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EDDY PAPER COMPANY LIMITED

AND ITS WHOLLY OWNED
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Annual Report 1961

Annual Report for

1961

EDDY PAPER COMPANY LIMITED

AND ITS WHOLLY OWNED SUBSIDIARY
THE E. B. EDDY COMPANY



EDDY PAPER COMPANY LIMITED

Directors

A. F. BUELL
G. E. CREBER
C. L. GUNDY
R. H. HEDGER
D. R. HUTTON
W. C. R. JONES
G. C. METCALF
W. D. MOFFATT
W. GARFIELD WESTON

Officers

G. C. METCALF, *Chairman of the Board*
W. D. MOFFATT, *President and Managing Director*
C. G. BANGHART, *Secretary*
D. R. HUTTON, *Treasurer*
O. C. FROOD, *Assistant Treasurer*

Transfer Agents

MONTREAL TRUST COMPANY
Halifax, Saint John, Montreal, Toronto, Winnipeg and Vancouver

Registrars

CANADA PERMANENT TORONTO GENERAL TRUST COMPANY
Halifax, Saint John, Montreal, Toronto, Winnipeg and Vancouver

Annual Meeting

The annual general meeting of shareholders will be held
at the Chateau Laurier Hotel, Ottawa, at
10:00 a.m. E.S.T. on Friday, April 27, 1962.

DIRECTORS' REPORT

Your Company's film entitled "The Quality of a Nation" has been produced to commemorate not only the 100th anniversary of this country, but to encourage Canadians to respond with open hearts and willing hands to the future which beckons. It will be presented to the Centenary Council who have expressed much enthusiasm for its purpose and who are guiding its distribution.

In "The Quality of a Nation", Canada is scanned from Newfoundland to British Columbia. We are made aware that many things have been done during our short history in which we can take great pride. We are reminded that there remains much more for us to do before we become, in truth, a nation.

The words of our Founding Fathers are repeated to portray again the imagination, the fears and the courage which flowed so freely on the highly controversial issue of Confederation. A host of Canadians in many walks of life talk to us of today — and of tomorrow.

A quotation taken from Saint Augustine appears in the title, superimposed over the Peace Tower:

"A nation is an association of reasonable beings, united in a peaceful sharing of the things they cherish. Therefore, to determine the quality of a nation, you must consider what those things are."

We have much pleasure in sponsoring this film. We commend it to you and all those who

wish to make sure that our undertakings within the next five years are worthy of the anniversary being honoured. These undertakings, whatever their form, should provide employment, a desirable standard of living, and a means to enjoy the arts, the sciences, and the broad outdoors which are so much a part of life in Canada.

Your Company has had an active year. This is as it should be. Some of the interesting things which have engaged us, but which do not appear in the summary of our financial affairs, are mentioned here.

Administrative costs have been substantially reduced and at the rate of \$470,000 per year. All of these savings are not yet apparent, for they were made progressively throughout the period under review. We are now a closer-knit company. We are more streamlined. We have a better ability to meet the aggressive competition we face — and to meet it with lower costs and a prompt response.

We induced Mr. W. C. R. Jones to join your subsidiary, The E. B. Eddy Company, as Vice-President, Manufacturing, and he was appointed a Director of your Company at mid-year. His excellent background in paper mill operations has proved of great help to us. Better efficiencies, tidier mills, and of utmost importance, high morale are encouraging evidences of the progress made during 1961. Through improved scheduling, we have been able to release rented warehouses, reduce our inventories and, at the

same time, give the necessary good service which is required by our customers.

Mr. A. F. Buell, Vice-President, Woodlands, of The E. B. Eddy Company, and Mr. G. E. Creber were also appointed Directors.

Our Research Division has been re-organized with a view to directing its efforts to those matters which are of more pressing concern to your Company.

The last three months of the year were very good in every way. In that quarter, sales and earnings exceeded our budgets to the extent that re-organization costs, due to changes instituted early in the year, and wage and salary adjustments were largely offset.

Union negotiations continued for several months, ending in a contract retroactive to May 1st, and for one year's duration. The burden which this placed on your Company was a heavy one. We are particularly fortunate that early and continuing steps were taken to put into effect economies regarded as practical and of long-term benefit to our operations.

We have reduced our holdings in a market security by approximately 50% and, in so doing, made a substantial capital gain. The effects of this appear in the statement.

Sales

Net sales for The E. B. Eddy Company reached a new peak of \$32,900,351, representing an increase of \$957,882, or 3.0% over the previous year. In spite of extremely competitive conditions all of the major product groups showed moderate gains with the exception of Paperboard.

Earnings

Consolidated net income was \$2,078,424 up \$110,378 or 5.6% from the previous year's total

of \$1,968,046. Earnings per share were \$1.73 in 1961 as compared to \$1.64 in the year 1960.

Retained Income

At the end of the year, income retained and used in the business amounted to \$18,626,306, an increase of \$1,412,322 over the previous year end.

Capital Stock

By-law Number Fourteen, subdividing each of the 600,000 authorized common shares, without nominal or par value, of the capital stock of the Company into three common shares, without nominal or par value, was sanctioned at a Special General Meeting of the Shareholders, called for the purpose and held on April 28, 1961. Supplementary Letters Patent, dated May 12, 1961, were issued confirming the By-law.

During the year 26,997 Class A shares were converted into common shares. By December 31, 1961, 175,841 of the 200,000 Class A shares theretofore issued had been converted into common shares.

Dividends

Dividends paid during the year amounted to \$666,102. Of this amount \$34,562 was paid to Class A Shareholders at the fixed annual rate of \$1.00 per share, and the remainder or \$631,540 was paid on common shares. The common share dividends consisted of 37½ cents per share in the first quarter and 15 cents per subdivided share in each of the other quarters.

Subsequent to the three-for-one subdivision of the common shares on May 12, 1961, the annual dividend rate was increased by 20%. The combination of this increase in rate and the further conversion of Class A shares to common shares

resulted in an increase of \$94,785 in the total dividend payments.

Working Capital

At the year end, working capital amounted to \$13,638,384, an increase of \$830,614 over the previous year end. This represents a current ratio of 4.3 as compared with 3.9 at December 31, 1960.

Properties

During the year 1961, a total of \$2,124,956 was spent on capital expenditures of which \$1,932,213 was devoted to Ottawa-Hull mills and \$192,743 to Woodlands limits. The character of the capital program was similar to last year in that the emphasis was placed on necessary plant improvement and modernization items rather than major development projects. The mill expenditures included \$604,000 for specialty paper mills; \$326,000 for the newsprint mill; \$108,000 for the paperboard mill; \$258,000 for woodhandling and pulping facilities; \$212,000 for the tissue mill and converting plant and \$380,000 for power, steam and water production and distribution.

The 1962 capital program provides for expenditures of \$2,200,000 of which \$200,000 is for Woodlands limits and \$2,000,000 is for Ottawa-Hull mills. These will include \$450,000 for specialty paper mills; \$175,000 for the newsprint mill; \$295,000 for the paperboard mill; \$375,000 for woodhandling and pulping facilities; \$238,000 for steam and power facilities and \$100,000 for tissue converting.

Bonds

At December 31, 1961, bonds outstanding amounted to \$12,125,000. Reductions during the

year totalled \$375,000 and were related to scheduled redemptions of bonds issued by The E. B. Eddy Company.

Future

Your Company is an unusual one, for it makes, at one location, papers for many purposes. Therefore, it has been necessary, over the years, to assemble a wide variety of skills and services. These are engaged in managing and harvesting our wood resources; in manufacturing many types and grades of paper; in marketing to various outlets throughout Canada and abroad. The more important items in our range appear at the back of this report.

While many of us give much time and thought to the major improvements which should be made in the Company's operations and the course we should follow, it has been felt that we needed a more formalized method of assembling and analyzing the viewpoints. Consequently, late in 1961 a Planning Division was established. This is compact and adequate. From it will come studies to be considered and acted upon by your Directors.

It has been noted that many changes took place throughout the year. The improvement in your Company's position as the months went by could not have been made without the wholehearted co-operation and understanding of your employees, and they deserve your deep appreciation. We are confident their efforts will keep the Company on this brighter path.

When Canada celebrates its centennial, five years hence, your Company will have passed its one hundred and sixteenth birthday.

On behalf of the Board,



President.

Hull, Quebec,
March 6, 1962.

Auditors' Report

TO THE SHAREHOLDERS OF
EDDY PAPER COMPANY LIMITED:

We have examined the consolidated statement of financial position of Eddy Paper Company Limited and its wholly owned subsidiary, The E. B. Eddy Company, as at December 31, 1961 and the consolidated statements of income and income retained and used in the business for the year ended on that date, and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated statement of financial position and consolidated statements of income and income retained and used in the business, with the notes thereto, are properly drawn up so as to exhibit a true and correct view of the state of the combined affairs of the companies as at December 31, 1961 and the combined results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.,
GEO. A. WELCH & COMPANY,

Ottawa, February 21, 1962

Chartered Accountants.

EDDY PAPER COMPANY LIMITED

and its wholly owned subsidiary The E. B. Eddy Company

Consolidated Statement of Income for the year ended December 31, 1961

Net sales		\$32,900,351
Operating profit before taking into account the items shown below.		\$ 4,973,030
Income from investments	\$ 85,186	
Profit on sale of marketable securities	293,482	378,668
		\$ 5,351,698
Bond interest	\$ 498,382	
Provision for depreciation	1,758,892	2,257,274
		\$ 3,094,424
Provision for taxes on income (Note 4)		1,016,000
Net income for the year		\$ 2,078,424

NOTE: In 1961 the Company and its subsidiary paid directors' fees of \$600 and salaries to executive officers of the parent company and legal fees of \$207,290.

Consolidated Statement of Income Retained and Used in the Business for the year ended December 31, 1961

Balance at beginning of year		\$17,213,984
Net income for the year		2,078,424
		\$19,292,408
Dividends paid—Class A shares	\$ 34,562	
Common shares	631,540	666,102
Balance at end of year		\$18,626,306

EDDY PAPER CO.

and its wholly owned subsidiaries

Consolidated Statement of Financial Position

CURRENT ASSETS:

Cash	\$ 261,215	
Accounts receivable	5,006,204	
Acceptance note due March 29, 1962.	1,487,055	
Inventories (Note 1)	8,364,067	
Expenditure on logging operations in progress	1,905,023	
Prepaid expenses	749,283	\$17,772,847
		<hr/>

CURRENT LIABILITIES:

Accounts payable and accrued liabilities	\$ 2,843,343	
Income and other taxes	916,120	
Serial bonds maturing within one year	375,000	4,134,463
		<hr/>

WORKING CAPITAL \$13,638,384

MARKETABLE SECURITIES at cost (Market value \$437,396) 163,472

PROPERTIES (Note 2) 26,969,179

TIMBER LEASES AND LICENSES, at book value as reinstated at December 31, 1944, plus subsequent acquisitions at cost, less recorded depletion 1,868,939

\$42,639,974

Deduct:

FIRST MORTGAGE BONDS (Note 3)	\$12,125,000	
RESERVE for income taxes payable in future years	2,049,000	
DEFERRED CREDIT applicable to property rentals (Note 5)	1,839,668	16,013,668
		<hr/>

NET ASSETS, REPRESENTING SHAREHOLDERS' INTEREST \$26,626,306

COMPANY LIMITED

The E. B. Eddy Company

Balance Sheet—December 31, 1961

SHAREHOLDERS' INTEREST, consisting of:

Capital Stock:

Authorized—

400,000 Cumulative Convertible Non-
Callable Class A shares of \$20.00 per
share entitled to fixed annual dividends of
\$1.00 each (Note 6)

1,800,000 Common shares without nominal
or par value (Note 6)

Issued and outstanding—

Class A, 24,159 shares	\$ 483,180	
Common, 1,127,523 shares	<u>7,516,820</u>	\$ 8,000,000

Income retained and used in the business per statement attached		18,626,306
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Signed on behalf of the Board:

W. D. MOFFATT, *Director*

W. C. R. JONES, *Director*

\$26,626,306

EDDY PAPER COMPANY LIMITED

and its wholly owned subsidiary The E. B. Eddy Company

Notes

to 1961 Consolidated Financial Statements

1

Finished stocks, goods in process, raw materials and supplies are valued at standard cost not in excess of actual cost, and pulpwood is valued at average cost.

2

Properties comprise the following at December 31, 1961:

Buildings, machinery and equipment (including facilities located on lands not owned in fee simple), at cost	\$50,105,673	
Less: Accumulated depreciation	24,587,066	
		<u>\$25,518,607</u>
Land, at cost	554,881	
Water power and rights, at cost	895,691	
		<u>\$26,969,179</u>

Further capital expenditures of approximately \$289,000 will be made to complete capital projects in progress at December 31, 1961.

3

First mortgage bonds at December 31, 1961, excluding those maturing within one year and shown as a current liability, comprise:

1954 Series: 3¼% serial bonds due October 1, 1963-1964	\$ 500,000	
4% sinking fund bonds due October 1, 1974	7,500,000	\$ 8,000,000
		<u>7,500,000</u>
1955 Series: 3¼% serial bonds due June 1, 1963-1965	\$ 375,000	
4% sinking fund bonds due June 1, 1975	3,750,000	4,125,000
		<u>4,125,000</u>
		<u>\$12,125,000</u>

4

The provision for taxes on income has been based on claiming capital cost allowances in excess of depreciation recorded in the accounts. As a result, the provision for taxes on income has been reduced by \$321,000. The accumulated amount by which taxes otherwise payable have been reduced is approximately \$2,692,000 of which \$2,049,000 is reflected in the consolidated statement of financial position.

5

The Deferred Credit applicable to property rentals represents the excess of proceeds over depreciated book values of properties sold under lease-back arrangements and is being amortized over the long term leases for the respective properties. During the year an amount of \$77,177 was amortized.

6

Class A shares may, at the option of the holders, be converted into common shares on the basis of three common shares for each Class A share and are non-callable except that if at any time not less than 90% in number of all Class A shares theretofore issued have been converted into common shares, the Company may redeem upon call all or part of the remaining outstanding Class A shares at not less than \$22.50 per share plus unpaid preferential dividends. At December 31, 1961, a total of 175,841, or 87.9%, of the 200,000 Class A shares theretofore issued had been converted into common shares, of which 26,997 were converted during the year 1961.

On May 12, 1961 each share of the previously authorized common stock was changed into three shares of common stock.

7

The aggregate future rental (exclusive of taxes, insurance and other occupancy charges) on properties on long term leases originating in 1959 and 1960 and in effect at December 31, 1961, and terminating in 48 years, amounts to \$10,681,125.

EDDY PAPER CO

and its

SEVEN YE

1961

EARNINGS

Net sales	\$32,900,351
Operating profit before the following	5,351,698
Bond interest	498,382
Provision for depreciation	1,758,892
Profit before provision for income taxes	3,094,424
Provision for taxes on income	1,016,000
Minority interest in partly owned subsidiary	—
Net income	2,078,424
Earnings per share(3)	\$1.73

FINANCIAL POSITION

Current assets	\$17,772,847
Current liabilities	4,134,463
Working capital	13,638,384
Properties, less accumulated depreciation	26,969,179
Timber limits, less recorded depletion	1,868,939
Investments	163,472
Deferred liabilities	—
Funded debt	12,125,000
Reserve for income taxes payable in future years	2,049,000
Deferred credit applicable to property rentals	1,839,668
Minority interest in partly owned subsidiary	—
Total shareholder equity	26,626,306
Equity per share(3)	\$22.19

CAPITAL EXPENDITURES

Additions, replacements and improvements of land, buildings, machinery and equipment	\$ 2,124,956
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MPANY LIMITED

subsidiaries (1)

AR REVIEW

1960	1959	1958	1957	1956(2)	1955(2)
\$31,942,469	\$47,869,947	\$47,058,610	\$45,275,352	\$45,468,917	\$41,979,903
5,347,531	6,682,369	6,607,748	6,715,359	6,959,607	6,110,666
511,121	991,103	954,024	862,132	827,636	614,191
1,694,164	2,152,934	2,003,152	1,896,924	1,769,973	1,668,383
3,142,246	3,538,332	3,650,572	3,956,303	4,361,998	3,828,092
1,174,200	1,665,700	1,612,200	1,793,700	2,032,848	1,800,539
—	38,505	51,136	83,730	122,931	121,894
1,968,046	1,834,127	1,987,236	2,078,873	2,206,219	1,905,659
\$1.64	\$1.53	\$1.66	\$1.73	\$1.84	\$1.59
\$17,228,302	\$19,086,277	\$18,259,561	\$17,687,963	\$20,334,908	\$19,209,756
4,420,532	10,726,623	11,389,331	9,817,697	6,720,711	5,269,194
12,807,770	8,359,654	6,870,230	7,870,166	13,614,197	13,940,562
26,664,160	41,208,625	38,605,257	32,810,105	25,397,184	21,325,567
1,868,939	1,868,939	1,855,138	1,855,138	1,898,255	2,046,183
338,960	202,309	197,015	197,015	217,015	22,020
—	1,567,334	—	—	—	—
12,500,000	21,925,000	22,650,000	20,375,000	21,000,000	19,375,000
2,049,000	3,056,174	2,735,250	2,005,552	1,234,664	744,746
1,916,845	1,828,240	—	—	—	—
—	503,120	446,480	384,522	442,744	515,358
25,213,984	22,759,659	21,695,910	19,967,350	18,449,243	16,699,228
\$21.01	\$18.97	\$18.08	\$16.64	\$15.37	\$13.92
\$ 1,857,126	\$ 5,338,199	\$ 8,419,794	\$ 9,432,194	\$ 5,884,111	\$ 3,878,298

NOTES

- (1) Subsidiaries consist of the wholly owned E. B. Eddy Company in 1960 and 1961 but also includes the partly owned Sidney Roofing & Paper Company Limited in all other years.
- (2) Revised to give effect to the reversion in 1957 to cost basis of fixed asset accounting.
- (3) Earnings and equity per share calculations assume all Class A shares are converted to subdivided Common shares, see Note 6 in the notes to the 1961 consolidated financial statements.

EDDY PAPER COMPANY LIMITED

HEAD OFFICE Hull, Quebec.

THE E. B. EDDY COMPANY

a wholly owned subsidiary

HEAD OFFICE Hull, Quebec.

MILLS Hull, Quebec and Ottawa, Ontario.

WOODLANDS BRANCHES Parent, Fort Coulonge and Rapides des Joachims, Quebec.
Elk Lake, Ontario.

SALES OFFICES Toronto, Ontario.
London, Ontario.
Ottawa, Ontario.
Montreal, Quebec.
Quebec, Quebec.
Halifax, Nova Scotia.
Saint John, New Brunswick.

AGENCIES TEES & PERSSE LTD. in
Fort William, Ontario.
Winnipeg, Manitoba.
Regina, Saskatchewan.
Saskatoon, Saskatchewan.
Calgary, Alberta.
Edmonton, Alberta.
Vancouver, British Columbia.

GORDON BUTLER & CO. LTD., in
St. John's, Newfoundland.

EXPORT SALES THROUGHOUT THE WORLD ARE MADE
THROUGH AGENTS AND BROKERS.

THE SCIENCE OF PAPERMAKING

Paper is something most people take for granted. It plays such a large role in everyday life that thought is seldom given to its source.

Papermaking is a fascinating science. It calls for a specialized skill that can only come from years of research and experience.

The E. B. Eddy Company takes great pride in the title "papermakers" and endeavours to put the stamp of perfection on every variety of paper produced at the company mills. This perfection comes to you in many shapes: in letterheads, serviettes, household tissue and towels, wax paper, business forms, food packages, postage stamps, paper cups, brochures, textbooks and even in your daily paper . . . and countless other items too numerous to mention here. All of them perform well, and all of them are a little bit better because of the skill of E. B. Eddy paper-makers.

FINE PAPERS FOR PRINTERS

Cheneaux Bond, Rapidrun, Wellington Offset, Starbrite Offset, Niagara Litho, Ancaster Book, Guardian Index Bristol, Tecumseh Bristol, Mohawk Bristol, Multiscip Mimeo and Multicopy Duplicating and many others, in a selection of sizes, weights and colours.

PAPERBOARD FOR BOXMAKERS

Several grades for processing into paper cartons and packages largely for use in the food industry.

HOUSEHOLD PAPERS

TOILET TISSUES
White Swan, Vanity
and Cottage.

SERVIETTES
White Swan and Linen Finish.

TOWELS
White Swan roll and Reddy Towels.

CONVERTING PAPERS

An extensive range of papers for conversion into hundreds of everyday products; typical of these are envelopes, bread wrappers, paper cups, exercise books, gift wraps, stamps, greeting cards, soda straws and business forms.

INDUSTRIAL PRODUCTS

TOILET TISSUES
White Swan, Premier, Universal and Imperial roll tissues and Onliwon interfold tissues.

TOWELS
Eddy doublefold, singlefold and roll towels in kraft or white.

TRAY COVERS, SERVIETTES
Linen Finish and Beaded tray covers. Onliwon Dispenser, Linen Finish and Deluxe serviettes.

GROCERY BAGS

Balmoral, Bedford, Buckingham.
For retailers and chainstores.

NEWSPRINT

For the domestic and export markets.

Cover — printed by letterpress on
Starbrite Offset 25 x 38 — 280 M.



Inside pages — printed by letterpress
on Starbrite Offset 25 x 38 — 160 M.

