848	13,821,910
Administrative, selling and general expenses	81,528,753	81,948,555
Taxes, including state income taxes	10,390,117	10,121,341
	$463,666,023	$467,032,485
	$ 92,006,335	$ 94,989,498
Other income, net	6,430,434	5,580,493
Income before United States and foreign income taxes	98,436,769	100,569,991
Provision for United States and foreign income taxes	46,695,016	48,163,860
Net income	$ 51,741,753	$ 52,406,131
Per share of common stock	$4.24	$4.29

	1961	1960 Restated*
Earned surplus:		
At beginning of year as previously reported:		
Unappropriated		$166,931,108
Appropriated		9,304,306
Foreign subsidiaries not previously consolidated (Note 1)		17,934,383
Restated balance at beginning of year	$206,382,903	194,169,797
Net income	51,741,753	52,406,131
	$258,124,656	$246,575,928
Dividends:		
Class A preferred stock, $7 per share	$ 1,640,051	$ 1,640,051
Class B preferred stock, $6 per share	541,110	541,110
	2,181,161	2,181,161
Common stock, $3.25 per share	38,016,564	38,011,864
	$ 40,197,725	$ 40,193,025
Earned surplus at end of year	$217,926,931	$206,382,903

*See Note 1

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. The consolidated financial statements for 1961 include all wholly owned United States and Canadian subsidiaries and, for the first time, all other major wholly owned subsidiaries. The financial statements for 1960 have been restated to conform to the new basis of consolidation. Foreign currency has been translated at appropriate rates of exchange.

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. The Stock Option Incentive Plan adopted in 1958 provides that options may be granted to certain officers and other key employees to purchase an aggregate of 250,000 shares of the common stock of the Company at 95 per cent of the fair market value of the stock on the dates of granting such options. The options are exercisable over a period of seven years from date of grant.

At December 31, 1961, the unpaid balances of the purchase prices of 7,775 shares are evidenced by promissory notes bearing interest at 3 per cent and payable within 10 years from the dates thereof. These shares are pledged with the Company as collateral.

The excess of the net proceeds over the par value of common stock sold upon exercise of the stock options has been credited to capital surplus: 1961, $121,268; 1960, $380,461.

Changes during 1961 under the Plan are summarized as follows:

	Range of Option Prices Per Share	Shares
Under option, January 1, 1961	$75.644 to $116.375	149,725
Options granted	75.050 to 87.281	3,350
		153,075
Less:		
Options exercised	85.975	1,600
Options terminated	85.975	3,600
Under option, December 31, 1961	75.050 to 116.375	147,875

Shares reserved for future options at the beginning and end of the year were 82,065 and 82,315, respectively. Options may be granted up to April 17, 1963.

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

Based upon audited financial statements, the equity of the Company in the net assets of the principal unconsolidated subsidiaries and amounts relating to such equity approximated:

	1961	1960
Equity in net assets	$27,578,000	$28,172,000
Excess of equity over the Company's net investments and advances	12,765,000	14,522,000
(Decrease) in excess equity during year	(1,757,000)	(773,000)

5. The equity of the Company in the net assets of Titanium Metals Corporation of America, 50 per cent owned, as shown by audited financial statements, exceeded the cost of the Company's investment, included in miscellaneous investments, by approximately $11,566,000 at December 31, 1961 and $11,167,000 at December 31, 1960

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

	Shares	*Costs*
Preferred Class A	9,383	$1,147,727
Preferred Class B	13,092	1,435,354
Common	4,960	49,522
		$2,632,603

General:

Numerous differences exist between taxable income and book income, including certain fluctuations in the inventory reserve, percentage depletion and depreciation charges. 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.

Under agreements with the Atomic Energy Commission, certain consolidated subsidiaries operate plants owned by the U.S. Government under fixed fee contracts. The accompanying financial statements do not include the assets, liabilities or results of operations of such plants.

Lybrand, Ross Bros. & Montgomery
Certified Public Accountants
2 Broadway, New York, N. Y.

To the Stockholders of
National Lead Company
New York, N. Y.

We have examined the consolidated balance sheet of NATIONAL LEAD COMPANY and its Consolidated Subsidiaries as of December 31, 1961 and the related statements of income and earned surplus for the year then ended. We have examined or have received reports of other public accountants upon their examinations of the 1961 financial statements of the consolidated and the major unconsolidated subsidiaries. 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. The 1960 financial statements, similarly examined, have been restated, with our concurrence, to reflect the inclusion of the major wholly owned foreign subsidiaries as described in Note 1 to the financial statements.

In our opinion, based upon our examinations and upon the reports of other public accountants, the accompanying financial statements present fairly the consolidated financial position of National Lead Company and its consolidated subsidiaries at December 31, 1961 and 1960 and the consolidated results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

LYBRAND, ROSS BROS. & MONTGOMERY

New York, February 23, 1962

National Lead Company and its Consolidated Subsidiaries

Ten Year Review of Operations

	1961	1960 Restated*	1959	1958	1957	1956	1955	1954	1953	1952
Net Sales	$555,672,358	$562,021,983	$530,550,817	$457,592,886	5,343,270	$576,292,383	$533,728,730	$419,333,961	$436,050,592	$358,048,435
Net Income before Taxes	98,436,769	100,569,991	101,174,233	84,395,289	1,537,900	107,521,101	89,436,792	67,153,316	62,836,357	48,386,163
Taxes on Income	46,695,016	48,163,860	48,712,722	39,673,891	5,306,394	44,369,014	41,546,851	30,534,665	31,987,429	25,326,109
Net Income	51,741,753	52,406,131	52,461,511	44,721,398	6,231,506	63,152,087	47,889,941	36,618,651	30,848,928	23,060,054
Preferred Dividends	2,181,161	2,181,161	2,181,161	2,181,161	2,181,161	2,181,161	2,181,161	2,181,161	2,181,161	2,181,161
Common Dividends	38,016,564	38,011,864	37,947,176	37,865,038	7,857,956	37,074,569**	32,417,308	23,735,838	19,779,867	14,729,644
Total Cash Dividends	40,197,725	40,193,025	40,128,337	40,046,199	0,039,117	39,255,730	34,598,469	25,916,999	21,961,028	16,910,805
Retained Earnings	11,544,028	12,213,106	12,333,174	4,675,199	6,192,389	23,896,357	13,291,472	10,701,652	8,887,900	6,149,249
Earnings Per Common Share	4.24	4.29	4.30	3.65	4.64	5.34	4.02	3.05	2.58	2.06
Cash Dividends Per Common Share	3.25	3.25	3.25	3.25	3.25	3.25**	2.85	2.10	1.75	1.45
Total Current Assets	242,107,203	227,558,122	205,350,494	184,392,427	83,995,439	198,413,275	196,758,738	178,569,448	164,812,640	122,870,494
Total Current Liabilities	75,193,976	69,229,892	66,689,074	64,240,475	70,175,917	80,925,260	83,598,897	73,980,730	72,983,811	53,767,414
Working Capital	166,913,227	158,328,230	138,661,420	120,151,952	13,819,522	117,488,015	113,159,841	104,588,718	91,828,829	69,103,080
Gross Property Account	347,040,211	335,069,506	292,122,311	287,800,726	60,592,510	238,609,305	228,267,837	210,718,867	203,511,823	161,540,966
Reserves for Depreciation, Depletion and Amortization	181,569,212	172,980,588	145,220,190	135,107,065	21,775,325	111,224,536	105,437,451	97,553,116	91,281,692	75,944,349
Net Property Account	165,470,999	162,088,918	146,902,121	152,693,661	38,817,185	127,384,769	122,830,386	113,165,751	112,230,131	85,596,617
Total Assets	431,161,102	413,535,074	380,511,351	361,213,437	58,369,280	353,176,014	336,411,632	310,468,896	294,647,263	223,910,550

*1960 restated to conform to new 1961 basis of consolidation. Prior to 1960, certain wholly owned foreign subsidiaries are not consolidated.
**Plus 2% stock dividend.

Branches

Atlanta Branch
Atlantic Branch (New York)
Baltimore Branch
Chicago Branch
Cincinnati Branch
Cleveland Branch
National Lead Company of Massachusetts (Boston)
Pacific Coast Branch (San Francisco)
Philadelphia Branch
St. Louis Branch
Southwestern Branch (Dallas)

Paints, Paint Materials and Chemicals:
Antimony oxide, basic carbonate white lead, basic silicate white lead, basic lead silico chromate, red lead and litharge, battery oxides, paints, varnishes, enamels, gellants, stabilizers for vinyl plastics.

Primary Metals:
Antimony, cadmium, lead, tin and zinc.

Metal Products and Alloys:
Lead pipe, sheet, traps, bends, wool, wire, ingot, shot; radiation shielding; battery grid, babbitt and type metals, solder, lead and zinc alloys; lead-lined valves and fittings; cinch anchors; pewter.

On Pacific Coast, primary metals, metal products and alloys are sold by Morris P. Kirk & Son, Inc.

Divisions

American Bearing Division
Indianapolis
Precision bearings
(Sold through American Bearing Corporation)

Baroid Division
Houston, Texas
Oil well drilling materials, well logging services and testing equipment, gellants for greases

DeLore Division
St. Louis
Barium and calcium pigments

Doehler-Jarvis Division
Toledo
Aluminum, brass, magnesium and zinc die castings

Evans Lead Division
Charleston, West Virginia
Lead oxides

Goldsmith Bros. Division
Chicago
Precious metals

Magnus Metal Division
New York
Brass and bronze bearings and castings, stainless steel screening plates and special valves
(Sold through Magnus Metal Corporation)

Nuclear Metals Division
New York
Uranium ore concentrates and nuclear feed materials, fuel elements, fabricated uranium products, nuclear research and development services

Steel Package Division
St. Louis
Small steel containers

Texas Mining and Smelting Division
Laredo, Texas
Antimony and antimony oxide

Titanium Alloy Manufacturing Division
New York
Zirconium oxide, silicates and chemicals; electronic titanates, zirconates and stannates; ferrous and non-ferrous alloys

Titanium Division
New York
Titanium pigments and chemicals, ilmenite and magnetite iron ore
(Sold through Titanium Pigment Corporation)

Wholly Owned Domestic Subsidiaries

Master Metals, Inc.
Cleveland
Lead and lead alloys

National Lead Company of Ohio
New York
Contract-operator, Atomic Energy Commission

Southern Screw Company
Statesville, North Carolina
Screws and Metal Fasteners

The Chas. Taylor's Sons Company
Cincinnati
High temperature refractories

Wholly Owned Foreign Subsidiaries

Barber Die Casting Co. Limited
Hamilton, Canada
Aluminum, brass, magnesium and zinc die castings

Baroid of Canada, Ltd.
Calgary
Oil well drilling materials, well logging services and testing equipment

Canadian Titanium Pigments Limited
Montreal
Titanium pigments

Hoyt Metal Company of Great Britain, Ltd.
London
Antifriction metals

Industrias Deriplom S.R.L.
Buenos Aires
Lead oxides

Societe Belge du Titane S.A.
Brussels
Titanium pigments

The Canada Metal Company, Ltd.
Toronto
Lead oxides; fabricated lead products; lead and zinc alloys; brass and bronze products

The Titanium Alloy Manufacturing Co. Pty. Limited
Tweed Heads, Australia
Rutile and zircon ores

Titaan N.V.
Rotterdam
Titanium pigments

Titan Co. A/S
Fredrikstad, Norway
Titanium pigments and paints

Titangesellschaft m.b.H.
Leverkusen, West Germany
Titanium pigments

Titania A/S
Hauge i Dalane, Norway
Ilmenite

0000-NLI-000018685

Partially Owned Domestic Affiliated Companies

Morris P. Kirk & Son, Inc.
Los Angeles
Aluminum, lead and zinc alloys; fabricated lead products; lead oxides

Pioneer Aluminum, Inc.
Los Angeles
Aluminum aircraft extrusions, zinc alloys, aluminum tooling plate

R-N Corporation
New York
Direct reduction and beneficiation of iron ores

The Baker Castor Oil Company
Bayonne, New Jersey
Castor oil, chemicals derived from castor oil and other oils and fats, chemical specialties

Titanium Metals Corporation of America
New York
Titanium metal sponge, ingot and mill products

Partially Owned Foreign Affiliated Companies

Abbey Chemicals Limited
London
Gellants; stabilizers for vinyl plastics

Baritina de Venezuela, S.A.
Caracas
Oil well drilling materials

Baroid-Maffei, S.p.A.
Milan
Oil well drilling materials

Barytes & Minerals Limited
Trinidad
Oil well drilling materials

Cia. Minera Castãno Viejo S.A.
Buenos Aires
Lead and zinc concentrates

Doehler Argentina S.A.
Buenos Aires
Aluminum and zinc die castings

Industrias Doehler do Brasil, S.A.
São Paulo, Brazil
Aluminum and zinc die castings

Lakeshore Die Casting, Limited
Oakville, Canada
Aluminum and zinc die castings

Metal Castings Doehler Limited
Worcester, England
Aluminum and zinc die castings

Mineral Deposits Pty. Limited
Sydney, Australia
Rutile and zircon ores

National Lead Company (Philippines), Inc.
Manila
Paints, varnishes and enamels

National Lead Company S.A.
Buenos Aires
Lead and lead products

Roto-Cast Limited
Montreal
Bronze castings

Societe Chimique des Derives du Titane S.A.
Langerbrugge, Belgium
Titanium pigments

Societe Industrielle du Titane
Paris
Titanium pigments

The Carter White Lead Company of Canada, Ltd.
Montreal
Lead pigments, lead oxides and stabilizers for vinyl plastics

Zinnwerke Wilhelmsburg G.m.b.H.
Hamburg, West Germany
Copper refinery shapes

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