Annual Report

of the

Island Creek Coal Company

for the year ended

December 31, 1936
ISLAND CREEK COAL COMPANY

DIRECTORS

B. P. Bole .................. Cleveland, Ohio
Thomas B. Davis ............ New York, N. Y.
James D. Francis ............ Huntington, W. Va.
I. F. Freiberger .............. Cleveland, Ohio
Clarence A. High ............ Brookline, Mass.
Sidney W. Winslow, Jr ........ Brookline, Mass.

EXECUTIVE COMMITTEE

B. P. Bole ........................ James D. Francis
Thomas B. Davis ................ I. F. Freiberger
Neil W. Rice

CLERK

H. F. Sweetser, Portland, Maine

TRANSFER AGENTS

Island Creek Coal Company ........ Boston, Mass.
The New York Trust Company ....... New York, N. Y.

REGISTRARS OF STOCK

The National Shawmut Bank ........ Boston, Mass.
The Chase National Bank .......... New York, N. Y.
ISLAND CREEK COAL COMPANY

OFFICERS

Chairman, Board of Directors,
T. B. DAVIS,
Sew York, N. Y.
President,
JAMES D. FRANCIS,
Huntington, W. Va.
Vice-President,
C. A. HIGHT,
Boston, Mass.
Vice-President, Comptroller,
A. R. BEISEL,
Huntington, W. Va.
General Manager,
H. L. SMITH,
Boston, Mass.
General Counsel,
R. E. SALVATI,
Secretarv and Treasurer,
ROLLA D. CAMPBELL,
Huntington, W. Va.
Asst. Secretary and Asst. Treasurer,
M. L. BRENNAN,
Boston, Mass.
Assistant to President,
C. A. ROUSE,
Cincinnati, Ohio
Director, Purchases and Stores,
H. A. GLOVER,
Huntington, W. Va.
General Superintendant of Stores,
W. T. SMYTHE,
Huntington, W. Va.
General Manager of Sales,
FORD BISSIKUMMER,
Cincinnati, Ohio
Manager of Sales,
J. C. PERCIVAL,
Detroit, Mich.
Manager of Sales,
VENABLE JOHNSON,
Boston, Mass.
Manager of Sales,
J. R. EVANS,
New York, S. Y.
Manager of Sales,
A. R. DAVIDSON,
Richmond, Va.
Manager of Domestic Sales,
A. E. CALL,
Cleveland, Ohio
Vice-President, Queen City Coal Co.,
J. D. COOKE,
Cincinnati, Ohio
General Manager,
G. W. JOHNSON,
Cincinnati, Ohio
Real Estate Agent,
J. A. REILLY,
General Superintendent, River Operations,
J. J. FOSTER,
Huntington, W. Va.
General Auditor,
E. P. RICE,
Huntington, W. Va.
Field Auditor,
G. V. HITE,
Boston, Mass.
Auditor, West Virginia Properties,
W. G. GIDDINGS,
Huntington, W. Va.
E. F. CLEVENGER,

CORPORATE OFFICE
85 Exchange Street, Portland, Me.

CHAIRMAN, BOARD OF DIRECTORS -- OFFICE
20 Exchange Place, New York, N. Y.

PRESIDENT'S OFFICE
Robson-Prichard Building, Huntington, W. Va.

HOME OFFICE
Holden, West Va.

GENERAL OFFICE
1 State Street, Boston, Mass.

SALES OFFICES
ISLAND CREEK COAL SALES COMPANY

20 Exchange Place -- New York, N. Y.
Dixie Terminal Tower Building -- Cincinnati, Ohio
Terminal Tower Building -- Cleveland, Ohio
Book Building -- Detroit, Mich.
1 State Street -- Boston, Mass.
Central National Bank Building -- Richmond, Va.
Robson-Prichard Building -- Huntington, W. Va.
It is with a deep sense of loss that the directors of the Island Creek Coal Company enter upon their records the death, on May 28, 1936, of their fellow director, WILLIAM H. COOLIDGE.

The beginning of the enterprise which has developed into the Island Creek Coal Company dates back a period of forty-one years. During this period Mr. Coolidge was taking an active and constructive part in the acquisition of properties, the organization and reorganization of the companies, and the building up and development of the business. He was a director and member of the Executive Committee of the United States Coal and Oil Company, this company's predecessor, throughout its existence. Upon the organization of the Island Creek Coal Company, in the fall of 1910, he was elected a director and was made a member of the Executive Committee, which positions he held until the date of his death. On June 18, 1913, he was elected Chairman of the Board of Directors of the Island Creek Coal Company and held that office for approximately twenty-three years, resigning on May 13, 1934 on account of failing health. During the early period of organization and development, Mr. Coolidge's legal knowledge and practical experience in matters of corporate organization and management were a great help to the company in times of stress. His never failing courage constituted a source of strength which was fully availed of. He will always be remembered for his devotion to the company and for the great pride and satisfaction which he had in its success.

By the foregoing statement his associates desire to record their sincere appreciation of his services as one of the founders and builders of the enterprise which has developed into the Island Creek Coal Company as it stands today.
ANNUAL REPORT
ISLAND CREEK COAL COMPANY

To the Stockholders:

Your Directors present herewith their report for the year ended December 31, 1936.

The Consolidated Balance Sheet as of December 31, 1936, and Consolidated Statement of Income and Earned Surplus for the year then ended, together with the report of the independent Auditors, appear on pages 11 to 14, inclusive.

The consolidated earnings for the year, after all charges except depletion, depreciation and obsolescence, were $1,876,531.24. Based on consistently used rates, provision has been made for accruing depletion, depreciation and obsolescence amounting to $638,110.68, leaving a net profit of $1,238,420.56, equivalent, after preferred dividends of $151,614.00, to $1.83 per share on 593,865 5/18 shares of common stock outstanding December 31, 1936. The profit for the previous year was $1,153,269.98, equivalent to $1.69 per share of common stock.

Dividends were declared during the year of $6.00 per share on the preferred stock, and of $2.00 per share on the common stock, payable quarterly at the respective rates of $1.50 and 50 cents per share.

The coal produced by your company during the year totaled 4,450,965 tons, as compared with 3,602,903 tons for the previous year, an increase of 23.5%. The increase for the country as a whole was 16.0%. Your company produced 1.03% of the national production for 1936, as compared with the previous ten-year average of 1.14%. A table showing the coal production from the commencement of operations is on page 13.

In 1929 your company produced 42% more coal than in 1936, but with almost identically the same number of employees. The hourly earnings in 1936 were approximately 15% higher than in 1929. The number of employees in 1936 increased by approximately 20% over the number employed at the end of 1935.

The wage agreement of October 1, 1935 expires March 31, 1937. Negotiations for a new wage scale beginning April 1, 1937 are now being conducted. Bituminous coal is the only major industry working on a basis of 35 hours per week. In general, your company's relations with its employees throughout the past year have been on a mutually satisfactory basis.
Reference was made in our 1935 annual report to the increase in freight rate on coal from your mines on the Chesapeake & Ohio Railway to Huntington, West Virginia for transshipment by river. As a result of this increased rate, your company lost certain important tonnages and markets, and, in addition, in order to retain other markets, paid more than $200,000.00 in additional freight on coal. Your officers are attempting to persuade the Railway Company that it will be more profitable to the Railway Company to restore the former rate than to force your company, and other companies similarly situated, to produce or buy coal from competing fields, which would not be transported over the Railway Company's lines. Throughout the year the Chesapeake & Ohio Railway Company furnished its usual efficient transportation service.

The demand for coal for industrial uses increased materially during 1936, but prices did not rise in proportion to the increased demand. This result was caused, in part, by unwise competitive practices by producers, and by the unusually mild weather in the fall and winter of 1936-37, in combination with an unbalanced production of domestic sizes incident to the general increase in production to meet the industrial demand, and, in part, as a result of controversies and market uncertainties created by legislation and litigation growing out of the adoption of the Bituminous Coal Conservation Act of 1935, and, since that Act was held unconstitutional by the Supreme Court, by the prospect of enactment of similar price control legislation. If enacted into law, the effect of this legislation is uncertain.

The outlook for 1937 indicates a good demand for industrial coal. For several weeks the bituminous coal industry has been operating at near maximum capacity. The change in the past three years from the standard 48-hour week to the 33-hour week has materially reduced the capacity of the country's mines, a fact not generally recognized by consumers. As a result of the reduced capacity and better industrial demand and consumption, there has been a substantial improvement in the price of industrial coal, but further price improvement is expected to balance the higher costs of materials and supplies and the increases in taxes and other items of cost, as well as to return a profit to the industry.

The construction program at Mines Nos. 7, 14, 20 and 21, mentioned in the Annual Report for 1935, has been substantially completed, and the results have been generally beneficial to your product. Additions and betterments must be made on the properties to keep them modern and economical in every respect.
Net additions to Property Account during 1936 amounted to $1,520,400.97. Capital Expenditures totaled $1,601,797.86, and consisted of the cost of 781.66 acres of lands adjoining the holdings of the company, which added approximately 5,000,000 tons of coal to the recoverable reserves; the cost of mine cars, coal loading machines, haulage locomotive, mining machine, coal drills, substations, fans, store buildings; the cost of complete installation at Mines Nos. 14, 20 and 22, and partial installation at Mine No. 7 of mechanical preparation and blending plants; the cost of one pump boat, one gasoline crane, construction of ice breakers in the Ohio River and improvements at the Huntington tipple for the River Department; and the cost of other items of plant and equipment. Credits to Property Account amounted to $81,396.89, and represented property worn out in service and scrapped, on which full depreciation had been provided.

No preferred stock of your company was purchased for retirement during the year 1936, the shares outstanding in the hands of the public at December 31, 1936 remaining at 25,269½.

At December 31, 1936, there were 531 preferred stockholders and 4018 common stockholders of your company.

Acknowledgment is made of the loyal and efficient services of the employees of your company and its subsidiary organizations.

Per Order of the Board of Directors.

James D. Francis,
President.

March 16, 1937.
This is similar to new plants at Mines Nos. 14 and 20.
REPORT OF INDEPENDENT AUDITORS

To the Directors of the
Island Creek Coal Company,

Boston, Massachusetts.

We have made an examination of the consolidated balance sheet of Island Creek Coal Company and Subsidiary Companies as at December 31, 1936, and of the consolidated statement of income and earned surplus for the year 1936. In connection therewith, we examined or tested accounting and other corporate records of the company and its subsidiary companies and obtained information and explanations from officers and employees of the companies. Although we did not make a detailed audit of all transactions, we made a comprehensive test and general review of the operating and income accounts for the year.

In our opinion, based upon such examination, the accompanying consolidated balance sheet and related consolidated statement of income and earned surplus fairly present, in accordance with accepted principles of accounting consistently maintained by the companies, the financial position at December 31, 1936 and result of operations for the year.

BARROW, W A D E, GUTHRIE & CO.
Accountants and Auditors.

Boston, Mass.
March 9, 1937.
ISLAND CREEK COAL COMPANY
CONSOLIDATED BALANCE

ASSETS

PROPERTY (APPRaised VALUE JUNE 30, 1915 AND
SUBSEQUENT ADDITIONS AT COST):

<table>
<thead>
<tr>
<th></th>
<th>Gross</th>
<th>Less Reserves</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal, timber, and surface lands</td>
<td>$9,815,086.99</td>
<td>$4,152,255.06</td>
<td>$5,662,831.93</td>
</tr>
<tr>
<td>Mines development, plant construction, and equipment</td>
<td>$12,689,805.06</td>
<td>6,857,270.39</td>
<td>$5,832,534.67</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$22,534,892.05</strong></td>
<td><strong>$11,009,525.45</strong></td>
<td><strong>$11,525,366.60</strong></td>
</tr>
</tbody>
</table>

INVESTMENTS:

Preferred stock of Appalachian Coals, Inc. (at estimated realizable value) | $10,100.75 |
Other investments (at cost) | $16,378.00 | $26,478.75 |

CURRENT ASSETS:

Cash | $752,732.02 |
United States Treasury Bonds at par (market value at December 31, 1936, $4,897,200.00) | 4,500,000.00 |
Accounts and notes receivable, less reserve for doubtful accounts | 1,782,835.12 |
Inventories at cost or market whichever lower:
Coal | $594,415.74 |
Operating supplies and store merchandise | 604,536.68 | 1,198,972.42 | $8,334,339.56 |

DEFERRED CHARGES:

Unexpired insurance and prepaid taxes | 111,891.74 |
Short-life equipment at depreciated values | 40,628.33 | 152,520.07 |

$819,938,904.98
## LIABILITIES

### CAPITAL STOCK AND PAID-IN SURPLUS OF ISLAND CREEK COAL COMPANY:

**CAPITAL STOCK:**

$6.00 cumulative preferred stock, par value $1.00 (entitled to $120.00 per share and accrued dividends on liquidation)

<table>
<thead>
<tr>
<th>Shares authorized</th>
<th>Preferred</th>
<th>Common</th>
</tr>
</thead>
<tbody>
<tr>
<td>100,000</td>
<td>650,000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Shares issued</th>
<th>Preferred</th>
<th>Common</th>
</tr>
</thead>
<tbody>
<tr>
<td>49,869½</td>
<td>594,009½</td>
<td></td>
</tr>
</tbody>
</table>

| Shares in treasury and purchased for retirement | 24,600½ | 144½ |

<table>
<thead>
<tr>
<th>Shares issued and outstanding</th>
<th>Preferred</th>
<th>Common</th>
</tr>
</thead>
<tbody>
<tr>
<td>25,369½</td>
<td>593,865½</td>
<td>$619,134.66</td>
</tr>
</tbody>
</table>

**PAID-IN SURPLUS**

| Total | $11,743,855.69 |

### CURRENT LIABILITIES:

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts and drafts payable</td>
<td>$852,780.20</td>
</tr>
<tr>
<td>Accrued payrolls and taxes</td>
<td>213,350.70</td>
</tr>
<tr>
<td>Reserve for Federal income taxes</td>
<td>173,752.13</td>
</tr>
<tr>
<td>Preferred dividend payable January 2, 1937</td>
<td>37,903.50</td>
</tr>
</tbody>
</table>

### RESERVES FOR INSURANCE AND CONTINGENCIES

| Amount | 397,034.76 |

### EARNED SURPLUS— as per annexed statement

| Amount | 6,520,328.00 |

| Total | $19,938,904.98 |
# Consolidated Statement of Income and Earned Surplus

For the Year Ended December 31, 1936

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Sales</strong></td>
<td>$9,885,731.03</td>
</tr>
<tr>
<td>Less — Cost of Sales</td>
<td>$7,660,593.58</td>
</tr>
<tr>
<td><strong>Income from Operations</strong></td>
<td>$2,225,137.45</td>
</tr>
<tr>
<td><strong>Interest Revenue, Royalties and Miscellaneous Income</strong></td>
<td>$297,160.51</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>$2,522,297.96</td>
</tr>
</tbody>
</table>

Deduct:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative and general expenses</td>
<td>$257,353.27</td>
</tr>
<tr>
<td>Gross sales, Federal capital stock, Federal and State unemployment and sundo-dry corporate taxes</td>
<td>153,413.45</td>
</tr>
<tr>
<td>Reserved for Federal income taxes</td>
<td>165,000.00</td>
</tr>
<tr>
<td><strong>Total Deduction</strong></td>
<td>$575,766.72</td>
</tr>
</tbody>
</table>

**Profit Before Depletion and Depreciation Charges**                       | $1,876,531.24|

Deduct:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reserved for depletion and depreciation</td>
<td>638,110.68</td>
</tr>
</tbody>
</table>

**Net Profit for the Year Ended December 31, 1936**                        | $1,238,420.56|

**Earned Surplus, January 1, 1936**                                        | $6,621,250.76|

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td></td>
</tr>
<tr>
<td>Preferred</td>
<td>$151,614.00</td>
</tr>
<tr>
<td>Common</td>
<td>1,187,729.32</td>
</tr>
<tr>
<td><strong>Total Dividends</strong></td>
<td>1,339,343.32</td>
</tr>
</tbody>
</table>

**Earned Surplus, December 31, 1936**                                      | $6,520,328.00|
### Table Showing Coal Produced from the Properties of the Island Creek Coal Company

<table>
<thead>
<tr>
<th>Year</th>
<th>Tons of 2,000 Pounds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Produced From Own Mines</td>
</tr>
<tr>
<td>1905</td>
<td>147,703</td>
</tr>
<tr>
<td>1906</td>
<td>351,541</td>
</tr>
<tr>
<td>1907</td>
<td>691,547</td>
</tr>
<tr>
<td>1908</td>
<td>941,036</td>
</tr>
<tr>
<td>1909</td>
<td>1,220,326</td>
</tr>
<tr>
<td>1910</td>
<td>1,685,487</td>
</tr>
<tr>
<td>1911</td>
<td>1,876,446</td>
</tr>
<tr>
<td>1912</td>
<td>2,039,887</td>
</tr>
<tr>
<td>1913</td>
<td>1,916,100</td>
</tr>
<tr>
<td>1914</td>
<td>2,207,444</td>
</tr>
<tr>
<td>1915</td>
<td>2,213,616</td>
</tr>
<tr>
<td>1916</td>
<td>2,280,661</td>
</tr>
<tr>
<td>1917</td>
<td>1,933,805</td>
</tr>
<tr>
<td>1918</td>
<td>1,891,375</td>
</tr>
<tr>
<td>1919</td>
<td>1,781,413</td>
</tr>
<tr>
<td>1920</td>
<td>1,795,077</td>
</tr>
<tr>
<td>1921</td>
<td>3,240,993</td>
</tr>
<tr>
<td>1922</td>
<td>3,144,423</td>
</tr>
<tr>
<td>1923</td>
<td>3,152,919</td>
</tr>
<tr>
<td>1924</td>
<td>4,951,403</td>
</tr>
<tr>
<td>1925</td>
<td>6,025,715</td>
</tr>
<tr>
<td>1926</td>
<td>6,568,930</td>
</tr>
<tr>
<td>1927</td>
<td>7,397,980</td>
</tr>
<tr>
<td>1928</td>
<td>5,430,843</td>
</tr>
<tr>
<td>1929</td>
<td>6,305,012</td>
</tr>
<tr>
<td>1930</td>
<td>5,496,501</td>
</tr>
<tr>
<td>1931</td>
<td>4,329,022</td>
</tr>
<tr>
<td>1932</td>
<td>3,484,622</td>
</tr>
<tr>
<td>1933</td>
<td>3,688,499</td>
</tr>
<tr>
<td>1934</td>
<td>3,475,325</td>
</tr>
<tr>
<td>1935</td>
<td>3,602,903</td>
</tr>
<tr>
<td>1936</td>
<td>4,450,965</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>99,719,519</strong></td>
</tr>
</tbody>
</table>