56th Annual Report
THE MENGEL COMPANY
1954
5-Year Statistical Summary of Operations and Financial Condition

All amounts are expressed in thousands of dollars except per share figures and ratios

Results of Operations

<table>
<thead>
<tr>
<th>Year</th>
<th>1954</th>
<th>1953</th>
<th>1952</th>
<th>1951</th>
<th>1950</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$38,632</td>
<td>$41,870</td>
<td>$36,486</td>
<td>$42,418</td>
<td>$42,478</td>
</tr>
<tr>
<td>Profit before taxes on income</td>
<td>1,862</td>
<td>2,610</td>
<td>1,899</td>
<td>3,481</td>
<td>5,474</td>
</tr>
<tr>
<td>Taxes on income</td>
<td>800</td>
<td>1,190</td>
<td>805</td>
<td>1,905</td>
<td>2,730</td>
</tr>
<tr>
<td>Net earnings</td>
<td>1,062</td>
<td>1,420</td>
<td>1,094</td>
<td>1,576</td>
<td>2,744</td>
</tr>
<tr>
<td>-per share of common stock*</td>
<td>1.65</td>
<td>2.23</td>
<td>1.70</td>
<td>2.49</td>
<td>4.38</td>
</tr>
<tr>
<td>Dividends to stockholders</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total amount</td>
<td>651</td>
<td>654</td>
<td>654</td>
<td>1,092</td>
<td>680</td>
</tr>
<tr>
<td>% of earnings</td>
<td>61%</td>
<td>46%</td>
<td>60%</td>
<td>69%</td>
<td>25%</td>
</tr>
<tr>
<td>-per share of preferred stock</td>
<td>2.50</td>
<td>2.50</td>
<td>2.50</td>
<td>2.50</td>
<td>2.50</td>
</tr>
<tr>
<td>-per share of common stock</td>
<td>1.00</td>
<td>1.00</td>
<td>1.00</td>
<td>1.75</td>
<td>1.05</td>
</tr>
<tr>
<td>Earnings retained for requirements of the business</td>
<td>411</td>
<td>766</td>
<td>440</td>
<td>484</td>
<td>2,064</td>
</tr>
<tr>
<td>Depreciation</td>
<td>835</td>
<td>676</td>
<td>631</td>
<td>608</td>
<td>670</td>
</tr>
<tr>
<td>Depletion</td>
<td>154</td>
<td>98</td>
<td>80</td>
<td>52</td>
<td>96</td>
</tr>
<tr>
<td>Plant additions—net</td>
<td>825</td>
<td>1,001</td>
<td>894</td>
<td>855</td>
<td>656</td>
</tr>
<tr>
<td>Timber purchases</td>
<td>955</td>
<td>212</td>
<td>802</td>
<td>631</td>
<td>19</td>
</tr>
</tbody>
</table>

Financial Condition December 31

<table>
<thead>
<tr>
<th></th>
<th>1954</th>
<th>1953</th>
<th>1952</th>
<th>1951</th>
<th>1950</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and government securities</td>
<td>$1,730</td>
<td>$1,289</td>
<td>$1,426</td>
<td>$1,862</td>
<td>$3,732</td>
</tr>
<tr>
<td>Receivables</td>
<td>3,200</td>
<td>3,126</td>
<td>3,336</td>
<td>2,699</td>
<td>3,732</td>
</tr>
<tr>
<td>Inventories</td>
<td>5,088</td>
<td>6,955</td>
<td>6,017</td>
<td>7,195</td>
<td>6,344</td>
</tr>
<tr>
<td>Total current assets</td>
<td>10,818</td>
<td>11,370</td>
<td>10,779</td>
<td>11,756</td>
<td>13,808</td>
</tr>
<tr>
<td>-times current liabilities</td>
<td>4.1</td>
<td>3.1</td>
<td>3.4</td>
<td>3.3</td>
<td>2.8</td>
</tr>
<tr>
<td>Unpaid income taxes</td>
<td>1,054</td>
<td>1,490</td>
<td>1,072</td>
<td>2,090</td>
<td>2,949</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>1,565</td>
<td>2,122</td>
<td>2,070</td>
<td>1,433</td>
<td>2,040</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>2,619</td>
<td>3,612</td>
<td>3,142</td>
<td>3,523</td>
<td>4,989</td>
</tr>
<tr>
<td>Net working capital</td>
<td>8,199</td>
<td>7,757</td>
<td>7,637</td>
<td>8,233</td>
<td>8,819</td>
</tr>
<tr>
<td>Plant, timber, other assets</td>
<td>11,102</td>
<td>10,600</td>
<td>10,134</td>
<td>9,270</td>
<td>8,372</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>1,502</td>
<td>1,170</td>
<td>1,342</td>
<td>1,522</td>
<td>1,000</td>
</tr>
<tr>
<td>Total capital</td>
<td>17,798</td>
<td>17,196</td>
<td>16,429</td>
<td>15,990</td>
<td>15,591</td>
</tr>
<tr>
<td>-book value per share of common stock*</td>
<td>27.49</td>
<td>26.52</td>
<td>25.28</td>
<td>24.57</td>
<td>23.92</td>
</tr>
</tbody>
</table>

*Earnings and book value per share for all years are stated on basis of shares outstanding at end of 1954.
To the Stockholders:

The highlights of the results of operations of The Mengel Company and consolidated subsidiaries for the years 1954 and 1953 and of their consolidated financial position at the ends of these years are compared in the following tabulation:

<table>
<thead>
<tr>
<th></th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$38,632,013</td>
<td>$41,869,577</td>
</tr>
<tr>
<td>Profit before taxes on income</td>
<td>$1,861,760</td>
<td>$2,609,970</td>
</tr>
<tr>
<td>Income taxes</td>
<td>800,000</td>
<td>1,190,000</td>
</tr>
<tr>
<td>Net earnings</td>
<td>$1,061,760</td>
<td>$1,419,978</td>
</tr>
<tr>
<td>—per common share*</td>
<td>1.65</td>
<td>2.23</td>
</tr>
</tbody>
</table>

At December 31

<table>
<thead>
<tr>
<th></th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net working capital</td>
<td>$8,199,587</td>
<td>$7,757,107</td>
</tr>
<tr>
<td>Cash</td>
<td>1,729,747</td>
<td>1,289,443</td>
</tr>
<tr>
<td>Total capital</td>
<td>17,798,244</td>
<td>17,195,522</td>
</tr>
<tr>
<td>—per common share*</td>
<td>27.49</td>
<td>26.52</td>
</tr>
</tbody>
</table>

*based on number of shares outstanding at end of 1954.

The complete audited statements for the two years together with the auditors’ certificate covering their examination of the financial statements for 1954 appear on pages 8 to 11 inclusive. A five year statistical summary of operations and financial condition is given on the opposite page.

In the tabulation above and in the statistical summary facing this page no figures are given in this year’s report for equities in unconsolidated affiliates nor for the net earnings and total capital including such unconsolidated equities although such figures have been given in recent previous years. The reason for this change in presentation, briefly stated, is that such former unconsolidated equities either have been disposed of during the year (U. S.-Mengel Plywoods, Inc., and Kalistron, Inc.) or are included in the consolidated statements in 1954 (Mengel West Africa, Limited). Further details are given under the head of Investments beginning on page 3.

Financial Review

Earnings. As shown by the tabulation above net earnings for the year 1954, after taxes, were $1,061,760 compared with $1,419,978 for the previous year. On a per share basis, these earnings were equivalent to $1.65 per common share for 1954 and $2.23 per common share for 1953, based on number of shares outstanding at the end of 1954.

Although a substantial part of the decrease in net earnings may be attributed to the 8 per cent decline in volume of net sales the principal factor in the lower earnings results was a reduction of gross profit margins in most of our products which in turn was largely due to lower selling prices. The decline in net sales which began in the last half of 1953 was reversed in the second quarter of 1954 and sales for the last half and last quarter of 1954 were higher than for the corresponding periods of any year since 1950.
FUNDS WERE PROVIDED FROM THE FOLLOWING SOURCES:

Earnings for the year .......................................................... $1,061,760
Expense items which did not require cash expenditures:
  Provision for depreciation .............................................. $835,089
  Provision for depletion ................................................ 154,136
  Disposition of joint venture and miscellaneous assets .......... 212,832
  Collection of officer's demand note ................................ 55,000
  Timber purchase notes issued ....................................... $702,500
Less current maturities .................................................. 140,500
Decrease in deferred charges .......................................... 30,217
Total funds provided .................................................... $2,911,034

FUNDS WERE EXPENDED FOR THE FOLLOWING:

Dividends:
  5% cumulative preferred stock ...................................... $52,759
  Common stock .......................................................... $ 598,681
  $ 651,440
Plant and equipment:
  Additions and improvements ......................................... $929,648
  Less net book value of sales and retirements .................... 104,700
  824,948
Purchase of timber, timberlands, etc................................ 934,864
Payment of 1954 maturities:
  3 1/4% notes ........................................................... $150,000
  Timber purchase notes ............................................... 80,250
Total funds expended ................................................... 2,661,502
Resulting in an increase in working capital of................... $ 249,532

Change in Working Capital During 1954:

<table>
<thead>
<tr>
<th></th>
<th>December 31</th>
<th>Increase or Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$1,729,747</td>
<td>$1,340,671</td>
</tr>
<tr>
<td>Receivables</td>
<td>3,199,999</td>
<td>3,164,723</td>
</tr>
<tr>
<td>Inventories</td>
<td>5,888,426</td>
<td>7,168,369</td>
</tr>
<tr>
<td>Total current assets</td>
<td>$10,818,172</td>
<td>$11,673,763</td>
</tr>
<tr>
<td><strong>Current Liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable</td>
<td>$253,358</td>
<td>$672,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>715,774</td>
<td>885,021</td>
</tr>
<tr>
<td>Accrued wages, etc.</td>
<td>423,252</td>
<td>464,638</td>
</tr>
<tr>
<td>Accrued taxes</td>
<td>172,324</td>
<td>155,651</td>
</tr>
<tr>
<td>Federal and State taxes on income</td>
<td>1,053,877</td>
<td>1,546,398</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$2,618,585</td>
<td>$3,723,708</td>
</tr>
<tr>
<td>Working capital</td>
<td>$8,199,587</td>
<td>$7,950,055</td>
</tr>
<tr>
<td>Current ratio</td>
<td>4.1 to 1</td>
<td>3.1 to 1</td>
</tr>
</tbody>
</table>

*In order to reflect only the transactions applicable to 1954, the statements above are based upon 1953 balance sheet being stated on the same basis of consolidation as at the end of 1954.
FUNDS AND WORKING CAPITAL CHANGES. The statement on page 2 shows the funds derived from earnings and other sources and how they were applied to payment of dividends, reduction of debt, additions to plant, timber and other assets, and to increase in working capital, together with an analysis of the changes making up the increase in working capital.

Although sales at the end of 1954 were at a higher level than at the end of 1953 it will be seen from the tabulation of working capital that receivables were only slightly higher and that inventories had been reduced roughly $1,280,000 or nearly 18 per cent during 1954. Current liabilities were reduced approximately $1,105,000 so that the increase of $249,532 in working capital for the year was more than reflected in the $389,076 increase in the cash account. The reduction in current liabilities during the year included the elimination of bank loans and no borrowing has been required since the end of the year.

INVESTMENTS. A number of changes in the Company’s investments occurred during 1954. The most important of these consisted of: (1) The sale for cash by Mengel as of July 31, of its one-half interest in the Flexwood and Kalistron joint venture and of its one-third stock interest in Kalistron, Inc., to United States Plywood Corporation; and (2) the exchange of Mengel’s one-half stock interest in U. S.-Mengel Plywoods, Inc., as of October 31, for 86,000 shares of capital stock of United States Plywood Corporation as described in Note 1 on page eleven.

The sale of the Flexwood and Kalistron interests was for cash on the basis of the underlying book values. Since our share of the joint venture earnings had been taken into account on a current basis no profit or loss was involved on that portion of the sale. In the case of the stock interest in Kalistron, Inc., only the dividends received had been taken into Mengel earnings in prior years and these represented only a part of the earnings. Prior to the sale of our stock interest, however, we received a dividend of approximately the amount of our equity in undistributed earnings and the subsequent sale of the stock at its remaining book value resulted in a small capital loss. The net effect of the entire transaction was to produce an income, before taxes, of $62,000.

Our joint venture in Flexwood began in 1932 and Kalistron was added in 1948. Throughout the life of the venture Mengel had the manufacturing responsibilities for the specialty products involved and its associate managed the sales. Since both parties had come to the conclusion that the size of the venture did not warrant the frequent attention demanded of the managements of the two companies by the many joint decisions required, and since we were willing to sell and they to buy at underlying book values the transactions were effected.

U. S.-Mengel Plywoods, Inc., was formed in 1944 by The Mengel Company and United States Plywood Corporation and has been jointly owned by these two companies until the exchange for stock by Mengel of its one-half interest in 1954. During the ten years ended December 31, 1953, U. S.-Mengel built up its capital from a contributed capital of $250,000 to more than $4,200,000. During 1954 the owner of the other half interest in U. S.-Mengel Plywoods, Inc., informed us of its desire to obtain our half interest in order to acquire complete ownership of this company whose operations were complementary to its own distribution outlets, and after extended negotiations we agreed to exchange our half interest for stock in United States Plywood Corporation.

The Mengel Company was willing to exchange its half interest in the enterprise which had proved so profitable because of a provision in the agreement between the parent companies at the time U. S.-Mengel Plywoods, Inc., was formed.
In this provision the two owners agreed that at any time either one might desire to terminate the joint ownership it would have the right to name a price at which it would either buy the other's one-half interest or sell its own, and the one to which the offer was made would have the right to elect whether to buy or sell. It therefore was not a question whether we would or would not continue the joint ownership. The choice was whether we would negotiate the disposition of our half interest or whether we would allow the buy-or-sell provisions of the initial agreement to operate with its attendant uncertainties. As matters worked out, since we were able to reach a satisfactory arrangement for the exchange of our half it was not necessary to resort to the buy-or-sell provision.

By holding the stock of United States Plywood Corporation received in exchange for its half interest in U. S.-Mengel Plywoods, Inc., Mengel remains identified with the principal distributor of the doors it produces, and with the leading producer-distributor of plywood, and allied building products in this country.

Since it is our present intention to regard this as a permanent investment, we are continuing to carry it in our balance sheet at $125,000, and to take up in earnings each year only the amount received as dividends thereon. We are not reflecting in the statistical sections of this report higher figures for earnings-per-share, or book-value-per-share, of Mengel stock by reason of unconsolidated equities as has been done in the past, because the relative size of our holdings of United States Plywood Corporation stock (less than 5 per cent of the total outstanding) does not warrant such treatment.

The accounts of Mengel West Africa, Limited, a 100-percent-owned subsidiary, which have been excluded from the consolidated statements in recent years because of uncertainties concerning the effect of monetary-exchange restrictions, are included in the consolidations this year as noted in the audited statements. Also included in the consolidated statements this year are the accounts of Kenmen, Inc., a wholly-owned subsidiary formed during the year, to do experimental work in marketing.

LONG-TERM DEBT. Long-term indebtedness incurred in 1945 was reduced $150,000 during the year through payment of the 1954 maturities. Balance remaining due on the original $2,500,000 loan consists of $150,000 due in 1955, and $1,000,000 in the aggregate due in subsequent years to 1960.

Balances due on notes payable for timber purchases amounted to $103,358 due in 1955, and $501,750 due in subsequent years, a total of $605,108. The main factor accounting for the increase over the corresponding figure of $42,000 at the end of the previous year was the purchase as of March 1, 1954, of approximately 22,000 acres of pine woodlands and timber in Georgia and Florida in connection with which we issued $702,500 of timber notes which mature in semi-annual instalments until March 1, 1959. Payments during the first two or three years are expected to be largely self-liquidating through the sales of saw timber and poles from the lands covered by the notes.

CAPITAL STOCK AND STOCKHOLDERS. The only changes in the number of shares of stock outstanding during 1954 resulted from the conversion of preferred stock into common stock, in accordance with the charter provisions. Holders of 9,053 shares of preferred stock surrendered them at various times during the year for conversion at the 3-to-1 ratio into 27,159 shares of common stock, leaving outstanding at the end of 1954, 16,217 shares of the convertible first preferred stock, and 617,890 shares of common stock. Since the preferred stock is convert-
ible at any time at the option of the holders, there is a potential total of 666,541 shares of common stock which would be outstanding on a fully-converted basis if all presently outstanding preferred stock were converted into common stock.

The event of outstanding significance during the past year under this heading has been the acquisition of a majority stock interest in The Mengel Company by Container Corporation of America. At December 31, 1954, Container owned Mengel stock, of both classes, equivalent on a fully-converted basis to 342,430 shares. These holdings had been increased by the end of February, 1955, to 420,760 shares or 63% of total shares on the fully-converted basis. Container's holdings were acquired through open market purchases on the New York Stock Exchange.

AMOUNTS RECEIVED IN EXCESS OF PAR VALUE OF CAPITAL STOCK. This amount increased during the year by $425,491, representing the difference between the par value of $50 per share on the preferred stock converted during the year and the $3 total par value of the three shares of common stock issued for each share of preferred converted, or $47 per share on the 9,053 shares of preferred stock converted.

EARNINGS RETAINED FOR USE IN THE BUSINESS. As noted in the consolidated statement of earnings, the balance in this account as of the beginning of 1954 was increased $192,402 from the balance previously reported as at the end of 1953 because of the inclusion of a subsidiary (Mengel West Africa, Limited) in consolidation in 1954. The further addition of consolidated net earnings for the year in the amount of $1,061,760, and the reduction by payment of dividends in the total amount of $651,440 resulted in the balance at year-end of $10,417,351.

OPERATIONS

PLANT CHANGES. During 1954 we satisfactorily completed two inter-related consolidation moves mentioned in last year's report. First, with some minor expansion of facilities at Laurel, Mississippi, we were able to step up our capacity for door production at that location sufficiently to take over the door production formerly handled at the Louisville plant. Second, by making use of the facilities vacated by the door mill in Louisville and by making some further changes in the Fourth Street furniture plant, we were able to consolidate at that location all of the furniture operations in Louisville. Both of these moves have proved to be very worthwhile, although the full beneficial effects were not felt in 1954 because of charging off, in that year, substantial costs incurred in these moves.

The Twelfth Street plant facilities in Louisville, vacated by the furniture operations, now constitute surplus property and are being offered for sale.

When we purchased the Nashville Corrugated Box Company in 1947 we immediately made long-term plans for a major rehabilitation of buildings and equipment. We are now in the final stages of this program and completion is scheduled for late 1955.

There were no important acquisitions of pine woodlands during the year other than the purchase on March 1, 1954, of approximately 22,000 acres noted in last year's report. Total present holdings are approximately 88,000 acres which are being managed in accordance with good forestry practices. Removals during the year consisted almost entirely of cuttings of mature trees and their sale as saw timber, poles, etc., according to a basic program to promote the maximum growth of pulpwood. Under this program the amount of pulpwood in these woodlands increased materially during the year through growth. Approximately 500,000 seedlings were purchased for planting early in 1955.
The Company’s wholly-owned subsidiary, Mengel West Africa, Limited, has been developing the timber-cutting concessions acquired in the Gold Coast early last year by the extension of roads into the area and the installation of certain other facilities. Cutting and removal of logs from this concession is expected to begin very soon with shipments being made from the Port of Axim. This subsidiary will continue to operate its other concessions in the Gold Coast, whose products are exported through Takoradi.

Income from oil wells in 1954 amounted to $146,864, roughly 20% less than in 1953. In last year’s report we had estimated that our income from this source under the unitization agreement and flooding program would level off in 1954 and subsequent years at, roughly, 10% under the 1953 income level, subject to fluctuations due to price and to production controls. The flooding program is functioning successfully as planned and there was no appreciable price fluctuation in 1954. The decline in income beyond the expected 10% was occasioned by state-wide limitations on production by the State of Louisiana, which are announced from month to month and which were at a lower level in 1954 than expected. There were no developments of interest during the year on any of our properties from an oil standpoint. The present outlook is for a continuation of income from this source approximately within the range of the amounts of such income received in the last two years.

**SALES**

The relative contribution to consolidated net sales by paper and wood products varies, of course, from year to year. A rough breakdown on the basis of recent experience is 40% corrugated boxes and specialties and 60% wood products.

The Company is continuing to operate, as it has for the past two years, on a very low backlog of unfilled orders in most departments. Competition is increasing for all products and any decline in business would adversely affect profit and loss.

**EMPLOYEE RELATIONS**

Labor relations continued throughout the year on a sound basis at most of our operations and, with one minor exception, no work stoppages occurred.

**SAFETY AWARDS IN 1954.** The National Safety Council’s “Award of Honor”, the highest award in industry, was won by the Fourth Street Furniture Division plant for reducing disabling injury rates from 7.2 frequency and .91 severity in 1951 to .5 frequency and .01 severity in 1954.

Similar awards were received by this plant in 1945, 1948 and 1949 and it is the only plant in the furniture industry which has received four such awards.

In the Louisville Safety Council inter-plant contests for 1954 covering all industry, the Fourth Street plant won third place in its size group, and the mahogany veneer plant in Louisville was awarded a Certificate of Merit for operating the entire year of 1954 without a disabling injury.

We are constantly and aggressively promoting safety throughout our organization.

**MENGEL SAVINGS AND RETIREMENT PLAN.** There are 1,768 active members of the Retirement Plan, constituting approximately 95% of those eligible for membership, the eligibility requirement being five years of service. 228 retired members are receiving regular monthly benefits. During 1954 the retirement fund increased by approximately $780,000 to a total of more than $6 million. Additions to the fund included: contributions by members $166,975.32; contributions by the Company for current service cost $298,801.00, and for prior service
cost $241,720.00; and income from securities owned by fund $188,567.57. Benefit payments during the year amounted to $116,149.89. In addition to the contributions by the Company noted above, the Company pays all the administrative costs of the Plan, including fees of the trustee, actuary, etc. In each of ten out of the eleven years since the effective date of the Retirement Plan, the Company has made the maximum tax-deductible contribution on account of prior service costs, such payments to date totaling $2,272,164. The remaining unfunded balance on this account at the end of 1954 was approximately $614,000.

ORGANIZATION

There were no changes in the directors or officers during the year 1954. However, effective February 7, 1955, Mr. Alvin A. Voit resigned as Director and President of The Mengel Company. Mr. Lyman C. Martin was elected by the Board to fill the vacancies. Mr. Voit was first employed by the Company in 1911 and had served continuously since then except for a military leave of absence during World War I. He was elected president of the Company December 5, 1939, and had served in that capacity continuously since that time, a period of more than 15 years. In accepting Mr. Voit’s resignation, the directors expressed on behalf of the Company appreciation for his long and valuable services to it. The directors also voiced their personal regrets that henceforth he would be less actively associated with them in the conduct of the Company, and extended to him every good wish for his success and satisfaction in his private pursuits while assuring him of their pleasure that he will continue his association with the Company in a consulting capacity.

Mr. Martin has been in the employ of The Mengel Company in its Corrugated Box Division since 1919 and for the past eight years he had been general manager of that division. Following his election Mr. Martin announced that, in order to permit him to devote himself more fully to the development of wood products, he had appointed James C. Courtenay, who had been assistant general manager for the past eight years, as general manager of the Corrugated Box Division.

Subsequently, the Board of Directors elected James C. Courtenay and C. O. Meloy vice presidents and Edward F. Buckler treasurer. Mr. Meloy, who had been secretary and treasurer of the Company for the past 15 years now is vice president and secretary. Mr. Buckler had been assistant treasurer since 1948.

By order of the Board of Directors.

Respectfully submitted,

LYMAN C. MARTIN
President

Louisville, Kentucky
March 18, 1955

The Board of Directors has fixed the place for the annual meeting of stockholders which is to be held on Wednesday, May 4, 1955, at 2 p.m., C.D.T., at the office of the Company at Fourth and Colorado Streets, in Louisville, Kentucky. A notice of the meeting, together with a form of proxy and a proxy statement, will be mailed to stockholders on or about April 11, 1955, at which time proxies will be requested by the management.
**THE MENZEL COMPANY AND WHOLLY OWNED SUBSIDIARIES**

**ASSETS**

<table>
<thead>
<tr>
<th>Current assets:</th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash on hand and demand deposits</td>
<td>$1,729,747</td>
<td>$1,289,443</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers, less allowance for losses (1954—$151,115; 1953—$150,604)</td>
<td>2,972,251</td>
<td>2,975,635</td>
</tr>
<tr>
<td>Other</td>
<td>227,748</td>
<td>149,930</td>
</tr>
<tr>
<td></td>
<td>3,199,999</td>
<td>3,125,565</td>
</tr>
<tr>
<td>Inventories, at the lower of average cost or market:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finished goods and work in process</td>
<td>2,405,718</td>
<td>2,997,346</td>
</tr>
<tr>
<td>Raw materials and supplies</td>
<td>3,482,708</td>
<td>3,957,210</td>
</tr>
<tr>
<td></td>
<td>5,888,426</td>
<td>6,954,556</td>
</tr>
<tr>
<td>Total current assets</td>
<td>10,818,172</td>
<td>11,369,564</td>
</tr>
<tr>
<td>Joint venture and miscellaneous investments</td>
<td>—</td>
<td>212,832</td>
</tr>
<tr>
<td>Investment in common stock (50%) of U. S.-Mengel Plywoods, Inc., at cost (book value of underlying net assets at December 31, 1953, $2,105,848). (Note 1)</td>
<td>—</td>
<td>125,000</td>
</tr>
<tr>
<td>Investment in common stock of United States Plywood Corporation (at December 31, 1954 market quotations, $3,128,250). (Note 1)</td>
<td>125,000</td>
<td>—</td>
</tr>
<tr>
<td>Advances to and investment ($136,276) in subsidiary operating abroad, at cost (Note 2)</td>
<td>—</td>
<td>360,457</td>
</tr>
<tr>
<td>Officer's 3% demand note in connection with purchase of common stock, with 10,000 shares as collateral</td>
<td>—</td>
<td>55,000</td>
</tr>
<tr>
<td>Timberland, timber, and timber cutting rights, at cost less depletion; and interest in producing oil wells carried at $1.</td>
<td>2,844,996</td>
<td>2,044,268</td>
</tr>
<tr>
<td>Fixed assets, at cost:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>584,246</td>
<td>562,543</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>6,570,313</td>
<td>6,018,888</td>
</tr>
<tr>
<td>Machinery, equipment, etc.</td>
<td>9,948,650</td>
<td>9,380,134</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>103,552</td>
<td>148,203</td>
</tr>
<tr>
<td></td>
<td>17,206,761</td>
<td>16,109,768</td>
</tr>
<tr>
<td>Less allowances for depreciation:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>3,668,126</td>
<td>3,491,766</td>
</tr>
<tr>
<td>Machinery, equipment, etc.</td>
<td>5,759,834</td>
<td>5,171,864</td>
</tr>
<tr>
<td></td>
<td>9,420,960</td>
<td>8,663,630</td>
</tr>
<tr>
<td>Net fixed assets</td>
<td>7,785,801</td>
<td>7,446,138</td>
</tr>
<tr>
<td>Prepaid insurance and taxes, and deferred charges</td>
<td>344,610</td>
<td>364,720</td>
</tr>
<tr>
<td></td>
<td>21,918,579</td>
<td>21,977,979</td>
</tr>
</tbody>
</table>

*The appended notes are an integral part of the financial statements.*
### CONSOLIDATED BALANCE SHEET DECEMBER 31, 1954 AND 1953

#### LIABILITIES

<table>
<thead>
<tr>
<th></th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Notes payable to banks</td>
<td>$253,358</td>
<td>$172,000</td>
</tr>
<tr>
<td>Long-term indebtedness due within one year</td>
<td>$715,774</td>
<td>$831,047</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>$397,073</td>
<td>$445,444</td>
</tr>
<tr>
<td>Salaries, wages, and other compensation</td>
<td>$26,179</td>
<td>$18,477</td>
</tr>
<tr>
<td>Interest on long-term notes</td>
<td>$172,324</td>
<td>$155,651</td>
</tr>
<tr>
<td>Taxes, other than taxes on income</td>
<td>$1,053,877</td>
<td>$1,489,838</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$2,618,385</td>
<td>$3,012,457</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Long-term indebtedness (current portion above):</th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable 3 1/4%, maturing in semiannual installments of $75,000, with final installment of $325,000 due August 1, 1960</td>
<td>$1,000,000</td>
<td>$1,150,000</td>
</tr>
<tr>
<td>Notes payable for timber purchases, due $150,500 in 1956, $140,500 in 1957 and in 1958, and $70,250 in 1959</td>
<td>$501,750</td>
<td>$20,000</td>
</tr>
<tr>
<td>Total long-term indebtedness</td>
<td>$1,501,750</td>
<td>$1,170,000</td>
</tr>
</tbody>
</table>

#### CAPITAL

<table>
<thead>
<tr>
<th></th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributed capital:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible first preferred stock, 5% cumulative, $50 par value, redeemable at $55 plus cumulative dividends, involuntary liquidating value of par plus cumulative dividends, each share convertible into three shares of common stock; authorized and issued 80,000 shares, surrendered for conversion or redemption, not to be reissued 1954—63,783 shares; 1953—54,730 shares; outstanding 1954—16,217 shares; 1953—25,270 shares</td>
<td>$810,850</td>
<td>$1,263,500</td>
</tr>
<tr>
<td>Common stock, $1 par value, authorized 1,040,000 shares, reserved for conversion of convertible first preferred stock 1954—48,651 shares; 1953—75,810 shares; issued and outstanding 1954—617,890 shares; 1953—590,731 shares</td>
<td>$617,890</td>
<td>$590,731</td>
</tr>
<tr>
<td>Amounts received in excess of par value of capital stock</td>
<td>$5,952,153</td>
<td>$5,526,662</td>
</tr>
<tr>
<td>Earnings retained for use in the business (Note 3)</td>
<td>$10,417,351</td>
<td>$9,814,629</td>
</tr>
<tr>
<td>Total capital</td>
<td>$17,798,344</td>
<td>$17,195,522</td>
</tr>
</tbody>
</table>

$21,918,579 $21,977,979
CONSOLIDATED STATEMENT OF EARNINGS
for the years ended December 31, 1954 and 1953

<table>
<thead>
<tr>
<th></th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$38,632,013</td>
<td>$41,869,577</td>
</tr>
<tr>
<td>Cost of sales and selling and administrative expenses</td>
<td>37,216,312</td>
<td>39,641,670</td>
</tr>
<tr>
<td>Operating profit</td>
<td>1,415,701</td>
<td>2,227,907</td>
</tr>
<tr>
<td>Other income less other deductions:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit on sale of fixed assets, etc.</td>
<td>117,510</td>
<td>82,466</td>
</tr>
<tr>
<td>Net profit from joint venture</td>
<td>17,325</td>
<td>26,182</td>
</tr>
<tr>
<td>Dividends from U. S.-Mengel Plywoods, Inc.</td>
<td>100,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Dividends from other investments</td>
<td>116,600</td>
<td></td>
</tr>
<tr>
<td>Income from oil wells</td>
<td>146,064</td>
<td>184,122</td>
</tr>
<tr>
<td>Miscellaneous, net</td>
<td>15,527</td>
<td>35,826</td>
</tr>
<tr>
<td>Interest on long-term notes</td>
<td>67,767</td>
<td>46,525</td>
</tr>
<tr>
<td>Profit before taxes on income</td>
<td>1,861,760</td>
<td>2,609,978</td>
</tr>
<tr>
<td>Provision for Federal and State taxes on income</td>
<td>800,000</td>
<td>1,190,000</td>
</tr>
<tr>
<td>Net earnings for the year</td>
<td>1,061,760</td>
<td>1,419,978</td>
</tr>
<tr>
<td>Earnings retained for use in the business at the beginning of the year (Balance for 1954 increased $192,402 from balance at end of 1953 because of inclusion of subsidiary in consolidation, Note 2)</td>
<td>10,007,031</td>
<td>9,048,557</td>
</tr>
<tr>
<td>Cash dividends:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Convertible first preferred stock, $2.50 per share</td>
<td>52,759</td>
<td>63,175</td>
</tr>
<tr>
<td>Common stock, $1.00 per share</td>
<td>598,681</td>
<td>590,731</td>
</tr>
<tr>
<td>Earnings retained for use in the business at the end of the year (Note 3)</td>
<td>651,440</td>
<td>653,906</td>
</tr>
<tr>
<td>Provisions for depreciation and depletion are included in the above statement in the following amounts:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>$835,089</td>
<td>$675,864</td>
</tr>
<tr>
<td>Depletion</td>
<td>154,136</td>
<td>98,112</td>
</tr>
</tbody>
</table>

AMOUNTS RECEIVED IN EXCESS OF PAR VALUE OF CAPITAL STOCK
for the years ended December 31, 1954 and 1953

<table>
<thead>
<tr>
<th></th>
<th>1954</th>
<th>1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of year</td>
<td>$5,526,662</td>
<td>$5,526,662</td>
</tr>
<tr>
<td>Excess of par value of shares of convertible first preferred stock over par value of shares of common stock issued in conversion</td>
<td>425,491</td>
<td></td>
</tr>
<tr>
<td>Balance at end of year</td>
<td>$5,952,153</td>
<td>$5,526,662</td>
</tr>
</tbody>
</table>

The appended notes are an integral part of the financial statements.
NOTES TO FINANCIAL STATEMENTS

1. On December 21, 1954, the Company exchanged, with United States Plywood Corporation in a tax-free transaction, its one-half stock interest in U. S.-Mengel Plywoods, Inc. (which was jointly owned by the Company and United States Plywood Corporation) for 86,000 shares of common stock of United States Plywood Corporation, which shares are being carried in the Company's accounts at the same amount as its cost of the interest in U. S.-Mengel Plywoods, Inc., exchanged therefor. At December 31, 1954, the 86,000 shares of United States Plywood Corporation stock had an aggregate value, based on market quotations, of $3,128,250. However, in the event that such shares are sold, the net proceeds in excess of $125,000 would, under the present provisions of the Internal Revenue Code, be taxable as a capital gain.

Published reports of U. S.-Mengel Plywoods, Inc., as of the dates indicated, reflect the following information with respect to that Company:

<table>
<thead>
<tr>
<th>Date</th>
<th>Net Current Assets</th>
<th>Other Assets</th>
<th>Total Net Assets (Book Value of Capital Stock)</th>
<th>Net Earnings for 10 Mos. of 1954 and Year 1953</th>
<th>Cash Dividends for Above Periods</th>
<th>Undistributed Net Earnings for Above Periods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oct. 31, 1954</td>
<td>$4,216,666</td>
<td>573,735</td>
<td>4,790,401</td>
<td>$578,705</td>
<td>200,000</td>
<td>$578,705</td>
</tr>
<tr>
<td>Dec. 31, 1953</td>
<td>$3,675,290</td>
<td>536,406</td>
<td>4,211,696</td>
<td>493,950</td>
<td></td>
<td>200,000</td>
</tr>
</tbody>
</table>

2. During the year 1954 the Company included the subsidiary operating abroad in the consolidated financial statements. The figures for 1953 do not include this subsidiary. Neither the difference between the investment and the Company's equity nor the subsidiary's earnings for 1953 were significant in relation to the consolidated net assets and earnings for that year.

3. The agreement relative to the 3 3/4% Notes Payable imposes certain restrictions on the payments of cash dividends. Retained earnings restricted at December 31, 1954 amount to approximately $4,500,000.

To the Stockholders and Directors,
The Mengel Company,
Louisville, Kentucky:

We have examined the consolidated balance sheet of The Mengel Company (a New Jersey corporation) and its wholly owned subsidiaries as of December 31, 1954, and the related consolidated statement of earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of earnings present fairly the consolidated financial position of The Mengel Company and its wholly owned subsidiaries at December 31, 1954, and the consolidated 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 except for the inclusion in consolidation of a subsidiary as set forth in Note 2, in which change we concur.

Louisville, Kentucky,
February 24, 1955.
THE MENGEL COMPANY

GENERAL OFFICES • FOURTH and COLORADO • LOUISVILLE, KENTUCKY

DIRECTORS:
Herbert F. Boynton
Coleman R. Curtis
Warren T. Green
Dulaney Logan
Lyman C. Martin
Chas. G. Middleton
L. B. Olmsted

OFFICERS:
Lyman C. Martin, President
James C. Courtenay, Vice President and Manager,
Corrugated Box Division
Arthur M. King, Vice President and Manager,
Wood Products Other than Furniture
Dulaney Logan, Vice President
C. O. Meloy, Vice President and Secretary
H. Keith Williams, Vice President and Manager,
Furniture Division
Edward F. Buckler, Treasurer
G. Stuart Bruder, Controller

GENERAL COUNSEL
Middleton, Seelbach, Wolford, Willis & Cochran
501 South Second Street, Louisville 2, Kentucky

AUDITORS—Lybrand, Ross Bros. & Montgomery
Heyburn Building, Louisville 2, Kentucky

TRANSFER AGENT—Guaranty Trust Company of New York
140 Broadway, New York 15, New York

REGISTRAR—Bankers Trust Company
16 Wall Street, New York 15, New York

DIVISIONS

Corrugated boxes for domestic shipment; weatherproof boxes, V3C, W5C
and W6C for export; corrugated board specialties including die cut board
for interior packing, mailing folders, and displays

James C. Courtenay, Vice President and Manager
Harry E. Miles, General Sales Manager
R. Wells Covington, Director of Purchases
Winthrop Allen, Director of Research

Plants and District Managers:
Louisville, Kentucky—Macon M. Dalton
Winston-Salem, North Carolina—G. W. Colvin
New Brunswick, New Jersey—Roger B. Kirkpatrick
Fulton, New York—A. L. Ahlers
Nashville, Tennessee—W. A. Puryear
(Nashville Corrugated Box Co.—wholly-owned subsidiary)

Division headquarters at Louisville plant—1111 Zane Street, Louisville, Kentucky
District Sales Office at each plant
Other Sales Offices—Albany, Buffalo, Cincinnati, Chicago, Memphis, New York, Philadelphia,
Rochester, St. Louis, Syracuse, Utica.

GEORGIA WOODLANDS
Headquarters Office—Jesup, Georgia—Finley McMillan, Resident Manager
DIVISIONS (Continued)

FURNITURE

Mengel permanized furniture—branded and nationally advertised bedroom and dining room furniture; and specialties—sold direct to stores and to contract dealers

H. KEITH WILLIAMS, Vice President and Manager
Winston P. Harrison, Sales Manager
R. F. Wilder, Plant Manager

Headquarters and plant—4th and Colorado, Louisville, Kentucky
Showroom and sales offices Louisville, Chicago, New York, High Point, Los Angeles and San Francisco
Sales representatives throughout United States and in Canada and West Indies

WOOD PRODUCTS (OTHER THAN FURNITURE)

Mengel flush doors; kitchen cabinets; wall closets and closet fronts, sliding doors, wood boxes; mahogany and other fine cabinet veneers, lumber, and logs; hardwood plywood stock panels

ARTHUR M. KING, Vice President and Manager
E. H. Courtenay, Director of Market Research and Sales Promotion
H. T. Riggs, Director of Engineering and Research
H. C. Soehner, Manager of Research Department

Division Headquarters—4th and Colorado, Louisville, Kentucky
Sales office at each plant
Other sales offices: Doors and plywood—Louisville, New York; Kitchen cabinets—Chicago; Wall closets—Chicago, New York
Sales representatives throughout the country

Door and Plywood Department:

Headquarters: 4th and Colorado, Louisville, Kentucky—R. F. Kulmeyer, Manager
Plants: Laurel, Mississippi—Robert W. Hess, Branch Manager
Elizabeth City, North Carolina—J. C. Prescott, Branch Manager

Kitchen Cabinet Departments:

Regalwood line: St. Louis, Missouri—L. C. Whallon, Manager
Standard line: Union City, Indiana—R. B. Blackiston, Manager

Wall Closet & Wood Box Department:

Winston-Salem, North Carolina—John M. Gilmore, Manager

Mahogany Department:

Headquarters, sample room, and plant: 4th and Colorado, Louisville, Kentucky
F. L. Stork, Manager; J. H. Miner, Assistant Manager; W. H. Werst, Sales Manager; C. B. Walker, Plant Manager.
African production and procurement, Mengel West Africa, Limited, (wholly-owned subsidiary)
Dunkwa, Gold Coast, British West Africa—G. E. Brown, Director and Dunkwa Manager
The left half of the cover shows pine trees, growing in a section of the Company's Georgia Woodlands. From such trees comes the pulp wood from which kraft paper board is produced—the basic material for corrugated boxes and specialties.

The right half shows a mahogany tree growing in the tropical Gold Coast forest in one of the cutting concessions of the Company's subsidiary, Mengel West Africa, Limited. From trees like this we produce mahogany veneer and lumber used by us and others in the manufacture of furniture, doors, plywood, and cabinets.