FORTY SECOND
ANNUAL REPORT

1940

THE MENGEL COMPANY
THE MENGEL COMPANY
Established 1877
Incorporated under the Laws of the State of New Jersey
July, 1899

DIRECTORS
Wm. B. Harrison, Chairman
W. T. Green
C. J. Hodapp
W. R. Jones
J. C. Moser
Alvin A. Voit
James C. Willson

OFFICERS
Alvin A. Voit..............................................President
W. T. Green.............................................Vice-President
W. R. Jones.............................................Vice-President
C. O. Meloy..............................................Secretary and Treasurer

TRANSFER AGENT
Guaranty Trust Company of New York
140 Broadway, New York, N. Y.

REGISTRAR
Bankers Trust Company
16 Wall Street, New York, N. Y.

TRUSTEE FOR FIRST MORTGAGE 4½% CONVERTIBLE SINKING FUND BONDS
Mercantile-Commerce Bank and Trust Company
Locust-Eighth-St. Charles, St. Louis, Mo.
EXECUTIVE OFFICES
1122 Dumesnil Street
Louisville, Kentucky

MENGEL PRODUCTS

WOOD PRODUCTS DIVISION

RAW MATERIALS
Southern Hardwood Lumber & Veneers
Mahogany, Walnut and other Fancy Veneers
Pine Lumber

FABRICATED PRODUCTS
Plywood
Industrial and Furniture Dimension Stock
Export Shipping Cases
Wood Boxes
Toys and Playground Equipment

BUILDING MATERIALS
Mengel Doors, flush type
Mengel Bord, a plywood wallboard

CONTAINER DIVISION
Corrugated Shipping Containers

OTHER PRODUCTS
Flexwood and Flexglass

SALES OFFICES
Sales offices, representatives or agents are maintained throughout the United States, Canada, Mexico, United Kingdom and principal foreign countries.

MANUFACTURING OPERATIONS
Louisville and Hickman, Kentucky
Baton Rouge and Bogalusa, Louisiana
Laurel, Mississippi
Dunkwa, Gold Coast, Africa

New Brunswick, New Jersey
St. Louis, Missouri
Winston-Salem, North Carolina
TO THE STOCKHOLDERS:

Statements of profit and loss and surplus accounts for the year 1940 and balance sheet at December 31, 1940, together with auditors’ certificate by Messrs. Arthur Andersen & Co., are submitted herewith. Certain statistics for the years 1940 and 1939 are compared as follows:

<table>
<thead>
<tr>
<th></th>
<th>1940</th>
<th>1939</th>
<th>Up</th>
<th>$1,878,000</th>
<th>or 21%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$10,813,000</td>
<td>$8,935,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit</td>
<td>431,000</td>
<td>33,000</td>
<td>Up</td>
<td>398,000</td>
<td></td>
</tr>
<tr>
<td>Working capital</td>
<td>3,823,000</td>
<td>3,245,000</td>
<td>Up</td>
<td>578,000</td>
<td>or 18%</td>
</tr>
<tr>
<td>Current ratio</td>
<td>6.0</td>
<td>3.9</td>
<td>Up</td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>Long term debt</td>
<td>2,021,000</td>
<td>2,202,000</td>
<td>Down</td>
<td>181,000</td>
<td>or 8%</td>
</tr>
<tr>
<td>Unfilled orders</td>
<td>3,693,000</td>
<td>2,145,000</td>
<td>Up</td>
<td>1,548,000</td>
<td>or 72%</td>
</tr>
</tbody>
</table>

REVIEW OF THE PAST YEAR

Principally the year was one of expanding volume, due partly to intensive effort to broaden our markets but primarily to the general increase in business activity.

During this time we have vigorously pursued our policy of better cost control. We are convinced this effort is beginning to show results.

The program of liquidating non-productive property has been actively carried on and approximately $125,000 in cash has been realized in disposition of such property to date.

We have disposed of our mahogany lumber business, including the inventory which is not reflected in net sales. This business had been unprofitable for many years. However, the mahogany and fancy veneer business has been retained. Likewise our African log operation has been continued.
The Company has offered its products and services wherever possible in the defense program and in those cases where calls have been made upon us we have fully responded, but very little direct business has resulted. We have, however, received substantial orders from contractors.

Dividends on the 5% preferred stock were resumed during the year and $3.75 per share has been paid, including the payment of $1.75 per share today, leaving $1.25 per share in arrears.

Our employe relations have been entirely satisfactory and the loyalty and interest of our staff have been of great help in our effort to improve the Company's position. More than 1,400 now wear the Company's emblem denoting five years or more of service and more than 160 have service records in excess of 25 years. The management recognizes its obligations to the employes as well as to the customers and stockholders of the Company.

NEW PRODUCTS

During the year the Company, under agreement with the Johns-Manville Corporation, took over the sales of the hollow-core flush type door of which we were formerly only the manufacturers. This product, along with our plywood wallboard known in the trade as Mengel Bord, has been the means of establishing the Company quite successfully in the building materials field where theretofore it was only incidentally identified as a supplier of raw materials.

We have also produced, on a small commercial scale, molded plywood involving compound curvatures manufactured according to processes developed in our laboratory. This type of business holds promise of growth in many fields.

As a result of our effort at broadening our markets, over $1,800,000 of business not heretofore handled has been booked and our progress is entirely satisfactory.
OUTLOOK FOR 1941

Along with the belief generally held, it is our view that the current year will produce a substantial increase in volume. While taxes will undoubtedly continue to take an increasingly larger share of income and profits, the modest profit result for 1940 leaves room, we believe, for a better result in 1941 in relation to our investment. In saying this, however, we do not pose as prophets and there are many uncertainties which we can only meet as the future unfolds.

CURRENT SITUATION

Shipments for January and February were $2,315,000 gross, which is 44% more than last year.

Our backlog of orders at February 28, 1941, was $4,403,000, 94% in excess of a year ago, which is a record in recent years.

By order of the Board of Directors,

[Signature]

President.

March 15, 1941.
THE MENGL COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET—DECEMBER 31, 1940

ASSETS

CURRENT ASSETS:
Cash in banks and on hand........................................... $ 513,434
Receivables—
   Customers' accounts........................................... $ 991,132
   Customers' notes.................................................. 69,028
   Other accounts and notes.................................... 42,754
Total............................................................................ $1,102,914
Less—Reserve for doubtful accounts and notes................. 66,381
1,036,533
Inventories, less reserves: priced at cost or
market whichever lower—
   Work in process and finished goods—
      Lumber and veneer........................................... $1,202,135
      Other................................................................. 583,827
   Raw materials (logs, lumber, etc.) and supplies........ 1,232,148
Total current assets................................................. $4,588,077

INVESTMENTS AND OTHER ASSETS:
Investment in joint venture, noncurrent receivables,
etc., less reserves.................................................. $ 98,539
Installment notes arising from sale of cut-over timberland,
less deferred profit................................................ 44,113
Deposit with trustee for retirement of first mortgage bonds 402
Due from officers and employees.................................. 4,085
147,139

PROPERTIES NOT USED IN OPERATIONS,
reduced to estimated fair value determined by management:
Land, buildings and equipment—
   Property leased to others,
      less depreciation........................................... $ 309,817
   Other property..................................................... 39,083
548,900
Cut-over timberlands................................................ 84,887
433,787

TIMBERLANDS AND TIMBER, at cost less depletion.............. 623,755

LAND, BUILDINGS, MACHINERY AND EQUIPMENT:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Cost, Less Depreciation Accumulated to Dec. 31, 1941</th>
<th>Reserve for Depreciation Accumulated Since 1921</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$508,221</td>
<td>$13,725</td>
<td>$521,946</td>
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<tr>
<td>Buildings and improvements</td>
<td>3,450,942</td>
<td>1,725,057</td>
<td>1,725,885</td>
</tr>
<tr>
<td>Machinery, equipment, etc.</td>
<td>4,152,355</td>
<td>2,746,152</td>
<td>1,406,203</td>
</tr>
<tr>
<td>Total</td>
<td>$8,111,518</td>
<td>$4,471,209</td>
<td>$3,640,309</td>
</tr>
</tbody>
</table>

PREPAID EXPENSES AND DEFERRED CHARGES:

Prepaid expenses, taxes, etc.................................... $ 96,904
Deferred logging and sawmill expenses, etc., in process of amortization 52,946
Bond discount and expense in process of amortization 75,089
224,939
$8,658,006

LIABILITIES

CURRENT LIABILITIES:
Accounts payable.................................................. $ 307,599
Accrued expenses—
   Bond interest.................................................. $ 31,822
   Payrolls, etc..................................................... 102,536
   Taxes, other than income taxes.............................. 147,113
   Provision for Federal and State income taxes............. 75,241
   Bond sinking fund payment due in 1941....................... 100,000
Total current liabilities........................................ $764,311

FUNDED DEBT:
First mortgage 4 1/2% convertible sinking fund bonds due March 1, 1947; each $100 principal amount convertible into eight shares of common stock until March 1, 1942 and six shares thereafter.............................. $2,189,000
Less—Sinking fund payment included in current liabilities $100,000
Required bonds ($25,000 deposited in escrow).................. 67,500
167,500
2,021,500

RESERVES:
For loss on contemplated disposition of properties and for adjustment of leases—
Balance at December 31, 1939................................... $625,000
Loss—Loss on partial realization of property not used in operations 89,550
535,450
For workmen's compensation, etc.................................. 38,963
574,413
DEFERRED INCOME—rentals collected in advance.................. 48,885

CAPITAL STOCK AND SURPLUS:
Capital stock—
5% convertible cumulative first preferred stock, each share convertible into three shares of common stock
Authorized 80,000 shares of $50 par value, of which 856 shares are reserved for exchange of 7% preferred stock and 14,104 shares for issuance to officers and employees
Issued 65,040 shares............................................... $3,252,000
( divorides in arrears amounted to $3 per share or $193,120 at December 31, 1940)
7% cumulative preferred stock—
Authorized 697 shares of $100 par value
Issued 428 shares.................................................... 42,800
(Dividends in arrears since September 1, 1931 amounted to $64.75 per share or $27,713 at December 31, 1940)
Common stock—
Authorized 1,040,000 shares of $1 par value each, of which 416,494 shares are reserved for conversion of bonds and preferred stock and 50,000 shares for issuance to officers and employees
Issued 417,681 shares................................................ 417,681
Capital surplus (see accompanying summary).................. 2,236,293
Earned surplus accumulated since January 1, 1940 (see accompanying summary) 300,123
6,248,897
$9,658,006
THE MENGEL COMPANY
AND SUBSIDIARY COMPANIES

CONSOLIDATED SURPLUS ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 1940

EARNED SURPLUS

BALANCE AT DECEMBER 31, 1939 (deficit) charged to capital surplus ........................................ $ —
ADD—Net profit for year ................................... 431,916

$ 431,916

DEDUCT—Dividend paid on 5% convertible cumulative first preferred stock ($2 per share) .................... 131,793
BALANCE AT DECEMBER 31, 1940 ..................... $ 300,123

CAPITAL SURPLUS

BALANCE AT DECEMBER 31, 1939 (arising from reduction in capital amount of common stock less earned surplus deficits of $5,173,048 and dividends of $164,740 charged thereto) $2,236,383

DEDUCT—Amount transferred to stated capital, representing par value of common stock issued in connection with exchange of 7% cumulative preferred stock (90 shares of $1 par value) .... 90
BALANCE AT DECEMBER 31, 1940 ........................ $2,236,293
THE MENGEL COMPANY
AND SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1940

NET SALES .................................................................. $10,813,095

COST OF SALES, SELLING AND ADMINISTRATIVE
EXPENSES (exclusive of depreciation and depletion) .............. 9,724,580

Net operating profit before depreciation and depletion .......... $ 1,088,515

DEDUCT:
Depreciation of buildings and equipment ......................... $340,109
Depletion of timber .................................................. 186,235

Net profit from operations ........................................... $ 562,171

OTHER INCOME:
Profit on joint venture .............................................. $ 16,880
Rentals and other income, etc. (net) ............................. 57,044

Net profit before interest and income taxes ..................... $ 636,095

INTEREST CHARGES:
Interest on first mortgage bonds ................................ $ 99,152
Amortization of bond discount and expense .................. 16,025
Other interest, etc. .................................................. 12,002

Net profit before income taxes ................................... $ 508,916

PROVISION FOR FEDERAL AND STATE INCOME
TAXES (no excess profits tax payable) ......................... 77,000

Net profit for year .................................................. $ 431,916
To the Board of Directors,

The Mengel Company:

We have examined the consolidated balance sheet of THE MENGEL COMPANY (a New Jersey corporation) AND SUBSIDIARY COMPANIES as of December 31, 1940 and the related statements of profit and loss and surplus for the year ended that date. In connection therewith, we have examined or tested accounting records of the companies and other supporting evidence and have reviewed the system of internal control and accounting procedures of the companies by methods and to the extent we deemed appropriate but we did not make a detailed audit of the transactions.

Cash in banks was reconciled with the balances confirmed by the depositaries and petty cash funds were counted or confirmed by correspondence with the custodians. Customers' notes were inspected or otherwise accounted for and the total of the individual balances in the detailed accounts receivable ledgers was found to be in agreement with the balances of the control accounts. We made a test-circularization of the principal individual debtors at November 30, 1940 (covering approximately 85% of the aggregate customers' accounts and notes receivable) and in the replies received no material differences were disclosed. Changes in the aggregate notes and accounts receivable for December 1940 were reviewed. Accounts and notes receivable were reviewed as to collectibility and, in our opinion, the reserve for doubtful accounts and notes was sufficient to provide for losses anticipated at the date of our examination.

The inventories as stated on the balance sheet are based largely upon physical inventories taken by company employees, a substantial part of which was taken at November 30, 1940 and adjusted to reflect intervening transactions to the balance sheet date; such inventories were priced at cost or market whichever lower, with due allowance for obsolete or unsalable merchandise. Our examination of inventories consisted of tests of the clerical accuracy and of the basis of pricing and a review of the inventory procedures followed by the companies, in connection with which we made test-counts of quantities at certain of the companies' plants in confirmation of the procedures
followed. We did not otherwise verify quantities nor did we verify the condition of the inventories.

Additions to the timberlands, timber and property accounts during the year were reviewed and, in our opinion, such additions represent proper capital charges. Property retirements during the year appear to have been properly reflected in the accounts. Provisions for depreciation and depletion were made at the same rates used in prior years.

Insofar as we could ascertain from our examination, all direct liabilities of the companies at December 31, 1940 are reflected in the accompanying statements and the management has represented that, to the best of their knowledge and belief, all such liabilities were disclosed to us and that the companies had no contingent liabilities of material amount. The amount of bonds issued was confirmed by the trustee; we also made a circularization of the larger accounts payable. The number of shares of preferred and common stock outstanding at December 31, 1940 was confirmed by the registrar.

In our opinion the accompanying consolidated balance sheet and related statements of consolidated profit and loss and surplus fairly present the financial position of The Mengel Company and Subsidiary Companies at December 31, 1940 and the results of their operations for the year ended that date in conformity with generally accepted accounting principles maintained by the companies on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 26, 1941.