

EASTERN MANUFACTURING COMPANY

SANDERSON & PORTER

CHICAGO NEW YORK SAN FRANCISCO

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ENGINEERS

52 WILLIAM STREET NEW YORK

We have made an examination of the business and properties of the Eastern Manufacturing Company and of The Miami Paper Company, and present our report herewith. Our examination was made in connection with the proposed issue and sale of securities of the Eastern Manufacturing Company, the proceeds of which we were informed were to be used principally in acquiring the assets and business of The Miami Paper Company.

The Eastern Company manufactures sulphite pulp and fine writing papers. Its general offices are at Boston, Mass., and branch sales offices are located in New York and Chicago. It has at present two manufacturing plants, each including both a pulp and a paper unit, at South Brewer, Me. and Lincoln, Me. respectively. It also owns timber lands in Maine, and the entire capital stock of two important subsidiary companies, the Lincoln Pulp Wood Company and the Liberty Paper Company, the former of which is an active agent in the conduct of the parent Company's pulp-making business, and the latter a separately operated company engaged in the manufacture and sale of gummed papers.

The Miami Company manufactures principally book papers, together with a small proportion of writing papers, and its general offices and plant are both located at West Carrollton, Ohio. It has no subsidiary, allied or affiliated companies, and is a so-called "converting" mill, as distinguished from a "self-contained" mill such as Eastern, which operates a pulp unit in which is prepared the raw material for the paper unit.

We visited the two principal plants of the Eastern Company and the plant of the Miami Company, and estimated as of May 1924 the replacement cost and present depreciated value of these properties, basing our estimate on detailed appraisals made by appraisal companies in 1920, making due allowance for additions to and deductions from plant account since that date, for changes in general price levels, and for the liquidation of certain assets of the Miami Company that would not be necessary or valuable to the combined Companies. Timber lands were not inspected or appraised, except for a superficial check of the reasonableness of the Eastern Company's book values. In the same manner we examined the Eastern Company's commitments for pulpwood under stumpage permits on land not owned.

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No auditors were concurrently employed, but accountants' reports of audit for past years were made available by the Companies for our use. From them, and from other data furnished by the Companies from their current operating records, we obtained a large part of the information on which this report is based. While we have not had an opportunity to verify these data, we believe they are reliable.

We made no check of the quantity or detail pricing of inventories, but examined the general basis of the pricing and the rate of turnover of the various categories with particular reference to the reasonableness of the amounts and values reported on hand, and the probable liquidity of these assets under current operating conditions.

Our examination included brief inquiries into the history and earnings of the Companies, a study of the condition of the industry in which they are engaged and of their position in the industry; a review of their business, financial, and sales policies and methods as reflected by their financial history or developed by discussion with their officials; and sufficient study of the producing and selling situation in which the Companies find themselves at present to enable us to form an opinion as to the prospect of realizing the benefits sought to be attained by the proposed consolidation.

EASTERN MANUFACTURING COMPANY

CORPORATE HISTORY

The Eastern Manufacturing Company was organized under the laws of the State of Maine in March 1889, for the manufacture of pulp. It was located adjacent to the sawmill operated at that time by the incorporators of the Eastern Manufacturing Company, and was formed for the purpose of using the slabs and waste produced as a by-product at the sawmill. The business was confined wholly to the pulp industry until 1896, when the first paper mill was built - containing only one machine with a capacity of 20 tons daily. In 1914 the controlling ownership of the Katahdin Pulp & Paper Company, located at Lincoln, Me., was acquired, and the business and properties of the Katahdin Company have since been operated in conjunction with those of the Company. In 1919 the Company was reincorporated in Massachusetts.

The Company owns all of the capital stock of the Lincoln Pulp Wood Company of Maine, and all of the common stock of the Liberty Paper Company of Massachusetts, as

well as the entire capital stock of the Katahdin Pulp & Paper Company, ownership of which was acquired in 1922. The changes in capitalization of the Company since reincorporation in 1919 are reflected in the Comparative Consolidated Balance Sheet, Exhibit "A", hereto annexed.

PRODUCTS

The Company manufactures sulphite pulp and fine writing papers. The pulp is manufactured partly for the Company's own use in its paper mills, and partly for sale to outside customers. Outside sales are divided between pulp intended for conversion into writing paper and specially prepared pulp for use in the manufacture of artificial silk. Writing papers include bonds, ledgers, and paper-teries, and a certain proportion of the Company's output is rag content paper.

The pulp manufacturing capacity of the Company is substantially in excess of its requirements for its own manufacture of paper, and during the past several years has been in excess of the combined requirements of its own paper mills and of outside customers. Incidental to the operation of its pulp plants, the Company operates acid making plants at both South Brewer and Lincoln, and at South Brewer also operates a plant for making electro-

lytic bleach, which results in its having caustic soda as a by-product to dispose of commercially.

BUSINESS AND FINANCIAL POLICIES

It has been the aim of the Company to operate as a thoroughly self-contained business. To that end it has acquired considerable holdings of timber lands in Maine, amounting to 226,810 acres, and in addition about 1920 it contracted under stumpage permits for cutting on leased lands some 800,000 cords of pulpwood, from which it has since obtained its principal supply of wood for its pulp mills, reserving its owned supply for later use. The timber lands owned and leased are mostly located on waterways serving the pulp mills, and both of the Company's pulp plants are operated in conjunction with paper mills which use the major portion of the output of the pulp mills. However, the Company has been unable in the past several years to operate its pulp mills to full capacity, and consequently has been unable to absorb in production the total amount of wood required to be cut under its stumpage permits. The paper mills, however, have been run at what may be considered to be approximately normal capacity. It is apparent, therefore, that the plants of the Company are slightly out of balance as between pulp and paper capacity,

which was largely due to the acquisition in 1914 of the Lincoln plant, then owned by the Katahdin Pulp & Paper Company.

Since the depression of 1921 the Company has made substantial progress in building up its sales of paper, so that it has been for some time considering the necessity of adding to its paper producing capacity in order more nearly to balance its pulp producing capacity, with such margin available for the production of so-called "silk" pulp as seems warranted by the steady growth of the Company's business in this field. It has been the consistent aim of the present management of the Company to modernize its plants, processes, organization, and methods, and to this end it has been spending large sums for repairs, improvements, and additions to the property.

SALES POLICIES AND METHODS

The Company disposes of the bulk of its output in the manner customary in the fine writing paper trade, namely through jobbers and converters. The greater part of its output is sold through jobbers, with whom the Company maintains a sales contact through its sales offices in New York and Chicago. A substantial proportion of the Company's sales to converters is made to the single, well

known stationery concern, Eaton, Crane & Pike, of Pittsfield, Mass., with whom the Company has had long and satisfactory relations. The selling force maintained by the Company is small, and is used principally for contact and missionary work. Terms of sale are those customary in the trade, and the prices obtained by the Company for its product are generally in line with those of its competitors. An effort has been made to build up the sale of the Company's own brands of paper, both watermarked and un-watermarked, as against the sale of jobbers' brands or "no-marks". During 1923 12.5 per cent of sales of paper were own marks, 28 per cent customers' marks, and the remainder unmarked. However, the domination of the paper trade by jobbers is so great that there is considerable difficulty in establishing mill marks unless supported by extensive advertising, such as that of the Hammermill Paper Company, which is one of the Company's chief competitors. The Company has done a large amount of advertising in the past, and apparently has a well established name in the trade. Certain advertised grades of its papers are stated to command a price appreciably greater than competing unadvertised brands of practically identical paper. In addition to the advertising of certain

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brands of its paper, the Company has endeavored to create a sales prestige through good service to customers, in which, we are informed, the Company has met with a measure of success.

Sales of pulp are made in moderate volume to other manufacturers of paper, and in fairly heavy volume to manufacturers of artificial silk, principally the Viscose Company and the DuPont Company. Sales to the Viscose Company commenced about 1916, and have continued in increasing volume since that time. Officials of the Company believe that there is a permanent outlet for a share of its pulp in this field, in spite of the ever present possibility that the users of silk pulp might undertake its manufacture themselves. As in the case of paper, the Company makes every endeavor to produce clean, high grade pulp, which has materially aided the selling effort on silk pulp.

ORGANIZATION AND PERSONNEL

The organization of the Company is simple and apparently suited to its needs. Manufacturing operations appear to be especially well controlled, and in the hands of a keen, intelligent personnel that is generally young and vigorous. Works engineering is excellent, accounting

methods well devised and informative, and the distribution of operating functions well thought out and seemingly highly effective.

PLANTS

The Eastern Manufacturing Company operates two pulp and paper mills situated at South Brewer and at Lincoln, Me. respectively. The normal capacity of the plant at South Brewer is stated to be about 25,000 tons of pulp and 16,000 tons of paper per year. The present plant at Lincoln has a normal rated capacity of about 14,000 tons of pulp and 6,000 tons of paper per year.

The site of the South Brewer plant, about 60 acres in extent, fronts on the Penobscot River; a depth of about 12 feet being available at the Company's docks at low tide. The Company receives fuel oil and part of its wood supply by steamer and sailing ships respectively. The Lincoln plant also fronts on the Penobscot River, about 50 miles upstream from South Brewer. The Lincoln site consists of more than 200 acres, an area considerably in excess of requirements. Part of the land is farmed, hay being raised for fodder for horses used in woods operations, and employees are allowed the use of certain portions of the land as gardens. The sites of both plants are

suitable for pulp manufacture, inasmuch as a large portion of the requirements of the plants in fuel and raw material, can be received by water, and at both plants adequate water supply for manufacturing operations is secured by water rights and developments owned by the Company on adjacent storage ponds and lakes.

Tenements are owned at each plant which are leased to employees at reasonable rates.

The plants have been remodelled and modernized from time to time, and few buildings now remain as originally built. The Company maintains its own engineering staff, which seems to be well organized and efficient. All extensions and changes are planned with the view of ultimately attaining a thoroughly modern plant, both as to layout and equipment. The principal buildings are all of substantial brick construction. The plants appear to be maintained in excellent condition. Buildings are sprinklered throughout, and adequate fire protection is afforded for log piles. We are informed that expenditures for maintenance for the five years ending December 31, 1923, averaged annually \$276,154 for the South Brewer plant, and \$106,756 for the Lincoln plant.

Electric power is purchased. Monthly consumption for

four months of 1924 averaged 1,838,375 KW hours at South Brewer, and 591,650 KW hours at Lincoln. The average cost of purchased power at South Brewer for the period was \$.0042 per K.W. hour, and at Lincoln \$.00808 per K.W. hour. The low rate at South Brewer is obtained under a contract which, we are informed, continues in force until 1933.

Steam is supplied from the Company's boiler plants. At South Brewer eight Heine boilers with an aggregate capacity of 1,788 HP are installed, in addition to three horizontal tubular boilers of 150 HP which are not now in operation. Two boilers are equipped for burning waste material from the wood room. At Lincoln eight Stirling boilers with a combined capacity of 2,442 HP are installed; one boiler being equipped for burning refuse from the wood room. At this plant there is also a 1,000 KW turbo-generator, used as an auxiliary to purchased power when necessary. The Company's records disclose that a boiler efficiency of about 77 per cent is maintained at both plants under average load conditions. We consider that this is an excellent performance in an industrial power plant of this nature.

The boiler plants at both Lincoln and South Brewer are

equipped for burning either coal or oil; oil is now used exclusively. Tank steamers dock at the Company's property in South Brewer, and oil is pumped therefrom to storage tanks of 110,000 barrels capacity. Oil is shipped from South Brewer to Lincoln by rail, and is stored there in a tank of 20,000 barrels capacity. There is sufficient storage capacity for all steam requirements at both plants, for operation during the winter months, when navigation is closed.

TIMBER LANDS

The Company owns 226,810 acres of pulpwood lands, of which 199,711 acres are situated in Penobscot and Piscataquis Counties, and 27,099 acres, forming four comparatively small areas, are located in Hancock County. The greater portion of these lands is well consolidated, and, we are informed, the properties form a desirable lumbering operation. The lands are favorably located with regard to the Company's mills, so that practically all of the timber in Penobscot and Piscataquis Counties can be driven to the mills by water. The Company has supplied us with details of cruises made of these lands in 1920. These cruises show that 155,519 acres are classed as "timber" and 71,291 acres as "waste". The estimated amount of pulpwood is 510,362 cords. The

Company informs us that it has always been its experience that cruiser estimates are low, and it believes that there is at least 20 per cent more pulpwood on this land than the cruiser estimates show. The Company is not operating on this land, and we are informed, has no present intention of so doing.

We are also informed that the Company maintains a force of five fire wardens who constantly patrol the lands, and it is stated that this protection, together with that afforded by the State of Maine, has resulted in greatly diminished fire losses, and that the losses suffered by the Company in recent years have been negligible.

In the years preceding 1920 the Company's lands, in common with practically all timber lands in the State of Maine and Eastern Canada, suffered heavy damage from the bud worm; a comparison of the cruiser estimates of the Company's lands made before and after the visitation of the bud worm, shows that approximately 300,000 cords of wood were destroyed.

The Company operates about 500 acres of the waste land as farm land, raising hay for fodder for the Company's horses for woods operations.

The Company's present requirements for pulpwood are

supplied from lands on which the Company has stumpage permits. There are, in all, 307,582 acres which, according to cruiser estimates, made in 1920, contain 630,550 cords. The Company's records show that the yields of areas cut over have been consistently higher than cruiser estimates, the overrun in some instances amounting to as much as 30 per cent of the estimate.

ESTIMATE OF VALUE

We based our estimates of the values of the Company's fixed assets at South Brewer and Lincoln upon a previous appraisal made in 1920, adjusting the values given in that appraisal to current price levels, and taking into account the additions to, and deductions from, the plants since the appraisal was made; this information being supplied to us by the Company. We made allowances for depreciation on account of age, utility and obsolescence.

We did not make an estimate of the value of the plant of the Liberty Paper Company at Bellows Falls, Vt., nor of certain other fixed assets held by subsidiary companies. These assets, together with construction work in process at the Company's plants, have been incorporated in Exhibit "F", Recapitulation of Estimated Values of Fixed Assets as of May 17, 1924, at the Company's book values.

We did not visit the timber lands owned by the Company nor by the Lincoln Pulp Wood Company, and therefore we made no estimate of the value thereof. We did, however, interview Mr. George T. Carlisle, an operator and manager of timber land properties in Maine, who placed a value of \$15.00 per acre upon the Company's timber lands. We also saw reports of a recent sale at about \$13.00 per acre of similar land, reported to be not so favorably located as the Company's land. We are therefore of the opinion that the value of this land, as carried upon the Company's books, viz. at \$10.00 per acre, is conservative.

We made no examination of the titles nor ownership of any of the Company's property.

Exhibit "F" herein shows our estimates of the replacement cost and present depreciated values of the Company's plants, as of May 17, 1924.

INVENTORIES, AND ADVANCES ACCOUNT OF PULPWOOD

We made no check of the accuracy of the reported quantity of inventory on hand, but confined our examination to a study of the basis of valuation of the various items included by the Company under this heading, and of the apparent reasonableness of reported stocks on hand in comparison with the normal rate of use of such stocks.

In general, both quantities and values appeared reasonable.

In the case of Advances Account of Pulpwood, which comprise, in the main, items of the nature of work-in-process inventory of the Lincoln Pulp Wood Company, we modified the figures furnished by the Company in preparing the Combined Balance Sheet, Exhibit "C", as follows: From the total of \$2,230,018.56 reported in this account on the Company's balance sheet of May 17, 1924, we have deducted \$251,906.49, of which \$138,015.37 is on account of investment in the Princeton Terminal Company. We have included this amount in the investment account on the combined balance sheet, Exhibit "C", hereto annexed, because of the non-current nature of the item. The remainder, \$113,891.12, represents advances to the Molunkus Pulp Wood Company, now in liquidation, the recovery value of which is doubtful, and as a measure of conservatism we reduced this account to \$60,000, and show it as a non-current item on the balance sheet, Exhibit "C".

It should also be stated that the remainder under this heading, \$1,978,112.07, includes an amount of \$464,657.68 for "Prepaid Stumpage", which has accumulated because the Company's pulp mill operating rate has been less than that required to consume its commitments for pulpwood. If the

merger should be effected, and sales of pulpwood to outside consumers be continued this item should properly be considered current, and we have so treated it on the balance sheet.

EARNINGS

As shown by Exhibit "D", hereto annexed, Comparative Consolidated Statement of Income and Profit and Loss, the annual and average earnings of the Company for the six years ending December 29, 1923, after depreciation, and before interest and Federal taxes, were as follows:

1918	\$977,248.62
1919	2,102,680.43
1920	1,597,686.63
1921	543,555.61
1922	522,267.43
1923	<u>963,975.14</u>
Total 6 years	\$5,620,302.64
Annual Average	\$936,717.11

These figures are obtained from the annual audited statements of the Company. We have not included on Exhibit "D" any statement of earnings in the current fiscal year to the date of our examination. The Company's unaudited statement as of May 17, 1924, representing 20 weeks operation, shows profit after depreciation and before

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interest and Federal taxes of \$98,447.98, which is at the rate of approximately \$256,000 per year.

In addition to the Federal taxes paid as noted on Exhibit "D", the Company has set up a Reserve for Contingencies in the amount of \$100,000 to provide for further assessment of taxes for the year 1917. We understand, also, that there is a possibility of supplementary assessments being levied against the earnings of 1918 and 1919, though no reserves have been set up on this account, for reasons stated in the Report of Audit prepared by Boyden and Steacie, Inc. as of December 29, 1923.

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THE MIAMI PAPER COMPANY

CORPORATE HISTORY

The Company was incorporated in 1912, succeeding the Friend Paper Company, which had been operated under receivership since 1907. The Friend Paper Company's history, with several changes of name and capitalization, dates back to 1871. The receiver was Mr. W. W. Sunderland, who became president of the Company upon its organization and has continued in that capacity up to the present. Changes in capitalization and the growth of the assets of the Company are reflected in Exhibit "B", annexed hereto, Condensed Comparative Balance Sheet, covering the eight fiscal years 1916 to 1923 inclusive, and three-quarters of the current fiscal year.

PRODUCTS

The Company produces mainly book papers, especially grades suitable for color plate work. A relatively small amount of bond paper is also manufactured, some of which is sold under the Company's brand names or marks. Of the four paper machines installed, only three have been operating in

recent years, and the output of the Company's plant has ranged from 60 to 70 tons per day, averaging about 17,000 tons per year. The fourth machine is stated to have a capacity of 30 to 40 tons per day, if conditioned for modern speeds of operation.

BUSINESS AND FINANCIAL POLICIES

We are informed that the Company, at the time of its organization in 1912 and purchase of its properties at receivership sale, found itself in possession of a plant that was not in good competitive condition, and that the first care of the management since that time has been gradually but steadily to improve plant. The records of the Company indicate that expenditures for repairs and improvements have been consistently large compared with net earnings. No dividends have been paid on the common stock, and only one dividend was paid on the six per cent non-cumulative second preferred stock during the years it was outstanding. That was paid coincidentally with the retirement of the stock at a discount in the fiscal year 1921.

In 1920 the book value of the fixed assets of the Company was revised on the basis of actual cost as determined by an audit of the expenditures of previous years. This resulted in an appreciation of book values to the extent of

approximately \$40,000. With this exception the increase in the total assets of the Company between 1916 and the present time appears to represent reinvestment of the entire net earnings for the period after payment of bank and bond interest, and preferred stock dividends. Exhibits "B", and "E", Condensed Comparative Balance Sheet and Comparative Statement of Income and Profit and Loss, respectively, annexed hereto, indicate that increase in total assets and common capital surplus is practically equivalent to total net earnings for the period, after all charges.

Officials of the Company inform us that it was their deliberate purpose to rebuild the fortunes of the Company slowly and soundly, in a manner to preserve to the small group of holders of common stock the entire equity beyond the amount of the moderate financing resorted to in taking the Company out of receivership in 1912. In this they have apparently succeeded. In addition to the re-investment of earnings, it is worthy of note also that executive salaries appear to have been held at a moderate level.

At no time in the period covered by the figures to which we had access, has the working capital of the Company been large. In recent years especially, by the use of trade

acceptances discounted, and by restricting the size of inventories, the Company has been able to obtain a creditable turnover of working capital and avoid excessive bank loan indebtedness, while expending substantial sums for improvements and repairs. It has seemingly preferred to work out its financial problems internally, without resort to burdensome external financing. We are of the opinion that the financial administration of the Company has been capable and sound.

SALES POLICIES AND METHODS

The outstanding feature of the Company's sales policy, as stated by the officials of the Company, is the maintenance of intimate contact with a few relatively large jobbers and converters. The service requirements of customers are studied and catered to for the purpose of developing a steady and reliable outlet, on a price basis that gives adequate recognition to the value of the service performed. This necessarily involves the Company in what may be considered as more or less specialty manufacturing, to which the Company felt that it was forced by the keen competition from better equipped mills in the period subsequent to 1920, when modern mills with adequate resources and equipped for mass production made it impossible for the Company to compete on the volume grades of book paper.

Advertising expenditures have been small and the sales force is not large. Distribution is confined largely to the Middle West and primarily to the Chicago district. It has been possible, therefore, to keep relations with customers on a personal basis, to which also has probably contributed the practice of the two principal officials of taking an interested part in trade association activities. Another evidence of this policy is the annual outing for customers, competitors, and consumers of its product that has become a feature of the Company's relations with the trade.

ORGANIZATION AND PERSONNEL

We did not have the privilege of studying closely the organization of the Company and of meeting many of the personnel. Discussion of the Company's affairs with the President, however, seemed to indicate that the organization was of simplest type, and in view of the nature of the Company's business, quite adequate for the conduct of it.

Working conditions appeared to be good, both in shops and offices.

PLANT

The Miami Paper Company operates a "converting" paper mill at West Carrollton, Ohio. The plant was originally

constructed about 1871, when building paper was manufactured. About 20 years later the mill was converted for the manufacture of book paper, and later bond, ledger, and writing papers were added to the products.

The plant occupies a narrow strip of land between the tracks of the C.C.C. & St.L. Railroad and the Dixie Highway. Part of the land bordering on the highway is held under lease from the State of Ohio for 30 years, and this part forms the only suitable area available for plant extension.

The plant as a whole is well arranged. None of the original buildings now remain. The existing buildings are of substantial construction, of brick for the most part, and appear to be well maintained. The buildings are sprinklered throughout.

Four paper machines are installed, of which three are now in operation. The present rate of production is about 72 tons per day. We are informed that considerable expenditures would be necessary to put the fourth machine into condition to operate, and also that increased space for finishing operations and storage of finished stock would be required should the production of the plant be measurably increased.

A complete bleach plant for the bleaching of pulp, as well as an electrolytic plant for the manufacture of bleaching

materials, has not been operated for some years, and we are informed that it is not likely that it will be put again into operation.

Power is manufactured by the Company's plant. Steam is produced from two modern 750 HP Stirling boilers, with Taylor stokers, operating at a pressure of 165 pounds per square inch, and from nine old Stirling boilers of 300 HP each, which operate at 130 pounds pressure. The old boilers are in very low settings, which tend to lower their efficiency while burning the high volatile coal used. The ash handling equipment is good, but the location of the plant necessitates the trucking of ashes to a dump some distance away. The plant is favorably located with regard to coal supply, a good grade of steam coal being procurable at a reasonable cost. A concrete coal pocket and locomotive crane provide ample storage and handling facilities.

Electric power is generated by a 1500 KW turbo-alternator of the bleeder type, which is apparently in good condition, and by a 750 KW turbine direct connected to a 375 KW D.C. generator. This machine was formerly equipped with a second generator of the same capacity, but this has now been dismantled. Neither turbine is of up-to-date design. If the fourth paper machine is put into operation, additional electric power generating

equipment would be required, and in any event new boilers will be required to replace the old boilers within a few years.

ESTIMATE OF VALUE

We based our estimates of the value of the Miami Company's plant upon a previous appraisal, made in 1920, adjusting the values given in that appraisal to current price levels, and taking into account the additions to, and deductions from, the plant since the appraisal was made, this information being supplied to us by the Company. We made allowances for depreciation on account of age, utility and obsolescence.

We made no examination of the titles nor ownership of this property.

Exhibit "G" herein, shows our estimates of the replacement costs and present depreciated values of the plant as of May 31, 1924.

INVENTORIES

We made no further study of the inventories of the Company than to note by visual inspection that stocks of raw, process, and finished material seemed low, and that the average inventory value reported by the Company in its five most

recent monthly financial statements represented in relation to net sales an annual turnover of about eight times. It appeared therefore that inventories were current, liquid, and well-controlled.

In this connection we were informed that production is governed practically entirely by orders in hand, that finished stock is kept of bond papers only, and that the purchasing of raw materials is the personal concern of the president of the Company, who also personally attends to collections and devotes a great deal of attention to the preservation of a safe working capital position.

EARNINGS

Reference is invited to Exhibit "E" hereto annexed, "Comparative Statement of Income and Profit and Loss", which we have prepared from audited statements with certain adjustments to make the separate annual figures as nearly comparable as possible. The total net profit shown thereon before interest and taxes but after depreciation (with the exception of 1916) is \$1,048,317.52, against which we have charged estimated depreciation of \$80,000 for 1916, and to which we have restored \$189,352 of charges which we considered as reasonably applicable to prior years' earnings.

These charges comprise deductions from operating income as follows:

1916 -Reserve for plant changes and improvements	\$26,000.00
Extraordinary Repairs and Improvements	41,198.58
1917 -Discarding of Obsolete Pulp Mill Equipment	<u>122,154.12</u>
Total	<u>\$189,352.70</u>

These charges are in our opinion properly restorable to earnings, in view of the explanation given by the Company that they were incurred in the course of modernizing a run-down plant, and were apparently in the nature of capital charges.

After the foregoing adjustments, net earnings after depreciation and before interest and taxes for the eight years ending August 25, 1923 appear to have been approximately \$1,157,669, an annual average of \$144,708. We have not shown earnings for the current fiscal year to the date of our examination, for the reason that an audited statement was not available. However, the Company's unaudited statement for the forty weeks ending May 31, 1924 indicate current earnings before interest and taxes, after depreciation, of approximately \$112,000, which is at the rate of \$146,000 annually.

Over the eight-year period total net profits after depreciation and before interest and taxes have approximated 4.7 per cent of total net sales. These relatively low earnings

have been subject to substantial interest charges, but as noted heretofore, have been consistently retained in the business and expended for improvements, after payment of all fixed charges. The small earnings are explained by the Company as due to handicaps of plant inherited from the days of receivership. Even at the present time the Company has in contemplation the early expenditure of a large sum, stated to approximate a half million dollars, for putting its plant in the best competitive condition. Our brief examination of the affairs of the Company inclines us to the belief that its earnings have been adversely affected by inadequate and uneconomical plant facilities, and that costs of production can be materially lowered by further improvement in equipment, especially such as would permit the economical operation of the paper machine now out of use. The primary problem in this connection, however, appears to us to be one of marketing the output rather than of production.

SURVEY OF THE PULP AND PAPER INDUSTRY

The products of the pulp and paper industry are economic necessities, and the industry itself is basic and of major proportions.

The basis of pulp and paper is cellulose, a vegetable fiber of wide-spread distribution. Wood, particularly of the coniferous varieties, is the greatest source of supply; also cotton and linen in the form of rags; jute and hemp in the form of cordage and textile waste; straw stems of cereal grains; Esparto grass and other fibers, are all extensively used.

In the manufacture of pulp the cellulose fibers are separated from the non-cellulose content of the material used. Mechanical pulp, or ground wood, is prepared by grinding wood on sandstone; chemical pulps, (sulphite, sulphate and soda) are prepared by treating or cooking wood chips with chemicals.

A complete classification of finished paper would comprise a long list, although the principal groups in the order of their relative importance as measured by the

value of the product are board, newsprint, wrapping, book, writing, tissue, hanging, felt and building papers.

A sharp increase in the demand for paper and wood cellulose products in recent years as substitutes for other materials has stimulated building activity in parts of the industry and has tended to increase the cost of raw materials to many branches of the industry.

This demand has somewhat offset the subsidence of the unusual demand for many paper products during the world war period and for several years thereafter, which led to considerable plant construction, but today the industry in most lines is still somewhat overbuilt.

IMPORTANCE OF PAPER AND PRINTING INDUSTRIES

The United States is the most important paper-producing country in the world, followed by Great Britain, Canada and Germany. The world production in 1920 was over 14,000,000 tons of which the United States produced more than half. The magnitude of paper and allied industries within the United States is shown by the following abstracts from the U. S. Census of Manufactures for 1919 and 1921:

Paper and Printing Industries

(Dollars 000 omitted)

	<u>Year</u>	<u>Establish- ments</u>	<u>Wage Earners</u>	<u>Wages</u>	<u>Cost of Materials</u>	<u>Value of Product</u>
Paper & Pulp	1919	729	113,759	\$135,691	\$467,483	\$ 788,059
	1921	726	105,294	127,029	445,992	667,436
Manufactures from paper	1919	1,967	94,759	77,408	253,742	463,914
	1921	1,880	80,279	76,520	224,416	414,895
Printing, Publishing, & allied industries	1919	33,707	301,357	351,411	585,493	1,760,610
	1921	22,738	282,713	435,575	665,824	2,080,401

The major part of the industry in the United States' is concentrated in the northeastern and lake state regions, chiefly because of the availability of the primary raw materials, abundance of water and hydro-electric power, and the proximity to the chief consuming centers.

PRODUCTION OF PULP AND PAPER

According to the census of 1921 there were in that year 1,528 paper-making machines in the United States with a total annual capacity of 8,614,163 tons. Estimates based on reports made to the American Pulp and Paper Association show that 22 machines with an annual capacity of 255,800 tons were added during 1922 and 31 machines with an annual capacity of 395,000 tons during 1923, indicating that 1,589 machines were in operation

during the latter year, with a total annual capacity of 9,375,000 tons. It has been estimated that the total running time for each machine is 270 days, or 75 per cent of the capacity, and on this basis the total production for the year would have been 7,041,250 tons. Actually, according to the combined estimates made by the American Pulp and Paper Association and the Newsprint Service Bureau, based on returns from member companies, the production during 1923 was 7,176,839 tons, or 76.6 per cent of the maximum capacity, slightly more than the above estimate of total production.

Production of Pulp in the United States
(Tons of 2,000 pounds) (000 omitted)

<u>Grades</u>	<u>1914</u>	<u>1919</u>	<u>1920</u>	<u>1921</u>	<u>1922</u>	<u>1923</u>
Ground wood	1,305	1,449	1,578	1,268	1,481	
Sulphite	1,187	1,385	1,576	1,105	1,331	
Sulphate	52	161	212	148	256	
Soda	347	377	431	272	333	
Other than wood		9	7	7	11	
Total	<u>2,893</u>	<u>3,384</u>	<u>3,807</u>	<u>2,801</u>	<u>3,464</u>	<u>3,700</u>

The 1923 total is a preliminary estimate by the Bureau of the Census and the Forest Service. It is about 7 per cent increase over the 1922 total. Also, the consumption of pulpwood

for 1923 is independently estimated at 5,940,000 cords, or an increase of approximately 7 per cent over 1922.

Imports of Sulphite Pulp
(Tons of 2,000 pounds)

<u>Country</u>	<u>1913</u>	<u>1923</u>
<u>Unbleached</u>		
Germany	59,264	42,851
Norway	48,558	21,222
Sweden	126,353	159,065
Canada	50,559	167,725
Finland	-	58,602
Other	<u>14,553</u>	<u>12,388</u>
Total	<u>299,287</u>	<u>461,853</u>
<u>Bleached</u>		
Germany	16,361	12,655
Norway	45,543	46,849
Sweden	12,548	41,958
Canada	5,683	131,458
Finland	-	12,063
Other	<u>1,756</u>	<u>5,597</u>
Total	<u>81,891</u>	<u>250,580</u>
Total unbleached and bleached	381,178	712,433

From the foregoing tables it will be noted that there has been a considerable increase in the importation of bleached sulphite pulp from the Northern European countries. There is no tariff on pulp. Imports amount to 20 to 25 per cent of consumption, a tariff is therefore unlikely.

Production of Paper in the United States
(Tons of 2,000 pounds) (000 omitted)

<u>Grades</u>	<u>1914</u>	<u>1919</u>	<u>1920</u>	<u>1921</u>	<u>1922</u>	<u>1923</u>
News	1,313	1,374	1,511	1,226	1,447	
Book	921	914	1,104	725	981	
Board	1,291	1,950	2,313	1,664	2,156	
Wrapping	911	869	1,043	782	1,048	
Writing	247	343	389	242	361	
Tissue	115	155	177	148	197	
Hanging	96	92	113	69	91	
Felts & Building	243	281	366	286	421	
All Others	129	208	313	210	311	
Total	<u>5,270</u>	<u>6,190</u>	<u>7,334</u>	<u>5,356</u>	<u>7,017</u>	<u>7,176</u>

With the single exception of the year 1920, the production of paper in 1923 was the greatest ever reached in the industry.

FINE PAPER AND BOOK PAPER

Writing paper production was only one per cent greater in 1923 than in 1922, while book paper production in 1923 was 10 per cent greater than in the preceding year.

The equipment of several divisions of the paper industry is more or less suitable for the manufacture of grades of paper other than that for which it was originally designed. As a consequence there is some diversion of machines, and the writing paper market has at times been materially affected by the diversion of book and newsprint machines to the manufacture of the cheaper grades of writing paper.

The chief raw materials used in fine paper manufacture are cotton and linen rags and sulphite pulp, the higher the grade of paper the more of the former and less of the latter. Book paper is made of sulphite and soda pulp but often contains some rag pulp. Within the past year rag prices have increased considerably and apparently the peak has not been reached. There is a scarcity of domestic rags, imports have increased but not enough to offset the shortage. Consequently, more sulphite pulp and less rag pulp are being put into paper stock, and more pure sulphite paper is being produced.

Production costs have remained higher in this division than in some other divisions of the paper trades as a result of high and increasing labor costs and high rag prices. Sulphite pulp prices have been relatively steady for six months or more, but previously there was a considerable decline.

The present demand for writing paper is said to be about normal.

The production of fine paper during the past six months has increased from 22,200 tons monthly to about 27,000 tons monthly, while shipments have increased proportionately, and so the mill stocks have remained relatively stationary at an average of about 39,000 tons or about six weeks' supply.

In the same period book paper production has increased from 61,600 tons monthly to 84,000 tons monthly, while shipments have kept pace with the increased production. Mill stocks aggregate about 32,000 tons or less than two weeks' normal consumption.

Conditions in the publication trades, the chief consumers of book paper, seem to be satisfactory. Circulations and advertising are said to be increasing. These factors would indicate a good demand for this product.

The imports of book paper are negligible, amounting to

less than one-half of one per cent of domestic production.

The imports of fine paper are also negligible. Before the world war the United States produced about one-third of the world's production of fine paper, Germany produced about one-half as much as the United States, and the United Kingdom nearly as much as Germany. In 1914, 1,000 tons were imported from Germany, France and Italy, about one-third of one per cent of domestic production. The imports of 1923 totaled only 1,726 tons, while domestic production was about 380,000 tons. Of the imports, 1,118 tons came from Germany.

The present tariff on writing paper is three cents per pound plus 15 per cent ad valorem. The tariff on book paper is 12 per cent ad valorem.

EXPORTS

The total exports of pulp, paper and allied products have an annual average value of only about \$50,000,000.

MERCHANDISING

Book paper manufacturers sell part of their output direct to consumers and part to jobbers. Manufacturers east of the Pennsylvania-Ohio line sell most of their product to consumers, while those west of that line sell principally

to jobbers. Writing paper manufacturers sell largely through jobbers.

PRICE FORECASTING

The Harvard Economic Service has worked out a very interesting relationship between the business cycle and paper prices. In a study of several business cycles it was found that paper prices customarily fluctuate with general business but lag behind the latter by several months. If this same characteristic relationship should continue in the present and future business cycles, it would provide a satisfactory system of forecasting paper prices and guide for the control of production. It was also observed that prices lagged production by several months. The interesting significance of this is that in the event the index of general business begins a downward trend, paper production may be curtailed and the normal stock on hand liquidated before the downward trend of prices begins. On the upswing of general business, paper production may be increased at the then relatively low production costs in anticipation of rising paper prices. The present and future business cycles may bring into play unknown and unforeseen factors which may disturb and disarrange the present balance and adjustment; however,

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this study should be of unusual interest to those concerned in the paper trades.

ELIMINATION OF WASTE

The Division of Simplified Practice of the Department of Commerce in co-operation with the Paper Division of the Bureau of Standards, has set up a tentative series of standard sizes for the several forms and types of paper in commercial use. The adoption of these standards by the paper trade should result in a large saving in the number of items carried in inventories and in the total inventory, without a reduction of the total consumption of paper.

GENERAL DISCUSSION OF THE PULP SITUATION

The development of the pulp industry in America has been with the view of pulp production as the principal product. As a consequence, forest lands and timber rights have been obtained and pulp mills constructed with no other forest products in mind. The industry is therefore entirely dependent upon the pulp consuming industries and its condition is contingent upon the price of pulp. Some few European producers make pulp as a subordinate joint-product, and obviously in the event of a price war or other

measure depressing pulp prices, these producers should be at a marked advantage.

A number of American paper manufacturers have followed the scheme of vertical integration by acquiring pulp mills and forest lands. It is often stated that one direct advantage of pulp mill control is that pulp may be produced to suit the exact requirements of the paper mills, but in these days of excessive competition it is also stated that any reasonable specifications will be met by a number of pulp producers.

The statement is frequently made that American forests will be depleted within a few years, but it appears equally likely that the depletion may be retarded by the utilization of mill waste; and also the joint-product system may be developed as now practised in Europe and by some Canadian manufacturers. The potential supply of by-product pulp from Pacific Coast lumbering operations is considerable. There is to be included also the factor of substitutes and the utilization of woods and other fiber sources not now extensively utilized.

The cost of pulp manufacture in Northern Europe averages less than in America or Canada. Capital investments in forests are relatively low, labor is low priced, power is

usually abundant and inexpensive, and many mills have advantageous tidewater locations. Furthermore, some of the larger units are subsidiaries of lumber companies using their waste as raw material. In these cases pulp production is dependent mainly upon lumber operations and without much consideration for conditions in the pulp and paper trades.

The pulp and paper enterprises form one of the leading industries of Norway and Sweden. They are surplus producers and large exporters. The consumption of these products in Europe will probably increase when political and economic conditions become more stable, but a large volume will continue to enter the American market as it has for a number of years.

Several investigations of American and Canadian costs of pulp production have been made and in each instance the average Canadian cost has been found to be lower than the average American cost.

The comparative costs of manufacture per ton of unbleached sulphite pulp for newsprint in Canada and the United States cannot be obtained for recent years; the latest available comparison is given by the Federal Trade Commission as follows:

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	<u>1913</u>	<u>1914</u>	<u>1915</u>	<u>1916</u>
United States	\$31.20	\$31.05	\$30.70	\$30.78
Canada	27.93	27.69	26.21	24.85

This lower Canadian cost is due almost entirely to the lower cost of pulpwood. Several factors make this possible:

- 1.- Greater accessibility of pulpwood.
- 2.- Smaller expenses for transportation of pulpwood to mills.
- 3.- Pulpwood from Crown lands. The timber-stands thereon are extensive and the export of the cut is forbidden.
- 4.- Government aid and encouragement. Crown lands and water powers are leased at nominal rates.

There may be greater efficiency in Canadian equipment inasmuch as many new plants with the latest type of machinery have been built within the past ten years.

There has been considerable agitation in Canada for an embargo of pulpwood from fee lands. It is thought such a measure would stimulate the development of the pulp and paper manufacturing trade within Canada. Recently some reaction against the measure has been manifested by small ranchers and settlers who cut and sell pulpwood. An embargo would restrict their market and probably lower the price received.

American paper companies that own forest lands well bought and on which the carrying charges are low or nominal, have an advantage in assurance of raw material supply and freedom from possible monopoly or scarcity value prices. However, several foreign countries have lower average pulp production costs and they are great surplus producers depending largely upon the American market for their outlet.

SUMMARY

1. The writing paper and book paper productive capacity is in excess of normal requirements, although perhaps to no greater degree than obtains in most other basic industries in the United States.

2. As a result of the somewhat overbuilt condition keen competition may reasonably be expected for several years.

3. Present prices are such that the well-managed, well-located, well-balanced and not overcapitalized manufacturers are able to operate at a relatively small profit.

4. Mill stocks of paper are relatively low. Any appreciable increase in demand should be reflected promptly in higher prices.

5. There is a substantial tariff on writing and book papers. Imports are negligible and it is not thought they

will materially increase. Exports are relatively small in volume. American manufacturers are at a disadvantage in foreign markets at the present time. With stabilization of the currencies of the leading nations on a gold basis the opportunities for American exporters should be increased.

6. It has been stated that there are about fifteen pulp manufacturers in the United States and Canada who have been forced into the hands of receivers on account of their inability to compete with European producers. Some trade sources state that most European producers are not earning any profits and that most of them are in financial difficulties. These same sources predict a rise in pulp prices within the near future. This indicates that the pulp trade in Europe, as well as in America, is in a not altogether satisfactory condition.

7. The embargo on pulpwood from Canadian Crown lands is expected to continue. An embargo on pulpwood from Canadian fee lands is probably more remote than it was a year ago, though a political change and embargo are not impossible.

8. Canadian and Northern European sulphite pulp has in the past several years been laid down in the more important American consuming centers at prices alleged to be

unprofitable to American manufacturers. However, those American manufacturers with well-located and easily accessible timber lands which have relatively low carrying charges and modern, economical mills, should be able successfully to meet foreign competition in the domestic market.

9. There is no tariff on pulp. American consumers are dependent upon imports for nearly one-fourth of their requirements; the probability of a tariff is therefore doubtful.

10. European pulp and paper consumption is at a low ebb. With general stabilization and increased consumption and established prices, much of the pulp now received in America should find its former European outlets. However, the average imports from Europe over a period of years are considerable, comprising about 60 per cent of the total imports.

11. Paper manufacturers who own or control pulp mills and timber lands have an advantage in that pulp may be produced to meet their own exact and specific requirements. The importance of this advantage is relative, dependent upon the exactness of the specifications, the difficulty of their manufacture and whether or not it is possible to

obtain comparable grades in the market at like or lower costs. Those manufacturers who own or control timber lands in the United States are to that extent protected against foreign embargo on pulp and/or pulpwood.

POSITION OF THE TWO COMPANIES IN THE INDUSTRY

The Eastern Company is a fully integrated or self-contained paper producing unit. It owns timber lands in Maine, located for the most part on watersheds draining into the river on which its mills are located; its timber holdings are sufficient to insure its wood supply for many years to come, are supplemented by stumpage permits on leased lands which will provide its wood requirements for a decade or more, and appear to be held at a capital valuation that is not excessive. Their location within the United States and relatively near to the Company's mills would seem to provide an assured, firm basis for the Company's future pulp operations.

Water supply for both pulp and paper operations is adequate, and power is abundant and cheap. Transportation facilities are good, both by rail and water, and the mills are well-located with respect to market.

Physically the properties of the Company are in good condition and appear to be well operated. The management has been aggressive and forward-looking. Judging by the

published statistics of the Writing Paper Manufacturers' Association, the paper output of the Company in tons appears to represent about nine per cent of the total in the fine paper section of the industry, and about seven and one-half per cent in value. Its success in operating its paper mills at approximately normal capacity during 1922 and 1923 may be interpreted as indicating that it has a well-established position in the trade.

The Miami Company's output represents in tonnage about two per cent of the total in the book paper section of the industry. It appears to have attained a stable foothold in its market, in relation to which it is well located. Its physical properties are in good condition, and are apparently well operated, though the task of plant rehabilitation is not yet complete. The management has been sound and adaptable.

PROPOSED MERGER OF THE TWO COMPANIES

The Eastern Company proposes to buy and merge with itself the Miami Company, for reasons stated as follows:

1 To secure a controlled outlet for a portion or perhaps all of its hitherto unused pulp-making capacity, thereby decreasing pulp production costs, consuming a greater proportion of the pulpwood which it is committed to buy under stumpage permits, and retaining in its own treasury any differential between direct cost of pulp made and the market price that would otherwise be paid by Miami for its purchases of pulp.

2. To obtain additional paper-making capacity that may permit it to exploit its patented linen finishing process applied to papers that can more advantageously be made in a book mill than in its existing mills, a potential demand for which papers is said to exist.

3. To round out its line by adding to it book papers of its own manufacture, to more nearly put it in a position to embark on a policy of direct selling, instead of through jobbers, if that policy should seem desirable, and to permit it to increase its present sales to converters.
4. To effect whatever savings might be possible in consolidation of administrative and operating effort.
5. To decrease the present necessity for the Eastern Company to use the maximum possible proportion of high grade and costly pulp of its own manufacture in its paper furnishes. Substantial savings in furnish materials could be effected by the use of a greater percentage of purchased low grade materials if it were not at present essential to use as much pulp of its own make as possible.

We have endeavored to appraise the reasonableness and soundness of these aims, and in general we are of the opinion that the management of the Eastern Company seems to be well advised in desiring to effect the combination proposed. It was impossible for us to estimate the specific

value to the combined Companies of the effectuation of these aims, however, or to form other than general impressions as to their practicability. We discuss them below in the order given.

1. With regard to pulp, it appears from the records of the Eastern Company that during 1922 and 1923 it used and sold an annual average of 33,000 tons of pulp, which is 6,000 tons less than its rated normal capacity of 39,000 tons.

Assuming these 6,000 additional tons to be produced for use by the Miami Company after charging all indirect (overhead) costs to other production, we estimate, based on 1923 costs, that the direct cost would approximate \$70 per ton of pulp, ready at the Eastern Company's mill door to ship to Miami.

Based on the quantity of Bleached Sulphite pulps used by Miami this year, and on the average cost to it thereof for the four weeks ending May 3, 1924, the Miami Company should be able to purchase from the Eastern Company 2,500 tons of pulp per year, at a profit to the Eastern Company of \$20 per ton, based on its "first" grade pulp

costs, and 3,500 tons of pulp per year at a profit of \$5 per ton, based on its lower grade pulp costs. The total of such estimated additional profits should therefore approximate \$67,000 per year.

Since this estimate is on the basis of substituting the present grade of Eastern Bleached Sulphite for the above quantities of "first" and "lower" grade Bleached Sulphites now purchased in the market by the Miami Company, it is subject to some increase should the Eastern Company be able to alter its pulp production to produce the necessary amount of lower grades without damage to the high grade it desires for its own use and for sale to its present customers.

Operation of the Eastern Company's pulp mills at normal capacity should also enable it gradually to decrease its stumpage prepayments, which as of May 17, 1924, amounted to \$464,657.68, representing some 80,000 cords of pulpwood which the Company should have consumed, according to its commitments, but which at its recent rate of pulp mill operations it has been unable to

consume. Increased pulp mill operations should gradually release these prepayments, create a desirable balance between the Company's timber land engagements and wood consumption, and improve the Company's working capital position. Any considerable reduction of prepaid stumpage for the next few years will, however, depend on continued sales of pulpwood to outside consumers.

2. The Eastern Company has developed in its paper mills a patented process for "continuous" linen finishing of writing paper, as distinguished from so-called "plate" finishing. The continuous method is stated to be more economical and more profitable than the plate method which is in general use. The Company sees an opportunity to introduce the continuous method into the Miami mill for application to cheap furnish papeteries, thereby producing a new grade of product, better in finish than present linen-finished, cheap papeteries and cheaper than present linen-finished fine mill papeteries. The Company believes that this new grade can be made even more cheaply than the existing cheap grade, and a large volume of

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profitable business developed. The Company prefers to introduce this product at the Miami Mill rather than at its own mills because its production at the Eastern mills and sale at a cheap price would make it difficult to maintain the present satisfactory volume and selling prices on its other production of continuous linen finish writing paper.

The proposed new product is relied upon to provide a considerable proportion of the tonnage (about 10,000 tons per year) requisite for putting into operation the large paper machine in the Miami Mill which has been out of use for several years. This is a reasonable and the most hopeful method of approach to the problem of finding the requisite additional sales volume. This development is, however, a task of considerable magnitude that may require a relatively long period, during which the full benefit of prospective economies and additional earning power would not of course be enjoyed. During this period, also, substantial expenditures for reconditioning this paper machine and providing

additional power and other facilities will be required, which expenditures have been independently estimated by the officials of both Companies as eventually reaching \$500,000.

3. As noted heretofore, the markets in the fine writing and book paper trades are dominated by jobbers. Direct selling by paper manufacturers to consumers, except to converters, is the exception. The Company is not at present in a position to undertake direct selling, even if it desired to, because of the necessity of supplementing writing papers at least with a line of book paper. It desires, however, to reinforce its position in this respect with a view, should it become advisable, of being able to abandon sales through jobbers and to sell directly to consumers or retailers. We believe that the Company's market position would be strengthened by this diversification of products.

4. Among the savings estimated to be possible as a result of the acquisition of the Miami Company, are certain reductions in personnel,

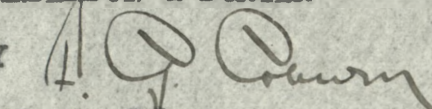
salaries and general overhead. In our opinion, while savings may ultimately be possible in this connection, early realization of them should not be expected, nor would they perhaps be desirable. Our brief examination of the nature of the business of the Miami Company inclines us to believe that in the event of merger of the two Companies, it would be a measure of discretion to safeguard the present business of the Miami Company by continuance of its present method of operation and the retention of its principal personnel, at least until the continuous operation of the now unused paper machine in the Miami Mill is reasonably assured. This should also give the organization of the Eastern Company a thorough opportunity to acquaint itself with the service problems of the book paper business, as well as to establish the intimate contacts with the customers of the Miami Company that seem to have been influential in establishing that Company's position in the trade.

5. The Eastern Company states that it now finds it desirable to use, in its paper furnishes, substantially a maximum possible amount of pulp of its own manufacture for the purpose of operating its pulp mill and consuming wood at the greatest rate practicable. If by consolidation with the Miami Company, the now unused pulp capacity can be applied to the Miami Mill, it may then become possible for the Eastern Company at times to buy low grade paper materials for mixture with its own pulp in its paper furnishes. This seems to us a reasonable prospect and a desirable result of consolidation.

The possible earnings and economies from the sources (2) to (5) inclusive cannot at present be directly estimated, as could the possible economies from the sale of pulp to Miami discussed under (1), but we believe that, over a period of years and with continued capable management, there should be realized from these sources a very substantial increment to the present earning capacities of the separately operated Companies.

SANDERSON & PORTER

BY



F. G. Coburn,
Manager Industrial Department.

July 3, 1924.

EXHIBITS

SANDERSON & PORTER

EXHIBIT "A"

EASTERN MANUFACTURING COMPANY

COMPARATIVE CONSOLIDATED BALANCE SHEET

Prepared from audited statements, with the exception of
the period ended May 17, 1924.

ASSETS	Y E A R E N D E D				PERIOD ENDED		
	December 28, 1918	January 3, 1920	January 1, 1921	December 31, 1921	December 30, 1922	December 29, 1923	May 17, 1924
Current Assets:							
Cash.....	\$ 537,947.65	\$ 697,173.17	\$ 214,650.80	\$ 487,357.09	\$ 191,096.61	\$ 286,445.39	\$ 519,130.06
Accounts Receivable (Less Reserves).....	1,005,329.61	1,139,190.42	1,453,780.31	1,089,282.50	823,124.03	623,799.17	856,724.92
Notes Receivable (Less Reserves).....	26,187.67	54,637.67	96,311.73	27,494.79	64,005.85	88,074.14	109,511.08
Inventories.....	2,673,420.13	1,811,331.54	3,235,629.49	1,758,846.20	3,002,025.40	2,914,110.25	1,426,105.67
Advances on pulpwood.....	534,586.26	1,492,222.85	2,230,170.54	774,759.20	795,529.44	842,020.84	2,230,018.56
Total Current Assets.....	\$4,777,471.32	\$5,194,555.65	\$7,230,542.87	\$4,137,739.78	\$4,875,781.33	\$4,754,449.79	\$5,135,490.29
Fixed Assets:							
Plant.....	\$3,660,958.14	\$4,033,237.13	\$7,666,482.67	\$5,932,085.38	\$5,595,314.48	\$5,456,369.50	\$5,347,390.93
Farm Property.....	32,928.52	40,152.24	38,215.06	-	-	-	-
Timberlands.....	1,744,742.33	1,791,288.78	1,144,256.91	2,251,200.06	2,251,200.06	2,256,471.14	2,254,466.83
Other Assets:							
Special Account in Old Colony Trust Co. to redeem First Mortgage Bonds.....	-	1,688,056.00	-	-	-	-	-
Equity in Liberty Bonds (Purchased for resale to Employees).....	50,628.40	84,184.32	72,151.82	-	-	-	-
Excess claim against U.S. Government over Estimated 1920 Federal Taxes.....	-	-	2,670.50	-	9,958.00	9,958.00	9,958.00
Treasury Stock (Eastern Manufacturing Company 1st Preferred).....	-	-	131,454.00	105,111.40	-	-	-
Premium on Stock.....	-	-	34,241.33	-	-	-	-
Passamaquoddy Land Company Stock.....	-	-	250,000.00	250,000.00	250,000.00	451,519.49	391,106.87
Miscellaneous.....	175,987.07	173,183.19	358,369.92	381,480.11	378,884.97	314,634.27	253,809.46
Prepaid Expenses.....	85,116.54	66,242.87	157,033.26	350,938.16	238,260.04	-	-
Total.....	\$10,527,832.32	\$13,070,900.18	\$16,835,418.34	\$13,408,554.89	\$13,599,398.88	\$13,243,402.19	\$13,392,222.38
LIABILITIES							
Current Liabilities:							
Accounts Payable.....	\$329,431.84	\$244,382.55	\$447,710.97	\$434,388.44	\$302,976.18	\$147,992.46	\$257,489.96
Notes Payable.....	2,206,192.60	927,099.89	3,218,490.11	875,400.00	2,169,076.41	1,096,842.02	1,100,000.00
Accrued Expenses.....	75,960.42	76,361.32	32,695.09	32,340.77	46,316.43	28,242.66	127,453.42
Total Current Liabilities.....	\$2,611,584.86	\$1,247,843.76	\$3,698,896.17	\$1,342,129.21	\$2,518,369.02	\$1,273,077.14	\$1,484,943.38
Funded Debt:							
Bonds.....	\$2,091,800.00	\$1,966,800.00	\$300,000.00	\$2,750,000.00	2,447,250.00	2,891,750.00	2,891,250.00
Coupon and Serial Notes.....	775,000.00	640,000.00	-	47,750.00	-	-	-
Mortgage Notes Payable.....	-	-	-	-	-	-	-
Reserves:							
Federal Taxes.....	250,000.00	118,000.00	-	-	-	-	-
Depreciation.....	842,415.41	1,155,916.31	1,876,775.19	-	-	-	-
Dividends.....	-	6,452.14	89,920.00	-	1,970,866.77	1,788,313.14	1,724,390.07
Plant Appreciation.....	-	-	-	-	-	100,000.00	100,000.00
Contingencies.....	-	-	-	-	-	-	-
Capital Stock and Surplus:							
Preferred Stock (Liberty Paper Company).....	-	-	-	260,000.00	40,000.00	40,000.00	40,000.00
First Preferred Stock.....	1,260,000.00	3,512,000.00	3,510,000.00	3,152,500.00	3,014,000.00	3,014,000.00	3,014,000.00
Second Preferred Stock.....	-	1,000,000.00	1,000,000.00	1,000,000.00	1,000,000.00	1,000,000.00	1,000,000.00
Common Stock.....	1,130,400.00	700,000.00	724,200.00	783,575.00	780,450.00	780,450.00	780,450.00
Surplus.....	1,566,632.05	2,723,887.97	5,635,626.98	4,072,600.68	1,828,463.09	2,355,811.91	2,357,188.93
Total.....	\$10,527,832.32	\$13,070,900.18	\$16,835,418.34	\$13,408,554.89	\$13,599,398.88	\$13,243,402.19	\$13,392,222.38

NOTE: * Less Reserve for Depreciation.
 ** Figures for this period furnished by the Company.
 *** Katahdin Pulp and Paper Company acquired during this year.

EXHIBIT "B"

THE MIAMI PAPER COMPANY

CONDENSED COMPARATIVE BALANCE SHEET

Prepared from audited statements with the exception of
the period ended May 31, 1924

A S S E T S	August 26, 1916	September 1, 1917	August 31, 1918
Current Assets:			
C a s h.....	\$ 23,910.74	\$ 40,462.54	\$ 81,574.21
Accounts Receivable.....	261,514.92	317,405.25	141,180.73
Notes Receivable.....	2,546.39	19,152.00	-
Trade Acceptances Receivable.....	-	-	-
Inventories.....	169,249.48	449,513.08	588,888.95
Other Current Assets.....	-	7,591.97	5,750.00
Total Current Assets.....	\$ 457,221.53	\$ 834,124.84	\$ 817,393.89
Deferred Assets.....	5,526.65	5,393.46	10,974.93
Investments.....	-	-	153,500.00
Fixed Assets.....	1,203,433.50	1,239,491.09	1,296,281.09
Other Assets.....	-	-	-
Patents and Goodwill	-	-	-
Total	\$1,666,181.68	\$2,079,009.39	\$2,278,149.91
L I A B I L I T I E S			
Current Liabilities:			
Notes Payable.....	\$ 105,631.85	\$ 460,000.00	\$ 335,000.00
Accounts Payable.....	54,672.95	21,282.61	271,831.24
Accrued Items.....	13,294.70	200.00	21,682.78
Taxes Payable.....	4,803.80	4,749.59	8,763.60
Other Current Liabilities.....	-	-	24,149.74
Total Current Liabilities.....	\$ 178,403.30	\$ 486,232.20	\$ 661,427.36
Reserves.....	26,000.00	21,071.96	-
Bonds.....	289,800.00	199,800.00	162,800.00
Other Liabilities.....	-	-	-
First Preferred Stock.....	60,200.00	121,200.00	127,200.00
Second Preferred Stock.....	500,000.00	500,000.00	500,000.00
Common Stock.....	500,000.00	500,000.00	500,000.00
Surplus.....	111,778.38	250,705.23	326,722.55
Total.....	\$ 1,666,181.68	\$2,079,009.39	\$ 2,278,149.91

* Included in
** Figures for

August 30, 1919	August 28, 1920	August 27, 1921	August 26, 1922	August 25, 1923	May 31, 1924 **
\$ 46,340.89	\$ 77,657.65	\$ 92,140.51	\$ 124,648.70	\$ 90,520.62	\$ 102,776.47
172,286.81	261,609.14	79,303.60	164,501.93	224,819.56	227,437.72
-	-	-	-	-	-
36,544.24	257,516.92	-	22,559.99	5,405.61	43,478.66
425,109.04	538,396.07	472,269.44	388,244.43	455,049.88	326,042.79
15,000.00	12,915.37	11,336.95	-	-	-
\$ 695,280.98	\$1,148,095.15	\$ 655,050.50	\$ 699,955.05	\$ 775,795.67	\$ 699,735.64
7,590.71	6,318.39	85,336.95	71,419.79	55,748.13	71,165.70
89,887.92	17,806.89	-	-	-	-
1,231,882.61	1,375,578.07	1,597,020.82	1,524,620.46	1,506,954.29	1,540,001.70
103,684.33	-	-	-	-	-
\$2,128,326.55	\$2,547,799.00	\$2,337,408.27	\$2,295,995.30	\$2,338,498.09	\$2,310,903.04
\$ 260,000.00	-	\$ 275,000.00	\$ 350,000.00	\$ 325,000.00	\$ 250,000.00
97,484.30	\$ 168,474.51	82,114.74	66,188.38	191,583.56	121,980.96
3,072.77	4,373.24	9,430.16	13,124.45	602.87	3,329.71
4,886.50	5,932.08	17,820.00	13,767.28	6,128.51	13,544.20
60,638.21	91,665.23	255.34	6,863.88	257.84	259.57
\$ 426,081.78	\$ 270,445.06	\$ 384,620.24	\$ 449,943.99	\$ 523,572.78	\$ 389,114.44
-	-	-	-	-	-
130,700.00	83,900.00	643,900.00	642,300.00	625,300.00	592,800.00
106,130.80	-	-	-	-	-
127,300.00	130,100.00)	6,100.00	7,700.00	7,700.00	7,700.00
500,000.00	500,000.00)	*	*	*	500,000.00
500,000.00	500,000.00	*	*	*	821,288.60
338,113.97	1,063,353.94	1,302,788.03	1,196,051.31	1,181,925.31	-
\$2,128,326.55	\$2,547,799.00	\$2,337,408.27	\$2,295,995.30	\$2,338,498.09	\$ 2,310,903.04

surplus.
this period furnished by the Company.

EXHIBIT "C"

EASTERN MANUFACTURING COMPANY

THE MIAMI PAPER COMPANY

COMBINED BALANCE SHEET INCLUDING THE STATEMENTS
OF THE EASTERN MANUFACTURING COMPANY OF MAY 17, 1924
AND OF THE MIAMI PAPER COMPANY OF MAY 31, 1924

After giving effect to Sanderson and Porter's estimate of Fixed
Asset Values and Adjustments in advances on pulpwood.

A S S E T S

Current Assets:

C a s h.....	
Accounts Receivable (Less Reserves).....	
Notes Receivable.....	
Trade Acceptances Receivable.....	
Inventories.....	
Advances on pulpwood.....	
Total Current Assets.....	
Deferred Assets.....	
Investments.....	
Advances to Molunkus Paper Company	\$125,959.25
Less Reserve,	<u>65,959.25</u>
Real Estate, Plant and Equipment.....	
Timberlands.....	
Miscellaneous.....	
Total.....	

L I A B I L I T I E S

Current Liabilities:

Notes Payable.....	
Accounts Payable.....	
Accrued Expenses.....	
Unclaimed Wages.....	
Total Current Liabilities.....	
Reserve for Contingencies.....	
Bonds, Serial Notes and Mortgages.....	
Preferred Stock, (Liberty Paper Company).....	
First Preferred Stock.....	
Second Preferred Stock.....	
Common Stock.....	
Surplus.....	
Total.....	

EASTERN MANUFACTURING COMPANY

THE MIAMI PAPER COMPANY

COMBINED

\$519,130.06
856,724.92
109,511.08
-
1,420,105.67
1,978,112.07

\$102,776.47
227,437.72
-
43,478.66
326,042.79
-

\$621,906.53
1,084,162.64
109,511.08
43,478.66
1,746,148.46
1,978,112.07

\$4,883,583.80
253,809.46
147,973.37

\$699,735.64
71,165.70
-

\$5,583,319.44
324,975.16
147,973.37

60,000.00
5,386,595.97
2,254,466.83
391,106.87

-
1,772,184.00
-
-

60,000.00
7,158,779.97
2,254,466.83
391,106.87

\$13,377,536.30

\$2,543,085.34

\$15,920,621.64

\$1,100,000.00
257,489.96
127,453.42
-

\$250,000.00
121,980.96
16,873.91
259.57

\$1,350,000.00
379,470.92
144,327.33
259.57

\$1,484,943.38
100,000.00
2,891,250.00
40,000.00
3,014,000.00
1,000,000.00
780,450.00
4,066,892.92

\$389,114.44
-
592,800.00
7,700.00
-
-
500,000.00
1,053,470.90

\$1,874,057.82
100,000.00
3,484,050.00
47,700.00
3,014,000.00
1,000,000.00
1,280,450.00
5,120,363.82

\$13,377,536.30

\$2,543,085.34

\$15,920,621.64

EXHIBIT "D"

EASTERN MANUFACTURING COMPANY
COMPARATIVE CONSOLIDATED STATEMENT
OF INCOME AND PROFIT AND LOSS

Prepared from audited statements.

	Y E A R E N D E D					
	December 28, 1918	January 3, 1920	January 1, 1921	December 31, 1921	December 30, 1922	December 29, 1923
Net Sales (Including Inter-departmental).....	\$8,552,821.25	\$9,012,661.71	\$13,616,347.91	\$ 6,171,467.70	\$ 9,312,198.41	\$10,543,337.21
Cost of Goods Sold.....	7,064,236.52	7,558,664.03	10,888,877.78	6,218,221.88	8,097,878.76	9,105,154.80
Gross Profit or Loss.....	\$1,488,584.73	\$1,453,997.68	\$ 2,727,470.13	\$ 46,754.18	\$ 1,214,319.65	\$ 1,438,182.41
Administrative and Selling Expense.....	462,679.48	451,382.76	812,538.71	553,678.23	468,242.47	481,374.33
Operating Profit or Loss.....	\$1,025,905.25	\$1,002,614.92	\$ 1,914,931.42	\$ 600,432.41	\$ 746,077.18	\$ 956,808.08
Other Charges.....	89,725.00	-	1,084,385.62	1,264,552.83	223,809.75	113,467.13
	\$ 936,180.25	\$1,002,614.92	\$ 830,545.80	\$ 1,864,985.24	\$ 522,267.43	\$ 843,340.95
Other Income and Credits.....	41,068.37	1,100,065.51	767,140.83	1,321,429.63	-	120,634.19
Earnings Available for Interest and Income and Excess Profit Taxes.....	\$ 977,248.62	\$2,102,680.43	\$ 1,597,686.63	\$ 543,555.61	\$ 522,267.43	\$ 963,975.14
Interest.....	\$ 270,685.20	\$ 337,469.17	\$ 217,526.30	\$ 267,908.61	\$ 370,278.98	\$ 289,130.53
Income and Excess Profit Taxes.....	224,305.93	202,336.88	268,627.98	-	-	-
	\$ 494,991.13	\$ 539,806.05	\$ 486,154.28	\$ 267,908.61	\$ 370,278.98	\$ 289,130.53
Available for Dividends.....	\$ 482,257.49	\$1,562,874.38	\$ 1,111,532.35	\$ 811,464.22	\$ 151,988.45	\$ 674,844.61
Dividends Paid.....	203,783.00	360,632.00	880,292.08	338,059.48	106,061.14	-
Carried to Surplus.....	\$ 278,474.49	\$1,202,242.38	\$ 231,240.27	\$ 1,149,523.70	\$ 45,927.31	\$ 674,844.61

Total Net Earnings for six years, before interest and Federal taxes \$5,620,302.64

Annual average Net Earnings \$936,717.11

THE MIAMI PAPER COMPANY

COMPARATIVE STATEMENT OF INCOME

AND PROFIT AND LOSS

Prepared from audited statements.

	August 26, 1916	September 1, 1917	August 31, 1918	August 30, 1919	August 28, 1920	August 27, 1921	August 26, 1922	August 25, 1923
Gross Sales.....	\$2,084,600.32	\$3,643,084.79	\$3,139,280.10	\$3,118,302.84	\$5,381,109.54	\$3,589,750.11	\$1,783,704.08	\$2,923,875.00
Less:								
Returns and Allowances.....	\$77,383.43	\$69,197.31	\$33,881.07	\$14,228.21	\$24,188.63	\$546.98	\$2,220.67	\$2,177.16
Discounts.....	63,385.56	87,430.89	90,160.30	92,148.94	171,368.34	112,549.33	58,831.49	92,508.67
Total.....	\$140,768.99	\$156,628.20	\$124,041.37	\$106,377.15	\$195,556.97	\$113,096.31	\$61,052.16	\$94,685.83
Net Sales.....	\$1,943,831.33	\$3,486,456.59	\$3,015,238.73	\$3,011,925.69	\$5,185,552.57	\$3,476,653.80	\$1,722,651.92	\$2,829,189.17
Cost of Sales.....	1,737,904.57	(2) 3,082,187.27	2,952,938.04	2,813,082.23	4,278,723.83	3,336,933.47	1,587,863.05	2,579,604.30
Gross Profit.....	\$205,926.76	\$ 404,269.32	\$ 62,300.69	\$198,843.46	\$906,828.74	\$139,720.33	\$134,788.87	\$249,584.87
Administrative, Selling and General Expense.....	59,774.83	130,821.13	68,879.44	112,387.75	174,407.03	196,142.20	189,951.54	128,852.29
	\$146,151.93	\$273,448.19	\$6,578.75	\$86,455.71	\$732,421.71	\$56,421.87	\$55,162.67	\$120,732.58
Add:								
Other Income.....	27,789.37	23,299.27	14,282.22	1,772.93	8,908.41	7,205.60	3,950.68	3,549.18
	\$173,941.30	\$296,747.46	\$7,703.47	\$88,228.64	\$741,330.12	\$49,216.27	\$51,211.99	\$124,281.76
Deduct:								
Other Expenses.....	67,198.58	135,913.51	-	-	1,944.37	50,059.07	2,234.79	26,138.65
Net Profit or Loss before Interest and Federal Taxes.....	\$106,742.72	\$160,833.95	\$7,703.47	\$88,228.64	\$739,385.75	\$99,275.34	\$53,446.78	\$ 98,143.11
Interest.....	26,195.63	15,558.00	36,819.07	37,795.95	34,683.88	36,425.30	57,559.34	54,639.25
Net Profit or Loss after Interest and before Federal Taxes....	(1) \$80,547.09	\$145,275.95	(3) \$29,115.60	\$50,432.69	\$704,701.87	(4) \$135,700.64	(5) \$111,006.12	\$43,503.86

Total Net Profit for the eight years before Interest and Federal Taxes..... \$1,048,317.52

Estimated Depreciation for 1916 (see Note 1)..... 80,000.00

\$ 968,317.52

Restoration of Extraordinary Charges applicable to prior years' Earnings.... 189,352.00

\$1,157,669.52

Annual Average Earnings..... 144,708.69

(1) Before any provision for depreciation.

(2) Depreciation transferred from Administrative, Selling and General Expense to Cost of Sales.

(3) " " " Surplus of 1919 to Cost of Sales, 1918.

(4) Includes in "Other Expenses" an amount of \$45,771.04, adjustment of Inventory

(Essvick Pulp) made by auditors in 1923 and applied by them against 1923 Surplus.

(5) Includes in "Other Income" an amount of \$772.62, Profit on Sale of horses and vehicles.

Credited by auditors to Surplus in 1923, and a charge of \$2,234.79 as "Other Expenses, Adjust-

ment of Inventory" (Essvick Pulp) made by auditors in 1923 and applied by them against 1923

Surplus.

EXHIBIT "F"

EASTERN MANUFACTURING COMPANY

RECAPITULATION OF ESTIMATED VALUES OF FIXED ASSETS

AS OF MAY 17, 1924

	SOUTH BREWER PLANT		LINCOLN PLANT		GRAND TOTALS	
	Replacement Cost	Present Depreciated Value	Replacement Cost	Present Depreciated Value	Replacement Cost	Present Depreciated Value
Land - Mill Site.....	\$34,203	\$34,203	\$11,435	\$11,435	\$45,638	\$45,638
Water Supply Rights.....	55,146	55,146	20,000	20,000	75,146	75,146
Water Supply Development.....	71,101	51,394	69,741	59,365	140,842	110,759
River Piers and Booms.....	13,671	2,734	70,187	34,073	83,858	36,807
Buildings and Building Equipment.....	1,855,207	1,374,922	758,035	582,126	2,613,242	1,957,048
Tenement Property.....	5,300	3,205	34,980	28,466	40,280	31,671
Power Plant.....	509,563	288,832	317,043	218,662	826,606	507,494
Machinery and Equipment.....	2,257,286	1,282,633	986,764	540,592	3,244,050	1,823,225
Fuel Oil Handling Equipment.....	161,561	155,157	85,667	82,240	247,228	237,397
Transportation Equipment.....	48,303	29,888	51,321	21,423	99,624	51,311
Furniture and Fixtures.....	103,555	62,033	18,635	11,537	122,190	73,570
Machinery and Equipment not in use.....	33,681	13,472	103,826	41,530	137,507	55,002
"Allen's Mill Property".....	10,020	10,020	-	-	10,020	10,020
Pulpwood Conveyor Property.....	7,170	7,170	-	-	7,170	7,170
Totals.....	\$5,165,767	\$3,370,809	\$2,527,634	\$1,651,449	\$7,693,401	\$5,022,258

Grand Totals as above.....	\$7,693,401.00	\$5,022,258.00
Plant orders in process(Book Values).....	158,773.92	158,774.92
Liberty Paper Company Fixed Assets (Book Values).....	252,514.29	205,563.05
Totals.....	<u>\$8,104,690.21</u>	<u>\$5,386,595.97</u>

NOTE: For other fixed asset values appearing on Exhibit "A", "Comparative Consolidated Balance Sheet", book values have been used.

EXHIBIT "G"

THE MIAMI PAPER COMPANY

RECAPITULATION OF ESTIMATED VALUES OF FIXED ASSETS

AS OF MAY 31, 1924

	<u>Replace- ment Cost</u>	<u>Present Depre- ciated Value</u>
Land and Improvements.....	\$ 38,237	\$ 37,011
Buildings and Building Equipment.....	801,818	583,490
Rental Property.....	15,369	13,252
Power Plant.....	526,859	244,127
Machinery and Equipment.....	1,404,230	803,346
Transportation Equipment.....	20,083	4,083
Furniture and Fixtures.....	18,270	12,752
Machinery and Equipment not in use.....	<u>245,498</u>	<u>74,123</u>
Totals.....	<u>\$3,070,364</u>	<u>\$1,772,184</u>

Millions
of
pounds.

EXHIBIT " H "

EASTERN MANUFACTURING COMPANY

DISPOSITION OF PULP AND PAPER PRODUCTION

Note: 1924 Quantities at rate of first five periods projected by dotted lines.

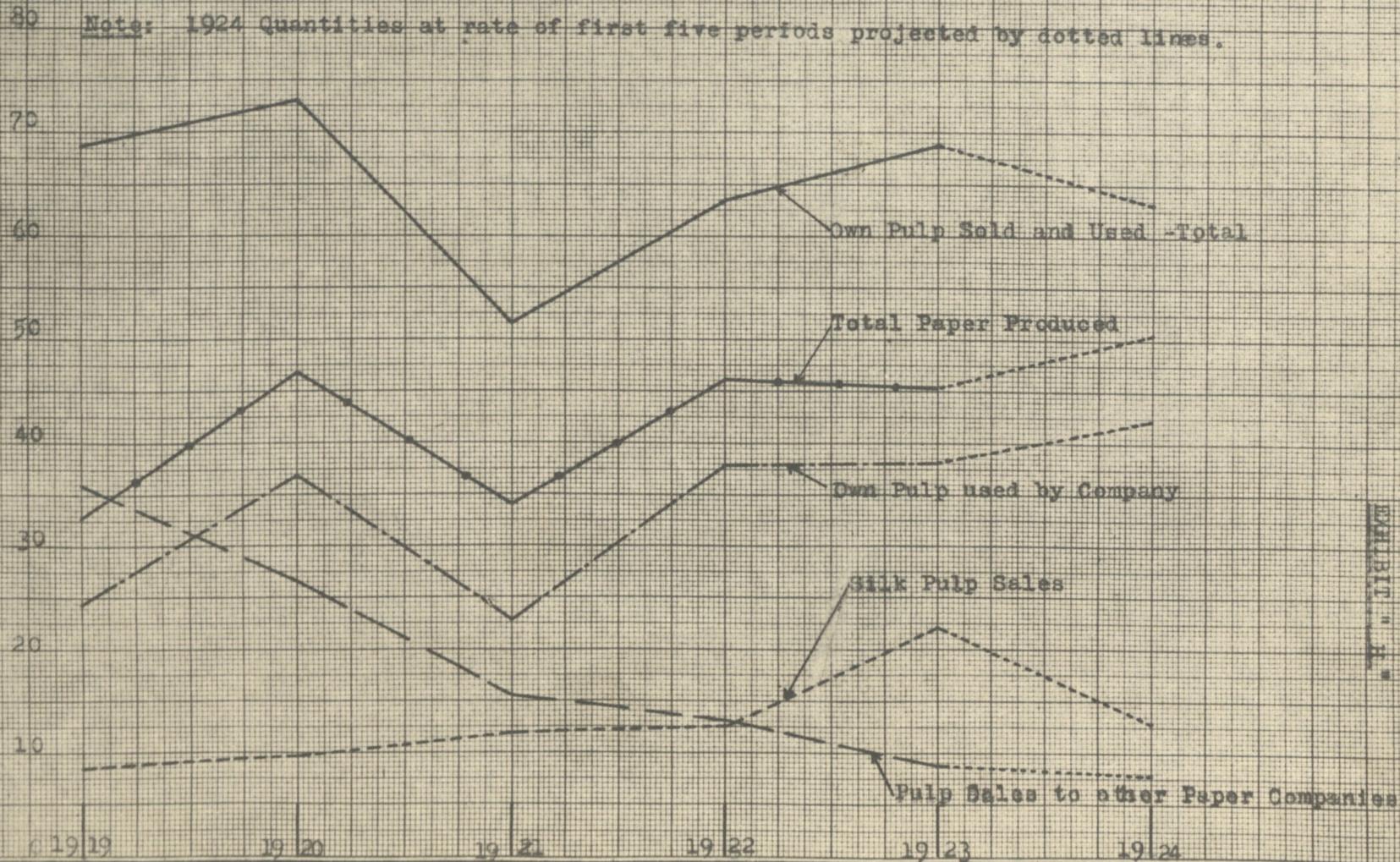


EXHIBIT " H "

