ANNUAL REPORT

OF

THE EAGLE-PICHER LEAD COMPANY

AND SUBSIDIARIES

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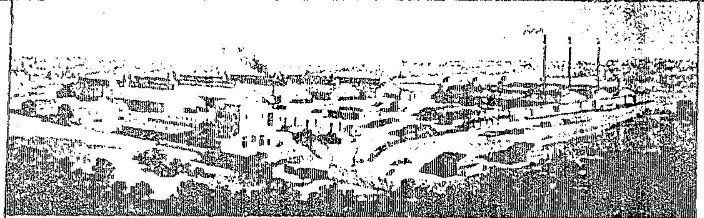
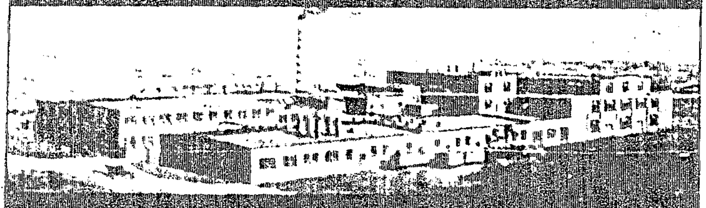
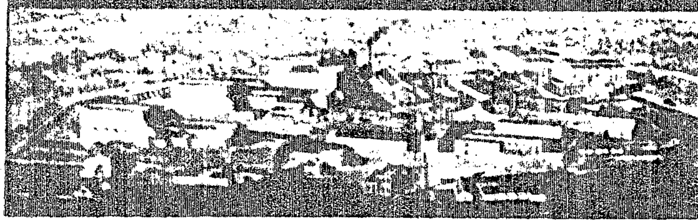
PICHER

DECEMBER 31, 1936







Henryetta, Oklahoma
Zinc Smelter

Hillsboro, Illinois
Zinc Oxides

Argo, Illinois
Lithopone

Joplin, Missouri
Lead Oxides . Home Insulation
Industrial Insulation . Type Metals
Bearing Metals . Lead Wool
Plumber's Lead Supplies

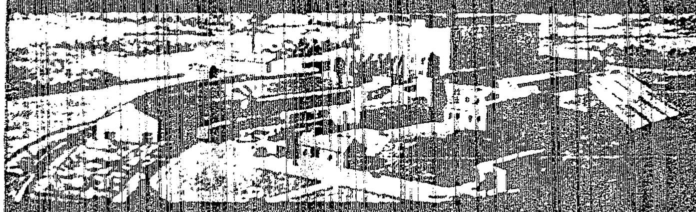
E. St. Louis, Illinois
Mixed Metal
Hard Lead

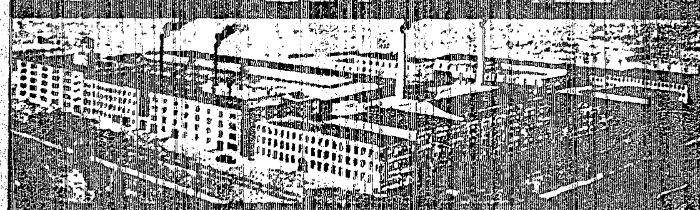
Galena, Kansas
Lead Smelter. Produces lead pigs and Sublimed Leads.

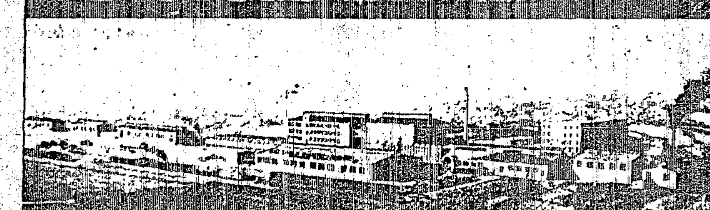
Commerce, Oklahoma
Lead and zinc concentrating plants — capacity 5000 tons per day.

Cincinnati, Ohio
White Lead. Also produces same metal items as Joplin plant.

Newark, New Jersey
Litharge
Home Insulation







ANNUAL REPORT

The Eagle-Picher Lead Company and Subsidiaries

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To the Stockholders of
THE EAGLE-PICHER LEAD COMPANY:

Submitted herewith is a Consolidated Balance Sheet of The Eagle-Picher Lead Company and Subsidiaries as of December 31, 1936, together with Consolidated Profit and Loss Account for the year then ended. The Consolidated Balance Sheet and the Consolidated Profit and Loss Account are presented on a comparative basis with corresponding statements for the preceding year, and were prepared by Barrow, Wade, Guthrie and Company, whose report in connection therewith is attached hereto.

Earnings and Sales

Consolidated Net Income for the year, after all charges, was $696,383.88 and compares with $583,620.27 for the year ended December 31, 1935. Provision for depletion and depreciation was $821,358.28 in 1936, which compares with $640,438.71 in 1935, and the provision for estimated federal and state income taxes was $151,306.82 compared with $116,750.00 in 1935.

Net Sales in 1936 were $20,873,573.62 as compared with $16,032,815.71 in 1935. This is an increase of $4,840,757.91, or approximately 30%. Sales tonnage of manufactured products was 19% greater than in 1935. Sales during the last quarter of 1936 were somewhat larger than normal because of advance buying by customers, in accordance with trade customs, for future deliveries extending into 1937 at prices which prevailed before the large advances in the prices of lead and zinc in December. The price of lead advanced from $4.60 per cwt. in the latter part of October to $6.00 per cwt. on December 21st, and since that date has advanced to $7.00 per cwt. During the same period the price of zinc advanced from $4.85 per cwt. to $5.45 per cwt., and since the first of the year has advanced to $6.80 per cwt. The Company benefited from the improvement in prices only to a limited extent in 1936 because of the previously mentioned advance buying by customers for future deliveries. An important factor in the increase in sales for the year was the almost complete liquidation of our stock of slab zinc.

A table of the prices of metals in which this company is principally interested, as of the beginning of the last eight years, follows:

	Concentrates Per Ton		Metal Per Cwt.	
	Zinc	Lead	Zinc	Lead
1930	$35.00	$75.00	$5.45	$ 6.25
1931	25.50	57.50	4.125	5.10
1932	18.00	35.00	3.125	3.75
1933	18.00	32.00	3.125	3.00
1934	28.50	46.00	4.35	4.15
1935	26.00	36.00	3.725	3.70
1936	32.00	47.00	4.85	4.50
1937	35.00	70.00	5.45	6.00

Balance Sheet

Current assets at the end of the year amounted to $9,090,055.60 and current liabilities were $1,812,659.70, leaving net working capital of $7,277,395.90, which is $417,280.47 more than as of the beginning of the year.

Quantities of inventories were reduced in 1936. The approximate combined lead and zinc content of inventories at December 31, 1936, was 46,323 tons compared with 54,891 tons at December 31, 1935. This reduction of 8,568 tons was wholly in the zinc content of our inventory. The value of inventories on the Balance Sheet at December 31, 1936, was $5,427,640.09, which is approximately $130,000.00 less than at the beginning of the year. The reduction in the value of the inventories did not correspond with the decrease in quantities because of the necessity of replacing metals at much higher prices than the cost or market value (whichever was lower) as of January 1st. The cost of replacing inventories at higher prices is reflected in the reserve for normal inventories which increased $325,918.05 during the year. The total amount in this reserve at December 31, 1936, was $1,279,080.71 and represents the difference between the cost or market value (whichever was lower) of fixed quantities of inventories and the fixed prices of 3c per pound for lead, New York base and East St. Louis base, respectively, and 3c per pound for zinc, East St. Louis base. Credits to the reserve during the year amounted to $396,898.06, which is greater than the increase in the reserve. As a result of liquidating our slab zinc inventory, the reserve provided prior to January 1, 1936, on 3,000 tons of slab zinc and amounting to $70,980.01, was reversed and the respective surplus accounts from which this reserve was provided were credited. Although it may seem that earnings are being penalized because of our normal inventory system of accounting for fixed quantities, it must be kept in mind that the amount added to the reserve represents the additional amount which we invested in the fixed quantities of inventories during the year. It is obvious that such additional amounts invested in inventories to carry on the business of the Company are not available for distribution as dividends.

Dividends

In 1936 the regular dividend of $6.00 per share on preferred stock was paid and dividends on the common stock were resumed by paying a total of 60c per share.

Mining and Milling

Production of lead and zinc concentrates in the Tri-State District was 36,614 tons greater in 1936 than in 1935, which increase is at the rate of 45%. Our production of lead and zinc concentrates in the Tri-State District during the last six years from ore mined by the company and contract miners from wholly owned, partially owned and independently owned properties was as follows:

	1936	*1935*	*1934*	*1933*	*1932*	*1931*
Zinc Concentrates (tons)	102,412	69,086	53,647	51,651	28,858	19,626
Lead Concentrates (tons)	14,734	11,446	10,802	7,423	3,140	3,487
	117,146	80,532	64,449	59,074	31,998	23,113

Production of lead and zinc concentrates at our Montana Mine, Ruby, Arizona, during the last three years was as follows:

	1936	*1935*	*1934*
Zinc Concentrates (tons)	6,388	6,668	2,035
Lead Concentrates (tons)	10,203	11,075	3,560
	16,591	17,743	5,595

The concentrates produced from the Montana Mine in 1936 contained 7,620 ounces of gold and 622,336 ounces of silver.

In December, 1936, a part interest in the Mary M Mining Company was purchased and an option secured which permitted us to acquire the entire assets of the company early in 1937. The properties acquired as a result of this purchase comprise approximately 1,400 acres of fees and leases in Oklahoma and Kansas and mills located on this acreage. As a result of the acquisition of these properties the ore reserves of the Company were considerably increased.

Manufacturing

The fabricating plants of the Company produced the largest tonnage of manufactured products for any year since 1930. Insulation materials production facilities were doubled in 1936 and the plants were operated at capacity. It is expected that additional facilities will be required in 1937. Our insulating products are being given a very gratifying reception by the public.

We are constantly striving to improve our lead and zinc pigments and to produce them at the lowest costs possible. Increases in wages and raw materials and supplies costs have been proportionately greater than increases in sales realizations. We are making considerable effort to lower operating costs by plant improvements and the installation of new equipment. Our Research Department is constantly striving to improve products and production methods.

Outlook

The recent advances in the prices of lead and zinc, together with the almost complete liquidation of domestic zinc stocks and the substantial reduction in refinery stocks of lead, indicate favorable prospects for our mining and smelting activities in 1937. Demand for both zinc and lead at the present time is quite heavy, and if such conditions continue, our production of zinc and lead concentrates should be somewhat greater in 1937 than in 1936. Sales of manufactured products in 1937 are running ahead of last year. The present indications are that sales tonnages will show a substantial increase over 1936, which should result in an increase in profits.

The personnel of the Company has shown a commendable spirit of loyalty and cooperation throughout the year which is sincerely appreciated by the Management.

A. E. BENDELARI
President

With the approval of the Board of Directors.

CINCINNATI, OHIO.
February 25, 1937.

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The Eagle-Picher Lead Com

CONSOLIDATED BALANCE SHEETS AS A

ASSETS	December 31, 1936		December 31, 1935	
Current Assets:				
Cash in Banks and on Hand		$ 770,747.09		$ 464,250.75
Accounts and Notes Receivable—Trade	$ 3,077,263.64		$ 2,023,566.54	
Accounts and Notes Receivable—Other	54,561.40		67,164.88	
	3,131,825.04		2,090,731.42	
Less—Reserve for Bad and Doubtful Accounts	240,156.62	2,891,668.42	240,823.65	1,849,907.77
Inventories of Raw Materials, Work in Process and Finished Products (including merchandise on consignment to customers):				
Ores, Metals and Metal-bearing Products—valued at cost or market price of metal content, whichever was lower at December 31, plus manufacturing costs on Work in Process and Finished Products	4,665,209.95		4,950,013.23	
Other Merchandise for Resale—at cost	248,694.64		227,619.31	
	4,913,904.59		5,177,632.54	
Manufacturing Supplies and Stores—at cost	513,735.50	5,427,640.09	382,303.97	5,559,936.51
		9,090,055.60		7,874,095.03
Other Assets:				
Surplus Equipment, Repair Parts, Supplies, etc.—less Reserve	150,588.52		164,924.00	
Employees' Loans and Expense Advances	24,416.10		26,990.01	
Miscellaneous Accounts, Advances, etc.	127,412.15	302,416.77	72,357.08	264,271.09
Fixed Assets—at cost:				
Operating Plants and Properties	15,316,521.65		15,150,111.48	
Less—Reserve for Depletion, Depreciation, etc.	10,296,784.77		9,861,709.22	
	5,019,736.88		5,288,402.26	
Non-Operating Plants and Properties	3,289,196.65		3,398,768.07	
Less—Reserves for Depletion, Depreciation, etc.	3,028,149.25		3,168,725.85	
	261,047.40	5,280,784.28	230,042.22	5,518,444.48
Self-Insurance Fund Securities:				
U. S. Treasury Obligations—at cost (Market Value at December 31, 1936—$131,383.14)		126,330.84		118,680.84
Investments:				
Stock of wholly owned Subsidiary not consolidated	1.00		1.00	
Stock of other Subsidiary not consolidated	10,200.00		10,200.00	
Investment in and advance to Affiliated Company	175,000.00			
Sundry Securities—at estimated recoverable values	12,268.88	197,469.88	24,784.08	34,985.08
Treasury Stock—at cost:				
Preferred— 65 shares	2,330.75		2,330.75	
Common—5,924 shares	21,797.56	24,128.31	21,797.56	24,128.31
Prepaid and Deferred Charges:				
Prepaid Freight, Insurance, Interest, etc.	109,401.65		98,324.91	
Construction Work in Progress	134,696.22		71,440.22	
Compensation Claims and Insurance Advances	5,661.04		12,449.51	
Other Deferred Charges	48,422.68	298,181.59	13,205.34	195,419.98
Patents, Goodwill, etc.		1.00		1.00
		$15,319,368.27		$14,030,025.81

ead Company and Subsidiaries

SHEETS AS AT DECEMBER 31, 1936 AND 1935

LIABILITIES	December 31, 1936		December 31, 1935	
Current Liabilities:				
Notes Payable—Banks and Brokers		$ 500,000.00		
Accounts Payable		878,953.38		722,368.13
Preferred Dividends Payable		8,233.50		8,233.50
Accrued Liabilities:				
Taxes—other than Federal Income Tax	$ 128,102.12		$ 87,324.12	
Wages	44,396.15		39,838.65	
Compensation Awards, etc.	14,352.29		33,840.82	
Provision for Federal Income Taxes—estimated	159,944.96		97,568.67	
Other Accrued Liabilities	20,530.56	367,326.08	7,867.76	266,440.02
Customers' Credit Balances		58,146.74		16,937.95
		1,812,659.70		1,013,979.60
Reserves for Self-Insurance:				
Workmen's Compensation Liability	136,314.83		110,635.33	
Fire and Tornado Coverage	34,467.74	170,782.57	28,101.84	138,737.17
Reserves for Normal Metal Inventory Price Fluctuation		1,279,080.71		953,162.66
Reserves for Contingencies		393,784.85		470,995.31
Capital Stock:				
Preferred 6% Cumulative—Par value $100; redeemable at $105: Authorized and Outstanding 5,554 shares	555,400.00		555,400.00	
Common—Par value $10: Authorized 1,000,000 shares				
Issued and Outstanding 900,000 shares	9,000,000.00	9,555,400.00	9,000,000.00	9,555,400.00
Surplus Accounts:				
Capital Surplus:				
Balance—January 1st	1,324,430.00		1,322,946.70	
Plus—Adjustments applicable to period prior to January 1, 1935:				
Fixed Assets	11,925.08		1,483.30	
Reserve for Normal Inventory Price Fluctuation	33,000.00			
Balance—December 31st	1,369,355.08		1,324,430.00	
Earned Surplus since January 1, 1935:				
Balance—January 1st	573,321.07		6,167.80	
Net Income for year—Per Profit and Loss Account	696,383.88		583,620.27	
Reserve for Normal Inventory Price Fluctuation	37,980.01			
	1,307,684.96		589,788.07	
Dividends Paid and Accrued:				
Preferred . . . $ 32,934.00			16,467.00	
Common . . . 536,445.60	569,379.60			
Balance—December 31st	738,305.36	2,107,660.44	573,321.07	1,897,751.07
Contingent Liabilities—In respect of liabilities presently undeterminable, including pending suits.				
		$15,319,368.27		$14,030,025.81

The Eagle-Picher Lead Company and Subsidiaries

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

For the years ended December 31, 1936 and 1935

	Year Ended December 31, 1936		Year Ended December 31, 1935	
Net Sales		$20,873,573.62		$16,032,815.71
Production and Manufacturing Costs		17,185,768.64		12,990,380.21
Gross Operating Profit — before Depreciation and Depletion		3,687,804.98		3,042,435.50
Expenses:				
Selling	$1,044,704.95		$ 875,558.81	
Traffic, Warehousing and Shipping	257,311.25		226,679.77	
General and Administrative	673,373.78		566,264.24	
Bad Debt Provision—less Recoveries	56,172.45	2,031,562.43	89,192.09	1,757,694.91
Net Operating Profit—before Depreciation and Depletion		1,656,242.55		1,284,740.59
Other Income:				
Royalties	29,316.25		29,623.33	
Interest and Dividends	6,629.46		8,429.54	
Miscellaneous	45,518.77	81,464.48	34,882.53	72,935.40
		1,737,707.03		1,357,675.99
Interest on Notes Payable		10,871.64		16,867.01
		1,726,835.39		1,340,808.98
Provision for Depreciation and Depletion—per books	821,358.28		640,438.71	
Loss on Abandonment of Prospects	57,786.41	879,144.69		640,438.71
Net Profit—before provision for Income Taxes		847,690.70		700,370.27
Provision for Federal and State Income Taxes—estimated				
Federal Normal and State Income Taxes	137,197.97		116,750.00	
Federal Surtax on Undistributed Profits	14,108.85	151,306.82		116,750.00
Net Income for Year		$ 696,383.88		$ 583,620.27

BARROW, WADE, GUTHRIE & CO.
(ESTABLISHED 1883)
ACCOUNTANTS AND AUDITORS
ONE NORTH LA SALLE STREET
CHICAGO

To the Directors
THE EAGLE-PICHER LEAD COMPANY
Cincinnati, Ohio

We have made an examination of the attached Consolidated Balance Sheet of The Eagle-Picher Lead Company and Subsidiaries as at December 31, 1936, and of the related Consolidated Profit and Loss Account for the year then ended.

In connection therewith, we examined or tested accounting records of The Eagle-Picher Lead Company and The Eagle-Picher Sales Company and Subsidiary, and other supporting evidence, and obtained information and explanations from officers and employees of the Companies. We also made a general review of the accounting methods and of the operating and income accounts for the year, but did not make a detailed audit of the transactions. The accounts of The Eagle-Picher Mining and Smelting Company and Subsidiaries, as examined and reported upon by other independent accountants, have been included in the accompanying consolidated statements.

Consistent with previous practice, all ore, metals and metal-bearing products on hand at December 31, 1936, as determined by physical inventories taken by the Companies or their agents, were valued at cost or market price of metal content, whichever was lower at the close of the accounting period, plus manufacturing costs (exclusive of provision for depletion and depreciation) on materials in process and finished products. During the year under report, spelter (slab zinc) inventories were largely liquidated and, in consequence thereof, the normal zinc stock was correspondingly reduced by 3,000 tons and the applicable reserve of $70,980.01, accumulated to December 31, 1935, was reversed by credits of $33,000.00 and $37,980.01 to Capital Surplus and Earned Surplus, respectively, as reflected in the attached Balance Sheet. As so adjusted, the normal stocks at December 31, 1936 consisted of 26,000 tons of lead and 9,500 tons of zinc. Reserves, as computed by the Companies, to reduce the current valuation of such normal stocks to fixed prices of $3.00 per hundred pounds, New York base and East St. Louis base, respectively, were increased by charges to current operations of $396,898.06 during the year ended December 31, 1936, to a total of $1,279,080.71 at that date. While inter-company profits and losses are not practicable of determination and have not, therefore, been eliminated from inventories or current operating results, the amount of such profits or losses is, in the opinion of the management, relatively unimportant.

Charges to Operating Reserves, appropriated from Capital Surplus as at January 1, 1935, amounted to $134,635.21 at December 31, 1935 and to $79,274.83 (including $32,732.72 in respect of Federal income taxes and interest thereon, for the calendar years 1933 and 1934) for the year ended December 31, 1936, or an aggregate of $213,910.04 at the latter date. For the year under review, the basis of provision for uncollectible notes and accounts was substantially revised, the effect thereof having been to reduce, by $68,618.86, the charge to current operations which would have resulted from continuance of the basis employed during the preceding year.

Based upon the examination made by us and subject to the foregoing comments, in our opinion, the accompanying Balance Sheet and related Profit and Loss Account fairly present, on the bases indicated therein and in accordance with accepted principles of accounting consistently maintained during the year under review, the consolidated financial position of the Companies at December 31, 1936, and the results of operations for the year then ended.

Barrow, Wade, Guthrie & Co.
ACCOUNTANTS AND AUDITORS

Chicago, Illinois
February 23, 1937

The Eagle-Picher Lead Company

BOARD OF DIRECTORS

A. E. Anderson
Vincent H. Beckman
Arthur E. Bendelari
Frederick Hertenstein
Carl F. Hertenstein
Joseph Hummel, Jr.
A. Kiefer Mayer
Robert E. Mullane
John J. Rowe

OFFICERS

Arthur E. Bendelari, *President*
Frederick Hertenstein, *Vice-President*
John R. MacGregor, *Vice-President*
Willard E. Maston, *Vice-President*
Joseph Hummel, Jr., *Secy.-Treas.*
Carl A. Geist, *Asst. Treas.*
William R. Dice, *Comptroller*

TRANSFER AGENT

Western Bank & Trust Company, Cincinnati, Ohio

REGISTRAR

Central Trust Company, Cincinnati, Ohio

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The Eagle-Picher Sales Company

BOARD OF DIRECTORS

A. E. Anderson
Vincent H. Beckman
Arthur E. Bendelari
Frederick Hertenstein
Carl F. Hertenstein
Joseph Hummel, Jr.
A. Kiefer Mayer
Robert E. Mullane
John J. Rowe

OFFICERS

Arthur E. Bendelari, *President*
Willard E. Maston, *Vice-President*
Thurman C. Carter, *Vice-President*
Joseph Hummel, Jr., *Secy.-Treas.*
Carl A. Geist, *Asst. Treas.*
William R. Dice, *Comptroller*

»» ««

The Eagle-Picher Mining and Smelting Company

BOARD OF DIRECTORS

A. E. Anderson
Vincent H. Beckman
Arthur E. Bendelari
Frederick Hertenstein
Carl F. Hertenstein
Joseph Hummel, Jr.
A. Kiefer Mayer
Robert E. Mullane
George W. Potter
John J. Rowe

OFFICERS

Arthur E. Bendelari, *President*
George W. Potter, *Vice-President*
Frederick Hertenstein, *Vice-President*
Joseph Hummel, Jr., *Secy.-Treas.*
Carl A. Geist, *Asst. Treas.*
William R. Dice, *Comptroller*

EAGLE-PICHER PRODUCTS

Home Insulation

Type H-1 Home Insulation
"Bat" Insulation
Pipe Insulation
"66" Furnace and Hot Water Tank Insulation

Industrial Insulation

Eagle Super "66" Plastic Insulation
Eagle Insulseal (Waterproofing Cement)
Boiler Setting Cement
Pipe and Blanket Insulation

Slab Zinc

Pigments and Oxides

White Lead Carbonate
Sublimed Blue Lead
Red Lead
Sublimed White Lead
Super Sublimed White Lead
Litharge
Sublimed Litharge
Lead Oxides
Zinc Oxides
Lithopone
Titanated Lithopone
Orange Mineral

For Painting

White Lead-in-Oil
Sublimed Blue Lead-in-Oil
Red Lead-in-Oil
Flatting Oil

Plumbing Goods

Lead Pipe
Traps and Bends
Roof Flanges
Sheet Lead

Metal Goods

Solders
Bearing Metals
Type Metals
Lead Wool
Rope Socket Metal
Roofing Washers
Chemical Lead Pipe
Chemical Sheet Lea

SALES OFFICES

THE EAGLE-PICHER SALES COMPANY

Baltimore, Maryland
359 Guilford Avenue

Boston, Massachusetts
11 Wharf Street

Buffalo, New York
70 West Chippewa Street

Chicago, Illinois
4401 South Western Blvd.

Cincinnati, Ohio
Temple Bar Building

Cleveland, Ohio
Broadway and East Ninth

Dallas, Texas
2215 Laws Street

Detroit, Michigan
1627 West Fort Street
(Room 406)

Joplin, Missouri
C and Porter Street

Kansas City, Kansas
Southwest Boulevard and State Line

Minneapolis, Minn.
437 Harding Street, N. E.

New Orleans, La.
411 South Peters Street

New York, New York
420 Lexington Avenue

Pittsburgh, Pa.
1713 Liverpool Street, N. S

Philadelphia, Pa.
Delaware Avenue and Lombard Street

St. Louis, Missouri
1218 Olive Street

Tulsa, Oklahoma
Thompson Building
(Room 312)