57th Annual Report

THE MENGEL COMPANY

1955
### 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>1955</th>
<th>1954</th>
<th>1953</th>
<th>1952</th>
<th>1951</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$46,599</td>
<td>$38,632</td>
<td>$41,870</td>
<td>$36,486</td>
<td>$42,418</td>
</tr>
<tr>
<td>Profit before taxes on income</td>
<td>3,369</td>
<td>1,862</td>
<td>2,610</td>
<td>1,899</td>
<td>3,481</td>
</tr>
<tr>
<td>Taxes on income</td>
<td>1,630</td>
<td>800</td>
<td>1,190</td>
<td>805</td>
<td>1,905</td>
</tr>
<tr>
<td>Net earnings</td>
<td>1,739</td>
<td>1,062</td>
<td>1,420</td>
<td>1,094</td>
<td>1,576</td>
</tr>
<tr>
<td>per share of common stock*</td>
<td>2.73</td>
<td>1.64</td>
<td>2.22</td>
<td>1.60</td>
<td>2.47</td>
</tr>
</tbody>
</table>

#### Dividends to stockholders

- Total amount: 659, 651, 654, 654, 1,092
- per share of preferred stock: 2.50, 2.50, 2.50, 2.50, 2.50
- per share of common stock: 1.00, 1.00, 1.00, 1.00, 1.75

#### Earnings retained for requirements of the business

1,080, 410, 766, 440, 484

#### Depreciation

794, 835, 676, 631, 608

#### Depletion

263, 154, 98, 80, 52

#### Plant additions—net

1,081, 825, 1,001, 894, 855

#### Timber purchases

—, 955, 212, 802, 631

#### Financial Condition December 31

<table>
<thead>
<tr>
<th>Item</th>
<th>1955</th>
<th>1954</th>
<th>1953</th>
<th>1952</th>
<th>1951</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and government securities</td>
<td>$1,364</td>
<td>$1,750</td>
<td>$1,289</td>
<td>$1,426</td>
<td>$1,862</td>
</tr>
<tr>
<td>Receivables</td>
<td>3,770</td>
<td>3,200</td>
<td>3,126</td>
<td>3,336</td>
<td>2,699</td>
</tr>
<tr>
<td>Inventories</td>
<td>6,177</td>
<td>5,888</td>
<td>6,955</td>
<td>6,017</td>
<td>7,195</td>
</tr>
<tr>
<td>Total current assets</td>
<td>11,311</td>
<td>10,818</td>
<td>11,370</td>
<td>10,779</td>
<td>11,756</td>
</tr>
<tr>
<td>—times current liabilities</td>
<td>4.9</td>
<td>4.1</td>
<td>3.1</td>
<td>3.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Unpaid income taxes</td>
<td>578</td>
<td>1,054</td>
<td>1,490</td>
<td>1,072</td>
<td>2,090</td>
</tr>
<tr>
<td>Other current liabilities</td>
<td>1,745</td>
<td>1,565</td>
<td>2,122</td>
<td>2,070</td>
<td>1,433</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>2,324</td>
<td>2,619</td>
<td>3,612</td>
<td>3,142</td>
<td>3,523</td>
</tr>
<tr>
<td>Net working capital</td>
<td>8,988</td>
<td>8,200</td>
<td>7,757</td>
<td>7,637</td>
<td>8,233</td>
</tr>
<tr>
<td>Plant, timber, other assets</td>
<td>11,326</td>
<td>11,100</td>
<td>10,608</td>
<td>10,134</td>
<td>9,276</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>850</td>
<td>1,502</td>
<td>1,170</td>
<td>1,342</td>
<td>1,522</td>
</tr>
<tr>
<td>Total capital</td>
<td>19,464</td>
<td>17,798</td>
<td>17,196</td>
<td>16,429</td>
<td>15,990</td>
</tr>
<tr>
<td>—book value per share of common stock*</td>
<td>30.02</td>
<td>27.36</td>
<td>26.40</td>
<td>25.17</td>
<td>24.47</td>
</tr>
</tbody>
</table>

*Earnings and book value per share for all years are stated on basis of shares outstanding at end of 1955.
To the Stockholders:

The highlights of the results of operations of The Mengel Company and consolidated subsidiaries for the years 1955 and 1954 and of their consolidated financial position at the ends of these years are compared in the following tabulation:

<table>
<thead>
<tr>
<th></th>
<th>1955</th>
<th>1954</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$46,598,985</td>
<td>$38,632,013</td>
</tr>
<tr>
<td>Profit before taxes on income</td>
<td>3,369,470</td>
<td>1,861,760</td>
</tr>
<tr>
<td>Income taxes</td>
<td>1,630,000</td>
<td>800,000</td>
</tr>
<tr>
<td>Net earnings</td>
<td>1,739,470</td>
<td>1,061,760</td>
</tr>
<tr>
<td>— per common share*</td>
<td>2.73</td>
<td>1.64</td>
</tr>
<tr>
<td>Net working capital</td>
<td>$9,907,062</td>
<td>$8,199,587</td>
</tr>
<tr>
<td>Cash</td>
<td>1,363,726</td>
<td>1,739,747</td>
</tr>
<tr>
<td>Total capital</td>
<td>19,464,218</td>
<td>17,798,244</td>
</tr>
<tr>
<td>— per common share*</td>
<td>30.02</td>
<td>27.36</td>
</tr>
</tbody>
</table>

*based on number of shares outstanding at end of 1955

The complete audited statements for the two years together with the auditors' certificate covering their examination of the financial statements for 1955 appear on pages 8 to 11 inclusive. A five year statistical summary of operations and financial condition is given on the opposite page.

FINANCIAL REVIEW

Earnings

Net earnings for the year 1955, after taxes, were $1,739,470 compared with $1,061,760 for the previous year. Based on the number of shares of stock outstanding at the end of 1955 earnings were equivalent to $2.73 per share of common stock for 1955 compared with $1.64 for 1954.

Net sales were more than 20 per cent above the 1954 level and were nearly 10 per cent ahead of the previous record high year for sales, which was 1950.

The earnings shown for 1955 are after an extraordinary charge of approximately $186,000 made in connection with the payment in full of prior service costs under the Retirement Plan not previously funded, as discussed on page three.
Funds derived from earnings and other sources and the disposition of these funds:

Funds were provided from the following sources:

- Earnings for the year: $1,739,470
- Expense items which did not require cash expenditures:
  - Provision for depreciation: $794,369
  - Provision for depletion: $262,675
- Refund of prior years' Federal taxes on income and related interest, etc.: $585,778

Total funds provided: $3,382,292

Funds were expended for the following:

- Dividends:
  - 5% cumulative preferred stock: $34,540
  - Common stock: $624,734

- Plant and equipment:
  - Additions and improvements: $1,461,635
  - Less net book value of sales and retirements: $380,358

- Reduction of long-term debt: $651,750

- Increase in prepaid expenses and deferred charges: $201,716

Total funds expended: $2,594,017

Resulting in an increase in working capital of: $788,275

Changes in Working Capital during 1955:

<table>
<thead>
<tr>
<th>Current Assets</th>
<th>December 31</th>
<th>Increase or Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$1,363,726</td>
<td>$1,729,747</td>
</tr>
<tr>
<td>Receivables</td>
<td>3,770,749</td>
<td>3,199,999</td>
</tr>
<tr>
<td>Inventories</td>
<td>6,176,889</td>
<td>5,888,426</td>
</tr>
<tr>
<td>Total current assets</td>
<td>$11,311,364</td>
<td>$10,818,172</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Current Liabilities</th>
<th>December 31</th>
<th>Increase or Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes payable</td>
<td>$150,000</td>
<td>$253,358</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>859,537</td>
<td>715,774</td>
</tr>
<tr>
<td>Accrued wages, etc.</td>
<td>557,012</td>
<td>423,252</td>
</tr>
<tr>
<td>Accrued taxes</td>
<td>178,515</td>
<td>172,324</td>
</tr>
<tr>
<td>Federal and State taxes on income</td>
<td>578,438</td>
<td>1,053,877</td>
</tr>
<tr>
<td>Total current liabilities</td>
<td>$2,323,502</td>
<td>$2,618,585</td>
</tr>
<tr>
<td>Working capital</td>
<td>$8,907,962</td>
<td>$6,199,587</td>
</tr>
<tr>
<td>Current ratio</td>
<td>4.9 to 1</td>
<td>4.1 to 1</td>
</tr>
</tbody>
</table>
Not included in the earnings shown for the year but credited directly to earnings retained for use in the business was the net amount of $585,778 refund of prior years' Federal taxes on income, interest, etc., discussed below.

Funds and Working Capital Changes

From the statement of funds appearing on the preceding page it will be seen that the provisions for depreciation and depletion approximately covered the net additions and improvements to plant and equipment. The remainder of funds derived from earnings and from the refund on prior years' taxes was used primarily for the payment of dividends, the reduction of long-term debt, and the increase in working capital to carry the higher level of receivables and inventories accompanying the higher level of business.

The Company did not borrow from the banks during 1955, and at the end of the year had acquired approximately $1,300,000 of U. S. Government securities which were earmarked for the payment of Federal income tax.

Income Tax Refund

The Company's claim for refund of a portion of the taxes assessed by the Federal Government was settled during 1955. The net effect after allowing for legal fees and for income tax on the amount of interest included in the refund was a credit to retained earnings in the amount of $585,778.

The question at issue in this tax refund claim was the year of taxability of the final settlement received in the year 1947 of the Company's claim for costs and fee under a war sub-contract which was terminated in 1943. The Government had claimed that the settlement was taxable at 1944 rates plus interest, whereas the Company had contended that the settlement was taxable as income in 1947.

Reduction of Long-Term Debt

In addition to meeting the current maturities on its long-term debt, the Company during 1955 paid in full all remaining maturities on notes payable for timber purchases, which were due from 1956 to 1959 inclusive. These payments resulted in a reduction of $651,750 in the long-term portion of the debt, and leave as the only indebtedness running beyond one year the non-current portion of the 31/4% installment notes totaling $850,000.

Payment of Prior Service Costs

When the Company adopted a Retirement Plan in 1944 it undertook to pay retirement benefits with respect to service before as well as after that date. The total estimated cost of such prior service benefits, including costs in connection with amendments to the Plan in 1947, was estimated to be approximately $2,400,000. The Company undertook to pay in each year the current service costs accruing under the Plan and, in addition, to make payments on account of the prior service liability. In each year but one since the Plan's adoption the Company paid the maximum amount allowable as a tax deduction toward the funding of such costs. Such payments have been at the rate of approximately $240,000 per year.
In 1955, in addition to the usual amount paid on account of prior service, payment was made of the entire remaining balance of approximately $373,000 required to completely fund the estimated prior service cost. As set forth in the Notes to Financial Statements, the after-tax effect or $186,246 of this extra payment has been charged against the current year's income account. The remainder, representing the amount of income tax benefit expected (in the years in which the additional payment is allowable as a deduction) has been deferred and will be offset against tax liability in such subsequent years.

**CAPITAL STOCK AND STOCKHOLDERS**

Conversions of preferred stock during the year resulted in a reduction of the number of preferred shares by 2,548 to a total of 13,669, and an increase in the number of common shares outstanding by 7,644 to a total of 625,534 at the end of 1955.

As stated in last year's report, Container Corporation of America acquired a majority interest in the common stock of The Mengel Company during 1954, and by the end of February 1955 Container owned Mengel stock of both classes, equivalent to 420,760 common shares or approximately 63% of total shares which would be outstanding on a fully converted basis. These holdings at February 3, 1956, were equivalent to 435,990 common shares or 65.4% of total shares on the fully converted basis.

**OPERATIONS**

**CORRUGATED BOX DIVISION**

The expansion of our plant in Nashville, Tennessee, the Nashville Corrugated Box Company Division, referred to in the 1954 report, was completed during the year. Resulting economies in production have been encouraging.

On July 1, 1955, as stated in quarterly report dated September 30, 1955, we purchased from the O. B. Andrews Company, a wholly-owned subsidiary of Container Corporation of America, all production equipment and inventory of its Knoxville, Tennessee plant. We leased the buildings from the O. B. Andrews Company and since this acquisition good progress has been made in the development of the business of this plant.

The other four plants of this division—Louisville, Kentucky; Winston-Salem, North Carolina; New Brunswick, New Jersey; and Fulton, New York—despite keen competition, had a satisfactory year.

**FURNITURE DIVISION**

The year 1955 was spent in consolidating operations and generally improving production. Many economies have resulted.
With the volume of business in the industry holding at a good level it was decided in October to add to our finishing equipment, in order to keep abreast of the market. This work is well under way and will be completed in the early spring.

Our offerings were well received at the major winter markets—Chicago, New York and High Point.

GEORGIA WOODLANDS DIVISION

During the summer months of 1955, when extreme drought conditions existed in southern Georgia and northern Florida, our pine timberland holdings in that area experienced severe hazards from forest fires. We did have some fires on our properties but, thanks to the fine efforts of our own force and the wonderful assistance of the forestry organization of Container Corporation of America and of neighbors and other large timber holders, our losses were minor.

WOOD PRODUCTS DIVISION

Cabinet Department: Following the closing of the St. Louis Branch, as advised in our June 30, 1955 quarterly report, all kitchen cabinet production has now been transferred to our Union City, Indiana plant.

A new natural birch line, bearing the trade name of Crestwood, has been designed and was introduced at the January Home Builders Show in Chicago, where it was apparently very well received. Priced in a bracket slightly higher than the well-accepted Mengelwood line, Crestwood is aimed at the increasingly strong better-home market.

The Winston-Salem, North Carolina plant, in addition to its regular line of beverage boxes and wall closets, has recently developed some business in merchandise display racks for retail stores. The present trend to more and more self-service stores and departments indicates that there will be a continuing strong demand for this type of product which this plant is well equipped to produce.

Mahogany Department: Competition in wood veneers has been and continues quite severe. This condition is due partially to the importation of foreign-produced veneers.

Our subsidiary, Mengel West Africa, Limited, completed the opening and first removal of logs from new concessions with shipments from the Port of Axim. These new concessions which were just being opened at the time of the last annual report, give every indication of supplying mahogany logs in good volume and quality.

During the year this subsidiary supplied our Flush Door Plant at Laurel, Mississippi, with substantial quantities of “Makore”, or African Cherry, which we manufactured into doors sold under the trade name of Gold Coast Cherry. Makore is abundant and we think very beautiful wood. We believe its use will expand.

Plywood and Door Department: During the year the plant at Elizabeth City was equipped to manufacture Mengel Flush Doors in addition to Plywood. Production was started in a small way during the last quarter and we expect this to increase during 1956.

Our Flush Door Plant at Laurel, Mississippi, was quite busy throughout the year until November and December, when we were affected by what is, apparently, an acute
shortage of birch veneer. We expect this shortage to last until spring, and in the meantime we are exerting every effort to expand the sale of Gold Coast Cherry doors and gum doors from our own timber sources.

SALES

Sales for the year were in step with the economy of the country in general, showing an increase of 20 per cent over 1954.

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 would be 45 per cent corrugated boxes and specialties, and 55 per cent wood products.

EMPLOYEE RELATIONS

In order to further good employee relations and to develop a spirit of cooperation, efficiency and friendliness for the mutual advantage of customers, employees, stockholders and management, a Leadership Development Conference was started in November.

This discussion group is composed of representatives from each plant in the Company. Subjects discussed are—Human Relations, How to Instruct on the Job, Quality, and Safety. The reaction to these discussions has been excellent and it is hoped to continue the meetings until all management and supervisory personnel have had a chance to attend.

ACCIDENT PREVENTION

Accident prevention activities continue to be pushed vigorously in all plants and during 1955 several awards were earned. Elizabeth City with a reduction of 68 per cent in accident frequency was given the Award of Merit sponsored by The U. S. Department of Labor in cooperation with the North Carolina Department of Labor.

Louisville Corrugated Box plant operated the entire year with no disabling injuries and tied for first place in the small plant group of the Louisville Safety Council Contest. It also tied with five other plants in the National Contest sponsored by the National Safety Council. The Fourth Street plant of the Furniture Division was awarded first place in the medium size plant safety contest by the Louisville Safety Council. It was also awarded the Award of Honor by The Safety Council for completing 3,254,277 hours with no disabling injuries.

LABOR RELATIONS

Labor relations were good through 1955 with only one very minor work stoppage.

MENGEL SAVINGS AND RETIREMENT PLAN

During 1955 the retirement fund increased by approximately $244,000, to a total of over $7,000,000. In the 12 years of the Plan the Company has paid into the fund
$5,571,010.00, as compared to $1,538,848.89 paid by the members. The Company's contribution includes all prior service costs, which were completed during 1955.

There are now 250 retired members drawing regular benefits under the plan and 1,673 active members, which is approximately 95 per cent of the employees eligible to join.

ORGANIZATION

There were no changes in the officers of the Company following those elected effective February 7, 1956, as explained in the 1954 annual report, nor in the Board of Directors since the election of the present Board at the time of the annual meeting held May 4, 1955.

It is a pleasure on behalf of the Board of Directors to express sincere appreciation to all employees of the Company for their conscientious and effective cooperation during the past year.

By order of the Board of Directors.

Respectfully submitted,

Lyman C. Martin
President

Louisville, Kentucky
March 3, 1956

The Board of Directors has fixed the place for the annual meeting of stockholders which is to be held on Wednesday, April 4, 1956, at 11 a.m., at the office of the Company at Fourth and Colorado Streets, in Louisville, Kentucky. Notice of the meeting will be mailed to stockholders entitled to vote at the meeting.
## THE MENGEL COMPANY AND WHOLLY OWNED SUBSIDIARIES

### ASSETS

<table>
<thead>
<tr>
<th></th>
<th>1955</th>
<th>1954</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash on hand and demand deposits</td>
<td>$1,363,726</td>
<td>$1,729,747</td>
</tr>
<tr>
<td>Receivables:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customers, less allowance for losses (1955—$127,226; 1954—$151,115)</td>
<td>$3,508,046</td>
<td>$2,972,251</td>
</tr>
<tr>
<td>Other</td>
<td>$262,703</td>
<td>$227,748</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$11,311,364</td>
<td>$10,818,172</td>
</tr>
<tr>
<td><strong>Investment in common stock of United States Plywood Corporation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(market quotations at December 31: 1955—$3,450,750; 1954—$3,128,250)</td>
<td>$125,000</td>
<td>$125,000</td>
</tr>
<tr>
<td><strong>Interest in producing oil wells</strong></td>
<td>$1</td>
<td>$1</td>
</tr>
<tr>
<td><strong>Fixed assets, at cost:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land</td>
<td>$543,881</td>
<td>$584,246</td>
</tr>
<tr>
<td>Timberland and timber, less depletion</td>
<td>$2,540,410</td>
<td>$2,044,995</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>$6,701,923</td>
<td>$6,570,313</td>
</tr>
<tr>
<td>Machinery, equipment, etc.</td>
<td>$10,250,900</td>
<td>$9,948,650</td>
</tr>
<tr>
<td>Construction in progress</td>
<td>$137,563</td>
<td>$103,552</td>
</tr>
<tr>
<td><strong>Less allowances for depreciation:</strong></td>
<td>$3,540,025</td>
<td>$3,668,126</td>
</tr>
<tr>
<td>Buildings and improvements</td>
<td>$5,987,623</td>
<td>$5,752,834</td>
</tr>
<tr>
<td><strong>Net fixed assets</strong></td>
<td>$10,655,029</td>
<td>$10,630,796</td>
</tr>
<tr>
<td><strong>Prepaid expenses and deferred charges:</strong></td>
<td>$22,637,720</td>
<td>$21,918,579</td>
</tr>
<tr>
<td>Insurance and miscellaneous</td>
<td>$360,080</td>
<td>$344,610</td>
</tr>
<tr>
<td>Past service costs of retirement plan, applicable to future years (Note 1)</td>
<td>$186,246</td>
<td>—</td>
</tr>
</tbody>
</table>

The appended notes are an integral part of the financial statements.
## CONSOLIDATED BALANCE SHEET DECEMBER 31, 1955 AND 1954

### LIABILITIES

<table>
<thead>
<tr>
<th>1955</th>
<th>1954</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
</tr>
<tr>
<td>Long-term indebtedness due within one year</td>
<td>$150,000</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>859,537</td>
</tr>
<tr>
<td>Salaries, wages, and other compensation</td>
<td>543,470</td>
</tr>
<tr>
<td>Interest on long-term indebtedness</td>
<td>13,542</td>
</tr>
<tr>
<td>Taxes, other than taxes on income</td>
<td>178,515</td>
</tr>
<tr>
<td>Federal and State taxes on income (1955—less U. S. Government obligations, at cost plus accrued interest, $1,298,693)</td>
<td>578,438</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>2,323,502</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1955</th>
<th>1954</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long-term indebtedness (current portion above):</strong></td>
<td></td>
</tr>
<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>850,000</td>
</tr>
<tr>
<td>Notes payable for timber purchases, paid in 1955</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total long-term indebtedness</strong></td>
<td>850,000</td>
</tr>
</tbody>
</table>

### CAPITAL

<table>
<thead>
<tr>
<th>1955</th>
<th>1954</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Contributed capital:</strong></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: 1955—66,331 shares; 1954—63,783 shares; outstanding: 1955—13,669 shares; 1954—16,217 shares</td>
<td>683,450</td>
</tr>
<tr>
<td>Common stock, $1 par value, authorized 1,040,000 shares, reserved for conversion of convertible first preferred stock: 1955—41,007 shares; 1954—40,651 shares; issued and outstanding: 1955—625,534 shares; 1954—617,890 shares</td>
<td>625,534</td>
</tr>
<tr>
<td>Amounts received in excess of par value of capital stock</td>
<td>6,071,909</td>
</tr>
<tr>
<td>Earnings retained for use in the business (Notes 2 and 3)</td>
<td>12,083,325</td>
</tr>
<tr>
<td><strong>Total capital</strong></td>
<td>19,464,218</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$22,637,720</strong></td>
</tr>
</tbody>
</table>
CONSOLIDATED STATEMENT OF EARNINGS
for the years ended December 31, 1955 and 1954

1955 1954
Net sales $46,598,985 $38,632,013
Cost of sales and selling and administrative expenses 43,495,796 37,216,312
Operating profit 3,103,189 1,415,701
Other income less other deductions:
Net profit (loss) on sale of fixed assets, etc. (13,350) 117,510
Dividends on stock of United States Plywood Corporation 159,100 30,100
Income from oil wells 158,684 146,864
Miscellaneous, net 18,287 15,527
Net profit from joint venture — 17,325
Dividends from U. S.-Mengel Plywoods, Inc. — 100,000
Dividends from other investments — 86,500
Net profit before taxes on income 322,671 513,826
Profit before taxes on income 3,425,860 1,929,527
Interest on long-term notes 56,399 67,767
Provision for Federal and State taxes on income 1,630,000 800,000
Net earnings for the year (Note 1) 1,739,470 1,061,760
Earnings retained for use in the business at the beginning of the year 10,417,351 10,007,031
Refund of prior years’ Federal taxes on income, interest, etc. (Note 2) 585,778 —
Cash dividends:
Convertible first preferred stock, $2.50 per share 34,540 52,759
Common stock, $1.00 per share 624,734 598,681
Earnings retained for use in the business at the end of the year (Notes 2 and 3) 659,274 651,440

$12,063,325 10,417,351
Provisions for depreciation and depletion are included in the above statement in the following amounts:
1955 1954
Depreciation $794,369 $835,089
Depletion 262,674 154,136

AMOUNTS RECEIVED IN EXCESS OF PAR VALUE OF CAPITAL STOCK
for the years ended December 31, 1955 and 1954
1955 1954
Balance at beginning of year $ 5,952,153 $ 5,526,662
Excess of par value of shares of convertible first preferred stock over par value of shares of common stock issued in conversion 119,756 425,491
Balance at end of year $ 6,071,909 $ 5,952,153

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

1. The Company paid $372,492 during the current year, in addition to its normal annual contribution of approximately $240,000, to completely fund the prior service cost of its retirement plan. Although the additional amount paid is not deductible for income tax purposes until the years 1956 to 1959 inclusive, the estimated after-tax portion thereof (one-half) has been charged to current year's income and the remainder, representing expected income tax benefits in the subsequent years, has been deferred.

2. During the current year, the Company received a net refund of Federal taxes on income relating to the years 1944 and 1947. The refund of prior years' Federal taxes on income and related interest reported in these financial statements are after deducting legal fees, and after deducting current year's Federal and State taxes on income of $184,000 relating to the interest recoveries and legal fees paid.

3. The agreement relative to the 3 1/4% Notes Payable imposes certain restrictions on the payments of cash dividends. Retained earnings restricted at December 31, 1955 amount to approximately $4,400,000.

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, 1955, 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, 1955, 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.

Louisville, Kentucky,
January 24, 1956.

[Signature]

Lyndsay, Foss & Co., Montgomery
THE MENGEL COMPANY

DIVISIONS

CORRUGATED BOX

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.

Plants—Louisville, Kentucky; Winston-Salem, North Carolina; New Brunswick, New Jersey; Fulton, New York; Nashville, Tennessee (Nashville Corrugated Box Company Division); and Knoxville, Tennessee.

Division headquarters at Louisville plant—1111 Zane Street, Louisville, Kentucky
District sales office at each plant.
Other sales offices—Buffalo, Cincinnati, Chicago, Johnston City, Memphis, New York, Philadelphia, Rochester, St. Louis, Syracuse, Utica.

GEORGIA WOODLANDS

Headquarters office—Valdosta, Georgia.

FURNITURE

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

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.
In Canada: J. W. Kilgour & Bro., Ltd., Beaucharnois, Quebec.

WOOD PRODUCTS (Other Than Furniture)

Mengel flush doors; kitchen cabinets; wall closets, closet fronts, and sliding doors; wood boxes; mahogany and other fine cabinet veneers, lumber and logs; hardwood plywood stock panels.
Division headquarters—4th and Colorado, Louisville, Kentucky

Door and Plywood Department:

Headquarters—4th and Colorado, Louisville, Kentucky
Door factories—Laurel, Mississippi, and Elizabeth City, North Carolina
Door sales offices—Louisville, Kentucky, and New York City
Plywood factory—Elizabeth City, North Carolina
Plywood sales offices—Elizabeth City, North Carolina, and New York City
Sales representatives throughout the country

Kitchen Cabinet Department:

Factory and sales office—Union City, Indiana
Sales representatives throughout the country

Closet Products and Wood Box Department:

Factory and sales office—Winston-Salem, North Carolina
Sales representatives throughout the country

Mahogany Department:

Headquarters, sample room and mill—4th and Colorado, Louisville, Kentucky
Sales representatives throughout the country
African production and procurement—Mengel West Africa, Limited, (wholly-owned subsidiary)—Dunkwa, Gold Coast, British West Africa.
THE MENGEL COMPANY

GENERAL OFFICES • FOURTH and COLORADO • LOUISVILLE, KENTUCKY

DIRECTORS:  
J. McFerran Barr  
Donald H. Brewer  
James C. Courténay  
Paul W. Guenzel  
Lyman C. Martin  
Edwin G. Middleton  
H. Keith Williams

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

GENERAL COUNSEL  
Middleton, Seelbach, Wolford, Willis & Cochran  
301 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