ANNUAL REPORT

OF

THE EAGLE-PICHER LEAD COMPANY
AND SUBSIDIARIES

December 31, 1935

The Eagle-Picher Lead Company

BOARD OF DIRECTORS

A. E. Anderson
Vincent H. Beckman
Arthur E. Bendelari
Charles L. Harrison
Frederick Hertenstein
Carl F. Hertenstein
Joseph Hummel, Jr.
A. Kiefer Mayer
Robert E. Mullane

OFFICERS

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

TRANSFER AGENT

Western Bank & Trust Company, Cincinnati, Ohio

REGISTRAR

Central Trust Company, Cincinnati, Ohio

»» ««

The Eagle-Picher Sales Company

BOARD OF DIRECTORS

A. E. Anderson
Vincent H. Beckman
Arthur E. Bendelari
Charles L. Harrison
Frederick Hertenstein
Carl F. Hertenstein
Joseph Hummel, Jr.
A. Kiefer Mayer
Robert E. Mullane
Frank W. Potts

OFFICERS

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

»» ««

The Eagle-Picher Mining and Smelting Company

BOARD OF DIRECTORS

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

OFFICERS

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

ANNUAL REPORT

The Eagle-Picher Lead Company and Subsidiaries

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To the Stockholders of
THE EAGLE-PICHER LEAD COMPANY:

Submitted herewith is a Consolidated Balance Sheet of The Eagle-Picher Lead Company and Subsidiaries as of December 31, 1935, together with Consolidated Profit and Loss Account and Consolidated Surplus Account for the year then ended. The Consolidated Balance Sheet and the Consolidated Profit and Loss Account are presented on a comparative basis with corresponding statements for the preceding year, and were prepared by Barrow, Wade, Guthrie and Company, whose report in connection therewith is attached hereto.

Consolidated Net Income for the year after all charges, including provision for depletion, depreciation and income taxes, was $583,620.27. This compares with a net loss of $153,191.63 for the year ended December 31, 1934.

In studying the comparisons with last year consideration must be given to changes in accounting procedure which became effective in 1935. At the stockholders' meeting on November 26, 1935, a reduction of the par value of the common stock from $20.00 to $10.00 per share was authorized. Reserves were subsequently provided from the surplus thus created against which certain items have been charged, and due to the adjustment of fixed asset values depreciation and depletion charges for the year were reduced. Another change in accounting procedure which affected profits was the adoption of the normal inventory system of valuing metal inventories. The profits for the year would have been $399,095.37 greater had we computed profits under the method of valuing inventories in effect prior to 1935, instead of under the new system of valuing normal inventories adopted as of January 1, 1935. However, profits were increased by reduced depreciation and depletion charges to the extent of approximately $220,000.00, and charges to reserves for certain losses and expenditures amounting to approximately $135,000.00 further increased profits as compared with the former method of handling such items. The net result after giving effect to these changes is that profits were approximately $44,000.00 less than they would have been if the changes had not been made. The reduction in profits due to the adoption of the normal inventory system should be considered as an appropriation to protect us against possible future declines in the market values of metals. You have been repeatedly told of the effect of market declines on our profits, and we believe that no one will dispute the wisdom of adopting a system which will level out profits over a period of years rather than showing wide variations in profits due to fluctuations in the prices of metals. This method of valuing normal inventories has been adopted by many leading companies.

Net sales in 1935 amounted to $16,032,815.71 as compared with $11,802,257.27 in 1934. This is an increase of $4,230,558.44, or approximately 36%. Sales tonnage of manufactured products was 10% greater than in 1934.

In 1935 the prices of metals advanced and at the close of the year were substantially higher than at the beginning of the year. The benefit of increases in prices of metals is reflected in the profits of the Company, and if present prices are maintained, such benefits should continue to be realized. A table of the prices of metals as of the beginning of the last seven years is presented below:

	1930	*1931*	*1932*	*1933*	*1934*	*1935*	*1936*
Zinc Concentrates, per ton.........	$35.00	$25.50	$18.00	$18.00	$28.50	$26.00	$32.00
Lead Concentrates, per ton.........	75.00	57.50	35.00	32.00	46.00	36.00	47.00
Slab Zinc, per cwt..	5.45	4.125	3.125	3.125	4.35	3.725	4.85
Pig Lead, per cwt...	6.25	5.10	3.75	3.00	4.15	3.70	4.50

Mining and Milling operations were conducted on a larger scale during 1935 than during any year since 1929. Our production of lead and zinc concentrates in the Tri-State District during the last five years was as follows:

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

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

	1935	*1934*
Zinc Concentrates (tons)................	6,668	2,035
Lead Concentrates (tons)................	11,075	3,560
	17,743	5,595

The Montana Mine was reopened in the fall of 1934 which accounts for the limited production in that year. The concentrates produced in 1935 contained 7,953 ounces of gold and 671,447 ounces of silver. Substantial profits were made from operating this mine in 1935.

In 1935 our available ore reserves in the Tri-State District of Missouri, Kansas, and Oklahoma, were considerably augmented by acquiring mining rights and leases covering 6,000 acres in the Webb City, Oronogo District of Missouri. The north end of this field was dewatered and placed in production during the latter part of the year. In excess of 1,000 tons of crude ore from this district are now being milled over our Central Mill daily. A campaign is now under way to dewater the rest of the field.

The ratio of current assets to current liabilities at the end of the year was 7.7 to 1, as compared with 5 to 1 at the end of the preceding year. Net working capital at December 31, 1935, was $6,860,115.43, or $1,145,478.64 greater than at the end of the previous year.

Following our long standing policy we have maintained large inventories in order to benefit from increased prices which should result from any improvement in general business conditions. At the end of the year inventories amounted to 71% of our total current assets. The combined lead and zinc content of inventories at December 31, 1935, was 54,891 tons, and this compares with a total of 54,401 tons at December 31, 1934.

The deficit in Earned Surplus of $3,821,768.78 at the beginning of the year was eliminated by charging it against Capital Surplus arising from reducing the par value of the common stock. Other charges to Capital Surplus, as shown in the Consolidated Surplus Account attached, reduced the balance at the end of the year to $1,324,430.00. Consolidated Earned Surplus at the end of the year was $573,321.07. The total of both classes of surplus was $1,897,751.07.

In my letter to the shareholders it was stated that the Capital Surplus after giving effect to proposed adjustments would be slightly in excess of $1,200,000.00. Due to not requiring the total amount proposed for normal metal inventory reserves and to minor changes in other adjustments, Capital Surplus is greater than originally anticipated.

In 1935 dividends representing the accrual for one-quarter on preferred stock, or $8,233.50, were paid. In addition to this payment there has been accrued and charged against surplus, dividends for the last quarter of 1935 in the same amount. This dividend was paid on February 1, 1936.

The reduction in the par value of the common stock from $20.00 to $10.00 per share, which the stockholders approved on November 26, 1935, together with adjustment of accounts, has been given effect to in the attached statements. The statements are submitted in comparative form so that changes may be readily seen.

The consummation of the changes in capital stock and adjustment of accounts was the important accomplishment of the year, and the Directors express their appreciation to the shareholders for their cooperation in bringing it about. The sound position of your Company is evidenced in the attached Consolidated Balance Sheet, and we believe that your Company is in a position to take advantage of improvements in business conditions and reflect the results of such improvements in the Profit and Loss Statement.

In closing, the Management again expresses its appreciation for the spirit of cooperation shown throughout the year by the entire staff.

A. E. BENDELARI
President

With the approval of the Board of Directors.

CINCINNATI, Ohio.
February 29, 1936.

The Eagle-Picher Lead Comp

CONSOLIDATED BALANCE SHEETS AS AT

ASSETS	December 31, 1935		December 31, 1934	
Current Assets:				
Cash in Banks and on Hand		$ 464,250.75		$ 627,863.25
Accounts and Notes Receivable—Trade	$ 2,023,566.54		$ 1,748,710.50	
Accounts and Notes Receivable—Other	67,164.88		97,710.46	
	2,090,731.42		1,846,420.96	
Less—Reserve for Bad and Doubtful Accounts	240,823.65	1,849,907.77	226,892.07	1,619,528.89
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 of metal content, whichever was lower at December 31, plus manufacturing costs on Work in Process and Finished Products	4,950,013.23		4,331,288.73	
Other Merchandise for Resale	227,619.31		191,822.51	
	5,177,632.54		4,523,111.24	
Manufacturing Supplies and Stores	382,303.97	5,559,936.51	375,603.54	4,898,714.78
		7,874,095.03		7,146,106.92
Other Assets:				
Surplus Equipment, Repair Parts, Supplies, etc.—less Reserve	164,924.00		277,599.81	
Employees' Loans and Expense Advances	26,990.01		32,029.90	
Miscellaneous Accounts, Advances, etc.	72,357.08	264,271.09	34,167.36	343,797.07
Fixed Assets—at cost:				
Operating Plants and Property	15,150,111.48		19,949,443.86	
Less—Reserves for Depletion, Depreciation, etc.	9,861,709.22		10,905,132.57	
	5,288,402.26		9,044,311.29	
Appreciation—less Amortization			1,131,232.96	
Non-Operating Plants and Property $3,398,768.07				
Less—Reserves for Depletion, Depreciation, etc. 3,168,725.85	230,042.22	5,518,444.48		10,175,544.25
Self-Insurance Fund Securities:				
U. S. Treasury Obligations—at cost (Market Value at Dec. 31, 1935—$119,951.46)		118,680.84		86,931.69
Investments:				
Stock of Wholly Owned Subsidiary not consolidated	1.00		1.00	
Stock of Other Subsidiary not consolidated	10,200.00		10,200.00	
Sundry Securities—at estimated recoverable value	24,784.08	34,985.08	35,639.82	45,840.82
Treasury Stock—at cost:				
Purchased for resale to Employees:				
Preferred— 65 shares	2,330.75		2,330.75	
Common—5,924 shares	21,797.56	24,128.31	21,797.56	24,128.31
Prepaid and Deferred Charges:				
Prepaid Freight, Insurance, etc.	98,324.91		97,196.21	
Construction Work in Progress	71,440.22		8,526.95	
Manufacturing Supplies			108,837.18	
Compensation Claims and Insurance Advances	12,449.51		13,502.07	
Other Deferred Charges	13,205.34	195,419.98	17,571.27	245,633.68
Patents, Goodwill, etc.		1.00		1.00
		$14,030,025.81		$18,067,983.74

ompany and Subsidiaries

AS AT DECEMBER 31, 1935 AND 1934

LIABILITIES	December 31, 1935		December 31, 1934	
Current Liabilities:				
Notes Payable—Banks and Brokers		$ ——		$ 800,000.00
Accounts Payable		722,368.13		422,664.90
Accrued Liabilities:				
Taxes—other than Federal Income Tax	$ 87,324.12		$ 61,548.30	
Wages	39,838.65		39,937.50	
Compensation Awards, etc.	33,840.82		26,526.32	
Provision for Federal Income Taxes—estimated	97,568.67		3,243.30	
Dividend on Preferred Stock	8,233.50		——	
Other Accrued Liabilities	7,867.76	274,673.52	25,746.66	157,002.08
Customers' Credit Balances		16,937.95		51,803.15
		1,013,979.60		1,431,470.13
Reserves for Self-Insurance:				
Workmen's Compensation Liability	110,635.33		82,591.94	
Fire and Tornado Coverage	28,101.84	138,737.17	21,142.18	103,734.12
Reserves for Normal Metal Inventory Price Fluctuation		953,162.66		——
Reserves for Contingencies		470,995.31		——
Capital stock:				
Preferred 6% Cumulative—par value $100; redeemable at $105:				
Authorized and Outstanding—5,554 shares	555,400.00		555,400.00	
Common—par value $10:				
Authorized —1,000,000 shares				
Issued and Outstanding— 900,000 shares	9,000,000.00	9,555,400.00	18,000,000.00	18,555,400.00
Surplus Accounts—per detail attached:				
Capital Surplus	1,324,430.00		1,799,148.27	
Earned Surplus:				
Operating Surplus or *Deficit* at December 31, 1934 .... $ 6,167.80			*3,821,768.78**	
Operating Surplus Since January 1, 1935 .... 567,153.27	573,321.07	1,897,751.07	——	*2,022,620.51**
		$14,030,025.81		$18,067,983.74

Contingent Liability—In respect of liabilities presently undeterminable, including pending suits.

*Red letters and figures in italics.

The Eagle-Picher Lead Company and Subsidiaries

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

For the years ended December 31, 1935 and 1934

	Year Ended December 31, 1935		Year Ended December 31, 1934	
Net Sales		$16,032,815.71		$11,802,257.27
Production and Manufacturing Costs		12,990,380.21		9,752,758.56
Gross Operating Profit—before Depreciation and Depletion		3,042,435.50		2,049,498.71
Expenses:				
Selling	$875,558.81		$724,959.81	
Traffic, Warehousing and Shipping	226,679.77		176,165.42	
General and Administrative	566,264.24		575,346.21	
Bad Debt Provision—less Recoveries	89,192.09	1,757,694.91	87,069.62	1,563,541.06
Net Operating Profit—before Depreciation and Depletion		1,284,740.59		485,957.65
Other Income:				
Royalties	29,623.33		36,223.07	
Interest and Dividends	8,429.54		9,415.56	
Miscellaneous	34,882.53	72,935.40	46,848.63	92,487.26
		1,357,675.99		578,444.91
Interest on Notes Payable		16,867.01		30,862.82
		1,340,808.98		547,582.09
Provision for Depreciation and Depletion (of Operating Plants and Property only in 1935)		640,438.71		697,282.00
Net Profit or *Loss*—before Provision for Income Taxes		700,370.27		*149,699.91**
Provision for Federal and State Income Taxes—estimated		116,750.00		3,491.72
Net Profit or *Loss* for Year		$ 583,620.27		$ *153,191.63**

*Red letters and figures in italics.

The Eagle-Picher Lead Company and Subsidiaries

CONSOLIDATED CAPITAL SURPLUS ACCOUNT

For the year ended December 31, 1935

SURPLUS AT DECEMBER 31, 1934		$ 1,799,148.27
SURPLUS CREATED by reduction in Stated Capital of The Eagle-Picher Lead Company		9,000,000.00
		10,799,148.27
ADJUSTMENTS AND RESERVES authorized by Boards of Directors:		
Operating Deficits as at January 1, 1935, transferred	$4,256,086.54	
Appreciation written off	1,131,232.96	
Reserves Provided:		
For Obsolescence, Abandonment and Loss on Fixed Assets	2,849,814.78	
For Normal Inventory Price Fluctuation	554,067.29	
For Obsolescence of Manufacturing Supplies	85,000.00	
For Contingencies	600,000.00	9,476,201.57
ADJUSTED SURPLUS AT JANUARY 1, 1935		1,322,946.70
ADJUSTMENTS applicable to period prior to January 1, 1935, in respect of Fixed Assets		1,483.30
SURPLUS AT DECEMBER 31, 1935		$ 1,324,430.00

CONSOLIDATED EARNED SURPLUS ACCOUNT

For the year ended December 31, 1935

DEFICIT AT DECEMBER 31, 1934, arising from Operations		$ 3,821,768.78
ADJUSTMENTS as of January 1, 1935:		
Adjustment of Fixed Assets and Depreciation Reserves of The Eagle-Picher Lead Company to reflect inventory as of January 1, 1935	$319,568.51	
Manufacturing Supplies written off-Hammar Plant	108,581.45	428,149.96
		4,249,918.74
DEFICITS of The Eagle-Picher Lead Company and The Eagle-Picher Mining and Smelting Company as at January 1, 1935, transferred to Capital Surplus by authority of the respective Boards of Directors		4,256,086.54
ADJUSTED SURPLUS AT JANUARY 1, 1935		6,167.80
NET INCOME for year ended December 31, 1935		583,620.27
		589,788.07
PREFERRED DIVIDENDS paid and accrued for the period from July 1 to December 31, 1935		16,467.00
SURPLUS AT DECEMBER 31, 1935		$ 573,321.07

NEW YORK N.Y.
CHICAGO, ILL.
BOSTON MASS.
PHILADELPHIA, PA.
SAN FRANCISCO CAL.
LOS ANGELES CAL.
UTICA N.Y.
DALLAS TEX.
HOUSTON TEX.
DETROIT MICH.
CLEVELAND OHIO
ST LOUIS MO.
BALTIMORE MD.
PORTLAND, OREG.
SEATTLE, WASH.
MONTREAL CANADA
TORONTO, CANADA
WINNIPEG CANADA
MEXICO CITY MEX.

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

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

We have made an examination of the attached Consolidated Balance Sheet of The Eagle-Picher Lead Company and Subsidiaries as at December 31, 1935, and of the related Consolidated Profit and Loss and Surplus Accounts for the year then ended.

In connection therewith, we examined or tested accounting records of The Eagle-Picher Lead Company and The Eagle-Picher Sales Company and other supporting evidence and obtained information and explanations from officers and employees of the Companies; confirmed cash and securities by inspection or certificates from depositaries; reviewed the status of accounts and notes receivable and the related reserves; and reviewed accounting methods and the operating and income accounts for the year, but did not make a detailed audit of the transactions. The accounts of The Eagle-Picher Mining and Smelting Company and Subsidiaries, as examined and reported upon by other independent accountants, have been included in the accompanying consolidated statements.

Consistent with previous practice, all unsold ore, metals and metal-bearing products on hand at December 31, 1935, as determined by physical inventories taken by the Companies or their agents, have been valued at cost or market price of metal content, whichever was lower at the close of the accounting period, plus manufacturing costs (exclusive of provision for depletion and depreciation) on materials in process and finished products. Effective as at January 1, 1935, however, The Eagle-Picher Lead Company and its principal subsidiary, The Eagle-Picher Mining and Smelting Company, adopted the method of carrying normal stocks at fixed prices, a policy followed by many leading companies whose inventories consist largely of basic raw materials. The Boards of Directors of the respective Companies established the following normal stocks, priced as to lead at $3.70 per hundred pounds New York base and as to zinc at $3.725 per hundred pounds East St. Louis base: for The Eagle-Picher Lead Company, 21,000 tons of lead and 7,500 tons of zinc; and, for The Eagle-Picher Mining and Smelting Company, 5,000 tons each of lead and zinc. Initial reserves of $554,067.29, to reduce the valuation of such normal stocks at January 1, 1935, to or below the fixed prices, were established by the Boards of Directors by appropriations from Capital Surplus; and subsequent increases in these reserves, as computed by the Companies, to reduce the current valuation of such normal stocks to approximately the respective fixed prices, have resulted in net charges to current operations of $399,095.37, to which effect has been given in the attached statements. As at December 31, 1935, the Boards of Directors further reduced the fixed prices on normal stocks of lead and zinc to $3.00 per hundred pounds, New York base and East St. Louis base, respectively; the initial reserves provided from Capital Surplus having been adequate to cover this reduction. In connection with our examination we made comprehensive tests of the method of computation and pricing of inventories. While inter-company profits and losses are not practicable of determination and have, therefore, not been eliminated from inventories or current operating results, the effect of profits of this nature, if any, upon the consolidated current position is much more than offset, at current metal prices, by the above reserves for price fluctuation, if these reserves be deducted from the asset value; and, in the opinion of the management, the effect upon the results of operations is rendered unimportant by the relative stability of the Companies' metal stocks.