ANNUAL REPORT

OF

THE EAGLE-PICHER LEAD COMPANY AND SUBSIDIARIES

EAGLE
EP
PICHER

December 31, 1939

The Eagle-Picher Lead Company

BOARD OF DIRECTORS

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

OFFICERS

Joseph Hummel, Jr., *Pres. and Treas.*
William R. Dice, *Executive Vice-Pres.*
George W. Potter, *Vice-President*
Frederick Hertenstein, *Vice-President*
Carl A. Geist, *Vice-Pres. and Asst. Treas.*
Vincent H. Beckman, *Secretary*

DIVISION MANAGERS

White Lead-in-Oil	Pigments	Insulation	Metal Goods
W. H. Hayt	Miles M. Zoller	Thurman C. Carter	William F. Murdock

TRANSFER AGENT

Western Bank & Trust Company, Cincinnati, Ohio

REGISTRAR

The Fifth-Third Union Trust Company, Cincinnati, Ohio

»» ««

The Eagle-Picher Mining and Smelting Company

BOARD OF DIRECTORS

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

Joseph Hummel, Jr., *President*
George W. Potter, *Executive Vice-Pres.*
Carl A. Geist, *Treasurer*
Frederick Hertenstein, *Vice-Pres.*
William R. Dice, *Comptroller*
Vincent H. Beckman, *Secretary*

ANNUAL REPORT

The Eagle-Picher Lead Company and Subsidiaries

»» ««

TO THE STOCKHOLDERS OF
THE EAGLE-PICHER LEAD COMPANY:

Submitted herewith is the annual report of your company for the year ended December 31, 1939, accompanied by financial statements and the report of your auditors, Messrs. Barrow, Wade, Guthrie and Company.

Earnings and Sales

The operations of the year resulted in a net profit of $2,780,931.02 before provision for depreciation, depletion and similar charges. This is a significant figure, exceeding that reported for any year since 1926. After deducting $1,612,168.71 in respect of depreciation, depletion, prospecting expenses, and losses from abandonment or sale of capital assets, the company showed a consolidated net profit of $1,168,762.31 equivalent to $1.30 per share on common stock outstanding in the hands of the public after providing for dividends of $6.00 per share on the preferred stock. Depreciation and depletion provision for 1939 is more than double that for 1938 due to increased production and additional depreciable properties acquired. The charge for abandonments, prospecting expenses, etc., is also considerably larger this year, resulting in part from the deferment of certain projects, continued development of which does not seem warranted at this time in view of the acquisition in 1938 of additional ore reserves. For the first time the operating results include the earnings of Northeast Oklahoma Railroad Company, the entire capital stock and funded obligations of which represent an investment of $1,070,500.00. The net income, after all charges, including interest of approximately $45,000.00 received by your company on the foregoing obligations, was in excess of $81,000.00.

The results for the year vary so widely from those of the preceding year—when a net loss of $488,732.68 was sustained—that comparison with 1938 is of little value; whereas, by reason of the similarity of sales volume, the results for the year 1937 are particularly comparable. Hence, in the following condensed statement are presented the operating results and average metal prices for the past three years:

	1939	*1938*	*1937*
Net Sales	$25,914,411.30	$17,124,772.65	$24,679,262.05
Production and Manufacturing Costs	21,104,655.86	14,948,000.72	21,232,491.33
Gross Operating Profit	4,809,755.44	2,176,771.93	3,446,770.72
Selling, Shipping, Administrative and General Expenses	1,972,485.18	1,925,110.15	2,106,614.46
Net Operating Income:			
Mining and Manufacturing Divisions	2,837,270.26	251,661.78	1,340,156.26
Northeast Oklahoma Railroad Company	226,143.23	(Not Included)	(Not Owned)
	3,063,413.49	251,661.78	1,340,156.26
Miscellaneous Income less Interest and Federal and State Income Taxes	*282,482.47**	46,313.28	14,789.77
Net Profit—Before Depletion and Depreciation	2,780,931.02	297,975.06	1,354,946.03
Depletion, Depreciation, Abandonments, etc.	1,612,168.71	786,707.74	966,165.21
Net Profit or *Loss* for Year	$1,168,762.31	*$488,732.68**	$388,780.82

*Italics denote red figures

Average Metal Prices:			
Lead	$5.05	$4.74	$6.00
Zinc	5.11	4.61	6.52

Net sales for the year aggregated $25,914,411.30 in comparison with $17,124,772.65 in 1938 (an increase of approximately 51%) and $24,679,262.05 in 1937. Sales tonnage of fabricated products increased about 16% and of zinc concentrates and metal approximately 100%.

The reduction in tariff of 20% increased the importation of zinc, so that the price of that metal was only $4.50 from January through July. Immediately after the outbreak of war, the price rose rapidly and by the end of September stood at $6.50. The increase in price is largely attributable to low inventories of domestic consumers who became concerned and somewhat anticipated their requirements. During the latter quarter of the year the price declined to $5.75, the average price for the year being $5.11 compared with $4.61 for 1938 and $6.52 for 1937. The price of lead fluctuated between $4.75 and $4.85 during the first eight months of the year. It was advanced to $5.50 in September and held at that level for the remainder of the year. The average price for 1939 was $5.05 compared with $4.74 for 1938 and $6.00 for 1937. It will be observed that, during the greater part of the year, metal prices were comparatively stable, which, as mentioned in previous reports, has a favorable effect on operating results. Manufacturing operations were consistently ahead of the previous year, and the earnings from these divisions were the largest for any year in the last ten and represented the major portion of the net earnings for the year.

Taxes

Taxes paid and accrued in 1939 were in excess of $775,000.00, or approximately 85c per share. Of this total, $243,000.00 represented the provision for income taxes, Social Security taxes accounted for approximately $204,000.00, and the remainder consisted of real and personal property, sales and miscellaneous taxes.

Dividends

Dividends have been regularly paid on preferred stock during the year, and just prior to the year-end a dividend of 20c per share was declared and paid on the common stock. In view of the substantial improvement in the financial condition of your company, it is hoped that net earnings during the forthcoming year will warrant payments of dividends on the common shares.

Balance Sheet

Net working capital at the year end amounted to $6,987,188.57 and the current ratio at December 31, 1939 was approximately 4.9 to 1.

In reviewing the balance sheets, it is important to have in mind the indebtedness incurred just prior to the close of 1938 in connection with the acquisition of Commerce Mining and Royalty Company and Northeast Oklahoma Railroad Company. All of the outstanding shares of these companies were purchased on December 28, 1938 for a cash consideration of $5,127,000.00 and an agreement to pay an additional $4,750,000.00, without interest, when, as and if realized from 60% of the operating profits of certain specified properties acquired in the purchase. To finance this purchase, your company increased its bank loans by $4,100,000.00. During 1939 this indebtedness was entirely liquidated, and at the end of the year total bank loans stood at $2,500,000.00, or the same amount as prior to the purchase of the foregoing properties. In addition, we paid approximately $484,000.00 on the contingent obligation assumed in connection with the acquisition, leaving a balance of $4,266,176.57 payable out of future earnings.

The foregoing payments were made possible, in part, by a reduction in inventories of $1,456,665.79, or approximately 21%. The reduction in quantities is substantially greater, the metal content having been reduced from 76,320 tons at the beginning of the year to 41,975 tons at the end of the year, or 34,345 tons, equivalent to 45%. The aggregate values did not decline proportionately, largely because the larger percentage of the inventories was in the form of finished products. This reduction in inventories is in conformity with a policy made possible by the acquisition of adequate ore reserves.

Mining Operations

The increased demand for zinc products made possible the largest production of lead and zinc concentrates in the history of the company. Ore received at our mills in 1939 amounted to 2,910,000 tons, of which our

Central Mill received 1,881,000 tons. At the end of the year this mill was handling over 10,000 tons of ore-bearing rock per day. Production of lead and zinc concentrates at our mills in the Tri-State District of Oklahoma, Kansas and Missouri totalled 193,697 tons in 1939 compared with 104,305 tons in 1938.

General

Your Directors and Officers feel that the results and accomplishments of the year fully justify their action in expanding the company's mining operations—not only from the standpoint of earnings, but in extending its life. We are constantly striving to effect operating efficiencies and to develop new products and improved methods of fabrication which will produce additional profits. Important improvements in our fabricated products were made in 1939, and we have under way some promising developments which should be concluded in 1940.

It is hazardous to attempt to forecast the results for the coming year, although present indications are that this may be a successful year for your company. Current prices of zinc and lead are higher than they were a year ago, and the present rate of consumption indicates that there should be no immediate weakening in these prices. However, so long as the present low tariff on zinc obtains, any increase in domestic demand carries with it the threat of further importation of foreign metal, which would affect not only the earnings of the company but the wages of its employees. The results attained in 1939 were in large measure attributable to the excellent cooperation and fine spirit of loyalty shown by the entire personnel throughout the year.

JOSEPH HUMMEL, Jr.
President

WILLIAM R. DICE
Executive Vice President

With the approval of the Board of Directors.
Cincinnati, Ohio.
February 27, 1940.

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 examined the Consolidated Balance Sheet of The Eagle-Picher Lead Company and Subsidiaries as at December 31, 1939, and the related Consolidated Profit and Loss and Surplus Accounts for the year then ended.

In connection therewith, we have reviewed the system of internal control and the accounting procedures of The Eagle-Picher Lead Company and The Eagle-Picher Sales Company; and, without making a detailed audit of the transactions, have examined or tested accounting records of those companies and other supporting evidence, by methods and to the extent we deemed appropriate.

The accounts of The Eagle-Picher Mining and Smelting Company and Subsidiaries and Northeast Oklahoma Railroad Company, as examined and reported upon by other independent accountants, have been included in the accompanying consolidated statements.

Inventories on hand at December 31, 1939 were determined by the companies or their agents and confirmed by them as to quantities and condition. A substantial portion of the metal content of ores, metals and metal-bearing products represents estimates based on established metallurgical formulae. Quantitative tests of other portions of the inventories were made by the independent accountants, insofar as was considered practicable but not to an extent that could be considered substantial verification of the total inventories.

In our opinion, the accompanying Balance Sheet and related Profit and Loss and Surplus Accounts present fairly the consolidated financial position of the Companies at December 31, 1939, and the results of operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Barrow, Wade, Guthrie & Co.

ACCOUNTANTS AND AUDITORS

Chicago, Illinois
February 26, 1940

The Eagle-Picher Lead Company and Subsidiaries

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

For Years Ended December 31, 1939 and 1938

		YEAR ENDED *DECEMBER 31, 1939*		YEAR ENDED *DECEMBER 31, 1938*
NET SALES		$25,914,411.30		$17,124,772.65
PRODUCTION AND MANUFACTURING COSTS		21,104,655.86		14,948,000.72
GROSS OPERATING PROFIT—before Depletion and Depreciation		4,809,755.44		2,176,771.93
EXPENSES:				
Selling	$838,481.77		$795,306.38	
Traffic, Warehousing and Shipping	233,697.41		234,530.34	
General and Administrative	821,973.30		832,347.14	
Bad Debt Provision—less Recoveries	78,332.70	1,972,485.18	62,926.29	1,925,110.15
NET OPERATING INCOME—before Depletion and Depreciation:				
Mining and Manufacturing		2,837,270.26		251,661.78
Northeast Oklahoma Railroad Company		226,143.23		
		3,063,413.49		
OTHER INCOME:				
Royalties	105,059.44		35,423.26	
Interest and Dividends	15,528.21		10,695.39	
Miscellaneous	32,907.35	153,495.00	89,999.47	136,118.12
		3,216,908.49		387,779.90
INTEREST ON BANK INDEBTEDNESS		192,673.99		48,530.66
		3,024,234.50		339,249.24
DEPLETION, DEPRECIATION, ETC.:				
Provision for Depletion and Depreciation—per books	1,360,251.83		650,358.27	
Abandoned Projects, Prospecting Expenses and Loss on Retirement or Sale of Capital Assets	251,916.88	1,612,168.71	136,349.47	786,707.74
NET PROFIT OR *Loss*—before provision for Federal and State Taxes on Income		1,412,065.79		*447,458.50**
PROVISION FOR FEDERAL AND STATE TAXES ON INCOME—estimated		243,303.48		41,274.18
NET PROFIT OR *Loss* FOR YEAR		$1,168,762.31		*$488,732.68**

*Italics denote red figures

THE EAGLE-PICHER LEAD

CONSOLIDATED BALANCE SHEETS

ASSETS	Shares	*December 31, 1939*		*December 31, 1938*	
Current Assets:					
Cash in Banks and on Hand			$ 1,152,400.79		$ 1,583,053.16
Accounts and Notes Receivable—Trade		$2,498,631.62		$ 2,672,876.58	
Accounts and Notes Receivable—Other		189,684.87		111,575.37	
		2,688,316.49		2,784,451.95	
Less: Reserves for Doubtful Accounts		310,939.51	2,377,376.98	322,414.63	2,462,037.32
Advances on Purchase Contracts			5,331.71		6,048.69
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 Materials in Process and Finished Products		4,252,758.74		5,778,043.75	
Other Merchandise for Resale—at cost		490,108.83		362,882.83	
		4,742,867.57		6,140,926.58	
Manufacturing Supplies and Stores—at cost		502,168.02	5,245,035.59	560,774.80	6,701,701.38
			8,780,145.07		10,752,840.55
Other Assets:					
Surplus Equipment, Repair Parts, Supplies, etc.		193,644.49		147,183.92	
Employees' Loans and Expense Advances		20,322.48		27,293.44	
Miscellaneous Accounts, Advances, etc.		16,145.84	230,112.81	35,859.84	210,337.20
Fixed Assets:					
Mining Lands and Leases; Mills, Smelters and Fabricating Plants and Equipment; Railroad Properties; Pipe Lines; Automotive and Haulage Equipment; Warehouses; Furniture and Fixtures, etc. (including $509,814.07 excess cost of acquisition over book value of net assets acquired)		32,431,046.67		33,702,681.32	
Less: Reserves for Depletion, Depreciation, etc.		20,139,376.53		20,292,973.41	
		12,291,670.14		13,409,707.91	
Construction Work in Progress		104,546.74	12,396,216.88	128,890.75	13,538,598.66
Self-Insurance Fund Securities:					
U. S. Government Obligations—at cost (Market value at December 31, 1939—$136,435.94)			129,256.84		128,656.84
Investments:					
Stock of wholly owned Subsidiary not consolidated		1.00		1.00	
Investment in and advances to Affiliated Company		52,354.88		64,649.27	
Sundry Securities—at cost or estimated recoverable values		21,367.61	73,723.49	22,445.61	87,095.88
Treasury Stock—at cost:					
Preferred	65	2,330.75		2,330.75	
Common	5,924	21,797.56		21,797.56	
Common—purchased by Subsidiary for resale	11,250	154,994.17	179,122.48		24,128.31
Prepaid and Deferred Charges:					
Prepaid Freight, Insurance, etc.		120,173.80		111,338.98	
Royalty Advances		49,174.70		61,364.56	
Other Deferred Charges		132,475.51	301,824.01	107,142.84	279,846.38
Patents, Goodwill, etc.			1.00		1.00
			$22,090,402.58		$25,021,504.82

COMPANY AND SUBSIDIARIES

AS AT DECEMBER 31, 1939 AND 1938

LIABILITIES	*DECEMBER 31, 1939*		*DECEMBER 31, 1938*	
CURRENT LIABILITIES:				
Current Bank Indebtedness				$1,800,000.00
Accounts Payable		$1,132,850.22		562,005.49
Preferred Dividend Payable		8,233.50		8,233.50
Accrued Liabilities:				
Taxes—Other than Taxes on Income	$ 190,259.93		$ 163,898.79	
Wages and Salaries	58,707.49		43,846.92	
Compensation Awards, etc	30,568.90		45,896.47	
Provision for Federal and State Taxes on Income—estimated	305,429.02		112,653.51	
Other Accrued Liabilities	26,826.96	611,792.30	28,950.01	395,245.70
Customers' Credit Balances		40,080.48		87,101.50
		1,792,956.50		2,852,586.19
DEFERRED BANK INDEBTEDNESS:				
Balance at December 31, 1939 payable $400,000.00 in 1942 and $2,100,000.00 in 1943		2,500,000.00		4,800,000.00
CONTINGENT PURCHASE MONEY OBLIGATION:				
Payable from income (as defined in purchase contract and when, as and if realized) of certain specified properties formerly owned by Commerce Mining and Royalty Company		4,266,176.57		4,750,000.00
RESERVES FOR SELF-INSURANCE:				
Workmen's Compensation Liability	219,737.59		234,223.14	
Fire and Tornado Coverage	57,353.87	277,091.46	48,279.16	282,502.30
RESERVES FOR CONTINGENCIES:				
Appropriated from Capital Surplus as at Jan. 1, 1935	600,000.00		600,000.00	
Less Charges: To January 1 . . . $298,126.60			256,150.22	
For year ended Dec. 31 . . . 41,114.91			41,976.38	
	339,241.51	260,758.49	298,126.60	301,873.40
MINORITY INTEREST IN CAPITAL AND SURPLUS OF COMMERCE MINING AND ROYALTY COMPANY				636.48
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:				
Capital Surplus:				
Balance at January 1	1,898,760.96		1,377,693.67	
Transferred from Reserves for Normal Metal Inventory Price Fluctuation			521,067.29	
Balance at December 31	1,898,760.96		1,898,760.96	
Earned Surplus since January 1, 1935:				
Balance at January 1	579,745.49		421,673.72	
Add or *deduct:*				
Transferred from Reserves for Normal Metal Inventory Price Fluctuation			768,932.71	
Sundry adjustments			213.34	
Net Profit or *Loss* for year—per Profit and Loss Account	1,168,762.31		*488,732.68**	
	1,748,507.80		702,087.09	
Dividends paid and accrued:				
Preferred	32,934.00		32,934.00	
Common	176,315.20		89,407.60	
	209,249.20		122,341.60	
Balance at December 31	1,539,258.60	3,438,019.56	579,745.49	2,478,506.45
		$22,090,402.58		$25,021,504.82

CONTINGENT LIABILITIES—See Page Ten

*Italics denote red figures

Contingent Liabilities

1. Notes receivable rediscounted, aggregate liability whereunder cannot exceed $18,500.00.

2. Federal and State income taxes for years not yet examined by the respective taxing authorities. Federal taxes for all years to 1937, inclusive, have been closed except as to The Eagle-Picher Mining and Smelting Company, for which the years 1936 and 1937 have been examined but not yet closed.

3. Pending personal injury suits and minor litigation, liability whereunder is undeterminable but is not considered significant.

4. Order promulgated by National Labor Relations Board, pending on appeal to the United States Circuit Court of Appeals, Eighth Circuit, liability whereunder is difficult to estimate.

5. Agreement to indemnify former shareholders of Commerce Mining and Royalty Company for acts performed on behalf of said company, liability whereunder is wholly contingent.

6. Suit pending in the United States District Court at Cincinnati whereunder claimants seek to recover some sixteen million dollars on two principal causes of action. One cause of action alleges failure to account for sulphur content of lead and zinc sulphide concentrates produced from Indian leases. The Company contends that it has fully accounted therefor, strictly in accordance with the terms of the leases and on a basis that has been in general use in the District for seventy-five years. The other principal cause of action alleges trespass on certain Indian lands prior to 1922. The Company contends that it was in possession of the lands under a valid lease and that it made full accounting thereunder and complied with all requirements thereof. The United States Department of Interior on behalf of the Indians, upon expiration in 1922 of the lease now attacked, granted to the Company a new lease on the same property for a period of twenty-five years, whereunder the Company has since operated and accounted. It is significant that the validity of the new lease was upheld by the United States District Court for the Northern District of Oklahoma, which decision was affirmed by the United States Circuit Court of Appeals, Tenth Circuit. Similar suits involving the same issues were instituted in 1933 in the United States District Court at Kansas City (Mo.) in the name of the United States and at the request of the Department of Interior. The Attorney General, after investigation, dismissed these suits without prejudice. The present action was brought not by the Government but by an individual, as "next friend", who seeks to recover on behalf of the Indians. Company's counsel is of the opinion that the case can be successfully defended, although, because of the amount involved, vigorous prosecution by the plaintiff is anticipated.