PRESIDENT'S ANNUAL REPORT

TO

STOCKHOLDERS

OF THE

ST. JOSEPH LEAD COMPANY

FOR THE YEAR

1940

ST. JOSEPH LEAD COMPANY

Incorporated March 25, 1864, under the Laws of the State of New York

Executive Offices, 250 Park Avenue, New York

EXECUTIVE OFFICERS

CLINTON H. CRANE,
President

IRWIN H. CORNELL,
Vice-Pres., and Sales Manager

ANDREW FLETCHER,
Vice-Pres., and Treasurer

C. MERRILL CHAPIN, JR.,
Vice-President

EDWARD V. PETERS,
Vice-President

H. B. McGOWN,
Secretary

GEORGE I. BRIGDEN,
Comptroller

ROBERT BENNETT,
Assistant Secretary

CHARLES FLEIG,
Assistant Secretary

JAMES G. COLVIN,
Assistant Comptroller

STOCK TRANSFER OFFICE
250 Park Avenue,
New York

REGISTRAR
City Bank Farmers Trust Company,
New York

PRESIDENT'S ANNUAL REPORT TO STOCKHOLDERS

In 1940, for the first time since 1930, the Company's mines were operated on a full-time basis throughout the year, resulting in the largest production of lead and zinc concentrates since that time. The sales, which were greater than in any previous year in the Company's history, also exceeded production and as a result the finished stocks were again reduced.

Although the demand for lead is in excess of the United States productive capacity, the supplies from properties outside of our country should be sufficient to insure against any shortage. As a large percentage of the world zinc smelting capacity is in the British blockaded areas, the present demand for zinc metal is considerably in excess of the available smelting facilities; the industry, however, has taken constructive steps to increase output, and it is hoped that the immediate problems of supply may be minimized through cooperation between consumers and producers.

On Page No. 8 are given comparative figures of stocks, prices, production and sales

Consolidated Earnings

The consolidated net income for the year ended December 31, 1940 after all charges amounted to $5,111,941.70 as compared with $5,292,907.56 for the previous year. In this connection, attention is called to the fact that the deduction for Federal income and excess profits taxes increased from $672,485.97 in 1939 to $1,305,670.04 in 1940.

The Comparative Consolidated Earnings for the ten years ended December 31, 1940 are shown below:

Year	Income after Interest but before Other Deductions	Provision for — Depreciation	Provision for — Income Taxes	Net Income before Depletion, Etc.	Provision** for Depletion, Etc.
1931	$1,622,220 01	$1,149,702.39		$472,517.62	$1,886,589.04
1932	*287,881.11	1,011,845.62	... ...	*1,299,726.73	1,606,310 78
1933	1,316,485.60	1,022,922.73	...	293,562 87	1,461,310.72
1934	1,936,908.95	1,121,960 66	$78,862.23	736,086.06	1,548,604.47
1935	2,005,781.59	1,072,013.14	35,502 59	898,265.86	412,043 61
1936	4,473,237 08	1,063,605 02	307,944 03	3,101,688.03	590,686 46
1937	10,035,885.12	1,055,575.37	1,329,491.03	7,650,818 72	522,873.57
1938	2,873,815.43	1,059,034.49	173,922 80	1,640,858 14	309,601 68
1939	7,586,972 10	1,058,924 04	672,485.97	5,855,562.09	562,654.53
1940	8,287,597.10	1,064,639.12	1,305,670.04	5,917,287.94	805,346.24

* Loss.

** Includes abandoned leases for the years 1933 to 1937 inclusive and provision for obsolescence of the Doe Run Mill for the years 1935 to 1937 inclusive.

Dividends

A dividend of twenty-five cents per share was paid on March 20, fifty cents per share on June 20 and September 20, and one dollar per share on December 20, 1940, making a total of two dollars and twenty-five cents per share for the year. These dividend distributions, aggregating $4,400,280.00, were paid entirely out of the surplus earnings of the Company accumulated after February 28, 1913 and are, therefore, subject to Federal income tax.

The following is a record of dividends for the years 1931 to 1940, inclusive:

Dividends Paid to Stockholders

Year	St. Joseph Lead Company	Per Share	Minority Interest in Subsidiaries	Year	St. Joseph Lead Company	Per Share	Minority Interest in Subsidiaries
1931	$2,438,079.75	$1.25	$14,618.75	1936	$1,955,676.90	$1 00	...
1932	292,569.75	.15	...	1937	4,889,198 50	2 50	...
1933	...			1938	1,955,680 00	1.00	...
1934	586,701.30	.30		1939	3,911,360 00	2 00	...
1935	782,269.30	.40		1940	4,400,280.00	2.25	...

Financial Information

The Consolidated Balance Sheets as of December 31, 1940 and December 31, 1939 of St. Joseph Lead Company and Subsidiaries, and the related Summaries of Consolidated Net Income and Surplus for the years ended December 31, 1940 and December 31, 1939, are submitted herewith as a part of this report. All subsidiaries of the St. Joseph Lead Company are included in these statements, with the exception of Aguilar Corporation and its foreign subsidiary, whose statements are shown separately.

No future commitments have been made for the purchase and sale of commodities which would have a material effect on the financial position of the Company.

The only Federal, State and Municipal securities owned by the Company at December 31, 1940 amounted to $122,000.00 par value and these are not available for sale, being on deposit with New York, Pennsylvania and Missouri Industrial Compensation Commissions, and the United States Department of the Interior.

In the audit of our books by Messrs. Haskins & Sells, verification of inventories was again made by physical tests of the quantities shown by the records as being on hand at December 31, 1940. The Accountant's Certificate addressed to the stockholders is given on Page No. 12 of this report.

During 1940, capital expenditures by the St. Joseph Lead Company and consolidated subsidiaries amounted to $1,024,578.24 in comparison with $274,632.31 in 1939 and $442,787.44 in 1938.

In February 1940, the pensions payable under the Company's Pension Plan which was placed in effect in 1924 were increased from $30.00 to $40.00 per month. On December 16, 1940, the stockholders approved the adoption of a Retirement Plan for Salaried Employees which entailed a cost to the Company of approximately $27,650.00 per month over the next five years, provided the Company did not elect to anticipate such payments, and $4,500.00 per month thereafter. In order to effect a saving of about $137,000.00, it was decided to take advantage of the Company's large cash resources and reduce from five to two years the period of higher monthly costs. Accordingly, a payment of $495,024.63 was made to the Metropolitan Life Insurance Co. in December 1940 and a similar payment was made in January 1941; it is expected that the balance, approximating $265,000.00, will be paid prior to the expiration of the period referred to. In accordance with the Company's policy, pensions and retirement expenditures are included in operating expenses in the year in which paid.

Lead Operations

The Southeast Missouri properties were operated on a full-time basis during the year as were those of the Mine La Motte Corporation (50% owned). The development work during 1940 proved entirely satisfactory.

Zinc Operations

The two mining properties located in Northern New York were also operated at full-time, and the development showed satisfactory results.

At the smelter and sulphuric acid plant located at Josephtown, Pennsylvania, full-time operation was maintained. The Cottrell precipitator to handle fumes from the sintering machines was completed in August. The 1940 capital expenditures at this division amounted to $836,772.70. A 25% increase in acid and zinc metal capacity will be available in the first quarter of 1941.

The Ritz Mine, located in Oklahoma, and the Jarrett Mine in Kansas, properties of Kansas Explorations, Inc. (100% owned), were operated throughout the year and steps were taken to place in production in the first half of 1941 the Snapp mine of this Company.

The Block "P" Lead and Zinc Mine, located at Hughesville, Montana, remained closed through the year and an early reopening is not contemplated.

South American Operations

The Aguilar Mine, located in the Province of Jujuy, Argentina, was operated at the rate of approximately 800 metric tons of ore per day. The comparative production, sales and inventory tonnages are as follows:

	Lead Concentrates (in metric tons)			Zinc Concentrates (in metric tons)		
Year	Production	Sales	Stocks at End of Year	Production	Sales	Stocks at End of Year
1936	10,467	9,409	1,058	7,548	5,276	2,272
1937	19,709	19,782	985	12,116	6,250	8,138
1938	29,836	28,816	1,873	29,478	4,467	33,149
1939	36,728	33,307	5,294	42,250	26,179	49,220
1940	36,866	*35,778	6,382	65,032	†36,182	78,150

* Does not include 5,000 metric tons of lead concentrates sold for future delivery.
† Does not include 5,038 metric tons of zinc concentrates sold for future delivery

The 1940 capital expenditures amounted to 1,037,158.50 pesos which is equivalent to $242,351.20 at the rate of exchange prevailing during the months of such expenditures. Cash receipts not required for capital and operating expenditures were used to liquidate the open account between the Cia. Minera Aguilar, S. A. and its parent company, the Aguilar Corporation. With funds so received, the Aguilar Corporation in May purchased 4,250 shares of its preferred stock and 1,930 shares of its common stock for $797,406.26, and in October, an additional 1,691 shares of its preferred stock for $322,206.52; an aggregate cost of the shares purchased of $1,119,612.78. Of this amount, St. Joseph Lead Company received $739,187.82 for 3,919 shares of preferred stock, thereby reducing its investment in Aguilar Corporation from $1,515,000.00 to $775,812.18. As a result of these transactions the ownership by St. Joseph Lead Company of the total outstanding capital stock of Aguilar Corporation increased from 86% to 89%.

The Consolidated Balance Sheets of Aguilar Corporation and subsidiary at December 31, 1940 and December 31, 1939, together with Summaries of Consolidated Net Income and Deficit for the years ended on those dates are submitted as a part of this report and will be found on Pages Nos. 9 to 11. The comparative net income after depreciation and all charges, except provision for depletion computed on appreciation of ore reserves, is as follows:

Year	Income after Interest but before Other Deductions	Provision for Depreciation	Net Income before Depletion	Provision for Depletion On Cost	Provision for Depletion On Appreciation
1936	$ 192.78	$115,340.41	*$115,147.63	$ 35,143.18	$ 322,584.30
1937	998,294.21	130,214.52	868,079.69	63,407.60	579,914.66
1938	807,923.50	149,105.03	658,818.47	73,447.08	671,733.70
1939	930,981.17	175,793.81	755,187.36	100,082.61	915,337.33
1940	867,790.12	193,667.52	674,122.60	121,188.16	1,108,320.38

* Loss.

The books of Compania Minera Aguilar, S. A., the Argentine subsidiary of the Aguilar Corporation (a Delaware corporation), were audited by Messrs. Price, Waterhouse, Peat & Co. of Buenos Aires, Argentina.

Miscellaneous Operating Information

The 1940 operations of the Sheep Ranch Mine, a small gold property in California were satisfactory, and development work in the lower level is encouraging.

Although a number of properties were submitted to the Exploration Department, none were accepted.

Stockholders

The number of stockholders of record on December 31st of each year since 1931 and a classification of their holdings are as follows:

Year	Number	19 or Less	20-99	100-199	200-Over
1931	5,063	1,784	1,349	831	1,099
1932	5,360	1,584	1,796	875	1,105
1933	5,145	1,511	1,684	835	1,115
1934	5,300	1,549	1,712	873	1,166
1935	5,304	1,491	1,748	911	1,154
1936	5,560	1,483	1,851	1,000	1,226
1937	5,992	1,571	2,038	1,139	1,244
1938	6,463	1,719	2,213	1,227	1,304
1939	6,586	1,695	2,260	1,337	1,294
1940	6,697	1,772	2,263	1,371	1,291

General

The Stockholders are again reminded that the net value of the capital assets set forth on the accompanying Consolidated Balance Sheets are depleted and depreciated figures based on appraised values as of and after March 1, 1913 or on cost as stated. They do not indicate the present day values or prospective future values of the Company's property, plant and equipment, as such values could be arrived at only by current estimates which would vary from time to time depending on the price of metals, rate of production, cost of labor and other factors. Although the appraised value of areas owned on March 1, 1913 have been entirely written off the Company's books by depletion deductions, ore is still being mined from these areas at a profit, and probably will be for years to come.

Due to the additional ore which has been developed through prospecting, or made available by reason of the improvement in mining practices, the basis of determining depletion was changed as of January 1, 1935, by dividing the undepleted book value by the estimated tonnage of ore in the mines and applying the unit value thus determined to the tonnage sold. This change results in a considerably lower provision for depletion than in years prior to that date.

Clinton H. Crane,
President.

New York, February 21, 1941.

ST. JOSEPH LEAD COMPANY AND SUBSIDIARIES

Summaries of Consolidated Net Income

For the Years Ended December 31, 1940 and 1939

		Year ended December 31, 1940		1939
Net Sales		$38,507,829.10		$30,362,605.36
Cost of Sales (exclusive of depreciation and depletion)		29,153,371.25		22,195,676.99
Gross Profit from Operations before Depreciation and Depletion		$ 9,354,457.85		$ 8,166,928.37
Deduct:				
Selling, general and administrative expenses	$ 748,953.94		$648,048 47	
Capital stock and miscellaneous taxes	128,213.00	877,167.54	70,083.03	718,131.50
Net Profit from Operations before Depreciation and Depletion		$ 8,477,290.31		$ 7,448,796.87
Other Income (*Deductions):				
Profit on sale of real estate	$ 86,952.91		$129,506.61	
Interest, dividends, etc.	18,190.45		21,271 69	
Loss on sale of stocks	*294,836.57	*189,693.21	*12,603.07	138,175.23
Income before Depreciation, Depletion, and Federal Income and Excess Profits Taxes		$ 8,287,597.10		$ 7,586,972.10
Provision for depreciation		1,064,639.12		1,058,924.04
Income before Depletion and Federal Income and Excess Profits Taxes		$ 7,222,957.98		$ 6,528,048.06
Provision for Depletion and Federal Income and Excess Profits Taxes:				
Depletion	$ 805,346 24		$562,654.53	
Federal income taxes	1,050,924.66		672,485.97	
Federal excess profits taxes	254,745.38	2,111,016.28	—	1,235,140.50
Net Income for the Year		$ 5,111,941.70		$ 5,292,907.56

Summaries of Consolidated Surplus

For the Years Ended December 31, 1940 and 1939

	Year ended December 31, 1940	1939
Surplus at Beginning of the Year (including surplus from revaluation of ore reserves—1940, $313,327.67; 1939, $348,509.18)	$ 9,894,472.29	$ 8,512,924.73
Additions:		
Net income for the year	5,111,941.70	5,292,907.56
Total	$15,006,413.99	$13,805,832.29
Deductions:		
Cash dividends paid during the year	4,400,280 00	3,911,360.00
Surplus at End of the Year (including surplus from revaluation of ore reserves—1940, $94,774.86; 1939, $313,327.67)	$10,606,133.99	$ 9,894,472 29

Notes:

All subsidiaries of the parent company, with the exception of Aguilar Corporation and its foreign subsidiary, are included in the above summaries. The equity of St Joseph Lead Company in the net profits of Aguilar Corporation and its foreign subsidiary, not included in the above summaries, before provision for depletion of ore reserve values in excess of cost, was $489,893.72 for the year 1940 and $562,360.75 for the year 1939; after provision for depletion of ore reserve values in excess of cost, St. Joseph Lead Company's portion of the net losses of said subsidiaries was $504,097 34 for the year 1940 and $231,157.92 for the year 1939. Gross profit, before depreciation and depletion, of the foreign subsidiary on its sales in 1939 to St. Joseph Lead Company of products which remained in the inventories of the latter at December 31, 1940 and 1939 amounted to approximately $293,000.00 and $116,000 00, respectively.

For a statement relating to payments by the Company under the Pension and Retirement Plans, see comments in the text of this report on page 3.

No inter-company profits or losses are included in the above summaries.

ST. JOSEPH LEAD COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets, December 31, 1940 and 1939

ASSETS

	December 31, 1940		December 31, 1939	
Capital Assets:				
Ore reserves and mineral rights:				
Appraised value as of March 1, 1913	$13,500,000.00		$13,500,000.00	
Less reserve for depletion	13,500,000.00	—	13,500,000 00	—
Additions subsequent to March 1, 1913 (at cost)	$21,242,952.67		$21,236,287.18	
Less reserve for depletion	15,932,595.31	$ 5,310,357.36	15,345,801.88	$ 5,890,485.30
Appreciation arising from revaluation subsequent to March 1, 1913	$ 4,315,000.00		$ 4,315,000.00	
Less reserve for depletion	4,220,225.14	94,774.86	4,001,672.33	313,327 67
Total ore reserves and mineral rights, net		$ 5,405,132.22		$ 6,203,812.97
Shafts and underground equipment (at cost)	$ 5,233,264.01		$ 5,221,918 85	
Less reserve for depreciation	4,198,852.66	1,034,411.35	4,038,597.50	1,183,321.35
Land, buildings, plant and equipment (at cost)	$18,534,033.08		$18,117,817.36	
Less reserve for depreciation	12,407,000.29	6,127,032.79	12,009,049.63	6,108,767.73
Railway construction—Cost being refunded		26,435.00		39,160 00
Total capital assets, net		$12,593,011.36		$13,535,062.05
Investments and Advances:				
Aguilar Corporation (at cost—1940, 89% owned; 1939, 86% owned)	$ 775,812.18		$ 1,515,000.00	
Mine La Motte Corporation (at cost—50% owned)	730,484.63		780,484.63	
Kadco Corporation (at cost—50% owned)	—		100,000.00	
Stocks of other mining companies (at cost—market quotation value—1940, $4,650.00; 1939, $101,100.00)	4,000.00		298,000.00	
Sundry securities, loans, etc. (at cost, less reserve, $200,000.00)	275,644.27	1,785,941.08	296,137.29	2,989,621.92
Current and Working Assets:				
Cash on hand and in banks	$12,400,614.17		$ 8,497,522.55	
Notes and accounts receivable—Trade (less reserve—1940, $19,880 26; 1939, $20,185.12)	2,584,797.75		1,904,560.67	
Other notes and accounts receivable	58,046.33		42,894.78	
Inventories (valuation not in excess of market):				
Finished lead, zinc, etc. (at cost, exclusive of depreciation and depletion)	798,140.05		2,289,092.26	
Lead, zinc, etc., in process (at cost, exclusive of depreciation and depletion)	910,123.03		945,154.92	
Purchased lead and zinc (at cost)	1,291,818.15		413,853.06	
Materials and supplies (at cost, less reserve for slow-moving items—1940, $111,496.16; 1939, $109,286.75)	2,080,203.72	20,123,743.20	1,909,832.37	16,002,910.61
Miscellaneous Assets:				
Federal, State and Municipal securities on deposit with Federal and State departments (at cost; market quotation value—1940, $142,690; 1939, $138,843.13)	$ 120,815.89		$ 120,836.23	
Cash in closed banks	18,508.75	139,324.64	23,263.08	144,099.31
Deferred Charges:				
Prepaid insurance, taxes, etc.		149,847.07		112,935.40
Total		$34,791,867.35		$32,784,629.29

Notes:

The net value of the capital assets shown in the above consolidated balance sheets should be considered in the light of the comments included in the text of this report on Page No. 4.

All subsidiaries of the parent company with the exception of Aguilar Corporation and its foreign subsidiary, are included in the above consolidated balance sheets. The equity of St. Joseph Lead Company in the net profits of Aguilar Corporation and its foreign subsidiary, since acquisition, not included in the above consolidated balance sheets, before provision for depletion of ore reserve values in excess of cost, was $2,083,580.14 at December 31, 1940 and $1,482,776.53 at December 31, 1939; after provision for depletion of ore reserve values in excess of cost, St. Joseph Lead Company's portion of the net losses of said subsidiaries, since acquisition, was $1,058,396.50 at December 31, 1940 and $542,465.12 at December 31, 1939. Gross profit, before depreciation and depletion, of the foreign subsidiary on its sales to St. Joseph Lead Company of products which remained in the inventory of the latter at December 31, 1940 and December 31, 1939 amounted to approximately $293,000.00 and $116,000.00.

ST. JOSEPH LEAD COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets, December 31, 1940 and 1939

LIABILITIES

	December 31, 1940		December 31, 1939	
Capital Stock:				
Authorized, 2,500,000 shares of $10 00 each	$25,000,000.00		$25,000,000.00	
Issued, 1940, 1,996,840.25 shares; 1939, 1,996,836 7 shares	$19,968,402.50		$19,968,367.00	
Less in treasury, 1940, 41,160.25 shares; 1939, 41,156.7 shares	411,602.50		411,567.00	
Outstanding, 1,955,680 shares	$19,556,800.00		$19,556,800.00	
Scrip outstanding	6.00	$19,556,806.00	41.50	$19,556,841.50
Current Liabilities:				
Accounts payable (trade)	$1,646,555 40		$1,181,342.81	
Due to subsidiaries not consolidated	175,610 27		62,966 37	
Wages payable	144,191.53		98,844.82	
Accrued taxes:				
Federal income and excess profits	1,346,687.79		696,153.53	
Other	181,275.58	3,494,320.57	148,039.84	2,187,347.37
Deferred Credit:				
Unrealized profit from sale of houses, etc		12,543.67		22,357.53
Reserves:				
For injury claims and workmen's liability insurance	$219,485.92		$184,866.31	
For employees' life insurance and retirement	592,638.65		626,805 74	
For contingencies	309,938 55	1,122,063.12	311,938.55	1,123,610.60
Surplus:				
Earned	$10,511,359.13		$9,581,144.62	
Revaluation of ore reserves	94,774.86	10,606,133.99	313,327.67	9,894,472.29
Total		$34,791,867.35		$32,784,629.29

Notes Continued:

respectively. Aguilar Corporation was in arrears in dividends on its $7.00 cumulative preferred stock (79% owned by St. Joseph Lead Company at December 31, 1940 and 75% owned at December 31, 1939) in the amounts of $1,030,393.00 and $1,346,450.00 at December 31, 1940 and December 31, 1939, respectively.

St. Joseph Lead Company and the foreign subsidiary of Aguilar Corporation were contingently liable at December 31, 1940 to refund to customers the sales price, $827,779.87, of concentrates paid for by the customers and stored in Argentina, in the event any future Argentine law should prevent shipment thereof, and were similarly contingently liable at December 31, 1939 in the amount of $280,000.00.

For a statement relating to payments by the Company under the Pension and Retirement Plans, see comments in the text of this report on Page No. 3.

No intercompany profits or losses as between St. Joseph Lead Company and subsidiaries consolidated are included in the above consolidated balance sheets.

U. S. REFINED LEAD STOCKS, LEAD AND ZINC PRICES

Comparative Annual Statistics

Year	Tons of U. S. Refined Lead Stocks At End of Year	Average Lead and Zinc Prices in Cents Per Lb. Lead F.O.B. St. Louis E. & M. J. Average	Lead F.O.B. St. Louis St. Joe Average	Zinc F.O.B. St. Louis E. & M. J. Average
1931	151,653	4.049	4.007	3.640
1932	176,157	3.042	3.055	2.876
1933	203,061	3.735	3.652	4.029
1934	235,457	3.724	3.700	4.158
1935	222,306	3.915	3.878	4 328
1936	171,856	4.560	4 534	4 901
1937	129,131	5.859	6.015	6.519
1938	115,902	4.589	4.598	4 610
1939	58,777	4.903	4.942	5.110
1940	40,926	5.029	4.986	6.335

ST. JOSEPH LEAD COMPANY AND SUBSIDIARIES

Production in Tons

Year	Ore Mined	Lead Concentrates	Pig Lead Equivalent	Zinc Concentrates	Slab Zinc Equivalent
1931	4,465,794	196,481	131,586	63,348	31,498
1932	3,233,172	147,242	99,242	34,677	17,017
1933	2,652,944	114,651	78,248	34,741	16,898
1934	3,269,864	124,240	86,060	46,353	22,389
1935	3,382,403	133,044	92,611	47,214	22,857
1936	3,804,451	147,160	101,999	54,590	26,400
1937	5,536,952	212,827	146,274	71,031	34,519
1938	3,816,637	157,188	107,600	60,797	29,606
1939	5,255,960	202,003	138,307	74,681	38,188
1940	6,209,863	225,041	154,281	85,571	44,406

Lead Sales and Stocks at End of Year in Tons

Year	Lead Sales St. Joe Production	Purchased Lead Sold	Total Lead Sales	*Pig Lead Equivalent of Stocks
1931	105,262	69,085	174,347	78,390
1932	81,467	53,473	134,940	96,484
1933	72,462	47,988	120,450	100,453
1934	84,964	39,566	124,530	103,918
1935	87,077	41,714	128,791	108,849
1936	126,846	47,776	174,622	83,575
1937	160,091	38,930	199,021	72,969
1938	97,865	50,782	148,647	79,775
1939	172,481	39,347	211,828	46,173
1940	178,111	60,199	238,310	30,737

*Includes purchased lead and estimated recoverable lead in concentrates together with other lead stocks in process of refining at smelters.

AGUILAR CORPORATION AND SUBSIDIARY

Summaries of Consolidated Net Income

For the Years Ended December 31, 1940 and 1939

		Year ended December 31, 1940		1939
Net Sales (Including sales to St. Joseph Lead Company—1940, $1,481,326 03; 1939, $267,574 60)		$2,612,023.14		$2,172,411.92
Cost of Sales (exclusive of depreciation and depletion)		1,662,320 31		1,174,751.57
Gross Profit from Operations before Depreciation and Depletion		$ 949,702 83		$ 997,660.35
Deduct:				
Selling, general and administrative expenses	$ 85,215.64		$ 66,298.07	
Taxes	13,601.58	98,817 22	12,849.22	79,147.29
Net Profit from Operations before Depreciation and Depletion		$ 850,885.61		$ 918,513.06
Other Income		23,652 25		17,236.83
Gross Income before Depreciation and Depletion		$ 874,537.86		$ 935,749.89
Interest on indebtedness		6,747.74		4,768.72
Income before Depreciation and Depletion		$ 867,790.12		$ 930,981.17
Provision for depreciation		193,667.52		175,793.81
Income before Depletion		$ 674,122 60		$ 755,187.36
Provision for depletion computed on cost		121,188.16		100,082.61
Net Income for the Year before Provision for Depletion Computed on Appreciation of Ore Reserves		$ 552,934 44		$ 655,104.75
Provision for depletion computed on appreciation of ore reserves		1,108,320 38		915,337.33
Net Loss for the Year		$ 555,385.94		$ 260,232.58

Summaries of Consolidated Deficit

For the Years Ended December 31, 1940 and 1939

	Year ended December 31, 1940	1939
Deficit at Beginning of Year	$ 610,695.48	$ 350,462.90
Net loss for the year	555,385.94	260,232.58
Deficit at End of Year	$1,166,081.42	$ 610,695.48

Notes:

Included in the above summaries are Aguilar Corporation and its only subsidiary, Compania Minera Aguilar, S. A. (a foreign corporation).

No provision has been made in the above summaries for Argentine income taxes as the basis of assessment has not been agreed upon with the Argentine tax authorities, or for United States Federal income taxes as the domestic company had net losses in 1940 and 1939.

No intercompany profits or losses as between Aguilar Corporation and its subsidiary are included in the above summaries.

AGUILAR CORPORATION AND SUBSIDIARY

Consolidated Balance Sheets, December 31, 1940 and 1939

ASSETS

	December 31, 1940		December 31, 1939	
Capital Assets:				
Ore reserves and mineral rights:				
Cost, including exploration and development prior to the commencement of operations	$ 1,507,858.82		$ 1,507,858.82	
Less reserve for depletion	393,268.63	$ 1,114,590.19	272,080.47	$ 1,235,778.35
Appreciation arising from revaluation	$13,790,750.50		$13,790,750.50	
Less reserve for depletion	3,597,890.37	10,192,860.13	2,489,569.99	11,301,180.51
Total ore reserves and mineral rights, net		$11,307,450.32		$12,536,958.86
Land, buildings, plant and equipment (at cost)	$ 2,368,700.20		$ 2,126,349.00	
Less reserve for depreciation	762,847.78	1,605,852.42	569,180.26	1,557,168.74
Total capital assets, net		$12,913,302.74		$14,094,127.60
Current and Working Assets:				
Cash on hand and in banks	$ 388,133.95		$ 398,464.28	
Accounts receivable—trade	120,376.60		155,034.86	
Due from St. Joseph Lead Company (Parent Company)	175,610.27		62,966.37	
Other accounts receivable	11,068.00		8,029.96	
Inventories:				
Lead and zinc concentrates (at cost, exclusive of depreciation and depletion; less than estimated market)	593,543.63		238,353.25	
Silver (at estimated value)	24,314.01		51,628.27	
Materials and supplies (at cost)	549,161.89	1,862,208.35	437,480.17	1,351,957.16
Goodwill		50,000.00		50,000.00
Deferred Charges		30,881.78		14,059.53
Total		$14,856,392.87		$15,510,144.29

Notes:

Included in the above consolidated balance sheets are Aguilar Corporation (a domestic holding company) and its only subsidiary, Compania Minera Aguilar S. A. (incorporated and conducting business in Argentina).

Current assets, current liabilities, deferred charges and reserves are shown in the above consolidated balance sheets at the closing quoted rate of exchange at December 31, 1940 and 1939, respectively. Capital assets and related reserves and capital stock and capital surplus accounts reflect the approximate dollar equivalents at the rates prevailing at the dates of the transactions of which the balances in these accounts consist.

AGUILAR CORPORATION AND SUBSIDIARY

Consolidated Balance Sheets, December 31, 1940 and 1939

LIABILITIES

	December 31, 1940		December 31, 1939	
Capital Stock:				
Preferred stock—$7.00 cumulative shares without par value (entitled upon redemption or liquidation to $115.00 a share):				
1940—Authorized 94,059 shares; issued 14,259 shares at a stated value of $49 00 a share	$ 698,691.00			
1939—Authorized 100,000 shares; issued 20,200 shares at a stated value of $98.00 a share			$ 1,979,600 00	
Common stock—Shares without par value, stated value $1.00 a share:				
1940—Authorized 248,070 shares; issued 88,470 shares	88,470.00			
1939—Authorized 250,000 shares; issued 90,400 shares		$ 787,161.00	90,400.00	$ 2,070,000 00
Current Liabilities:				
Loans payable—Bank	$ 429,229.71		—	
Accounts payable—trade	122 406 24		$ 51,751.78	
Wages payable	19,008.36		14,882 74	
Accrued taxes	2,684.47		4,204.38	
Proceeds from sales of concentrates for future export	311,047.47		—	
Other accounts payable	3,436.31	887,812.56	1,904.19	72,743.09
Deferred Credit:				
Unrealized profit on foreign exchange, etc.		—		9,307.66
Reserves:				
For expenses on concentrates held for future delivery	$ 354,220 84		$ 151,946 80	
For compensation and accidents	31,152 06		17,365.77	
For maintenance and renewals	8,151.11	393,524.01	8,725.95	178,038.52
Surplus:				
Capital surplus:				
Arising from revaluation of ore reserves (of which $13,387,254.16 has been transferred by the subsidiary to its capital stock account)	$13,790,750.50		$13,790,750.50	
Arising from reduction in stated value of preferred stock, $989,800.00, less $826,573 78 cost of stocks acquired in excess of stated values thereof	163,226 22		—	
Total capital surplus	$13,953,976.72		$13,790,750.50	
Earned surplus (deficit):				
Surplus based on depletion computed on cost	$ 2,431,808.95		$ 1,878,874.51	
Deduct depletion computed on appreciation of ore reserves	3,597,890.37		2,489,569.99	
Earned surplus (*deficit)	$*1,166,081.42		$ *610,695.48	
Remainder—Capital surplus		12,787,895.30		13,180,055.02
Total		$14,856,392 87		$15,510,144 29

Notes Continued:

The above consolidated balance sheets do not include any liability for Argentine income taxes as the basis of assessment has not been agreed upon with the Argentine tax authorities.

Cumulative dividends on the $7 00 preferred stock have not been paid since its issuance, and at December 31, 1940 and 1939 amounted to $1,030,393 00 and $1,346,450 00 respectively.

The foreign subsidiary and St. Joseph Lead Company are contingently liable at December 31, 1940, to refund to customers the sales price, $827,779 87 of concentrates paid for by the customers and stored in Argentina, in the event any future Argentine law should prevent shipment thereof, and were similarly contingently liable at December 31, 1939, in the amount of $280,000 00.

No intercompany profits or losses as between Aguilar Corporation and its subsidiary are included in the above consolidated balance sheets.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

22 EAST 40TH STREET
NEW YORK

ACCOUNTANTS' CERTIFICATE

To the Stockholders of St. Joseph Lead Company:

We have examined the consolidated balance sheet of St. Joseph Lead Company (incorporated in New York) and its wholly-owned subsidiary companies as of December 31, 1940 and the summary of consolidated net income and surplus for the year ended that date, have reviewed the systems of internal control and the accounting procedures of the companies, and have examined or tested their accounting records and other supporting evidence by methods and to the extent we deemed appropriate, including physical tests of the inventory quantities.

The accounts of Aguilar Corporation, a majority-owned holding company (not consolidated) which is treated by you as an investment and whose assets consist only of cash on deposit and the investment in its subsidiary, were examined by us, but the accounts of Compania Minera Aguilar, S. A., which is the foreign subsidiary of Aguilar Corporation, have been examined and reported upon by other accountants, and the data with respect to such foreign subsidiary included in the accompanying consolidated balance sheet of Aguilar Corporation (incorporated in Delaware) and its foreign subsidiary as of December 31, 1940 and related summary of consolidated net income and deficit for the year ended that date, are as shown by such report. The report of other accountants states that inventories are as certified by the management.

In our opinion, based upon our examination of the accounts of St. Joseph Lead Company and its subsidiary companies except Compania Minera Aguilar, S. A. and upon the report of other accountants on their examination of the accounts of the last-mentioned company, the accompanying balance sheets and related summaries of consolidated net income and surplus, with the footnotes thereon, fairly present the financial condition at December 31, 1940 of St. Joseph Lead Company and its wholly-owned subsidiary companies, and of Aguilar Corporation and its foreign subsidiary company, and the results of their operations for the year ended that date, in conformity with generally accepted accounting principles followed by the companies on a basis consistent with that of the preceding year.

HASKINS & SELLS

New York, February 21, 1941.

ST. JOSEPH LEAD COMPANY

PRESIDENT'S ANNUAL REPORT TO STOCKHOLDERS

FOR THE YEAR 1940