THE MENGEL COMPANY

Established 1877

Incorporated under the Laws of the State of New Jersey

July, 1899

DIRECTORS

Wm. B. Harrison, Chairman
W. C. Dabney    W. T. Green    I. Horine    W. R. Jones
Dulaney Logan   Alvin A. Voit

OFFICERS

Alvin A. Voit............................................President
W. T. Green.............................................Vice-President
I. Horine ................................................Vice-President
W. R. Jones............................................Vice-President
Dulaney Logan ........................................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.
TO THE STOCKHOLDERS:

Herewith please find statements covering operations for the year 1943 and the financial condition of the company at that year-end together with the accountants' report thereon. Certain comparisons are made for your convenience as follows:

<table>
<thead>
<tr>
<th></th>
<th>1943</th>
<th>1942</th>
<th>1941</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>$27,724</td>
<td>$23,343</td>
<td>$18,702</td>
</tr>
<tr>
<td>Net profit before provision for income and excess profits taxes</td>
<td>2,348</td>
<td>2,520</td>
<td>2,438</td>
</tr>
<tr>
<td>Provision for income and excess profits taxes</td>
<td>1,600</td>
<td>1,750</td>
<td>1,200</td>
</tr>
<tr>
<td>Net profit</td>
<td>748</td>
<td>770</td>
<td>1,238</td>
</tr>
<tr>
<td>Earnings per common share after payment of preferred dividends</td>
<td>1.40</td>
<td>1.45</td>
<td>2.57</td>
</tr>
</tbody>
</table>

Wood and its derivatives, quite different from the outset of the war, are today among the most critical of raw materials. Although this condition creates problems of production in the woods and of procurement of lumber and plywood of types not produced by us, and paper, we were able to build our volume in the past year to the highest point in our history.

Since the termination of the aircraft subcontract, which was our largest single war project, we have had to enter several largely unrelated fields to procure war business. It is doubtful that such method of operating permits bringing into play the full effectiveness of our organization in the war effort, but most large programs in which we might have taken a leading part were otherwise arranged for while so much of our effort was concentrated on the airplane project.

We are in process of negotiating a settlement of the aforementioned cost-plus-fixed-fee subcontract and while we expect to file claims for additional costs and fee, no provision for such has been made in the accounts as the outcome is unpredictable at this time.

The New Brunswick, N. J. container plant of the company was awarded the Army-Navy E during the year for its part in the development and production of a weatherproof corrugated container for overseas shipments. This development should permit expansion of the corrugated paper box into new fields after the war.

The contract made during the year with the United States Plywood Corporation has been put into operation in two respects.
A warehouse distributing unit has been opened in Louisville, Kentucky, by the jointly-owned U. S.-Mengel Plywoods, Inc. The joint advertising program involving trade and consumer advertising on a national scale has also been started. Responses to the first consumer advertisement to appear indicate an interest in plywood beyond expectations.

We continued during the year our experimental practice of forestry, including planting. While the progress to date has justified continuing the program, it is too early to predict eventual results.

Renegotiation of the company’s 1942 business was completed during the past year and no refund was required. On the basis of such settlement it is believed that renegotiation of 1943 business should have no effect on the earnings of that year.

The company is currently filing a registration statement with the Securities and Exchange Commission in contemplation of the issuance of $2,500,000 of fifteen year sinking fund debentures, for the purpose of redeeming its outstanding first mortgage bonds which mature March 1, 1947 and to provide additional funds. Such debentures, if issued, will carry a lower rate of interest than the presently outstanding bonds, and will not be convertible.

More than 1,500 of our employees are now in the military forces. Only through the loyal and untiring efforts of our older employees and a host of newer ones, including about one-third women, are we able to meet war demands.

While it is believed that most of the war demand for our products will continue until successful invasion of Europe has been fully assured, we are actively continuing research and preparations for the conditions we might find then and postwar. We believe that with good markets and after the removal of existing restrictions on production, we should be able to maintain our volume and employment near present levels.

By the order of the Board of Directors.

March 25, 1944.

Alvin A. Voit
President.
## The Mengel Company and VI

### Balance Sheet—December 31, 1941

**Assets**

- **Cash on hand and demand deposits**: $957,469
- **Receivables**:
  - Customers' notes: $641
  - Customers' accounts: $2,012,407
  - Other notes and accounts: 301,213
  - **Less. allowance for doubtful notes and accounts**: 79,693
  - **Total current assets**: $2,234,568
- **Inventories, at the lower of average cost or market**:
  - Finished goods and work in process:
    - Lumber and veneer: $496,801
    - Other: 705,642
  - Raw materials (logs, lumber, etc.) and supplies: 2,124,684
  - **Total current assets**: $3,327,127
- **Assets identified with cost-plus-fixed-fee war subcontract**
  - Unexpended balance of advances: $187,595
  - Expenditures recoverable: 802,778
  - **Total current assets**: $990,373
- **Joint venture and miscellaneous securities**: 183,690
- **Installment notes arising from sale of cut-over timberlands, less allowance of $64,394 for deferred profit**: 48,362
- **Post-war refund of excess profits tax**: 161,000
- **Cut-over timberlands held for sale, at not in excess of realizable amount**: 101,490
- **Timberlands, timber, and timber cutting rights, at cost less depletion**: 526,721
- **Fixed assets**:

<table>
<thead>
<tr>
<th>Classification</th>
<th>Cost, Less Depreciation Reserves Accumulated to December 31, 1941</th>
<th>Reserves for Depreciation Reserves Accumulated Since 1921</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$562,340</td>
<td>$562,340</td>
<td></td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>4,035,095</td>
<td>2,043,447</td>
<td>1,991,648</td>
</tr>
<tr>
<td>Machinery, equipment, etc.</td>
<td>5,097,343</td>
<td>3,307,181</td>
<td>1,790,162</td>
</tr>
<tr>
<td>Reserve for property, plant and equipment acquired replacing that destroyed by fire</td>
<td>153,874</td>
<td>153,874*</td>
<td></td>
</tr>
<tr>
<td>Allowance for additional depreciation not applied to specific property classifications</td>
<td>411,101</td>
<td>411,101*</td>
<td>3,779,175</td>
</tr>
<tr>
<td>Prepaid expenses and deferred charges: Insurance, taxes and other deferred charges</td>
<td>193,730</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bond discount and expenses</td>
<td>28,161</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td><strong>$9,694,778</strong></td>
<td><strong>$5,915,603</strong></td>
<td><strong>3,779,175</strong></td>
</tr>
</tbody>
</table>

**NOTES:**

1. The practice of issuing consolidated statements, including the consolidating of the financial statements of a wholly owned subsidiary, this practice was discontinued as of December 31, 1941 and unconsolidated statements issued as of December 31, 1942.
2. The Company's 1942 contracts and subcontracts subject to the Renegotiation Act have been reviewed and the Government has been instituted, but there is no present indication of the probable results thereof. In the opinion of the management, however, the settlement to be made is unpredictable.
3. The Company contemplates filing claims for additional costs and fee in connection with a cost-plus-fixed-fee war subcontract.
WHOLLY OWNED SUBSIDIARIES
DECEMBER 31, 1943

LIABILITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts payable</td>
<td>$490,665</td>
</tr>
<tr>
<td>Accrued items:</td>
<td></td>
</tr>
<tr>
<td>Bond interest</td>
<td>$23,520</td>
</tr>
<tr>
<td>Salaries, wages and other compensation</td>
<td>309,966</td>
</tr>
<tr>
<td>Taxes, other than taxes on income</td>
<td>171,493</td>
</tr>
<tr>
<td>Provision for taxes on income, less $1,125,000 tax anticipation notes</td>
<td>481,260</td>
</tr>
<tr>
<td>Bond sinking fund payment due in 1944</td>
<td>113,000</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>1,589,904</td>
</tr>
<tr>
<td>Liabilities identified with cost-plus-fixed-fee war subcontract (see contra):</td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>168,949</td>
</tr>
<tr>
<td>Accountability for advances by prime contractor</td>
<td>821,424</td>
</tr>
<tr>
<td>Employees' deposits for purchase of United States War Bonds</td>
<td>33,891</td>
</tr>
<tr>
<td>Less, bonds and special bank deposits</td>
<td>33,891</td>
</tr>
<tr>
<td>First mortgage 4 1/2% convertible sinking fund bonds due March 1, 1947: each $100 principal amount convertible into six shares of common stock</td>
<td>1,568,000</td>
</tr>
<tr>
<td>Less, sinking fund payment included in current liabilities</td>
<td>113,000</td>
</tr>
<tr>
<td>Total</td>
<td>1,455,000</td>
</tr>
<tr>
<td>Reserves:</td>
<td></td>
</tr>
<tr>
<td>For settlement of a lease</td>
<td>45,000</td>
</tr>
<tr>
<td>For workmen's compensation</td>
<td>40,498</td>
</tr>
<tr>
<td>Total</td>
<td>85,498</td>
</tr>
</tbody>
</table>

CAPITAL

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preferred capital stock:</td>
<td></td>
</tr>
<tr>
<td>First 5% cumulative, $50 par value, involuntary liquidating value par plus cumulative dividends, each share convertible into three shares of common stock</td>
<td></td>
</tr>
<tr>
<td>Authorized 80,000 shares, issued and outstanding 65,040 shares</td>
<td>3,252,000</td>
</tr>
<tr>
<td>7% cumulative, $100 par value, authorized 697 shares, issued and outstanding 96 shares</td>
<td>9,600</td>
</tr>
<tr>
<td>Common capital stock, $1 par value, authorized 1,040,000 shares, issued and outstanding 417,681 shares: reserved for conversion of bonds and preferred stock 289,200 shares</td>
<td>417,681</td>
</tr>
<tr>
<td>Total</td>
<td>3,679,281</td>
</tr>
<tr>
<td>Surplus:</td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>2,830,937</td>
</tr>
<tr>
<td>Earned, accumulated since January 1, 1940 (notes 2 and 3)</td>
<td>1,930,382</td>
</tr>
<tr>
<td>Total</td>
<td>8,440,600</td>
</tr>
<tr>
<td>$12,561,375</td>
<td></td>
</tr>
</tbody>
</table>

A U.S.-based domestic subsidiary, which operates in the Gold Coast, West Africa, has been resumed. Due to the then war conditions, determined that no excessive profits had been realized. Renegotiation of the Company's 1943 business has already been renegotiated, but no effect has been given to such claims in these financial statements as the result


THE MENGEL COMPANY AND
WHOLLY OWNED SUBSIDIARIES

STATEMENT OF CAPITAL AND EARNED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1943

CAPITAL SURPLUS

Balance, January 1, 1943 (including $11,463 arising from consolidation of subsidiaries. unconsolidated amount previously reported, see note 1) $2,325,416
Amount of Reserve for losses on ultimate disposition of certain properties no longer deemed to be necessary 505,521
Balance, December 31, 1943 $2,830,937

EARNED SURPLUS

Balance, January 1, 1943 $1,449,715
Net profit for the year (notes 2 and 3) 748,360
2,198,075

Dividends paid, cash:

7% Preferred stock, $7.00 per share $ 672
5% Preferred stock, $2.50 per share 162,600
Common stock, 25c per share 104,421
267,693

Balance, December 31, 1943 $1,930,382
THE MENGEL COMPANY AND
WHOLLY OWNED SUBSIDIARIES

STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1943

Net sales (including costs under cost-plus-fixed-fee subcontract and fee collected thereon) .................................................. $27,723,595
Cost of sales (including costs under cost-plus-fixed-fee subcontract), selling and administrative expenses ........................................... 25,405,677
Operating profit ............................................................................. 2,317,918
Other income (net) ......................................................................... 120,702
Profit before interest and taxes on income ....................................... 2,438,620

Interest charges:
Interest on first mortgage bonds ................................................... $ 74,310
Amortization of bond discount and expense .................................. 10,861
Other interest, etc. ...................................................................... 5,089
Profit before taxes on income ....................................................... 90,260

Provision for Federal and State taxes on income:
Federal and State normal and surtax ............................................ 370,000
Federal excess profits tax (after deducting post-war refund of $6,000 and credit for debt retirement of $133,000) ................. 1,230,000
Net profit (notes 2 and 3) ............................................................... $ 748,360

Provision for depreciation (including amortization of $77,132 of defense facilities) amounting to $430,451 and depletion in the amount of $157,797 are included in the above statement.
TO THE BOARD OF DIRECTORS OF
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, 1943, and the related statements of profit and loss and surplus for the year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. It is not the general practice of United States Government departments and agencies to confirm accounts receivable from them, but by means of other tests we satisfied ourselves as to the amounts of such receivables. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, except for the possible effect of contract termination referred to in Note 3, the accompanying consolidated balance sheet and related statements of profit and loss and surplus present fairly the consolidated position of The Mengel Company and its wholly owned subsidiaries at December 31, 1943, 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 except as stated in Note 1.

LYBRAND, ROSS BROS. & MONTGOMERY.

Louisville, Kentucky
March 14, 1944.
EXECUTIVE OFFICES
1122 Dumesnil Street
Louisville, Kentucky

MENGEL PRODUCTS NOW BEING PRODUCED FOR WAR

Army cargo truck body parts for United States and Canada
Plywood for cargo ships, assault and landing boats, military boxes, lend lease, etc.
Mahogany and other veneers for aircraft, marine, and other types of plywood
Furniture for defense housing projects, etc.
Aircraft packing crates, munition, magazine, aircraft engine, jeep boxes, etc.
Containers (type V-3C) for military overseas shipments

Corrugated shipping containers for airplane parts, munitions, parachutes, rations, etc.
Industrial shelving for use in war plants
Kemper kitchen cabinets for defense housing and other uses
Southern hardwood lumber, veneers and pine lumber
Engineered wood products
Wood cleated corrugated boxes

OTHER MENGEL PRODUCTS

Corrugated fibre shipping containers
Mengelbord—a plywood utility panel made by a patented process
Mengel doors—flush type—patented grid construction
Bedroom, kitchen and novelty furniture
Industrial and furniture dimension stock
Fine mahogany cabinet veneers
Plywood stock panels
Special wood boxes
*Flexwood and Flexglass

*Manufactured and marketed jointly by United States Plywood Corporation and The Mengel Company.