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 3 3/4 % SINKING FUND DEBENTURES
Guaranty Trust Company of New York
140 Broadway, New York, N. Y.
TO THE STOCKHOLDERS

Prior to the war, the present management of the Company began a program providing for the manufacture of a substantial amount of consumers' and finished products, and considerable change in our marketing processes. While the war years have been devoted to turning out material for the armed services, the immediate post-war years will mean for the Company an enlarged and new scope of activities in several fields. In keeping with this change in the Company's affairs, it is our desire to broaden our Annual Report so as to give you a more intimate and informative picture of the Company's operations and developments.

The financial statements, etc., are in their usual place among the following pages and the comparisons we have been giving you for some years follow immediately after this letter.

FURNITURE DIVISION

The production of this Division is devoted almost entirely to war products. Since the disappointing airplane experience (1942 and 1943) we have, more and more, re-entered the wood box field, which we had largely abandoned. Over five million wood boxes, ranging in size from a cigar box to a small house (and indeed some of them have been used as such) have been produced. In addition, our military truck body work has continued and during the year we went into the cot business. Now Mengel cots by the hundreds of thousands are being slept on all over the world, joining our other products on all war fronts.

The terminated airplane contract (performed in this Division) has not been settled and we cannot tell when it will be. The amounts involved are substantial, but the outcome is unpredictable by us. We believe we performed approximately 60% of the wood part of the program at less cost to the government, even including the full amount of our unsettled claims, than the other 40% cost.

In the postwar period this Division expects to market its furniture starting off with bedroom furniture, in a manner somewhat different from at least a large segment of the industry. A brand name, yet to be determined, will be used, together with national consumer advertising. If you are contemplating the purchase of bedroom furniture we hope that you (there are more than 5,000 stockholders) will wait until your company's products are on the market and we believe you will find excellent furniture pleasingly priced.

Inasmuch as in the past our selling has been directed almost entirely to industrial buyers, we have engaged competent consumer product merchandising counsel. Under their guidance, a national survey of consumers and dealers has been made which will assist us in many important decisions. In co-operation with merchandising
counsel we are also attempting to work out methods of determining consumer acceptance of bedroom furniture in advance of production. This, if successful, should prove of great importance profitwise.

Through our designers, laboratories and production engineers we hope to offer important features not previously available in furniture.

**PLYWOOD DIVISION**

About the middle of the year war demands for the products of this Division declined considerably, but now again production is largely for war.

Logging labor and equipment continues to be very tight and in order to meet production demands our logging program has been on an emergency basis during most of the year. Logging costs are high and excessive. The weather has been none too helpful.

The heavy drain on the timber resources of this country due to the war, which probably will continue for some time after the war, has caused us to investigate the possibility of veneer (for plywood) sources outside the United States where tremendous stands of timber remain. In the long term, importations may be both necessary and desirable as a conservation measure.

The results to date of our experimental forestry program, including planting, are not particularly encouraging. The commercial soundness of planting is more questionable than is the value to us of stimulating growth through the use of good forestry practices on existing naturally reproduced small timber, although neither is conclusive. These remarks apply of course to our type of timber, i.e., southern hardwoods.

We expect the plywood demand after the war will far exceed any prewar level for some years. New developments in the field of resin treatments and the combining of paper, light metals and other materials with veneer and plywood should expand the markets for this product. This Division might well prove to be our greatest growth Division.

Consumer advertising (jointly with United States Plywood Corporation) of the Mengel Flush Door and Weldwood Plywood is continuing, although no doors are available and very little plywood. Public response and interest have far exceeded expectations.

The four plywood warehouses opened during the year by U. S.-Mengel Plywoods, Inc. (jointly owned with United States Plywood Corporation) have been successfully operated by our former personnel and their skill in that field is increasing. These warehouses, together with others that will be opened as circumstances permit, are intended primarily to improve our marketing of plywood.
CORRUGATED CONTAINER DIVISION

The container demand continues to be tremendous and much more of our production during the year was devoted to the weatherproof (resin impregnated) type of box. This box is used exclusively for overseas shipments of numerous articles ranging from blood plasma to beverages. The supply of paperboard is becoming tighter due to the increased shortage of labor in the woods and to some extent to unusually bad weather. The entire production of paperboard is under allocation control of the War Production Board.

Present conditions in this Division will probably continue during the remainder of the war. Postwar demand should remain heavy and the weatherproof box should enable us to develop business that was not available before the war.

The New Brunswick, New Jersey plant was awarded two renewals during the year and now carries two stars on its Army-Navy E pennant for excellence in production.

GENERAL

The loss of the airplane business more than accounted for the drop in sales and it was partly made up by additional business with a better profit margin.

Our basic program of research and improvements of our products is being continued in the several divisions, and we expect it to continue to make important contributions during the remainder of the war and after the war.

A Registration Statement has been filed in connection with the sale of the remaining 14,960 authorized but unissued shares of the $50 par 5% Convertible Preferred Stock. You will note from the balance sheet that $1,250,000 of Government securities has been earmarked for additional timber purchases and plant expansion. It is expected that the proceeds of the sale of the Preferred Stock will be added to this fund, bringing it up to $2,000,000. This should complete our financial arrangements for postwar needs as now seen.

The common stock dividend was increased to 40c per share for the year 1944 and in the first quarter of 1945 a 10c dividend was declared—the first quarterly dividend on common stock since 1930. The earnings for 1944 were $1.72 per common share and with the increasing excellence of the company's general financial condition, dividends more in keeping with earnings should be possible. The directors will undoubtedly continue a conservative interim dividend policy with final determination at the year end of the full dividend for the year.

We received clearance on 1943 renegotiation with no refund required. It is our belief the same will be true of 1944.
Federal income and excess profits taxes for the years 1940, 1941 and 1942 have been settled with the Treasury Department and additional amounts found and agreed to be due have been provided for in the accounts. Excess profits taxes were computed on the invested capital basis which has been determined satisfactorily. However, we are preparing a claim for filing under the relief provisions of the internal revenue code wherein we are seeking to establish adjusted base period earnings in excess of the invested capital basis.

As previously reported, the Savings and Retirement Plan was approved and now becomes an important feature of our employee relations program. The common stock option to the president was also approved. The Supreme Court, in a recent case involving a stock option, held that the difference between market price of the stock and a lower price at which stock is purchased under the option constitutes ordinary income in the year in which the option is exercised. In the case of the option granted the president by the board of directors and approved by the stockholders, the board stated it desired that the president of the company be enabled to acquire a more substantial interest in the company as a holder of the company’s common stock, and further stated that the option was not granted or regarded by the board of directors as remuneration for services. While it is perhaps too early to know fully how the Supreme Court decision will be applied in this specific case, it is quite possible the purpose of the option might be nullified.

More than 1700 of our employees are now in the Armed Services. Twenty-five have made the supreme sacrifice. In their honor and support the 3800 loyal men and women still in our factories have been doing a superb production job. We have had no work stoppage or other labor disturbances.

By order of the Board of Directors.

March 15, 1945.

Alvin A. Voit
President.

COMPARISONS
(In thousands of dollars, except per share earnings)

<table>
<thead>
<tr>
<th></th>
<th>1944</th>
<th>1943</th>
<th>1942</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>$25,060</td>
<td>$27,724</td>
<td>$23,343</td>
</tr>
<tr>
<td>Net profit before provision for income and excess profits taxes</td>
<td>2,632</td>
<td>2,348</td>
<td>2,520</td>
</tr>
<tr>
<td>Provision for income and excess profits taxes</td>
<td>1,750</td>
<td>1,600</td>
<td>1,750</td>
</tr>
<tr>
<td>Net profit</td>
<td>882</td>
<td>748</td>
<td>770</td>
</tr>
<tr>
<td>Earnings per common share after payment of preferred dividends</td>
<td>1.72</td>
<td>1.40</td>
<td>1.45</td>
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THE MENGEL COMPANY AND
WHOLLY OWNED SUBSIDIARIES

STATEMENT OF CAPITAL AND EARNED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1944

CAPITAL SURPLUS

Balance, January 1 and December 31, 1944 (no change during the year) $2,830,937

EARNED SURPLUS

Balance, January 1, 1944 $1,930,382
Net profit for the year 881,989
Dividends paid, cash:
7% Preferred stock, $7.00 per share $ 672
5% Preferred stock, $2.50 per share 162,600
Common stock, 40c per share 167,072
330,344
Balance, December 31, 1944 $2,482,027

The appended notes to financial statements are an integral part of this statement of surplus.
Net sales .................................................. $25,060,157
Cost of sales, selling and administrative expenses (Note 5) ........ 22,417,249
Operating profit ........................................... 2,642,908
Other income (net) ......................................... 135,463
Profit before interest charges and taxes on income ................. 2,778,371

Interest charges (Note 6):
Interest on funded debt ..................................... $ 98,687
Amortization of debt discount and expense .................. 36,506
Premium on bonds redeemed, other interest, etc. ........ 11,189

Interest charges ................................................. 146,382
Profit before taxes on income .................................. 2,631,989

Provision for Federal and State taxes on income:
Federal and State normal and surtax ....................... 290,000
Federal excess profits tax (after deducting post-war refund of $166,000) 1,460,000

Provision for Federal and State taxes on income .................... 1,750,000

Net profit (Note 5) .................................................. $ 881,989

Provision for depreciation (including amortization of $102,877 of defense facilities) amounting to $467,443 and depletion in the amount of $205,776 are included in the above statement.

The appended notes to financial statements are an integral part of this statement of profit and loss.
THE MENGEL COMPANY AND
WHOLLY OWNED SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. 195,120 shares of common stock is reserved for conversion of 5% preferred stock.
   10,000 shares of common stock is reserved for option to the president of the Company to purchase all or any part thereof at any time and from time to time on or prior to December 31, 1949, at $10 per share, being the approximate market price at the date of the granting of the option by the Board of Directors. This option was approved at the stockholders’ meeting of February 27, 1945.

2. The Company’s 1942 and 1943 contracts and subcontracts subject to the Renegotiation Act have been reviewed and the Government determined that no excessive profits had been realized. Renegotiation of the Company’s 1944 business has already been instituted, and in the opinion of the management renegotiation for 1944 should have no effect on the net profit for that year.

3. The Company has filed claims and contemplates filing additional claims for costs and fee in connection with termination in 1943 of a cost-plus-fixed-fee war subcontract. Though the claims filed and to be filed are for substantial amounts, no effect has been given thereto in these financial statements, as the result of the settlements to be made are unpredictable.

4. The Indenture dated April 1, 1944 relative to the 3 3/4% Sinking Fund Debentures due April 1, 1959 provides, among other things, that the Company will not declare any dividends except to the extent of the net earnings of the Company accumulated subsequent to December 31, 1943, plus $500,000 (which at December 31, 1944 amounted to $1,051,644.94) and not then unless, immediately after giving effect thereto, the consolidated net current assets will be at least equal to 150% of the consolidated funded indebtedness.

5. Selling, general and administrative expenses include a payment of $311,227 in connection with the adoption of the Company’s savings and retirement plan. Of this amount, $164,176 represents a partial payment for employees prior years service cost (which it is estimated will aggregate $1,641,000), $48,571 is in payment of employees' current contribution for 1944, and $98,480 is in payment of the Company’s current contribution for 1944. The plan is subject, among other things, to approval by the Commissioner of Internal Revenue.

6. Interest charges include $12,740 representing charges for duplicate interest when the Company refunded its first mortgage bonds with the issue of debentures and $25,276.34 representing the unamortized discount and expense applicable to the aforesaid first mortgage bonds.
LYBRAND, ROSS BROS. & MONTGOMERY
ACCOUNTANTS AND AUDITORS
HEYBURN BUILDING
LOUISVILLE

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, 1944, 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, 1944, 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.

LYBRAND, ROSS BROS. & MONTGOMERY

Louisville, Kentucky
February 28, 1945.
EXECUTIVE OFFICES
1122 Dumesnil Street
Louisville, Kentucky

MENGEL PRODUCTS

NOW BEING PRODUCED FOR WAR

Army cargo truck body parts
Plywood for military uses including aircraft and gliders, assault and landing boats, military cases, housing and construction, lend lease, etc.

Mahogany and other veneers for aircraft, marine, and other types of plywood
Aircraft packing boxes, munition boxes, aircraft engine boxes, jeep boxes, aircraft fuel tank and fuel cell boxes

Army cots and cot parts, debarkation ship ladder steps, etc.

Weatherproof corrugated paperboard containers for military overseas shipments of blood plasma, beverages and other products
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 and veneers
Engineered wood products
Wood cleated corrugated containers

MENGEL PEACETIME PRODUCTS

Furniture
Plywood
Flush doors
Kitchen cabinets
Veneers
Corrugated shipping containers
Wood packing cases
Flexwood and Flexglass