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National Lead Company

Seventy-Fifth Annual Report 1966

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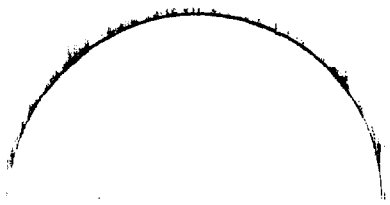
NATIONAL LEAD COMPANY

Seventy-Fifth Annual Report 1966



1891-1966 ■ National Lead Company celebrated its seventy-fifth anniversary in 1966. The Company was incorporated on December 8, 1891.

At the outset, the major products were white lead and linseed oil, the principal paint ingredients of the times. Today National Lead produces more than 200 categories of products which are sold to virtually every major industry. More than 120 manufacturing plants and mines are operated in thirty-one states throughout the country, five provinces of Canada, and fifteen countries overseas.

The achievements of the past years are a matter of history. Today National Lead is planning for further development and future growth. With the enthusiastic loyalty of the people who are National Lead—shareholders and employees alike, the accomplishments of the years ahead can be even more noteworthy.

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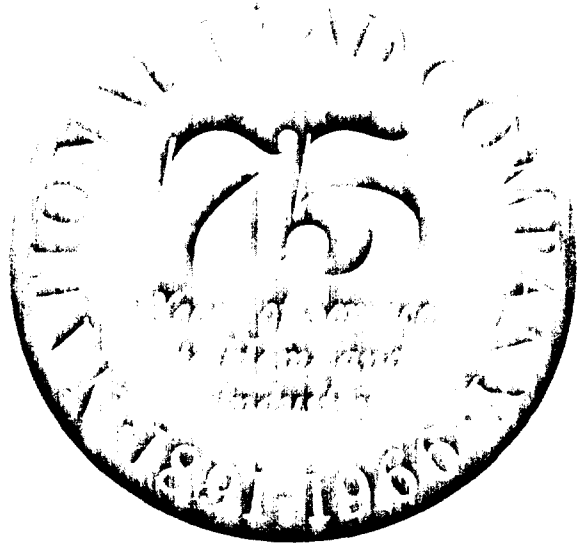

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National Lead Company *Executive Offices:* 111 Broadway, New York, N.Y. 10006

Board of Directors

Alfred F. Bauer
George B. Coale
Alfred H. Drewes
John B. Henrich
J. Murray Johnston
James MacGuffie
Joseph A. Martino
Claude M. Merrell
David A. Merson
Thomas F. Owens
Edward R. Rowley
William J. Welch

Executive Committee

Joseph A. Martino
Chairman
Alfred H. Drewes
John B. Henrich
J. Murray Johnston
James MacGuffie
Claude M. Merrell
Thomas F. Owens
Edward R. Rowley

General Counsel

Alexander & Green
120 Broadway
New York, N.Y. 10005

Executive Officers

Joseph A. Martino
Chairman of the Board

Alfred H. Drewes
President

Alfred F. Bauer
Vice-President and General Manager of Doehler-Jarvis Division

George B. Coale
Vice-President and General Manager of Baroid Division

J. Murray Johnston
Vice-President and Manager of Titanium Alloy Manufacturing Division

James MacGuffie
Vice-President and Manager of Titanium Division

Claude M. Merrell
Vice-President — International Operations

Warren T. Trask
Vice-President and Manager of Metal Division

John B. Henrich
Secretary

Thomas F. Owens
Treasurer

George A. Dewey
Comptroller

Malte Ericson
Assistant Comptroller

John J. Lawlor
Assistant Secretary

Thomas P. Mesick
Assistant Secretary

Archer D. Sargent
Assistant Treasurer and Assistant Comptroller

G. Warren Waite
Assistant Comptroller

Common Stock

Transfer Agents:
The Chase Manhattan Bank, *One Chase Manhattan Plaza, New York, N.Y. 10015*
Old Colony Trust Company, *45 Milk Street, Boston, Massachusetts 02106*
National Trust Company Limited, *21 King Street East, Toronto 1, Canada*

Registrars:
Bankers Trust Company, *16 Wall Street, New York, N.Y. 10015*
The First National Bank of Boston, *45 Milk Street, Boston, Massachusetts 02106*
The Royal Trust Company, *66 King Street West, Toronto 1, Canada*

4¾% Subordinated Debentures

Trustee and Interest Paying Agent:
The Chase Manhattan Bank, *One Chase Manhattan Plaza, New York, N.Y. 10015*

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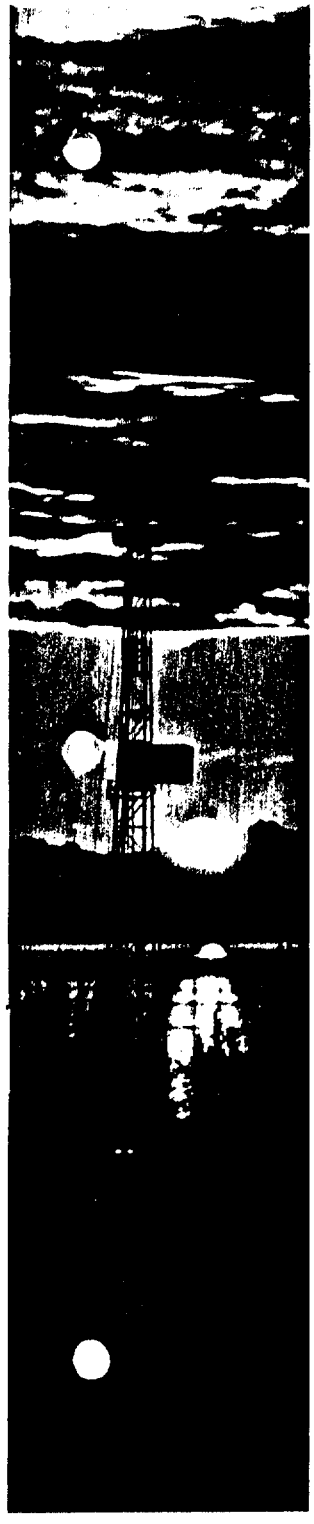
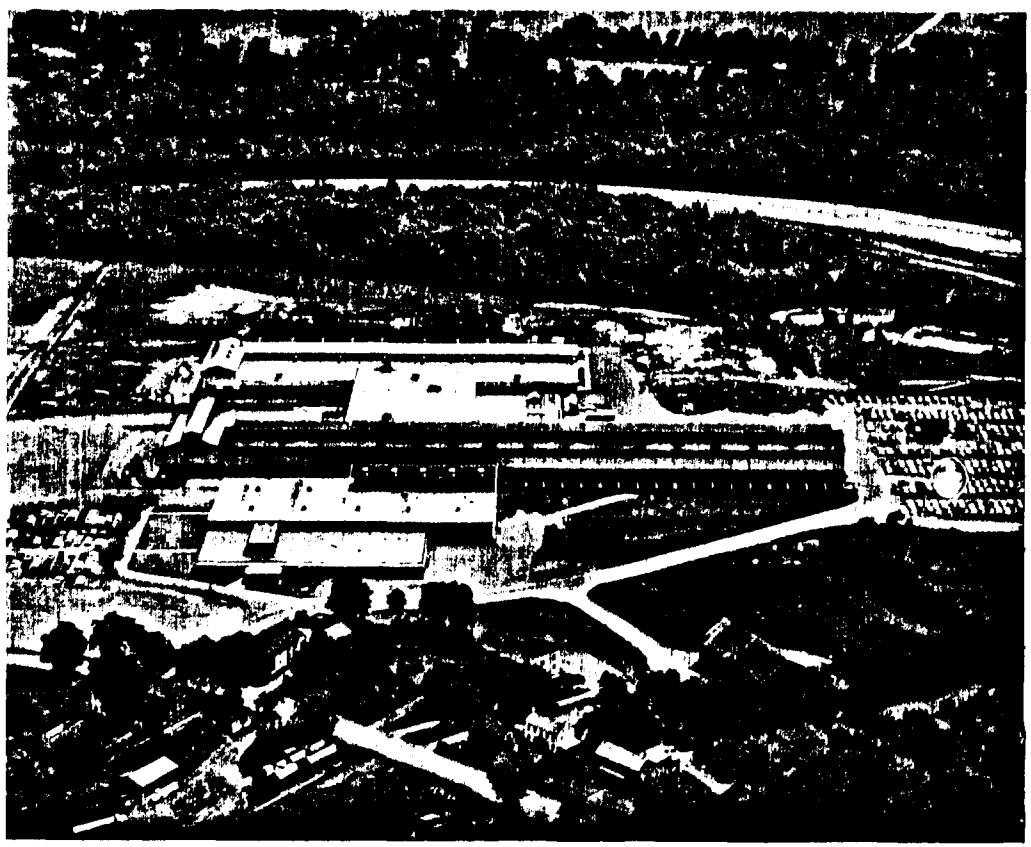


Financial Highlights

	1966	1965
Net Sales	$778,146,236	$758,321,939
Net Earnings	$ 58,790,438	$ 58,689,280
Net Earnings Per Share	$ 5.03	$ 5.01
Cash Dividends	$ 37,981,849	$ 38,072,217
Dividends Per Share	$ 3.25	$ 3.25
Taxes:		
Income Taxes	$ 47,726,280	$ 49,788,166
Other Taxes	$ 15,989,954	$ 13,846,030
Retained Earnings	$ 20,808,589	$ 20,617,063



Consolidation and expansion of the Pottstown, Pennsylvania, plant of Doehler-Jarvis are now complete and the plant is running at full capacity.

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To the Shareholders:

Financial results for the year 1966 were the best in National Lead Company's seventy-five year history. New highs in consolidated sales and earnings were recorded. Sales reached a record level of $778,146,236; the previous high of $758,321,939 was established in 1965. Earnings increased to $58,790,438, or $5.03 per share of common stock, as compared to $58,689,280, or $5.01 per share, in 1965. The record level of earnings was exceeded only by the reported net earnings in the year 1956 which included a substantial nonrecurring income tax adjustment.

The improvement in sales in 1966 was general throughout the Company. Although third and fourth quarter earnings reflected the general slowdown of the economy, curtailed automotive production, and heavy start-up costs of new titanium pigment installations at home and abroad, all major divisions and subsidiaries operated profitably in 1966 and a majority showed substantial increases. The Company's unconsolidated subsidiaries also showed improved sales and earnings in 1966.

Growing interest in the Company is evidenced by the increased number of shareholders gained this year. Owners of National Lead Company stock increased to 50,998 as of December 30, 1966. This is an increase of 21 per cent during the year.

Sales and Earnings

National Lead Company's consolidated sales for 1966 were $778,146,236, compared to $758,321,939 in 1965. On a quarterly basis, sales were as follows:

	1966	*1965*
First Quarter	$193,412,382	$179,653,795
Second Quarter	$202,543,073	$195,828,649
Third Quarter	$189,062,234	$186,128,781
Fourth Quarter	$193,128,547	$196,710,714

Consolidated net income for 1966 was $58,790,438, compared to $58,689,280 in 1965. On a quarterly basis, earnings were as follows:

	1966	*1965*
First Quarter	$ 13,869,183	$ 13,226,528
Second Quarter	$ 15,887,176	$ 15,194,561
Third Quarter	$ 13,833,572	$ 14,816,436
Fourth Quarter	$ 15,200,507	$ 15,451,755

National Lead Company is both highly diversified and international in scope. It produces more than 200 categories of products, including paints, pigments, chemicals, fabricated metal products, die castings, oil well drilling chemicals, bearings, acrylic sheet, refractories, and screws and metal fasteners.

The Company is a major producer of titanium pigments, highly important and versatile ingredients for paint, paper, plastic, and rubber. Worldwide demand for these pigments is increasing at an annual rate of about 5 per cent. However, major domestic producers are hard pressed to achieve corresponding sales increases owing to the rise in imported pigments and the increased number of domestic producers. This condition has generated intensive sales and technological competition which results in generally higher costs.

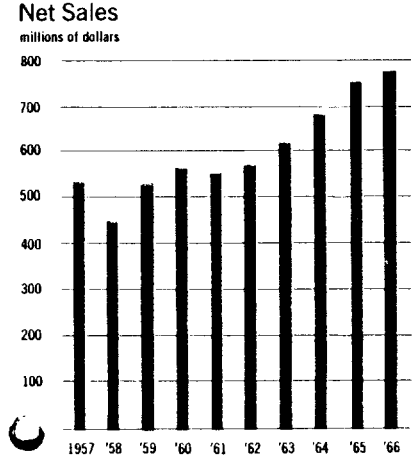
National Lead Company's sales of titanium pigments increased in 1966, although earnings were adversely affected by the competitive conditions stated above as well as by substantial start-up costs of new plant units in New Jersey and Norway which were reflected in the third and fourth quarter earnings.

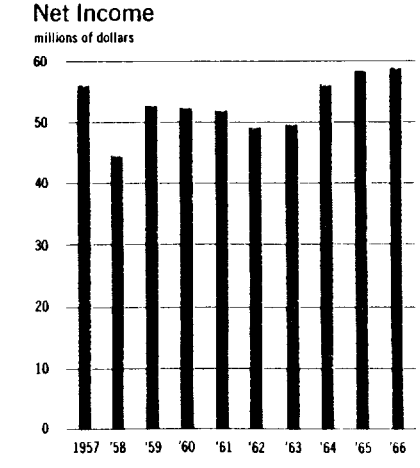
Die casting represents an economical way to mass produce high quality metal parts. The Company's Doehler-Jarvis Division is one of the world's largest producers of aluminum, zinc, magnesium, and brass die castings. Sales in this area of the Company's business achieved record levels in 1966 and earnings were higher than any previous year.

Although a sizable portion of sales is made to the automotive industry, sales increased substantially to numerous other industries, which are more and more realizing the economies offered by custom die casting. These industries include manufacturers of appliances and hardware as well as manufacturers of office, sporting, telephone, and photographic equipment.

Growth in sales was general through the product lines handled by the Company's Paint, Pigments and Chemicals, and Metal divisions. The demand for "Dutch Boy" paints, particularly the new latex type house paints, continued to increase. Sharp increases occurred in sales of ONCOR pigments, antimony oxide, gellants, stabilizers, and lead oxides. Notable among the metals were higher levels for antimonial lead and lead shot.

Sales of drilling muds, specialty chemicals, and services to the petroleum industry increased quite satisfactorily. Although the number of wells drilled has shown a steady decline, reaching a twenty year low in 1966, the Baroid Division continued to improve its sales and earnings. Concentration on offshore drilling, expansion into overseas markets, and research and development work on spe-





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cial chemicals for the petroleum and other industries have helped produce these satisfactory results.

Other Company product lines, including special high temperature refractories from Chas. Taylor's Sons, a wholly owned subsidiary; railway journal bearings manufactured by Magnus Metal Division; screws and metal fasteners produced by Southern Screw Division; titanium and zirconium chemicals and compounds from the Titanium Alloy Manufacturing Division; and prototypes for automotive and other industries produced by the Tool and Engineering Division continue to surpass each previous year in sales and earnings. All of these areas indicate good growth potential and have been continually strengthened through expansion and the adoption of the most modern manufacturing methods.

Many Company units carry on foreign as well as domestic operations. In 1966, these activities experienced varying local economic conditions which affected their sales and earnings. The majority, however, continued to operate profitably.

Dividends

National Lead Company's dividends during 1966 totaled $3.25 a share—the same amount paid in 1965. The total dividend payment of $37,981,849 represented a liberal payout of 64.6 per cent of net income. The remaining $20,808,589 of net income were added to earned surplus to be invested for future growth.

The Company has paid cash dividends on its common stock every year for the last sixty-one years.

Taxes

During 1966, the Company provided $63,716,234 for all types of taxes. The largest portion of this amount, totaling $47,726,280, covered United States and foreign income tax obligations, while the remaining $15,989,954 were for state income, franchise, and various other direct taxes.



Ilmenite ore mined at Tahawus, New York, is shipped to Company plants at Sayreville and St. Louis for the production of titanium pigments.

Federal income tax regulations regarding the investment credit were changed in 1966, and this change, together with a decrease in the Company's capital expenditure program, resulted in a reduction in this tax credit from $1,950,000 in 1965 to $1,254,000 in 1966. On October 10, 1966, Congress suspended the investment credit until after December 31, 1967. As a result, the Company's 1967 investment credit will be restricted to minimum and special items still provided for during the suspension period.

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Financial Position

The certified balance sheets on pages 26 and 27 of this report, together with the appropriate notes, show in detail the financial position of the Company at the end of 1966 and 1965.

The Company continues to maintain its traditionally strong financial condition. Working capital at December 31, 1966, was $188,673,852, and working capital ratio was 3.1 to 1.

The following statement summarizes the flow of funds for the years 1966 and 1965 and accounts for the changes in working capital:

	In Thousands	
	1966	**1965**
Source of Funds		
Net Income	$58,790	$58,689
Depreciation, Depletion and Amortization	17,302	16,341
Deferred Income Taxes	3,100	2,900
Increase in Long Term Debt	504	4,969
Issuance of Stock Under Option Plan	–	459
Other-Principally Deferred Charges	(187)	773
Total	$79,509	$84,131
Application of Funds		
Dividends Paid	37,982	38,072
Additions to Plant, Property and Equipment (Net)	31,539	37,236
Increases in Investments in Unconsolidated Subsidiaries	1,305	3,334
Increase in Miscellaneous Investments	1,498	3,659
Increase in Treasury Stock	1,321	914
Adjustments Relating to Changes in Ownership of Subsidiaries	–	3,934
Total	73,645	87,149
Working Capital Increased or (Decreased)	$ 5,864	$(3,018)

Shareholders' equity amounted to $363,924,311, an increase of $19,487,325 during 1966.

The Company's conservative normal stock method of valuing lead, tin, and antimony inventories has been employed for many years. The effects of metal price changes, as with the case of lead in 1966, on reported earnings are minimized as a result of this inventory method. As would be expected during a year of rising sales, there was some increase in inventories and receivables during 1966.

Interest of $1,257,501 on debentures was charged against earnings in 1966. Debentures amounting to $850,000 were retired in 1966 in accordance with the provisions of indenture under which they were issued. Debentures with a par value of $1,591,100 have been purchased in anticipation of future purchase fund requirements at a cost of $1,489,000, thus taking advantage of depressed bond market conditions.

Plant Investment

Capital expenditures during 1966 amounted to $32,145,013, while charges for depreciation, depletion, and amortization totaled $17,302,354.

A titanium pigment plant unit, utilizing the chloride process, has been completed in New Jersey, and similar plant units in Canada and Germany are under construction. In addition, a fully integrated Norwegian sulfate plant of 15,000 tons capacity was completed during 1966.

Because of the substantial demand for the Company's line of die castings, additional facilities have been finished at the Pottstown, Pennsylvania; Grand Rapids, Michigan; and Toledo, Ohio, plants. Expansion plans have also been approved for Lakeshore Die Casting Limited at Oakville, Canada. Indicative of the Company's confidence in the potential markets of the die casting business is its investment of $20,000,000 since 1962 in an expansion program to solidify its present strong competitive position in this industry.

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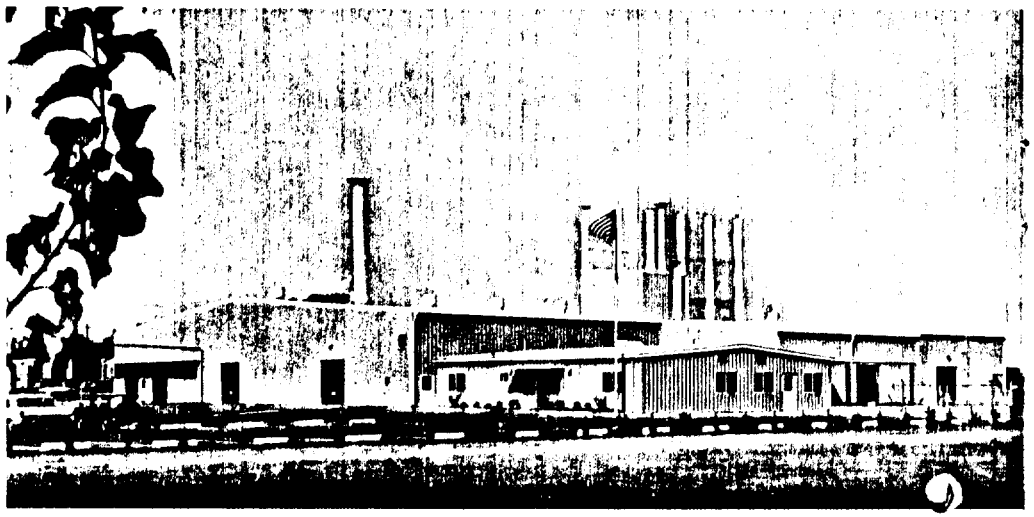
The Company increased its participation in the nuclear energy field through its contract operations of the government-owned Fernald, Ohio, feed materials plant, and its ownership of a plant at Albany, New York, which produces fuel elements, fabricated uranium, and related products. During 1966, the Atomic Energy Commission closed the Weldon Springs, Missouri, plant and consolidated its activities with the Fernald, Ohio, plant. Under Company management, the expanded program will include refining of scrap material from production operations, and production of high purity uranium compounds and metal. Operations in Albany have been enlarged significantly through the purchase of the equipment of the Sylcor Division of Sylvania Electric Products. This equipment, used to produce aluminum and stainless-steel clad metallic uranium fuel for test and research reactors, has been moved to the Albany plant.

New plant of Magnus Metal Division, at French Camp, California, now handles all needs of West Coast railroad customers.



A new railroad journal bearing plant at French Camp near Stockton, California, is in full operation. Because of its strategic location and modern equipment, this new plant is now handling all the needs of West Coast railroad customers.

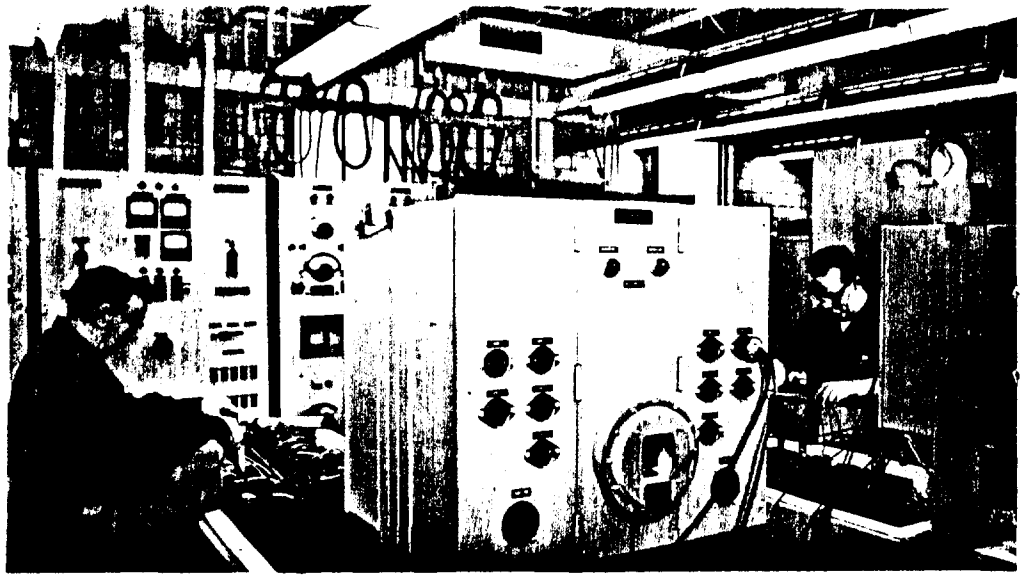
A roller bearing plant at Cincinnati, Ohio, incorporating the latest engineering designs and techniques, has completed its experimental production phase. The plant is now proceeding toward prototype production capacity in line with the standards and testing procedures set up by the American Association of Railroads.

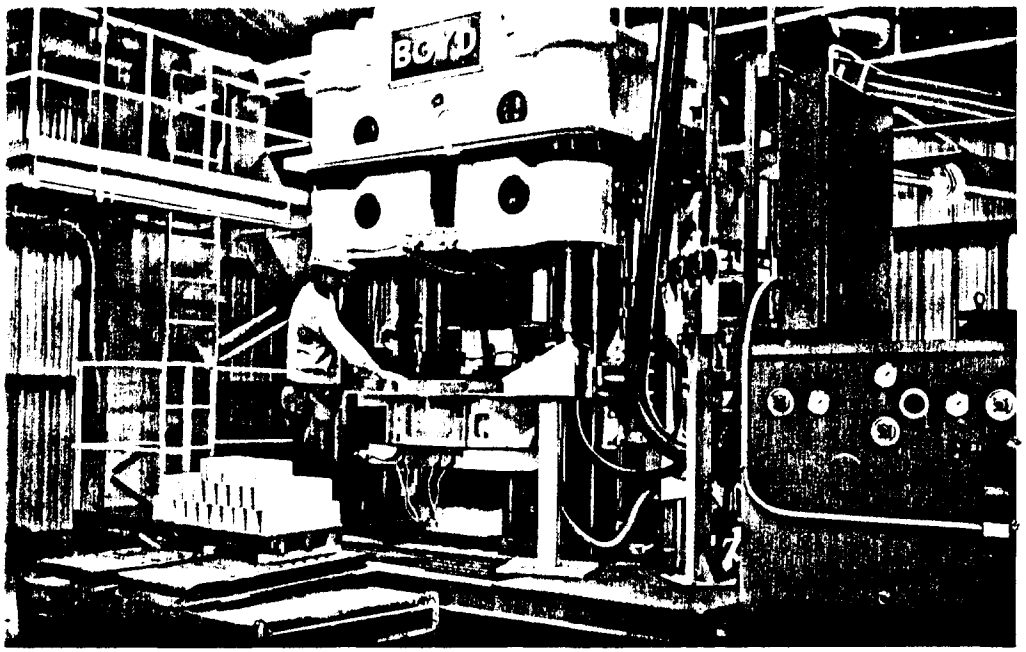
The Company's Baroid Division carries on a continuing research program to add new products to serve the oil well drilling industry. Its line of petroleum industry chemicals has grown significantly, and a new plant at Houston, Texas, to produce these products has been completed. During 1966, the Baroid Division acquired another offshore delivery vessel to serve drilling rigs located in the Gulf of Mexico.

An expansion will be completed this summer at the Company's St. Louis facilities for the production of lead stabilizers for polyvinyl chloride resins. This is in addition to the present production at Philadelphia and the recently activated San Francisco facilities which manufacture specialty stabilizers.

A substantial portion of National Lead Company's lead requirements are supplied by Company-owned secondary lead smelters located throughout the United States. A new refinery, which will produce antimonial lead and lead alloys, is nearing completion at Beech Grove, Indiana, a suburb of Indianapolis. This refinery, benefiting from emission control studies carried on at other Company locations, is equipped with the very latest ventilating, dust, and smoke control systems.

The joint development by National Lead Company and Bunker Hill Company of the Higdon lead mine near Fredricktown, Missouri, is proceeding as scheduled, and a 1,400-foot ventilation shaft has been completed. Under the arrangement, the initial income from





Top: Battery research facilities at Hightstown Laboratories search out ways of increasing the performance and life span of automotive storage batteries.

Bottom: Unique Boyd-Horn press at Chas. Taylor's Sons, Cincinnati, plant produces refractories of greater density and longer life for glass and steel manufacturing furnaces.

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the project will be used to repay the capital expenditure of each party, and subsequent profit will be shared.

Unconsolidated Subsidiaries and Affiliates

Titanium Metals Corporation of America, jointly owned with Allegheny Ludlum Steel Corporation, is the world's leading producer of titanium metal. The year 1966 was a good year for TMCA with reported earnings after taxes of $4,978,766. TMCA's operating results are not consolidated; the affiliate paid a cash dividend of $750,000 to each of its parent companies, compared to $500,000 each in 1965.

In 1966, industry shipments of titanium mill products set a new record of 28 million pounds, up about 9 million pounds, or some 45 per cent, from the prior year. Nonmilitary uses, including commercial aircraft, represent a significant part of the total market.

During 1966, TMCA announced a $50 million expansion program to install additional processing equipment over the next three years at its plants at Henderson, Nevada, and Toronto, Ohio. At Henderson, ingot melting capacity will be increased by 50 per cent, with new furnaces capable of melting 15,000-pound ingots. Output of sponge titanium, the raw form of intermediate metal, will be increased by 60 per cent. TMCA will install a new electrolytic sponge plant using a radical production process which is expected to have a significant influence on the price and quality of titanium products by 1970 and thereafter. At Toronto, a new forge shop has been expanded to include processing units to support the rolling mill equipment now producing titanium sheet alloys for advanced aircraft. Extrusion facilities to produce the 50-foot lengths required for aircraft will be added as well as new facilities for seamless tubing, bar finishing, and wire production.

Baker Castor Oil Company, in which the Company owns a 70 per cent interest, produces castor oil and an important line of chem-

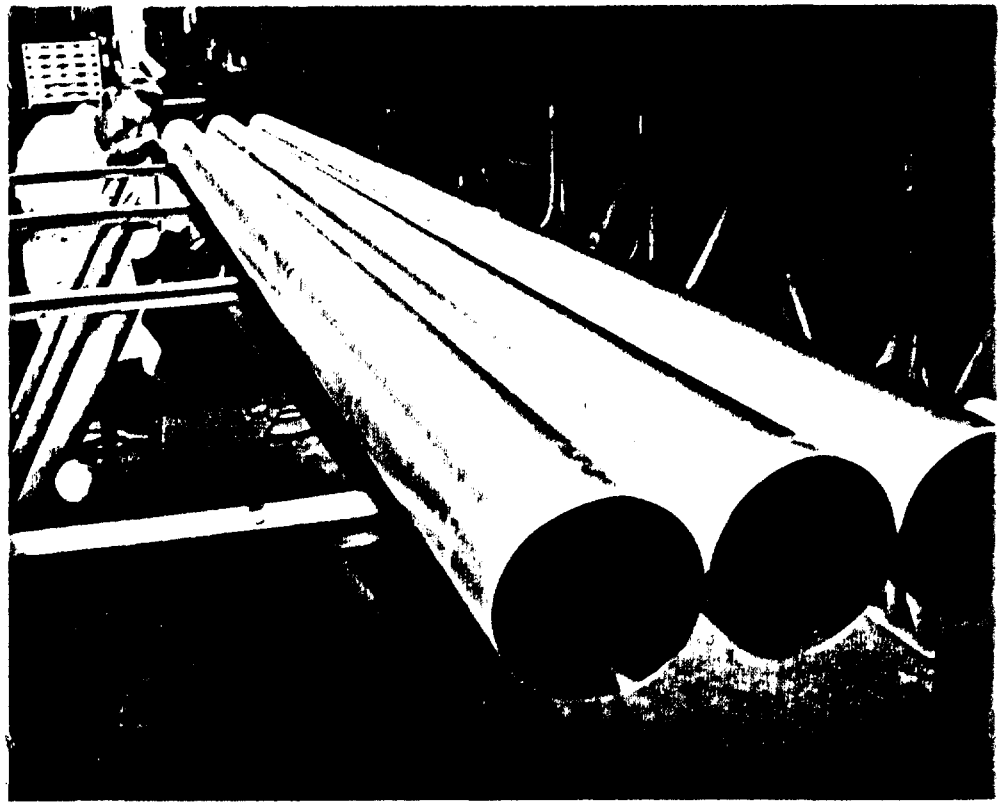
ical products based on castor oil. Earnings of Baker showed a satisfactory increase in 1966. Research efforts in this area were productive. Two special lubricants were developed to facilitate the continuous casting of aluminum. A low viscosity material which converts to a hard polymer was produced and is being used in the assembly of electrical components. A modified castor oil offering outstanding dispersing efficiency is being sold to the printing ink industry. A much lighter castor oil for use in synthesizing paint resins has been produced. Baker chemists have succeeded thus far in removing most of the toxicity from the residue remaining after the pressing of castor beans. A complete breakthrough is expected within the next year which will make the residue useful as a nutrient in fermentation processes and as an animal feed supplement.

Morris P. Kirk & Son, Inc. is a Company affiliate which produces fabricated lead products and lead oxides, and markets these products in the western part of the United States. Both Kirk and its subsidiary, Pioneer Aluminum Inc., showed satisfactory increases in 1966 earnings. Pioneer serves the aircraft industry on a nationwide basis by providing it with tooling plate and aluminum extrusions and sheet.

Canada Metal Company, Ltd. has been a Company affiliate since the 1965 sale of one-half interest in it to Consolidated Mining and Smelting Company of Canada. Sales and earnings by this producer of lead oxides and fabricated lead products continued to be satisfactory. In 1966, dividends from this affiliate are included in the Consolidated Statement of Income.

Company affiliates produce oil well drilling materials in Venezuela and Trinidad. Earnings in these areas showed a substantial improvement in 1966. However, other affiliates engaged in similar operations in the European and North African areas were less successful.

During 1966, National Lead Company increased its ownership in Mineral Deposits Pty. Limited to over 90 per cent. The systematic exploration program carried on in Australia by this affiliate and Queensland Titanium Mines Pty. Ltd. has resulted in a significant



Titanium pipe and tubing are finding increased usage in the chemical processing industry because of their corrosion resistance and elevated temperature service.

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increase in the number of tons of proven rutile ore reserves. Rutile ore is the raw material used for titanium metal and chloride process titanium pigment production.

Research and Development

One of the Company's most important assets is its outstanding staff of more than 600 scientists and engineers engaged in research and development work at thirty-two laboratory locations in the United States and overseas. The primary objectives of this group are to improve the Company's position in established lines of businesses and to provide a broad technical foundation necessary to assure growth and expansion into new fields. During 1966, progress continued in both these areas of endeavor.

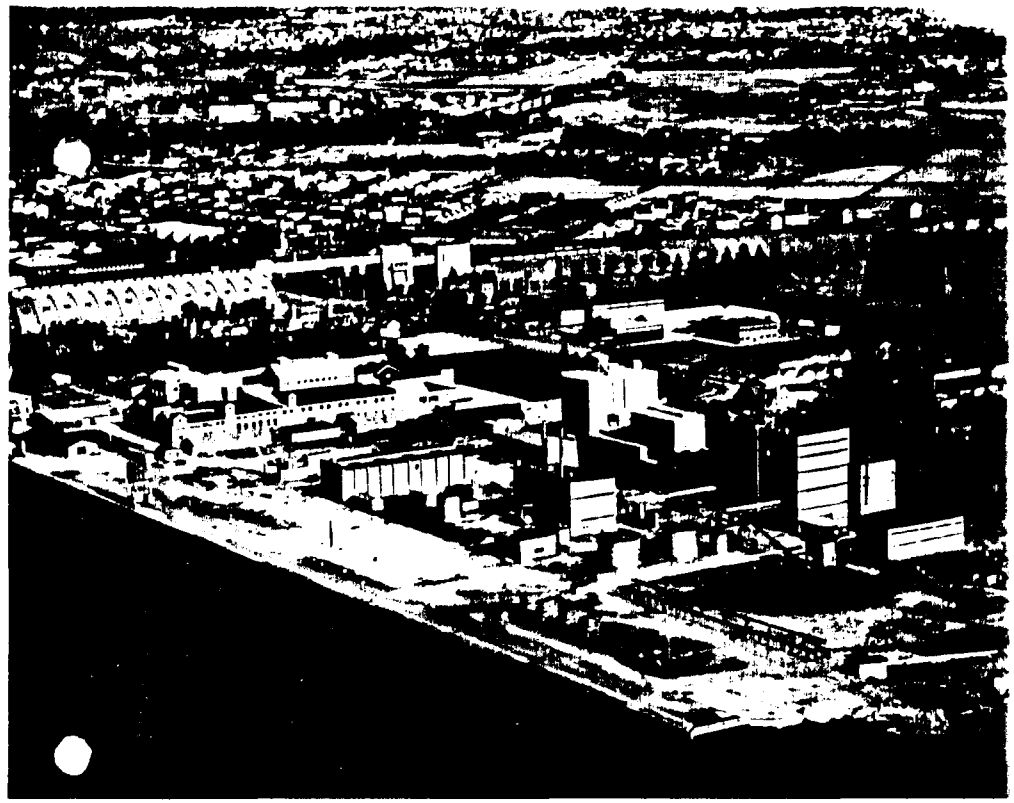
Research in amine chemistry has led to the production of several biocides useful in oil well drilling. Without such products the biological organisms encountered in oil drilling muds can cause costly deterioration of the mud system.

A new corrosion inhibitor has been produced, which, because of its high specific gravity, falls to the bottom of the oil well where corrosion resistance is most needed.

A new product, BARONITE, attained commercial status in 1966. It is a foundry sand binder used in metal casting to contribute to stronger molds, thus providing better surface characteristics to the casting.

The humidity and temperature requirements in computer areas must be very exacting for the efficient operation of the equipment. To meet this need, a new line of site environmental systems has been designed, and prototype units have been completed. Production units will be available later this year.

Insulation made from vinyl resins is used in modern, automatic wire production lines. These plastics require a universal electrical



Newly completed plant at Fredrikstad, Norway supplies titanium pigments to European manufacturers of paint, paper, rubber, and plastic products.

stabilizer providing strong heat stability and control of color values. Such a stabilizer, basic lead chlorosilicate-sulfate, has been developed to meet these rigid requirements.

Refractory bricks for steel and glass furnaces are made by a variety of casting and pressing techniques that compact mineral granules and chemicals into shapes which are subsequently furnaced and fused. An improved process, isostatic pressing, has been developed. This is a system that applies hydraulic pressure from a fluid that completely surrounds the ceramic mixture and its mold with uniform pressure on all areas. Refractories produced by this method exhibit greater density, which results in longer life and consequent reduction of costly downtime.

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The performance of thermistors and many other electronic devices, used in products such as color television, can be improved by up-grading the quality of the materials used to make them. The Company has developed a substantially improved barium titanate to meet such requirements.

Piezo electrical materials, which produce electricity by pressure, are used in the electronic systems of underwater sonar devices. Two new lead zirconate titanate compositions have been produced to give increased capacities to these devices.

In a joint effort with Hooker Chemical Company and H-K Company, feasibility studies continued during 1966 on the chemical extraction of magnesium chloride and other salts from the brines of the Great Salt Lake and the conversion of magnesium chloride into magnesium metal and chlorine. Results from the large experimental evaporating ponds and a new experimental processing plant nearby are being studied. A full-scale prototype electrolytic cell for the production of magnesium metal from the chloride has proved successful. Contingent upon favorable economic forecasts following the review of the studies, plans call for the construction of a commercial chemical processing plant for the extraction of magnesium chloride and another plant for the production of metal and chlorine.

During 1966, tremendous technical effort was devoted to the Company's new chloride titanium pigments. The new plant unit at Sayreville, New Jersey, utilizes the chloride route which is a complex chemical and engineering procedure. This plant unit was brought on stream in late August and within two months was producing quality pigments at previously scheduled production rates. The chloride process supplements the basic sulfate process, thus creating a broader and more versatile range of pigments.

One of the most important of the new chloride pigments is TITANOX CL-NC which has been introduced for use in automotive finishes and other exterior coatings. Research and exposure tests show this pigment to be unsurpassed in gloss retention and chalk resistance.

Titanium pigments made by the chloride process use rutile ore as a raw material. To support the new unit at Sayreville, the production of rutile ore in Australia has been increased. Research also continues on a process to beneficiate ilmenite ore from the Company's MacIntyre mine in upper New York State and other sources so that it can be used as raw material for the chloride process.

The Company has long had deep concern for the abatement of air and water pollution. Research is continually conducted at all plant locations to keep emissions and effluents to minimal levels. All plans for new construction must incorporate effective provisions for air and water pollution control. To date, the total cost to the Company for pollution abatement facilities and operations exceeds $40 million.

Shareholders and Employees

National Lead Company's 1966 Annual Meeting took place on April 21, 1966, at Sayreville, New Jersey, where 76.1 per cent of the outstanding stock was represented either in person or by proxy. The 1967 Annual Meeting will be held at 2:00 P.M. on April 20, 1967, at the Military Park Hotel, Newark, New Jersey, and all shareholders who can attend in person will be welcomed.

At the end of 1966, there were 50,998 shareholders who owned 11,684,600 shares of Company stock. During 1966, the number of shareholders increased by 8,696.

At the end of 1966, there were 25,260 Company employees. Continuing expansion of the Company's activities was a major factor in contributing to the increase of 1,935 employees from the 1965 level.

The Company continued to have satisfactory labor relations with the numerous union organizations around the country in 1966. Work stoppages were relatively few and of short duration, and did not affect the flow of goods to customers.

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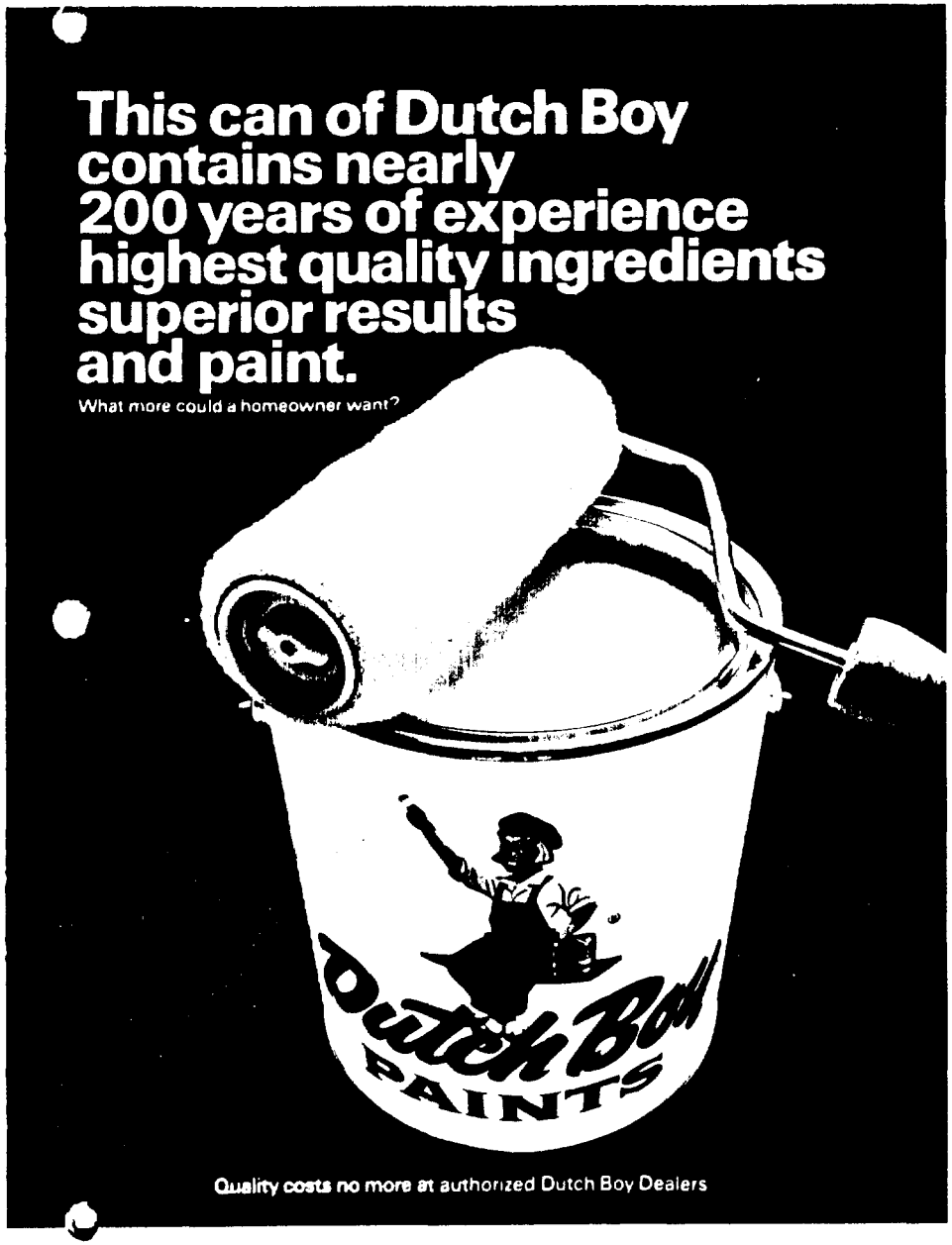
During 1966, the Company accelerated its efforts to make the "Plan for Progress" employment policy agreement on Equal Employment Opportunity more effective. Recruitment activities are being intensified at Company locations as well as colleges. Progress is continuing in the employment of members of minority groups and in their assignment to more responsible positions for which they are qualified.

Changes in Organization

In April, 1966, J. Murray Johnston and James MacGuffie, who became directors of the Company in February, 1966, were elected members of the executive committee of National Lead Company. Mr. Johnston is a vice-president and manager of the Titanium Alloy Manufacturing Division, and Mr. MacGuffie is a vice-president and manager of the Titanium Division.

In February of 1967, Warren T. Trask was elected a vice-president of the Company. Mr. Trask, who joined the Company in 1946 at St. Louis, is manager of the Metal Division.

Effective January 1, 1967, Malte Ericson was named an assistant comptroller of the Company. Mr. Ericson, who began his Company career in 1932, had been comptroller of the Company-operated Atomic Energy Commission's Feed Material Center since 1952.



Advertising plays an increasingly important role in the Company's marketing program. National Lead Company advertisements appear in over 200 trade and consumer publications.

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Outlook

As 1967 begins, industry in the United States finds itself faced with a number of perplexing problems. These include the rate of economic expansion, sales of automobiles and other durable goods, and the level of industrial production and capital spending. Conclusions on new tax proposals have not yet been reached, and the full economic effect of the conflict in Vietnam has not yet been measured.

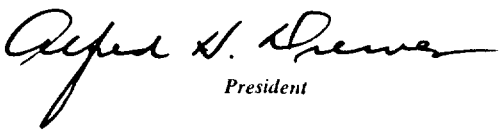
The number of economic imponderables seems to be unusually great, and, as a direct consequence, the difficulty of making realistic economic appraisals has increased.

The Company has a favorable position with respect to raw material supply, production techniques, plant facilities, product quality, and marketing ability. Furthermore, the plant expansion and process improvement programs of the last few years have given it a number of new producing units and additional products. Because of this favorable position, and relying on the continued valuable support of employees, shareholders, and customers, National Lead Company anticipates continued growth.

By Order of the Board of Directors



Chairman of the Board



President

March 20, 1967.

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NATIONAL LEAD COMPANY

Financial Statements for 1966

The seventy-fifth Annual Meeting of the shareholders of National Lead Company will be held at the Military Park Hotel, Newark, New Jersey, on April 20, 1967, at 2:00 P.M. All shareholders are cordially invited to attend.

National Lead Company and its Consolidated Subsidiaries

Balance Sheets

December 31, 1966 and 1965

Assets	1966	1965
Current assets:		
Cash and certificates of deposit	$ 24,812,163	$ 33,127,079
Government, state and municipal obligations, at cost (approximates market)	13,718,633	14,505,989
Other marketable securities, at cost (at market quotations: 1966, $4,980,000; 1965, $4,390,000)	3,128,169	2,067,549
Accounts and notes receivable, less reserves: 1966, $2,061,232; 1965, $2,090,068	97,025,369	90,395,457
Inventories (Note 2)	140,373,794	133,311,663
Total current assets	279,058,128	273,407,737
Notes receivable under Stock Option Incentive Plan (Note 6)	368,526	580,958
Investments in, at cost or below, and advances to unconsolidated subsidiaries, less reserve of $3,193,775 (Note 3)	16,020,628	14,715,547
Miscellaneous investments and advances, at cost or below, less reserves: 1966, $1,034,897; 1965, $864,897 (Note 4)	12,023,260	10,525,324
Plant, property, and equipment (including intangibles of $20,692,311 not being amortized) at cost, less reserves for depreciation, depletion and amortization: 1966, $232,550,010; 1965, $218,840,019	204,512,607	190,276,071
Prepaid expenses and deferred charges	5,765,386	5,285,112
	$517,748,535	$494,790,749

Liabilities	1966	1965
Current liabilities:		
Accounts payable and accrued liabilities	$ 51,690,358	$ 47,972,950
Provisions for taxes	38,693,918	42,625,007
Total current liabilities	$ 90,384,276	$ 90,597,957
4⅜% subordinated debentures, due April 1, 1988 (Note 5)	$ 28,272,400	$ 30,713,500
Noncurrent notes payable and other items	$ 8,764,919	$ 5,819,616
Deferred United States income tax	$ 14,800,000	$ 11,700,000
Inventory reserve (Note 2)	$ 11,602,629	$ 11,522,690

Capital

Common stock, par value $5; shares authorized 20,000,000; issued 11,720,557 shares (Note 6)	$ 58,602,785	$ 58,602,785
Capital surplus	37,521,804	37,521,804
Earned surplus	270,163,741	249,355,152
	366,288,330	345,479,741
Less, reacquired common stock, at cost: 1966, 35,957 shares; 1965, 15,357 shares	2,364,019	1,042,755
	$363,924,311	$344,436,986
	$517,748,535	$494,790,749

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

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National Lead Company and its Consolidated Subsidiaries

Statements of Income and Earned Surplus

For the years ended December 31, 1966 and 1965

	1966	1965
Net sales	$778,146,236	$758,321,939
Cost of sales	$543,255,454	$528,156,289
Depreciation, depletion, and amortization	17,302,354	16,341,068
Selling, administrative, and general expenses	100,272,512	96,405,049
Taxes, including state income taxes	15,989,954	13,846,030
	$676,820,274	$654,748,436
	$101,325,962	$103,573,503
Other income, net	6,448,257	6,237,578
	107,774,219	109,811,081
Interest on debentures	1,257,501	1,333,635
Income before United States and foreign income taxes	106,516,718	108,477,446
Provision for United States and foreign income taxes	47,726,280	49,788,166
Net income	$ 58,790,438	$ 58,689,280
Per share of common stock	$5.03	$5.01
Earned surplus at beginning of year	$249,355,152	$232,672,097
Net income	58,790,438	58,689,280
	$308,145,590	$291,361,377
Less:		
Dividends on common stock, $3.25 per share	$ 37,981,849	$ 38,072,217
Adjustments relating to changes in ownership of subsidiaries (Note 1)	—	3,934,008
	$ 37,981,849	$ 42,006,225
Earned surplus at end of year	$270,163,741	$249,355,152

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

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Notes to Financial Statements

1. The consolidated financial statements include the accounts of the Company, all wholly-owned domestic subsidiaries and major wholly-owned foreign subsidiaries translated at appropriate rates of exchange. Included in the consolidated balance sheet are net assets of foreign subsidiaries at December 31, 1966 in the amount of $67,843,000 (including $35,243,000 of net current assets). Consolidated net earnings for 1966 includes $9,003,000 of net earnings of foreign subsidiaries. In 1965, such subsidiaries, which included certain Canadian subsidiaries prior to the sale of a one-half interest therein in November, had net earnings of $11,915,000.

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

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

	1966	*1965*
Equity in net assets	$32,801,000	$30,411,000
Excess of equity over the Company's net investments and advances	18,309,000	16,728,000
Increase in excess equity during year	1,581,000	1,498,000

4. The equity of the Company in the net assets of 50 per cent owned companies, as shown principally by audited financial statements, exceeded the cost of the Company's investments and advances, included in miscellaneous investments, by approximately $19,930,000 at December 31, 1966 and $18,409,000 at December 31, 1965.

5. The indenture provides for a purchase fund into which the Company is required to pay $850,000, on April 1 of each year through April 1, 1973, which sum is to be used by the trustee to purchase debentures at or below their principal amount. The Company may apply debentures acquired by it against all or any part of these payments. Amounts unexpended by the trustee at July 31 of each year are to be returned to the Company.

The amount at December 31, 1966 is net of $1,591,100 face amount of debentures held by the Company.

6. Under the Stock Option Incentive Plan adopted in 1958 options have been granted to certain officers and other key employees to purchase 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. The period during which options could be granted expired in 1963.

Changes during 1966 under the Plan are summarized as follows:

	Range of Option Prices per Share	*Shares*
Under option, January 1, 1966	$67.568 to $116.375	78,255
Less, Options expired	67.568 to 116.375	7,015
Under option, December 31, 1966	67.568 to 92.150	71,240

At December 31, 1966, the unpaid balances of the purchase prices of 7,925 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 as collateral with the Company.

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 taxes which may be payable if and when accumulated earnings of subsidiaries are distributed to the parent company, since such taxes may never accrue.

0000-NLI-0000018784

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, 1966 and the related consolidated statements of income and earned surplus for the year then ended. Our examination was 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 were furnished reports of other public accountants upon their examinations of the financial statements of certain consolidated and major unconsolidated subsidiaries. Our opinion expressed herein, insofar as it relates to the amounts included for such subsidiaries, is based solely upon such reports. We made a similar examination for the year 1965.

In our opinion, the afore-mentioned financial statements present fairly the consolidated financial position of National Lead Company and its consolidated subsidiaries at December 31, 1966 and 1965 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 24, 1967.

National Lead Company and its Consolidated Subsidiaries

Ten Year Review of Operations

	1966	1965	1964	1963	1962	1961	1960 Restated*	1959	1958	1957
Net Sales	$778,146,236	$758,321,939	$683,600,602	$618,580,159	$570,721,363	$555,672,358	$562,021,983	$530,550,817	$457,592,886	$535,343,270
Income before Taxes	106,516,718	108,477,446	105,712,480	94,680,405	93,780,009	98,436,769	100,569,991	101,174,233	84,395,289	101,537,900
Taxes on Income	47,726,280	49,788,166	49,516,462	45,087,815	44,740,176	46,695,016	48,163,860	48,712,722	39,673,891	45,306,394
Net Income	58,790,438	58,689,280	56,196,018	49,592,590	49,039,833	51,741,753	52,406,131	52,461,511	44,721,398	56,231,506
Preferred Dividends	—	—	—	374,488	2,105,562	2,181,161	2,181,161	2,181,161	2,181,161	2,181,161
Common Dividends	37,981,849	38,072,217	38,035,585	38,048,890	38,033,964	38,016,564	38,011,864	37,947,176	37,865,038	37,857,956
Total Cash Dividends	37,981,849	38,072,217	38,035,585	38,423,378	40,139,526	40,197,725	40,193,025	40,128,337	40,046,199	40,039,117
Retained Earnings	20,808,589	20,617,063	18,160,433	11,169,212	8,900,307	11,544,028	12,213,106	12,333,174	4,675,199	16,192,389
Earnings Per Common Share	5.03	5.01	4.80	4.20	4.01	4.24	4.29	4.30	3.65	4.64
Cash Dividends Per Common Share	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25	3.25
Total Current Assets	279,058,128	273,407,737	279,051,476	253,105,206	248,997,917	242,107,203	227,558,122	205,350,494	184,392,427	183,995,439
Total Current Liabilities	90,384,276	90,597,957	93,223,131	83,706,098	74,195,681	75,193,976	69,229,892	66,689,074	64,240,475	70,175,917
Working Capital	188,673,852	182,809,780	185,828,345	169,399,108	174,802,236	166,913,227	158,328,230	138,661,420	120,151,952	113,819,522
Gross Property Account	437,062,617	409,116,090	378,355,685	362,643,201	358,753,647	347,040,211	335,069,506	292,122,311	287,800,726	260,592,510
Reserves for Depreciation, Depletion, and Amortization	232,550,010	218,840,019	208,974,265	198,150,041	192,898,078	181,569,212	172,980,588	145,220,190	135,107,065	121,775,325
Net Property Account	204,512,607	190,276,071	169,381,420	164,493,160	165,855,569	165,470,999	162,088,918	146,902,121	152,693,661	138,817,185
Total Assets	517,748,535	494,790,749	473,105,361	442,480,074	438,593,911	431,161,102	413,535,074	380,511,351	361,213,437	358,369,280

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

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Divisions, Subsidiaries, and Affiliates

Divisions

AMERICAN BEARING DIVISION. Indianapolis, Ind. *Precision bearings (Sold through American Bearing Corporation)*

BAROID DIVISION. Houston, Tex. *Oil well drilling materials, well logging services and testing equipment; chemicals for the petroleum industry and gellants for greases*

DELORE DIVISION. St. Louis, Mo. *Barium and calcium pigments*

DOEHLER-JARVIS DIVISION. Toledo, O. *Aluminum, brass, magnesium, and zinc die castings*

EVANS LEAD DIVISION. Charleston, W. Va. *Lead oxides*

GOLDSMITH DIVISION. Chicago, Ill. *Precious metals*

MAGNUS METAL DIVISION. New York, N. Y. *Brass and bronze bearings and castings, aluminum castings (Sold through Magnus Metal Corporation)*

METAL DIVISION. New York, N.Y. *Antimony, cadmium, lead, and zinc metals; fabricated lead products and alloys*

NUCLEAR METALS DIVISION. New York, N.Y. *Uranium ore concentrates and nuclear feed materials, fuel elements, fabricated uranium products, nuclear research, development, and transportation services*

PAINT DIVISION. New York, N.Y. *Dutch Boy Paints*

PIGMENTS & CHEMICALS DIVISION. New York, N.Y. *Antimony oxide; lead pigments and chemicals; battery oxides and separators; gellants; stabilizers*

SOUTHERN SCREW DIVISION. Statesville, N.C. *Screws and metal fasteners (Sold through Southern Screw Company)*

STEEL PACKAGE DIVISION. St. Louis, Mo. *Small steel containers*

TEXAS MINING AND SMELTING DIVISION. Laredo, Tex. *Antimony and antimony oxide*

TITANIUM ALLOY MANUFACTURING DIVISION. New York, N.Y. *Zirconium oxide, silicates and chemicals; electronic titanates, zirconates, and stannates; ferrous and nonferrous alloys*

TITANIUM DIVISION. New York, N.Y. *Titanium pigments and chemicals, ilmenite and magnetite iron ore (Sold through Titanium Pigment Corporation)*

TOOL AND ENGINEERING DIVISION. Chicago, Ill. *Tools for sheet metal forming, complete models, prototypes, assembly operations and engineering services*

Wholly Owned Domestic Subsidiaries

ALUMINUM MATCH PLATE CORPORATION. Kenmore, N.Y. *Aluminum castings*

FLOATING FLOORS, INC. New York, N.Y. *Elevated floors and site environmental systems*

LANDOVER MANUFACTURING COMPANY. Landover, Md. *Cast acrylic sheeting*

MASTER METALS, INC. Cleveland, O. *Lead and lead alloys*

NATIONAL LEAD COMPANY OF OHIO. New York, N.Y. *Contract-operator, Atomic Energy Commission*

THE CHAS. TAYLOR'S SONS COMPANY. Cincinnati, O. *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, Canada. *Oil well drilling materials, well logging services and testing equipment*

BAROID OF NIGERIA, LTD. Lagos, Nigeria. *Oil well drilling materials*

BAROID (U.K.) LTD. London, England. *Oil well drilling materials*

CANADIAN TITANIUM PIGMENTS LIMITED. Montreal, Canada. *Titanium pigments*

CHAS. TAYLOR SONS S.A. Brussels, Belgium. *High temperature refractories*

HOYT METAL COMPANY OF GREAT BRITAIN, LTD. London, England. *Antifriction metals*

INDUSTRIAS DERIPLOM S.A. Buenos Aires, Argentina. *Lead oxides*

KRONOS TITAAN N.V. Rotterdam, The Netherlands. *Titanium pigments*

KRONOS TITANIUM PIGMENTS LIMITED. London, England. *Titanium pigments*

LAKESHORE DIE CASTING LIMITED. Oakville, Canada. *Aluminum and zinc die castings*

PIGMENTOS MINERAIS INDUSTRIAL E COMERCIAL PIGMINA S.A. Salvador, Brazil. *Oil well drilling materials*

SOCIÉTÉ BELGE DU TITANE S.A. Brussels, Belgium. *Titanium pigments*

THE TITANIUM ALLOY MANUFACTURING CO. PTY. LIMITED. Tweed Heads, Australia. *Rutile and zircon ores*

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*

Partially Owned Domestic Affiliated Companies

MORRIS P. KIRK & SON, INC. Los Angeles, Calif. *Aluminum, lead, and zinc alloys; fabricated lead products; lead oxides (76%)*

PIONEER ALUMINUM INC. Los Angeles, Calif. *Aluminum aircraft extrusions and aluminum tooling plate (71%)*

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R-N CORPORATION. New York, N.Y. *Direct reduction and beneficiation of iron ores (50%)*

THE BAKER CASTOR OIL COMPANY. Bayonne, N.J. *Castor oil, chemicals derived from castor oil and other oils and fats, chemical specialties (70%)*

TITANIUM METALS CORPORATION OF AMERICA. New York, N.Y. *Titanium metal sponge, ingot and mill products (50%)*

Partially Owned Foreign Affiliated Companies

ABBEY CHEMICALS LIMITED. London, England. *Gellants; stabilizers for vinyl plastics (52%)*

BAROID DE VENEZUELA, S.A. Caracas, Venezuela. *Oil well drilling materials (73%)*

BAROID INTERNATIONAL, S.p.A. Rome, Italy. *Oil well drilling materials (90%)*

BARYTES & MINERALS LIMITED. Trinidad, British West Indies. *Oil well drilling materials (50%)*

DERIVES DU TITANE S.A. Langerbrugge, Belgium. *Titanium pigments (82%)*

INDUSTRIAS DOEHLER DO BRASIL, S.A. São Paulo, Brazil. *Die castings (80%)*

METAL CASTINGS DOEHLER LIMITED. Worcester, England. *Die castings (99%)*

MINERAL DEPOSITS PTY. LIMITED. Sydney, Australia. *Rutile and zircon ores (92%)*

NATIONAL LEAD COMPANY (PHILIPPINES). Manila, Philippines. *Paints, varnishes, and enamels (51%)*

NATIONAL LEAD COMPANY S.A. Buenos Aires, Argentina. *Lead and lead products (100%)*

QUEENSLAND TITANIUM MINES PTY. LTD. Tin Can Bay, Queensland, Australia. *Rutile and zircon ores (75%)*

SCHRAUBENFABRIK NEUSTADT GOETZ & CIE G.m.b.H. Neustadt, West Germany. *Screws and metal fasteners (99%)*

SOCIÉTÉ INDUSTRIELLE DU TITANE. Paris, France. *Titanium pigments (91%)*

THE CANADA METAL COMPANY LIMITED. Toronto, Canada. *Lead oxides; fabricated lead products; lead and zinc alloys; brass and bronze products (50%)*

THE CARTER WHITE LEAD COMPANY OF CANADA, LTD. Montreal, Canada. *Lead pigments, oxides; stabilizers for vinyl plastics (50%)*

Figures in parentheses represent percentage of voting securities owned.

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