PRESIDENT'S ANNUAL REPORT

TO

STOCKHOLDERS

OF THE

ST. JOSEPH LEAD COMPANY

FOR THE YEAR

1936

ST. JOSEPH LEAD COMPANY

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

E. V. PETERS,
Vice-President

H. B. McGOWN,
Secretary

ROBERT BENNETT,
Assistant Secretary

GEORGE I. BRIGDEN,
Assistant Secretary

STOCK TRANSFER OFFICE
250 Park Avenue,
New York

REGISTRAR
City Bank Farmers Trust Company,
New York

ST. JOSEPH LEAD COMPANY

250 Park Avenue, New York City

PRESIDENT'S ANNUAL REPORT TO STOCKHOLDERS

The year 1936 was the best year in the lead and zinc industry since 1930. Your Company's better earnings reflect the improvement in the industry; the marked change for the better came after the first of July, 1936. The early months of the year were no better than the latter months of the year before, but in July buying began in both metals, resulting in a substantial reduction in pig lead and zinc stocks during the latter months of the year. Smelter stocks of lead, which started in 1930 at about 51,000 tons, increased steadily to 235,000 tons at the end of 1934, dropped slightly to 222,000 tons at the end of 1935, were down to 172,000 at the end of 1936. Monthly shipments from Smelters had decreased from 53,000 tons in 1930 to 26,000 tons in 1932, then increased gradually until they amounted to 36,000 tons in 1935 and 43,000 tons in 1936. Your Company's own stocks did not begin to decline until October 1936. Production in Southeast Missouri was increased October 1st and again November 1st. At the present time your Company's production and sales are in balance.

Consolidated Earnings

The Consolidated Income of $3,409,632.06 for the year ended December 31, 1936 before depletion, abandoned leases, obsolescence of the Doe Run Mill and Federal income taxes, shows an increase of $2,475,863.61 over the previous year. The net profit of $2,511,001.57 after all deductions compares with $486,199.77 for 1935. The improvement is primarily due to the increase in lead sales from 87,077 tons for 1935 to 126,846 tons in 1936, (25,274 tons of these sales were made from lead produced in prior years), and an increase in both lead and zinc prices.

The Comparative Consolidated Earnings for the nine years ended December 31, 1936 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.
1936	$4,473,237.08	$1,063,605.02	$307,944.03	$3,101,688.03	$590,686.46
1935	2,005,781.59	1,072,013.14	35,502.59	898,265.86	412,043.61
1934	1,936,908.95	1,121,960.66	78,862.23	736,086.06	1,548,604.47
1933	1,316,485.60	1,022,922.73	....	293,562.87	1,461,310.72
1932	*287,881.11	1,011,845.62	....	*1,299,726.73	1,606,310.78
1931	1,622,220.01	1,149,702.39	....	472,517.62	1,886,589.04
1930	5,809,486.42	1,319,064.38	390,314.61	4,100,107.43	2,566,469.67
1929	11,954,769.82	1,268,935.08	883,938.98	9,801,895.76	2,264,740.04
1928	7,815,038.98	1,050,348.88	455,623.88	6,309,066.22	1,775,803.27

*Loss.

**Includes abandoned leases for the years 1933 to 1936 inclusive and provision for obsolescence of the Doe Run Mill for the years 1935 and 1936.

Dividends

A dividend of ten cents per share was paid on March 20th, twenty cents on both June 20th and September 21st, and fifty cents on December 21, 1936, making a total of one dollar per share for the year. These dividend distributions aggregating $1,955,676.90 were paid entirely out of 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 1928 to 1936 inclusive:

Dividends Paid to Stockholders

Year	St. Joseph Lead Company	Minority Interest in Subsidiaries	Year	St. Joseph Lead Company	Minority Interest in Subsidiaries
1936	$1,955,676.90	....	1931	$2,438,079.75	$ 14,618.75
1935	782,269.30	....	1930	5,851,386.00	128,865.00
1934	586,701.30	....	1929	5,851,374.75	70,305.00
1933	....	....	1928	5,851,335.00	76,253.00
1932	292,569.75	....			

Financial

The Consolidated Balance Sheets as of December 31, 1936 and December 31, 1935 of St. Joseph Lead Company and Subsidiaries, and the related Summaries of Consolidated Net Income and Surplus for the years ended on the above dates, are submitted herewith as a part of this report.

During the year the Company's $2,500,000 Five-Year 3% Bank Note due June 17, 1940 was paid. This payment was made possible principally by the sale of 25,274 tons of lead from inventories. The refinancing in 1935 of the $8,000,000 St. Joseph Lead Company Ten-Year Convertible 5½% Debenture Bonds due May 1, 1941, has proved most fortunate, as no increase in the capital stock has been necessitated and the long-term indebtedness has now been reduced to $3,000,000 Ten-Year 4% Notes due June 1, 1945.

At the close of the year the Company owned $108,000 par value United States, State and Municipal Securities, having a market value of $126,263.75. These securities were on deposit with the New York and Missouri State Industrial Compensation Commissions and the United States Department of the Interior and are therefore not available for sale.

As only three of the Missouri occupational disease suits remain to be settled or dismissed by the Courts, as compared with 123 suits pending at the close of 1935, $600,000 has been transferred as of December 31, 1936 from the Reserve for Contingencies to Earned Surplus. It is believed that the balance of $189,846.12 remaining in the reserve is sufficient to cover any contingencies that may arise.

The employees have been notified that until government pensions equal the amount to which an employee is entitled to receive under the Company Pension Plan, the Company will pay the difference. Based on mortality tables, but with no consideration for labor turnover, the reserve of $848,983.75 is more than ample because the estimated liability is $402,177.00 as of December 31, 1936.

Beginning January 1, 1937, earnings will be based principally on the difference between selling price and current cost of production. Production in excess of sales will be taken into inventories at cost, without any provision for depreciation or depletion and when sales exceed production, the cost of such excess will be figured on the basis of "last in first out". This method is a change in the procedure effective prior to January 1, 1937, wherein current costs were included in the inventories and profits on sales were based on average costs. It is believed that the new method will more accurately reflect current profits.

Lead Operations

Due to the increased demand for lead, the operating schedule in the Southeast Missouri properties was increased on October 1, and again on November 1, 1936. On December 1, 1936, the 1929 wage and salary schedules were reinstated. The Herculaneum Smelter was closed down for general overhaul from July 27 to September 20, 1936, when the one-furnace operation was again resumed.

As of February 8, 1936, the Doe Run Lead Company, a wholly-owned Subsidiary, was liquidated, all assets and liabilities being transferred to the St. Joseph Lead Company at their current book values.

On November 16, 1936, the necessary legal papers were completed and the $175,000 due the National Lead Company for the purchase of their St. Francois properties was paid.

Zinc Operations

The Balmat and Edwards properties located in northern New York were operated throughout the year on a full-time schedule. On November 1st an increase of 5% in salaries and wages was authorized, and on December 1st the 1929 rates were reinstated.

At the Josephtown zinc smelter in Pennsylvania, which was initially operated in 1931, the two-furnace basis of zinc oxide production was increased to three furnaces on April 11, and to four on July 27, 1936. Two additional furnaces are equipped for making slab zinc, and the entire metal output has been sold. Due to the satisfactory demand for "St. Joe" oxide and zinc, an additional roaster has been ordered. Wages and salaries were increased in May and in November, and compare favorably with the average of the district.

Miscellaneous Operations

At the Aguilar Mine, located in the Province of Jujuy, Argentina, the zinc circuit was closed down in October so that the full capacity of the power plant, mill and trucking facilities could be used to increase the lead output. Orders for additional equipment have been placed, and it is expected that during the summer of 1937 the property will be operating on 500 tons of ore per day, producing both lead and zinc concentrates.

The Block "P" Mine in Montana, and the mills of the Kansas Explorations, Inc., located in the Tri-State District, remained closed throughout the year.

The gold mine at Atlanta, Idaho, was shut down on May 1st, and the property sold as of May 30, 1936. The personnel has been shifted to a California gold property known as the Sheep Ranch Mine, on which an option has been taken.

Stockholders

The comparative share holdings for December 31st of each year since 1931 are as follows:

Year	Number	19 or Less	20-99	100-199	200-Over
1936	5,560	1,483	1,851	1,000	1,226
1935	5,304	1,491	1,748	911	1,154
1934	5,300	1,549	1,712	873	1,166
1933	5,145	1,511	1,684	835	1,115
1932	5,360	1,584	1,796	875	1,105
1931	5,063	1,784	1,349	831	1,099

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 of March 1, 1913 as to properties owned at that date, and on cost as to subsequent additions; they do not necessarily 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 25, 1937.

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
1936....................	172,423	4.560	4.534	4.901
1935...............	222,306	3.915	3.878	4.328
1934.............	235,457	3.724	3.700	4.158
1933.....	203,061	3.735	3.652	4.029
1932.............	176,157	3.042	3.055	2.876
1931...........	151,653	4.049	4.007	3.640
1930....................	103,247	5.384	5.456	4.556
1929.......	54,900	6.660	6.646	6.512
1928.........	33,618	6.131	6.133	6.027

ST. JOSEPH LEAD COMPANY AND SUBSIDIARIES

Production in Tons

Year	Ore Mined N. Y. and Mo.	Lead Concentrates	Pig Lead Equivalent	Zinc Concentrates	Slab Zinc Equivalent
1936...........	3,804,451	147,160	101,999	54,590	26,400
1935..........	3,382,403	133,044	92,611	47,214	22,857
1934...........	3,269,864	124,240	86,060	46,353	22,389
1933.......... .	2,652,944	114,651	78,248	34,741	16,898
1932...........	3,233,172	147,242	99,242	34,677	17,017
1931...........	4,465,794	196,481	131,586	63,348	31,498
1930.....	5,999,813	243,614	164,886	86,795	42,554
1929...........	5,750,412	245,958	165,114	60,475	29,848
1928...........	4,833,194	204,181	137,673	45,928	23,257

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
1936...........................	126,846	47,776	174,622	83,575
1935...............	87,077	41,714	128,791	108,849
1934...........................	84,964	39,566	124,530	103,918
1933...........................	72,462	47,988	120,450	100,453
1932...........................	81,467	53,473	134,940	96,484
1931...................	105,262	69,085	174,347	78,390
1930	137,502	82,221	219,723	51,536
1929...........................	160,490	61,399	221,889	22,163
1928...........................	136,640	52,342	188,982	16,397

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

ST. JOSEPH LEAD COMPANY AND SUBSIDIARIES

Summaries of Consolidated Net Income

For the Years Ended December 31, 1936 and 1935

	Year ended December 31, 1936		1935	
Gross Sales (including royalty earnings—1936, $41,088.32; 1935, $18,963.79)		$22,646,210.86		$15,286,698.04
Cost of Sales (exclusive of depreciation and depletion)		17,526,818.66		12,524,602.98
Gross Profit from Operations before Depreciation and Depletion		$ 5,119,392.20		$ 2,762,095.06
Deduct:				
Selling, general and administrative expenses	$ 509,033.95		$ 450,803.05	
Capital stock and miscellaneous other taxes	55,960.59	564,994.54	30,558.54	481,361.59
Net Profit from Operations before Depreciation and Depletion		$ 4,554,397.66		$ 2,280,733.47
Other Income:				
Interest	$ 34,839.88		$ 41,213.56	
Dividends	16,425.00		5,950.00	
Profit on sale of investments, net	8,454.80		1,683.87	
Miscellaneous	19,833.82	79,553.50	674.25	49,521.68
Gross Income before Depreciation and Depletion		$ 4,633,951.16		$ 2,330,255.15
Interest and Expense on Bonds and Notes		160,714.08		324,473.56
Income before Depreciation, Depletion and Other Deductions		$ 4,473,237.08		$ 2,005,781.59
Provision for Depreciation		1,063,605.02		1,072,013.14
Income before Depletion and Other Deductions		$ 3,409,632.06		$ 933,768.45
Depletion and Other Deductions:				
Provision for:				
Depletion	$ 490,686.46		$ 303,009.11	
Obsolescence of the Doe Run mill	100.000.00		100,000.00	
Federal income taxes (no liability incurred for surtax on undistributed profits)	307,944.03		35,502.59	
Abandoned leases written-off	——	898,630.49	9,034.50	447,546.20
Net Income for the Year before deducting Minority Interest		$ 2,511,001.57		$ 486,222.25
Deduct Proportion of Net Income Applicable to Minority Interest		——		22.48
Net Income for the Year		$ 2,511,001.57		$ 486,199.77

Notes:

The equity of St. Joseph Lead Company in net losses (exclusive of any provision for loss on foreign exchange and of depletion of ore reserve values in excess of cost) for the years 1936 and 1935 of subsidiaries not included in the above summaries of consolidated net income was $133,499.71 and $11,911.62, respectively.

No inter-company profits or losses are included in the above summaries of consolidated net income.

Summaries of Consolidated Surplus

For the Years Ended December 31, 1936 and 1935

	Year Ended December 31, 1936		1935	
Surplus at Beginning of the Year (including surplus from revaluation of ore reserves—1936, $384,963.21; 1935, $394,982.57)		$ 5,659,016.72		$ 6,506,185.03
Additions:				
Net income for the year		2,511,001.57		486,199.77
Transfer from reserve for contingencies		600,000.00		——
Total		$ 8,770,018.29		$ 6,992,384.80
Deductions:				
Redemption premium, including unamortized debt discount and expense, on St. Joseph Lead Company 5½% bonds called for payment June 18, 1935	——		$ 551,098.78	
Cash dividends paid during the year	$ 1,955,676.90	1,955,676.90	782,269.30	1,333,368.08
Surplus at End of the Year (including surplus from revaluation of ore reserves—1936, $373,853.44; 1935, $384,963.21)		$ 6,814,341.39		$ 5,659,016.72

ST. JOSEPH LEAD CO[...]

Consolidated Balance She[...]

ASSETS

	December 31, 1936		December 31, 1935	
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)	$21,010,438.18		$21,428,204.03	
Less reserve for depletion	14,108,030.06	$ 6,902,408.12	14,106,279.21	$ 7,321,924.82
Appreciation arising from revaluation subsequent to March 1,1913	$ 4,315,000.00		$ 4,315,000.00	
Less reserve for depletion	3,941,146.56	373,853.44	3,930,036.79	384,963.21
Total ore reserves and mineral rights, net		$ 7,276,261.56		$ 7,706,888.03
Shafts and underground equipment (at cost)	$ 5,118,991.70		$ 4,987,367.22	
Less reserve for depreciation	3,783,253.07	1,335,738.63	3,635,766.34	1,351,600.88
Land, buildings, plant and equipment (at cost)	$19,368,359.28		$19,356,694.79	
Less reserve for depreciation	11,499,771.75	7,868,587.53	10,760,125.56	8,596,569.23
Railway construction—Cost being refunded		126,975.00		150,410.00
Total capital assets, net		$16,607,562.72		$17,805,468.14
Investments and Advances:				
Aguilar Corporation (at cost—86% owned)	$ 1,890,000.00		$ 1,890,000.00	
Mine La Motte Corporation (at cost—50% owned)	824,653.66		818,653.66	
Kadco Corporation (at cost—50% owned)	100,000.00		100,000.00	
Stocks of other mining companies (at lower of cost or market; market quotation value—1936, $494,575.00; 1935, $295,727.00)	488,377.00		294,627.00	
Sundry securities and loans (at cost, less reserve, $200,000.00)	225,530.24	3,528,560.90	226,048.32	3,329,328.98
Current and Working Assets:				
Cash on hand and in banks	$ 1,835,606.70		$ 1,421,702.12	
Federal, State, and Municipal securities, other than on deposit with Federal and State departments (market quotation value—1935, $423,698.67)	—		420,745.26	
Notes and accounts receivable—Trade (less reserve—1936, $21,426.63)	3,182,756.89		1,441,786.32	
Due from subsidiaries not consolidated	55,555.26		2,945.51	
Other notes and accounts receivable	60,744.00		44,141.00	
Inventories of lead, zinc, etc. (at cost, exclusive of depletion and depreciation; less than market)	5,422,130.18		6,986,366.16	
Materials and supplies (at cost, less reserve for slow-moving items, $200,000.00)	1,571,012.60	12,127,805.63	1,426,968.49	11,744,654.86
Miscellaneous Assets:				
Federal, State and Municipal securities on deposit with Federal and State departments (market quotation value—1936, $126,263.75; 1935, $115,329.86)	$ 106,395.76		$ 105,870.73	
Special deposit (for bonds called but not presented for payment, including premium and interest—see contra)	649.40		15,447.44	
Cash in closed banks	28,193.10	135,238.26	32,473.68	153,791.85
Deferred Charges:				
Prepaid insurance, taxes, etc		110,084.31		172,104.12
Total		$32,509,251.82		$33,205,347.95

Notes:

The net value of the capital assets shown in the [...] of the comments included in the text of this report.

The parent company is contingently liable as a guar[...] guaranty amounted to $650,000.00 at December 31, 1936[...]

All subsidiaries of the parent company, with the exce[...] cluded in the above consolidated balance sheets. The [...] in the net losses of said companies since acquisition (exc[...] of ore reserve values in excess of cost) was $147,696.9[...] dividends on its 7% cumulative preferred stock (75% o[...] in the amounts of $922,250.00 and $780,850.00, respectiv[...]

No inter-company profits or loss are included in the [...]

Y AND SUBSIDIARIES

cember 31, 1936 and 1935

LIABILITIES

	December 31, 1936		December 31, 1935	
Capital Stock:				
Authorized, 2,500,000 shares of $10.00 each	$25,000,000.00		$25,000,000.00	
Issued, 1936, 1,996,806 shares; 1935, 1,996,801 shares	$19,968,060.00		$19,968,010.00	
Less in treasury—41,127 shares	411,270.00		411,270.00	
Outstanding, 1936, 1,955,679 shares; 1935, 1,955,674 shares	$19,556,790.00		$19,556,740.00	
Scrip outstanding	348.50	$19,557,138.50	398.50	19,557,138.50
Long-Term Indebtedness of St. Joseph Lead Company:				
Ten-year 4% debenture notes due June 1, 1945	$ 3,000,000.00		$ 3,000,000.00	
Five-year 3% note payable—Bank, due June 17, 1940	—	3,000,000.00	2,500,000.00	5,500,000.00
Current Liabilities:				
Accounts payable (trade)	$ 1,300,614.77		$ 828,443.61	
Wages payable	58,479.63		60,113.88	
Accrued interest on notes	9,999.65		12,708.33	
Accrued taxes (including income taxes)	498,126.11	1,867,220.16	73,272.80	974,538.62
Miscellaneous Liabilities:				
Minority interest in capital stock and surplus of subsidiary company	—		$ 512.94	
Redemption account—St. Joseph Lead Company, ten-year convertible 5½% debenture bonds called June 18, 1935, including premium and interest (see contra)	$ 649.40	649.40	15,447.44	15,960.38
Deferred Credits:				
Unrealized profit from sale of houses, etc.		84,914.73		80,968.69
Reserves:				
For injury claims and workmen's liability insurance	$ 146,157.77		$ 147,945.80	
For employees' life insurance and retirements	848,983.75		635,898.33	
For contingencies	189,846.12	1,184,987.64	633,880.91	1,417,725.04
Surplus:				
Earned	$ 6,440,487.95		$ 5,274,053.51	
Revaluation of ore reserves	373,853.44	6,814,341.39	384,963.21	5,659,016.72
Total		$32,509,251.82		$33,205,347.95

solidated balance sheets should be considered in the light

bank loans of a foreign subsidiary, not consolidated, which
6,200.00 at December 31, 1935.
Aguilar Corporation and its foreign subsidiary, are in-
St. Joseph Lead Company at December 31, 1936 and 1935,
ny provision for loss on foreign exchange and of depletion
,197.20, respectively. Aguilar Corporation, was in arrears in
St. Joseph Lead Company) at December 31, 1936 and 1935,

solidated balance sheets.

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

22 EAST 40TH STREET
NEW YORK

ACCOUNTANTS' CERTIFICATE

St. Joseph Lead Company:

We have made an examination of the consolidated balance sheets of St. Joseph Lead Company (incorporated in New York) and its subsidiary companies as of December 31, 1936 and 1935, and of the related summaries of consolidated net income and surplus for the years 1936 and 1935. In connection therewith, we made a review of the accounting methods and examined or tested accounting records of the companies and other supporting evidence in a manner and to the extent which we considered appropriate in view of the system of internal accounting control. All subsidiary companies controlled by your company were examined by us with the exception of the foreign subsidiary of Aguilar Corporation (not consolidated), which subsidiary has been audited by another firm of independent public accountants.

Physical inventories were taken by employees of the companies at varying dates during each year, and in substantiation of inventory quantities as of December 31, 1936 and 1935, we accepted certificates from officials of the companies. The cost of inventories of lead, zinc, etc., does not include either depletion or depreciation.

In our opinion, subject to the foregoing and to the realizable value of investments and advances, the accompanying consolidated balance sheets and related summaries of consolidated net income and surplus, with the footnotes thereon, fairly present, in accordance with accepted principles of accounting consistently followed by the companies, their financial condition at December 31, 1936 and 1935, and the results of their operations for the years ended those dates.

HASKINS & SELLS

New York, February 25, 1937.

ST. JOSEPH LEAD COMPANY

PRESIDENT'S ANNUAL REPORT TO STOCKHOLDERS

FOR THE YEAR 1936