ISLAND CREEK
COAL COMPANY

ANNUAL REPORT
TO THE STOCKHOLDERS
For The Year Ended
DECEMBER 31, 1939

1939
Annual Report

of the

Island Creek Coal Company

for the year ended

December 31, 1939
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
Sidney W. Winslow, Jr. ..... Brookline, Mass.

EXECUTIVE COMMITTEE

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

CLERK

H. P. 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, New York, N. Y.
President, James D. Francis, Huntington, W. Va.
Vice-President, C. A. High, Boston, Mass.
Vice-President and General Manager, R. E. Salvatt, Holden, W. Va.
Vice-President, P. E. Coyle, Boston, Mass.
Vice-President and Comptroller, H. L. Smith, Huntington, W. Va.
Secretary and Treasurer, M. L. Brennan, Boston, Mass.
General Counsel, R. G. Helfrich, Huntington, W. Va.
Assistant Treasurer, L. C. Percival, Huntington, W. Va.
Assistant Secretary, Venable Johnson, Cleveland, Ohio
Assistant to President, Sales Department, J. R. Evans, Detroit, Mich.
Manager of Sales, A. R. Davidson, Boston, Mass.
Manager of Sales, A. E. Call, New York, N. Y.
Manager of Sales, A. J. Chouinard, Chicago, Ill.
Manager of Sales, I. D. Cooke, Cincinnati, Ohio
Manager of Sales, J. A. Reilly, Minneapolis, Minn.
Manager of Sales, W. T. Smythe, Cincinnati, Ohio
Manager of Sales, J. J. Foster, Huntington, W. Va.
Manager of Sales, G. V. Hite, Huntington, W. Va.
Manager of Sales, W. G. Giddings, Huntington, W. Va.

CORPORATE OFFICE
85 Exchange Street, Portland, Maine

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

PRESIDENT'S, GENERAL SALES, AND COMPTROLLER'S OFFICES
700 Robson-Prichard Building, Huntington, W. Va.

HOME OFFICE
Holden, West Virginia

GENERAL OFFICE
75 Federal Street, Boston, Mass.

SALES OFFICES
ISLAND CREEK COAL SALES COMPANY

700 Robson-Prichard Building, Huntington, W. Va.
20 Exchange Place, New York, N. Y.
928 Dixie Terminal Building, Cincinnati, Ohio
75 Federal Street, Boston, Mass.
1914 Book Building, Detroit, Michigan
1141 Terminal Tower Building, Cleveland, Ohio
1520 Central National Bank Building, Richmond, Va.
507 Utilities Building, Chicago, Ill.

CARNEGIE DOCK & FUEL COMPANY

1016 Roanoke Building, Minneapolis, Minn.
ANNUAL REPORT  
ISLAND CREEK COAL COMPANY  

To the Stockholders:  

Your Directors present herewith their report for the year ended December 31, 1939.  

The consolidated balance sheet as of December 31, 1939, the 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 are summarized below:  

Earnings before depletion, depreciation, obsolescence and taxes . . . . . . . $3,074,682.89  

Provision for depletion, depreciation and obsolescence based on rates which it is believed will provide for retirement of fixed assets at the end of their expected useful lives . . . . . . . . . . . . . . . . . . . 728,187.15  

Earnings before taxes of all kinds . . . . . . . . . . . . . $2,346,495.74  

Deduct: Taxes of all kinds . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 760,374.35  

Net profit for the year . . . . . . . . $1,586,121.39  

After deducting Preferred dividends of $151,614.00, the net profit available for Common stock was $1,434,507.39, which is equal to $2.42 per share on 593,865 2/3 shares outstanding at December 31, 1939. Net profit for the previous year was $1,016,840.80, which is equivalent to $1.46 per share on Common stock.  

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

Production of the Island Creek mines during 1939 showed an increase of 33.41% over the 1938 production, which compares with an increase of 13.61% for the country as a whole. In 1939 the Island Creek mines produced 1.21% of the nation's production, as compared with the previous ten-year average of 1.07%.  

The production and consumption of coal in 1939 showed a healthy increase over the very low production of 1938, in spite of the fact that there was a suspension of production in the Appalachian region from April 1st to May 16th, due to failure to agree upon a wage scale with the miners during that period. Inventories of coal were depleted during the suspension and the general step-up in business that came about in the second quarter and continued throughout the balance of the year was reflected substantially in the greater use of steam and industrial coals.
Increased production at your mines for the year was ahead of that of the country as a whole. A substantial part of the increase was due to shipments to the Great Lakes, resulting from the acquisition, in 1938, of the stock control of Carnegie Coal Corporation and its subsidiary, Carnegie Dock & Fuel Company.

Business on the Ohio River was somewhat better in 1939 than for the last several years. Some improvements have been made at the Cincinnati terminal, and others now in progress should permit a better balancing of grades than has been possible for a number of years. On the whole this should be beneficial to both the mining and river operations.

During the year the Chesapeake and Ohio Railway Company and its affiliated system furnished your company with its usual efficient transportation service.

In the last annual report reference was made to the acquisition of a substantial majority of the capital stock of the Carnegie Coal Corporation. After a very thorough investigation, the Carnegie Coal Corporation decided to discontinue the operation of its mines in Western Pennsylvania, and to sell, lease and salvage the mines, plants, and equipment, retaining the undeveloped coal lands for future reserve. This work is now in progress and the indications are that a substantial value will be recovered from these properties. The docks of this company at Superior, Wisconsin, and Duluth, Minnesota, will continue to be operated through Carnegie Dock & Fuel Company. These properties are proving advantageous to your company.

In furtherance of the program of major improvements which has been under way at your mines for the past five years, 1,000 coal hauling mine cars, 5 coal loading machines, 5 coal drills, and 4 locomotives were purchased in 1939. In addition to this aerial tramways for slate disposals at Mines Nos. 1 and 22 and drying plants at Mines Nos. 1, 14 and 20 were completed with the result that your principal operating mines are now modern and efficient mechanically operated units. Your cleaning and preparation plants are doing splendid work, and in 1939 it was possible to furnish customers with coal more satisfactory to them than at any time for many years. More grades, sizes and blends of coal to suit the particular needs of the burning equipment of many customers are now being made. This has been a program of slow growth, but it is proving most satisfactory both from the standpoint of your company and of the customers.

Your operating organization has done a splendid job in the safe and economical production and preparation of your coal. The personnel of this department is to be commended on the excellent operation of the properties and the efficient work they are doing. They are thoroughly conscious of the fact that they must mine, prepare and ship a satisfactory product in order to sustain the work of the Sales Department.

1939 was a highly competitive year in the coal industry and your Sales Department is to be commended upon the results obtained. From the beginning of the program of mechanical mining, cleaning, preparing
and sizing of your coals, in 1935, every effort has been made to coordinate the production and sales policies of your company. At that time the selective application plan was inaugurated, which involves a complete survey of boiler rooms of industrial, utility and by-product plants, and comprehensive studies through performance tests to show the value of your various coals in these plants in relation to that of competing coals. This permits the selection and application of sizes and grades of coal which will result in the most economical operation of the individual plant where the coal is burned. In order to carry out this plan, your company maintains a competent staff of combustion engineers, working in co-operation with the Sales Department and the Preparation Department at the mines. During the past five years, this department has made a survey of over five hundred steam generating plants and conducted performance and cost tests in over one hundred and fifty plants. The major portion of your industrial coal is sold and consumed in plants where its value has been thus demonstrated. The close co-operation received from the mine management and the Preparation Department, and their zeal in preparing and shipping the kind and grade of coal ordered has made possible the success of this program.

Not only has your management given close attention to your industrial coals, but, with the advent of small automatic stokers in home heating, your mines have prepared sizes and grades of coal suitable for use in this type of equipment. By keeping abreast of this development a reasonably satisfactory tonnage of coal has been marketed for this type of use.

In order to bring your coals to the attention of consumers and dealers, your company has carried on a modest advertising campaign, generally in connection with established retail coal merchants, and in addition thereto has made independent efforts to bring the value and use of your coals to the attention of coal consumers generally. In order to carry out this plan, the various kinds and types of coal are trademarked. Island Creek Coals of different characteristics being sold under the trade names of “Scarlet Flame”, “Scarlet Glo”, “Black Onyx”, and “Pioneer Island Creek”. Coals from the mines of the Pond Creek Pocahontas Company are sold under the names of “Indian Maid Pocahontas” and “Four-Point Pocahontas”. In many communities, through co-operation with selected retailers, your various coals retain their trade name identity to ultimate consumers, and it is the purpose of your management to expand this program. This tends to create consumer demand for each particular coal and to stabilize and develop a closer relationship with reliable coal merchants.

During 1939, the Island Creek Coal Sales Company, your selling department, shipped either Island Creek or Pond Creek Pocahontas coal to approximately 2,500 retail coal merchants in approximately 1,100 communities in 18 states, the District of Columbia, and Canada. During the same period, it shipped these coals to approximately 1,300 industrial coal customers in approximately 600 communities in 24 states, the District of Columbia, Canada and foreign countries. This is
in addition to coal distributed by the Carnegie Dock & Fuel Company and other docks handling your coal on the Great Lakes and in New York and New England.

The problem of distributing coal is a constantly changing one, as is the case with any other commodity. Such distribution must be based on real service and value to the consumer, augmented by proper advertising and efficient selling and engineering.

Approximately 95% of the 4,899 stockholders of your company reside in areas where your coals are marketed, more than 2,500 residing in New York and New England. Your management is convinced that the stockholders can exert a very great influence in bringing about an increase in the use of their coal, which should result in an increase in earnings and dividends. Your officers and sales department will appreciate any suggestions from stockholders.

For some years your company has been marketing its coals through Appalachian Coals, Incorporated, a co-operative sales agency, of which it is a stockholder. This agency has been helpful in the distribution and sale of coal, and in the opinion of your officers has made it possible to maintain better market prices than would have been possible without its co-operative efforts and better selling practices. The agency is operating under the approval of the National Bituminous Coal Commission, and your officers are assisting in its operation.

The National Bituminous Coal Commission has spent another year in attempting to prepare data on which to base minimum prices for the bituminous coal industry of the United States. It is now expected that this bureau, renamed the Coal Division, will establish a schedule of minimum prices by July 1, 1940. It is difficult to foresee the practical effect of these prices when and if established. If effective, they will result in a higher average selling price for coal. This bureau is seeking to establish a minimum price for each grade and size of coal produced by each company for each of the many different market destination areas. If these prices become effective by July 1st, they will have only about ten months to operate under the present law.

The work of your accounting and auditing departments has steadily increased during the past several years, due to the various reports required by the State and Federal governments in connection with the Wage and Hour Law, the Social Security Law, and the Bituminous Coal Act, as well as the ordinary reports required by State and Federal taxing authorities. The many thousands of individual reports required from this company and its subsidiaries have added materially to the non-productive expense of your operations.

The total taxes for the year 1939, including Federal Income tax, amounted to $760,374.35, which is equivalent to $1.28 per share on the Common stock of your company or 16¢ a ton on the coal mined in the year.

The wage contract with the United Mine Workers of America expired on March 31, 1939, and was not renewed until May 16, 1939. During that period your mines were completely idle, with the exception
of necessary maintenance work and the shipment of storage coal. During the suspension your company maintained friendly relations with your employees and, where necessary, advanced funds to them to cover their requirements for food, housing, fuel and medical aid. This action by your company was appreciated by your employees, and the amounts advanced have been repaid. The relations of your company with its employees under the present wage contract have continued in a satisfactory manner.

The competition of coal with government subsidized hydroelectric power, with foreign fuel oils dumped on our Atlantic seaboard, and with fuel oil and gas dumped by means of pipe lines handling these fuels in Interstate Commerce, has increased during the year. The oil situation has been further complicated by the new trade treaty between our country and Venezuela. Unless the policy of the government is reversed in making expenditures for and fostering development of uneconomic hydro-power and furnishing money to build unnecessary pipe lines, and unless the Congress restricts the treaty-making power that brings foreign oil to this country practically duty-free, there will be further increases in the amount of such imported fuels. This will result in increased unemployment in both coal mining and railroad transportation, with the usual attendant economic effects upon employment and business throughout the country. This is a matter in which every wage earner and business man in the country should be interested, as it cannot be cured without public realization of the disastrous effects of this policy upon our general economy.

This company, along with other producers in this region, has for several years been urging upon the railroads, on which its traffic originates, the necessity for making rates more in line with the value of service, both to the shippers and to the consumers of coal. Coal is paying too large a share of the transportation cost of the country. The necessity of the railroads for having fair and adequate returns is recognized, but it is believed the point has been reached where judicious rate reductions by carriers would increase the consumption of coal. On the additional volume resulting therefrom, the business of the railroads should be expanded to a point where the increase in gross and net revenue would exceed any loss sustained by reason of such rate reductions. This is particularly true in the tidewater rates on coal to New England, New York, Philadelphia, Baltimore, and intermediate points. It is surprising that the consumers, who are so vitally concerned in the cost of coal, should take such a small interest in this matter. In many cases the coal industry is expected to absorb out of its selling price all amounts necessary to meet competition with other forms of fuel, notwithstanding the well known fact that the selling price of coal at the mines generally does not represent more than 30 to 50% of the delivered cost of coal to the consumer.

Additions to property during 1939 amounted to $507,449.77, and consisted of the cost of equipment and plant for the Island Creek mines mentioned hereinbefore and other minor items of mine, river and dock equipment and plant. Credits to property account amounted to
$92,277.84, and represented the cost of property sold and completely depreciated items worn out in service and abandoned. The net addition to property account during the year amounted to $414,971.93.

No Preferred stock of your company was purchased for retirement during the year 1939, the shares outstanding in the hands of the public at December 31, 1939, remaining at 25,269½.

At December 31, 1939, there were 542 Preferred Stockholders and 4,357 Common Stockholders of your company.

At December 31, 1939, the employees of your company and its subsidiaries, exclusive of employees of the Carnegie mines in Pennsylvania, totaled 2,742, as compared with 2,588 at December 31, 1938.

Acknowledgment is made of the continued loyal and efficient service of the employees of your company in each and every department. Such progress as has been made during the past year has been very largely due to the effort and co-operation of your employees in all departments.

PER ORDER OF THE BOARD OF DIRECTORS.

JAMES D. FRANCIS,
President.

March 12, 1940.
REPORT OF INDEPENDENT AUDITORS

To THE DIRECTORS OF
ISLAND CREEK COAL COMPANY,

Boston, Massachusetts.

We have examined the consolidated balance sheet of Island Creek Coal Company and subsidiary companies as at December 31, 1939, and the consolidated statement of income and earned surplus for the year 1939. We have reviewed the system of internal control and the accounting procedures of the company and its subsidiary companies, and have examined or tested accounting records and other supporting evidence, by methods and to the extent we deemed appropriate, but we did not make a detailed audit of their transactions.

The policy of the companies in respect to depreciation and depletion has been, in general, to charge against earnings such amounts, based upon rates applied to tonnage sold, as will provide, in the opinion of the management, for retirement of fixed assets at the end of their expected useful lives.

In our opinion, the accompanying consolidated balance sheet and related consolidated statement of income and earned surplus present fairly the consolidated position of Island Creek Coal Company and subsidiary companies at December 31, 1939 and the results of their 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.

Boston, Mass.
March 12, 1940.
## ISLAND CREEK COAL COMPANY
### CONSOLIDATED BALANCE SHEET — DECEMBER 31, 1939

### 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>$10,095,086.99</td>
<td>$4,543,145.78</td>
<td>$5,551,941.21</td>
</tr>
<tr>
<td>Mines development, plant construction and equipment</td>
<td>15,838,858.98</td>
<td>7,830,280.70</td>
<td>7,988,578.28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$25,933,945.97</strong></td>
<td><strong>$12,393,426.48</strong></td>
<td><strong>$13,540,519.49</strong></td>
</tr>
</tbody>
</table>

Current Assets:

- Cash: $793,137.51
- United States Treasury Bonds at par (market value at December 31, 1939 — $3,341,250.00): $3,000,000.00
- Accounts and notes receivable, less reserve for doubtful accounts: $2,173,827.67
- Inventories at cost or market, whichever lower: Coal $1,346,618.94
- Operating supplies and store merchandise: $655,011.42

Other Assets:

- Cash and United States Savings Bonds (at December 31, 1939 redemption value) deposited with trustee to guarantee payment of workmen's compensation claims: $80,070.33
- Miscellaneous investments and assets, at book values which are not in excess of estimated realizable values: $130,507.11

Deferred Charges:

- Unexpired insurance, prepaid taxes, etc.: $111,664.69
- Short-life equipment at depreciated values: $47,872.67

**Total Assets**: $21,888,929.83

### LIABILITIES

Capital Stock and Paid-In Surplus of Island Creek Coal Company:

- Preferred stock: $80.00 cumulative preferred stock, par value $1.00 (entitled to $120.00 per share and accrued dividends on liquidation)
- Common stock, par value $1.00

<table>
<thead>
<tr>
<th></th>
<th>Preferred</th>
<th>Common</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares authorized</td>
<td>100,000</td>
<td>650,000</td>
</tr>
<tr>
<td>Shares issued</td>
<td>49,600,714</td>
<td>504,006,78</td>
</tr>
<tr>
<td>Shares in treasury and purchased for retirement</td>
<td>$24,600,714</td>
<td>$144,006,78</td>
</tr>
<tr>
<td>Shares issued and outstanding</td>
<td>25,299,714</td>
<td>595,006,78</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>$11,124,721.00</td>
</tr>
</tbody>
</table>

Funded Debt of Subsidiary:

- Three per cent Mortgage Bonds of Carnegie Coal Corporation, due October 15, 1945: $465,000.00

Current Liabilities:

- Notes payable — banks: $31,000,000.00
- Land purchase obligation: $42,226.33
- Accounts and drafts payable: $849,515.59
- Accrued payrolls, interest and taxes: $270,070.14
- Reserve for Federal income taxes: $299,115.29
- Preferred dividend payable, January 2, 1940: $37,903.50

**Total Reserves**: $2,538,631.05

Reserves:

- Insurance and contingencies: $410,347.00
- Workmen's compensation awards and claims: $89,070.35
- Minority interest in subsidiary: $8,400.00

**Total Earnings As Per Annexed Statement**: $6,633,023.76

**Earned Surplus**: $81,888,929.83
ISLAND CREEK COAL COMPANY
And Subsidiary Companies
CONSOLIDATED STATEMENT OF INCOME
AND EARNED SURPLUS
FOR THE YEAR ENDED DECEMBER 31, 1939

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Sales</td>
<td>$12,669,487.56</td>
</tr>
<tr>
<td>Less: Cost of Sales</td>
<td>9,523,792.46</td>
</tr>
<tr>
<td><strong>Income from Operations</strong></td>
<td>$3,145,695.10</td>
</tr>
<tr>
<td>Interest Revenue, Royalties and Miscellaneous Income</td>
<td>135,520.02</td>
</tr>
<tr>
<td><strong>Total Income</strong></td>
<td>$3,281,224.12</td>
</tr>
</tbody>
</table>

Deduct:
- Administrative and general expenses: $325,321.08
- Gross sales, Federal capital stock, Federal and State social security and sundry corporate taxes: 339,917.32
- Reserved for Federal income taxes: $270,000.00
- Interest charges: 31,677.28
- Interest charges: 966,915.58

**Profit Before Depletion and Depreciation Charges**: $2,314,308.54

Deduct:
- Reserved for depletion and depreciation: 728,187.15

**Net Profit for the Year Ended December 31, 1939**: $1,586,121.39

**Earned Surplus, January 1, 1939**: 6,386,247.69

**Dividends**:
- Preferred: $151,614.00
- Common: 1,187,729.32

**Earned Surplus, December 31, 1939**: $6,633,025.76
<table>
<thead>
<tr>
<th>Year</th>
<th>Tons of 2,000 Pounds</th>
<th>Year</th>
<th>Tons of 2,000 Pounds</th>
<th>Year</th>
<th>Tons of 2,000 Pounds</th>
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</thead>
<tbody>
<tr>
<td>1905</td>
<td>147,703</td>
<td>1906</td>
<td>351,541</td>
<td>1907</td>
<td>691,547</td>
</tr>
<tr>
<td>1908</td>
<td>941,036</td>
<td>1909</td>
<td>1,220,326</td>
<td>1910</td>
<td>1,685,487</td>
</tr>
<tr>
<td>1911</td>
<td>1,876,446</td>
<td>1912</td>
<td>2,039,887</td>
<td>1913</td>
<td>1,916,100</td>
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<tr>
<td>1914</td>
<td>2,207,444</td>
<td>1915</td>
<td>2,213,616</td>
<td>1916</td>
<td>2,280,661</td>
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<tr>
<td>1917</td>
<td>1,933,805</td>
<td>1918</td>
<td>1,801,375</td>
<td>1919</td>
<td>1,781,413</td>
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<td>1920</td>
<td>1,795,077</td>
<td>1921</td>
<td>3,240,993</td>
<td>1922</td>
<td>3,144,423</td>
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<tr>
<td>1923</td>
<td>3,152,919</td>
<td>1924</td>
<td>4,051,103</td>
<td>1925</td>
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<tr>
<td>1926</td>
<td>6,568,930</td>
<td>1927</td>
<td>7,397,980</td>
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<td>5,430,843</td>
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<td>1929</td>
<td>6,305,012</td>
<td>1930</td>
<td>5,496,501</td>
<td>1931</td>
<td>4,329,022</td>
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<td>1932</td>
<td>3,484,622</td>
<td>1933</td>
<td>3,688,499</td>
<td>1934</td>
<td>3,475,325</td>
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<td>1935</td>
<td>3,602,903</td>
<td>1936</td>
<td>4,450,965</td>
<td>1937</td>
<td>4,258,877</td>
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<td>1938</td>
<td>3,524,443</td>
<td>1939</td>
<td>4,701,827</td>
<td>Total</td>
<td>112,204,666</td>
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<td>*1938</td>
<td>119,443</td>
<td>*1939</td>
<td>130,619</td>
<td>40,024</td>
<td>170,643</td>
</tr>
<tr>
<td>Total</td>
<td>250,062</td>
<td></td>
<td>40,024</td>
<td>290,086</td>
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