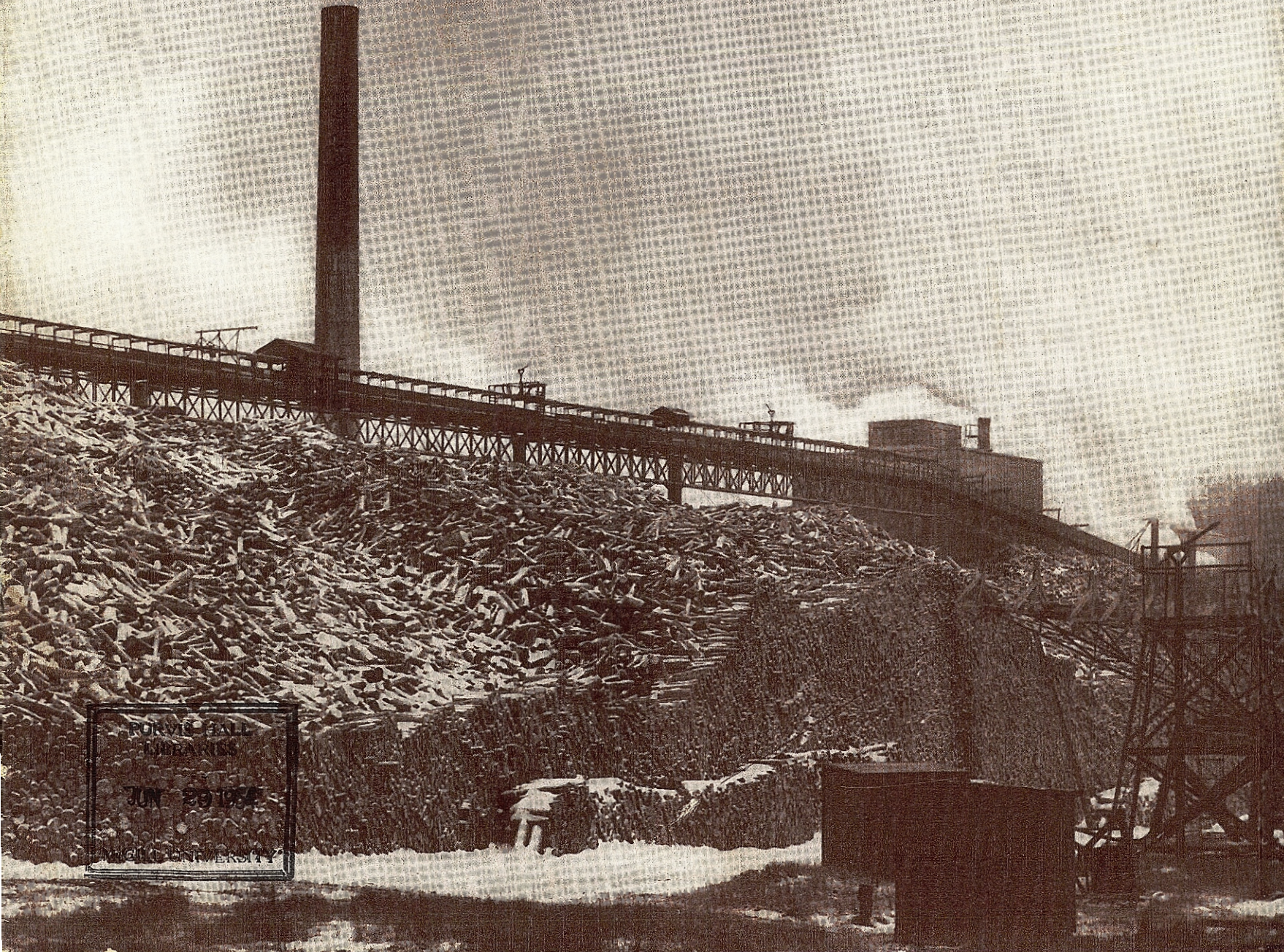


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# BROWN COMPANY ANNUAL REPORT



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# BROWN COMPANY

## *Voting Trustees*

- CHARLES FRANCIS ADAMS . . . . . Boston, Massachusetts  
*Chairman, State Street Trust Company*
- T. JEFFERSON COOLIDGE . . . . . Boston, Massachusetts  
*Chairman, United Fruit Company*
- ERNEST M. HOPKINS . . . . . Montpelier, Vermont  
*President, National Life Insurance Company*

## *Directors*

- ORTON B. BROWN . . . . . Berlin, New Hampshire  
*Director, New Hampshire Fire Insurance Company*
- JOHN B. CHALLIES . . . . . Montreal, P. Q.  
*Vice President, The Shawinigan Water & Power Company*
- FREDERIC G. COBURN . . . . . New York, New York  
*Director, Savage Arms Corp., Dwight Mfg. Co., Republic Aviation Corp.*
- ARTHUR D. EMORY . . . . . Montreal, P. Q.  
*President, United Corporations, Limited*
- JOHN H. FAHEY . . . . . Washington, D. C.  
*Trustee; President, Twentieth Century Fund Inc.; Director Wm. Filene Sons Co.*
- G. BLAIR GORDON . . . . . Montreal, P. Q.  
*President, Dominion Textile Company, Limited*
- HENRY P. KENDALL . . . . . Boston, Massachusetts  
*Chairman of the Board, The Kendall Company*
- R. HOWARD WEBSTER . . . . . Montreal, P. Q.  
*Director, The Imperial Trust Company*
- LAURENCE F. WHITTEMORE . . . . . Pembroke, New Hampshire  
*President, Brown Company*

The Directors of Brown Corporation, wholly owned Canadian subsidiary, are the same as those of the parent company, except that Mr. George A. Morris, Montreal, P. Q., President of Ogilvie Flour Mills Co., Ltd., is a Director of Brown Corporation and Mr. R. Howard Webster is not on the Brown Corporation Board.

## *Officers*

- LAURENCE F. WHITTEMORE . . . . . *President*
- ERNEST H. MALING . . . . . *Vice President — Finance & Accounts and Treasurer*
- HERMAN G. SCHANCHE . . . . . *Vice President — Woods Operations*
- DOWNING P. BROWN . . . . . *Vice President — Sales*
- WENTWORTH BROWN . . . . . *Vice President — Assistant to President*
- HOWARD G. BRUSH . . . . . *Controllor*
- JOHN W. JORDAN . . . . . *Secretary*
- CHARLES G. RAEBURN . . . . . *Assistant Treasurer and Assistant Secretary*
- LEONARD A. PIERCE . . . . . *Clerk*

*Executive Offices: BERLIN, NEW HAMPSHIRE*  
*General Sales Offices: 500 FIFTH AVENUE, NEW YORK 18, N. Y.*  
*Mills: BERLIN, NEW HAMPSHIRE — LA TUQUE, P. Q., CANADA*

(Cover Picture: The pulpwood pile shown is one of several at the La Tuque plant of Brown Corporation, the Canadian subsidiary. At the time this picture was taken the pile was estimated to contain 40,000 cunits.)



# BROWN COMPANY

FOREMOST PRODUCERS



PURIFIED CELLULOSE

Berlin, New Hampshire

March 1, 1950

## *To the Holders of Voting Trust Certificates:*

My predecessor, in his letter to the stockholders introducing the Annual Report of the Brown Company for 1948, pointed out that prospects for the coming year appeared to be less favorable than they had been during 1948, although the Company was reported to be in a stronger position than for many years. His prophecy was borne out by events and significant reductions in sales volume took place beginning with the fourth period and extending through the tenth period of the fiscal year ending November 30, 1949. The effect of the decreased sales and increased costs, general in most manufacturing industries, threw the parent Company into operating losses during those periods. The combination of decreasing sales and increased costs, while not as severe in the Canadian subsidiary, Brown Corporation, were felt at about the same time, and its earnings, while still substantial, showed a heavy decrease for the year.

The year's operations of the parent Company consolidated with those of the subsidiary resulted in net earnings of \$1,091,710 in 1949, compared to \$3,936,278 in 1948, and \$2,837,682 in 1947. Year-end adjustments in the thirteenth period had the effect of decreasing net earnings substantially. The resultant net earnings, however, provided for the full year's dividend on the preferred stock and left an amount equal to 11 cents per share on the common stock as compared to \$1.54 per share earned in 1948.

### *Year's Operations*

Consolidated sales were \$43,263,495 for 1949, a reduction of \$4,806,505 from the record sales of 1948. This reduction in sales resulted from a decrease in sales prices, principally in the Pulp and Paper Divisions, and from a marked decrease in demand for some grades of pulp and paper produced by Brown Company. In spite

of the reduction in selling prices granted in the first half of 1949 the Company's Paper Towel Division showed a small increase in dollar volume. The Bermico Division (conduit and sewer pipe) also showed a small gain in sales over the previous year.

Because of reduced demand, the mills at Berlin were shut down during the summer for varying periods; some of the mills for as much as five weeks.

Net earnings were affected during the year by increases in freight rates and in higher labor costs (increased wage rates granted in the middle of 1948 affected the whole of 1949) which more than offset reductions in prices for purchased supplies and material. The unit cost of pulpwood used did not decrease and the inventory of pulpwood at the La Tuque Mill at the year end was substantially higher than the price at which it could be replaced. Since realistic accounting requires year-end inventories to be priced at cost or market, whichever is lower, a writedown of \$546,199 was made by the Brown Corporation at the year's end. The net earnings of the subsidiary were thereby reduced which, of course, also affected consolidated earnings.

For the twenty-eight weeks ended June 11, 1949 consolidated earnings of \$1,095,000 were reported. The mid-year slump and other adverse factors previously mentioned subsequently reduced these earnings materially. The improvement in demand which occurred last fall, together with the benefits from economies in operations which had been effected during the year, proved sufficient to offset the losses incurred during the summer and the substantial inventory writeoff. The present indications are that the increased rate of earnings will continue well into 1950.

### *Debt*

Because of the relatively high earnings of the company in 1948 the first mortgage bonds were reduced during 1949 in the amount of \$1,173,000 by operation



of the earnings sinking fund provision. In addition, \$300,000 of serial notes matured, resulting in a total reduction in the first mortgage debt of \$1,473,000. In 1950, the required reduction in the first mortgage debt is \$524,000, of which \$300,000 consists of maturing serial notes and the balance, \$224,000, is the sinking fund payment based on 1949 earnings.

### *Working Capital*

Working capital (excess of current assets over current liabilities) decreased \$1,669,221 during the year. The devaluation of the Canadian dollar accounts for \$737,987 of this decrease and the excess of plant expenditures over depreciation charges for the year accounts for an additional \$573,860. Cash increased and receivables and inventories decreased on the asset side but first mortgage bonds payable within a year and provision for income taxes decreased on the liability side. The net result was an improvement in the Company's "quick asset" position, cash and receivables at November 30, 1949 being over twice the total of current liabilities. This change resulted primarily from the liquidation of the heavy inventories, especially of pulpwood, on hand at the end of 1948. Of the cash on hand at November 30, 1949, \$536,837 was disbursed the next day in payment of bond interest and preferred stock dividends then due. In spite of the reduction during the year, the working capital position is very strong.

### *Expenditures on Plants*

During the year \$2,761,285 was expended on plant improvements and replacements, of which \$1,192,077 was expended on plants in the United States and \$1,569,208 on those in Canada. In the U. S., final payments were made on the new paper machine; the work on turbines and turbo-generators and on transformers for the Chemical Plant, started in 1948, was completed; a section of the dam at the Chemical Plant was rebuilt; two Diesel shifting engines to replace old and inefficient steam locomotives were purchased, and payment for new pulpwood barking equipment was completed. Additional equipment for the Paper Towel Division was purchased but further purchases will be required in 1950. The items above enumerated cost about \$710,000. The balance of the plant expenditures was used to make necessary replacements and for minor improvements in equipment required to meet changing conditions.

In Canada, the two major jobs were the completion of the new bleachery, commenced in 1948, and extensive

improvements in the wood room at the La Tuque Mill. The expenditures on these two jobs were about \$1,070,000. The balance of the plant expenditures in Canada was used for necessary replacements and minor improvements at La Tuque and for Woods Department equipment and improvements. The completion of the new bleachery at La Tuque was most timely as its operation was of substantial help in producing the grade of pulp for which the demand was strongest.

Several additional major plant jobs urgently needed at both Berlin and La Tuque are being studied and some of these will be undertaken in 1950, so far as funds which have been set apart for such purposes will permit.

### *Preferred Stock Dividends*

The year 1949 marked the initiation of dividends on the preferred stock. The full \$6.00 was paid in 1949 and the Directors have already authorized a quarterly payment of \$1.50 on March 1, 1950. In the meantime the subject of the accumulated arrears is receiving continued study by the Directors with the objective of developing a plan of recapitalization that will be acceptable to both preferred and common stockholders.

### *Changes in Organization*

As of December 31, 1949, Mr. Frederic G. Coburn resigned the Presidency. Mr. Coburn was elected President August 24, 1943 and for over six years had directed the business through difficult years of war and post-war adjustments. He developed a comprehensive improvement program for modernization of the plants of both the parent Company and the Canadian subsidiary and put into effect major parts of that program. The Directors recognize and appreciate the very substantial contributions made by Mr. Coburn to Brown Company and accepted his resignation with sincere regrets. He remains on the Board of Directors.

In April 1949, Mr. Ernest M. Hopkins resigned as a Director and the vacancy was filled by the election of Mr. R. Howard Webster of Montreal.

### *Outlook for the Future*

A study of the results of the fiscal year ending November 30, 1949 indicates that the efforts of Company management during 1950 should be concentrated on:

1. Lower raw material costs;
2. Higher production from plant equipment at



lower cost brought about by continuing development of expense consciousness and greater efficiency, and

3. A continuing selling effort concentrated on the sale in greater volume of those products which Brown Company can manufacture and sell at a profit.

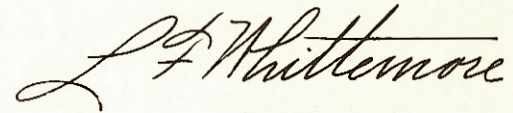
Vigorous steps along these lines are being taken and the results already obtained are significant in that they give promise of increased earnings during 1950.

There are many basic factors of strength in the Company's business which should not be overlooked. For example, the unusually large holdings of timberlands assure the Company of a future supply of its chief raw material and will undoubtedly add stability to the Company's future. Should the buyer's market in pulp-

wood which existed in 1949 end, these reserves would be of even greater value. The traditional leadership of Brown Company in developing new products can and will be reasserted so that present products eliminated in the ordinary processes of change will be replaced.

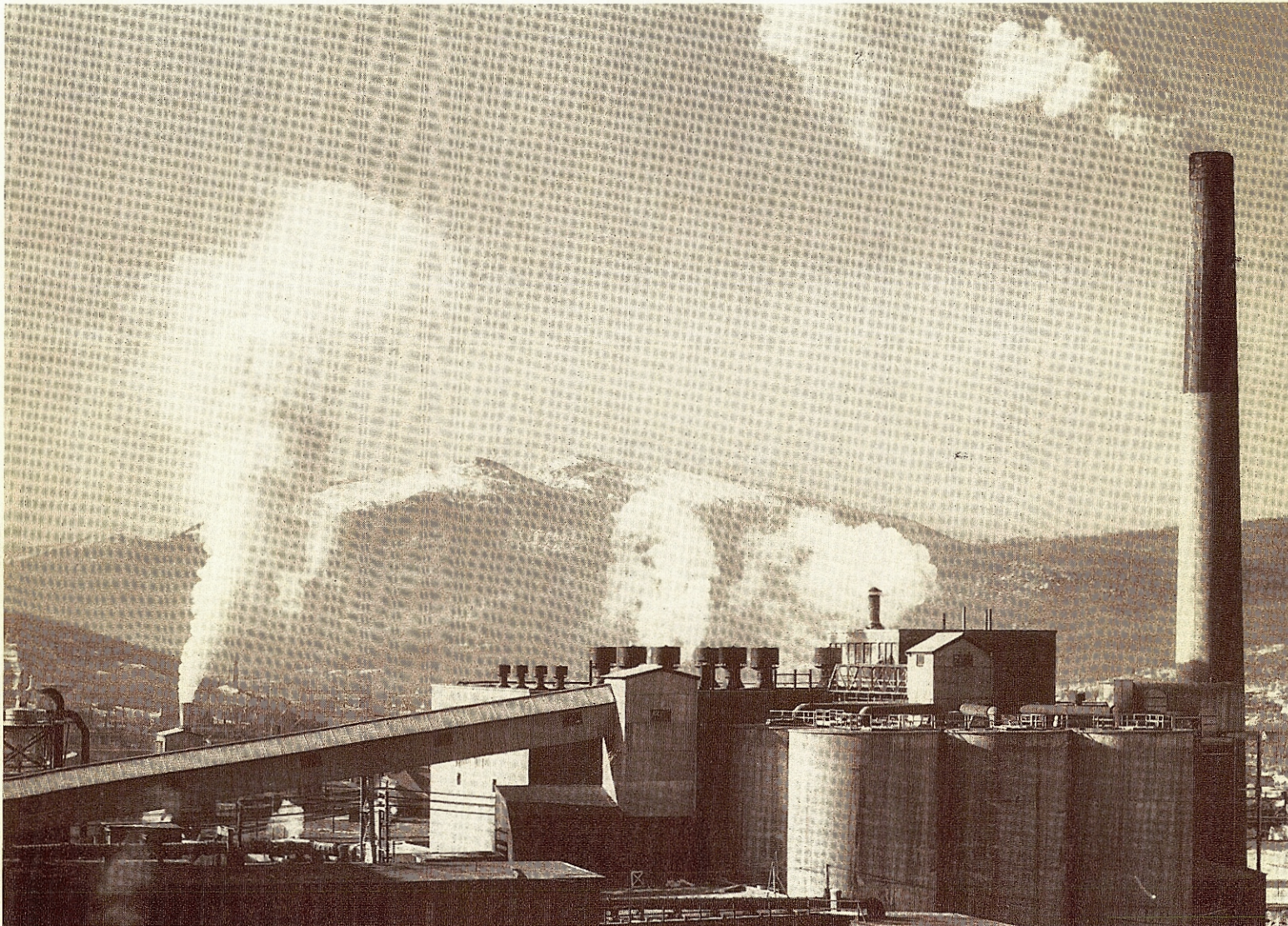
Your organization is aware of the return of normal competition to the pulp and paper industry. We are accepting the challenge and are determined to exert our best efforts to meet it.

*Respectfully,*

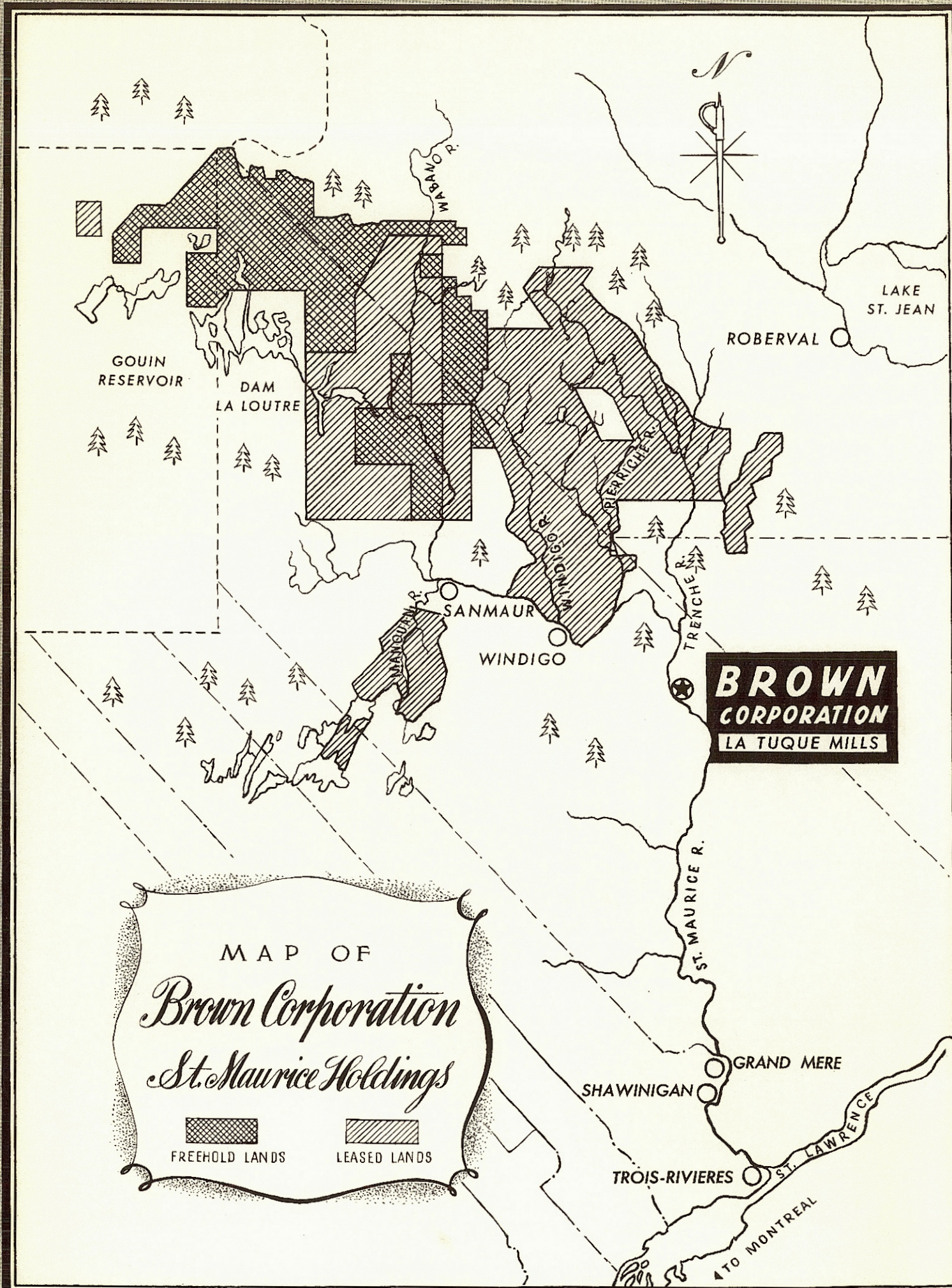


*President*

*The Kraft Pulp Mill at Berlin, N. H., pictured against a background of The Presidential Range of the White Mountains.*









**BROWN CORPORATION**  
**LA TUQUE MILLS**

MAP OF  
*Brown Corporation*  
*St. Maurice Holdings*

 FREEHOLD LANDS
  LEASED LANDS



# THE STORY OF BROWN CORPORATION

(CANADIAN SUBSIDIARY)

Brown Corporation, wholly owned subsidiary of Brown Company, has been an important part of the great Canadian pulp and paper industry for forty years.

The year 1909 marked the beginning of a project which was to become of considerable significance not only to the town of La Tuque in the Province of Quebec but also to the fast growing pulp and paper industry in the Dominion of Canada. In October of that year the Quebec and St. Maurice Industrial Company, Limited, created under the laws of the Province of Quebec, commenced the construction at La Tuque of a new unbleached sulphate pulp mill, the second such mill to be built on the North American Continent.

Over the years the plants of this Company, which changed its name in 1917 to Brown Corporation, have expanded from an initial capacity of only 30 tons per day to a present daily capacity of approximately 440 tons of bleached, semi-bleached and unbleached sulphate pulps. For many years now, the La Tuque plant has been the largest sulphate mill in Canada.

## *The Timberlands*

Substantial holdings of timberland supply the raw material to the mill. Depicted on the map on the opposite page, these timberlands are located along the upper reaches of the St. Maurice River and its tributaries the Wabano, Manouan, Windigo, Pierriche and

*Chaudiere Falls on the St. Maurice River in the midst of the substantial timberland holdings of Brown Corporation in the Province of Quebec.*







Trenche Rivers, comprising in all about 849,000 acres of freehold and about 1,650,000 acres of leased land. Aerial surveys and timber cruises have confirmed previous estimates that present holdings are sufficient for a perpetual supply of pulpwood to the mill at its present capacity. Facts obtained from these surveys have been used in completing a sustained yield plan of forest management.

Fire protection for these great areas of timberlands is furnished by The St. Maurice Forest Protective Association, Limited, of Three Rivers, Quebec. This is a group of nine member logging operators who pool their resources and manpower for fire protection. For nearly forty years this Association, using the most modern methods of fire prevention and fire fighting, has performed efficiently the task of fire protection.

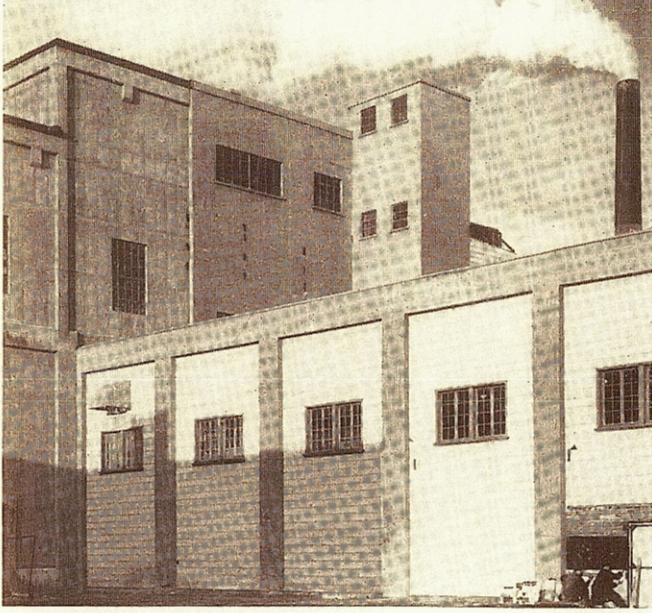
The wood cut on the Corporation's freehold and leased land is hauled to the nearby streams and lakes to be carried down to the St. Maurice River during and after the spring thaw. The pulpwood of the Corporation and several other companies of the area is driven down

*ABOVE • In winter snowmobiles are used extensively in hauling pulpwood to landings on the rivers and lakes, which fan out through Brown Corporation's timberland holdings.*

*BELOW • Experienced woodsmen fell the trees and cut them into 13-foot lengths. This spruce will be made into pulp at the La Tuque Mills.*

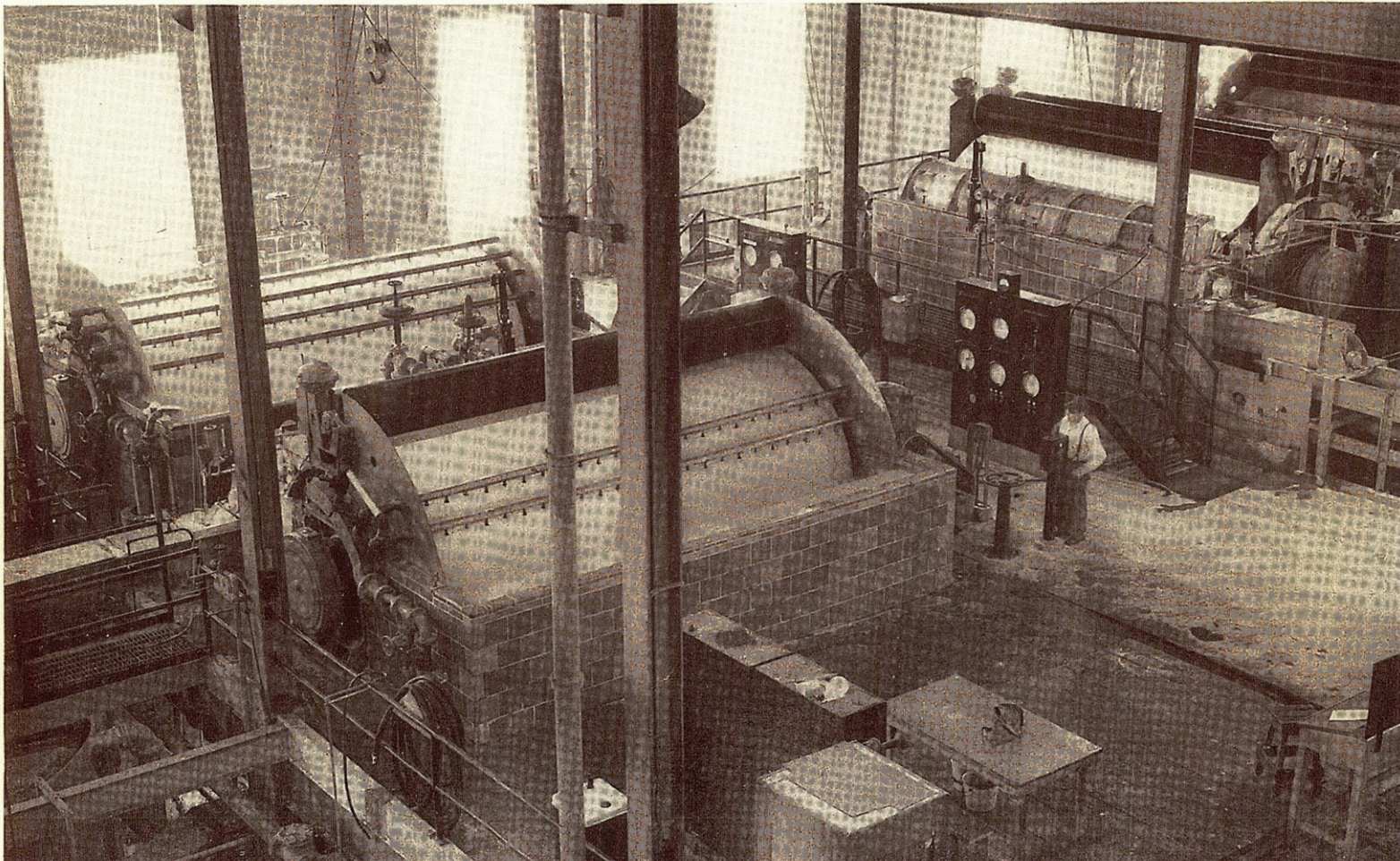






ABOVE • In 1949 construction of this new pulp bleaching plant was completed, making it possible to produce Cellate pulp at the rate of 300 tons per day at the La Tuque plants.

BELOW • Modern equipment helps make quality products of La Tuque pulps. These are the Cellate pulp washers.



the St. Maurice River by The St. Maurice River Boom and Driving Company, Limited, an association of all of the companies situated along the river.

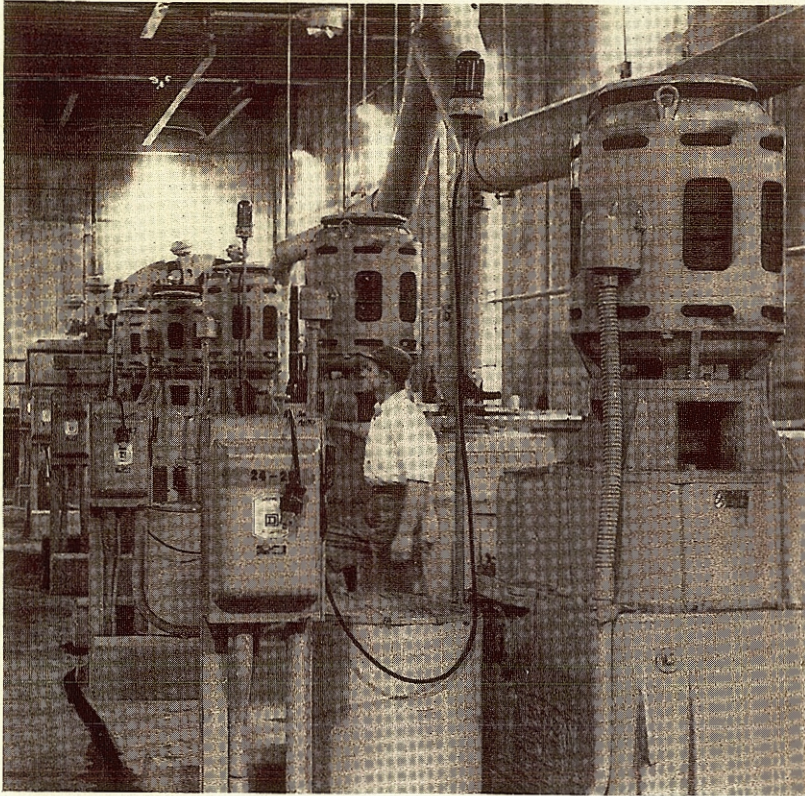
At La Tuque, the Corporation's pulpwood is sorted from that of the other companies, after which the thirteen-foot logs are cut into shorter lengths, the bark removed and the bolts moved by conveyor either to the mill or to the storage pile.

Another source of pulpwood available is through purchase from farmers and dealers. This wood is delivered to the La Tuque mill by rail and by truck.

### *The Mill*

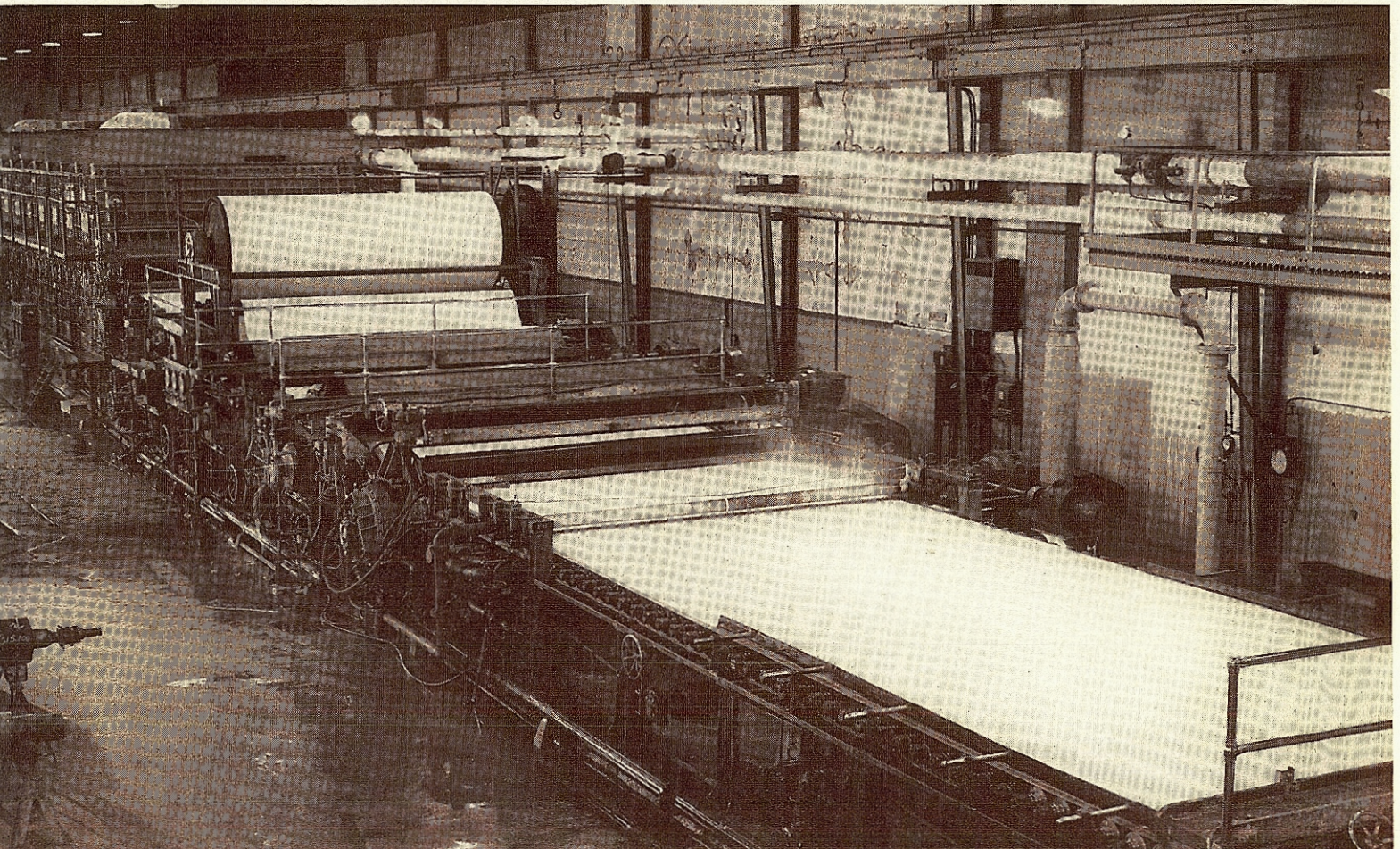
The La Tuque plant, located on the St. Maurice River about 140 miles northeast of Montreal, pioneered in the bleaching of sulphate pulp and in the production of sulphate pulps of high alpha content. In the course of time a line of high alpha pulps, unbleached, semi-bleached and bleached, was developed which gained worldwide recognition under the trademark Solka. Probably the best known product is Cellate, a bleached





*A section of the equipment in the new pulp bleaching plant of Brown Corporation.*

*This Minton dryer, the second to be installed at La Tuque, has a capacity of 300 tons per day.*





sulphate pulp of kraft strength but possessing whiteness comparable to bleached sulphite.

La Tuque was also the setting for the development of many technical improvements in the manufacture of sulphate pulps.

To enable the Corporation to concentrate production on premium grades of sulphate pulps, new facilities have been added over the past decade. For example, in 1946 a second Minton dryer having a capacity of 300 tons per day was installed. In 1949 construction of a new pulp bleaching plant was completed, making it possible to produce Cellate pulp of improved whiteness and strength at the rate of 300 tons per day. Recently, a new screen room was built to improve cleanliness and uniformity of product. Modern facilities were also added to the high alpha pulp bleachery.

Power for the La Tuque mill is furnished by the modern hydro-electric plant of the St. Maurice Power Corporation, owned jointly by Brown Corporation and the Shawinigan Water and Power Company. Built in 1938-40, adjacent to the La Tuque mill, this plant has a capacity of 222,500 horsepower.

## *The Products*

At the present time the La Tuque mill produces daily 440 tons of bleached, semi-bleached and unbleached sulphate pulps. In addition, the mill produces 130 gallons of turpentine a day and 1,000,000 feet of spiral-wound paper cores a year.

The major portion of the pulps is marketed through the Corporation's Sales Office in Montreal and the parent Company's Sales Office in New York. A gradually diminishing proportion of its pulps is sold to the parent Company for use in the mills at Berlin, N. H.

In Canada, the Corporation also markets its own products such as the by-product turpentine, spiral-wound cores and Nibroce paper towels, this last item being manufactured under contract with J. Ford & Company, Limited at Portneuf, Quebec. Also marketed in Canada are some of the parent Company's products such as Onco innersoling for the shoe industry, Bermico fibre conduit for underground electrical cable installations and Solka-Floc, a finely divided, highly purified wood cellulose used as a flux in welding rods and as a filler in rubber and plastic goods.

*Modern trucks handle bales of pulp in the storage shed at the Brown Corporation Mills.*





# BROWN COMPANY AND

## CONSOLIDATED

November 30,

| ASSETS  | November 30         |                     |
|---|---------------------|---------------------|
|   | 1949                | 1948                |
| <b>CURRENT ASSETS:</b>  |                     |                     |
| Cash in banks and on hand . . . . .   | \$ 4,189,620        | \$ 1,718,495        |
| Accounts receivable, trade, less allowance for bad debts . . . . .  | 3,625,583           | 4,243,588           |
| Accounts receivable, other . . . . .  | 153,903             | 234,786             |
| <b>Inventories (Note B):</b>  |                     |                     |
| Pulp and other products . . . . .   | \$ 1,943,565        | \$ 2,206,567        |
| Pulpwood . . . . .  | 4,743,085           | 6,452,129           |
| Pulpwood operations in progress . . . . .   | 2,193,381           | 4,894,371           |
| Other materials and supplies . . . . .  | 2,684,970           | 3,608,081           |
|   | <u>\$11,565,001</u> | <u>\$17,161,148</u> |
| <b>TOTAL CURRENT ASSETS . . . . .</b>   | <u>\$19,534,107</u> | <u>\$23,358,017</u> |
| <b>INVESTMENTS AND OTHER ASSETS (Note C):</b>   |                     |                     |
| Investments in affiliated and associated companies (Note D) . . . . .   | \$ 286,879          | \$ 284,454          |
| Cash held by bond trustees not presently available for general purposes . . . . .   | 264,643             | 145,294             |
| Special deposits — cash and United States and Dominion of Canada obligations reserved by the management for plant improvement program . . . . . | 2,320,820           | 2,393,192           |
| Other investments, etc. . . . .   | 111,050             | 351,977             |
|   | <u>\$ 2,983,392</u> | <u>\$ 3,174,917</u> |
| <b>TOTAL INVESTMENTS AND OTHER ASSETS . . . . .</b>   | <u>\$ 2,983,392</u> | <u>\$ 3,174,917</u> |
| <b>FIXED ASSETS (Notes C and E):</b>  |                     |                     |
| Plants and equipment . . . . .  | \$57,523,319        | \$55,669,929        |
| Less — Depreciation . . . . .   | 33,925,800          | 32,574,013          |
|   | <u>\$23,597,519</u> | <u>\$23,095,916</u> |
| Timberlands . . . . .   | \$12,343,113        | \$12,316,590        |
| Less — Depletion . . . . .  | 6,920,587           | 6,818,450           |
|   | <u>\$ 5,422,526</u> | <u>\$ 5,498,140</u> |
| <b>TOTAL FIXED ASSETS . . . . .</b>   | <u>\$29,020,045</u> | <u>\$28,594,056</u> |
| <b>DEFERRED CHARGES:</b>  |                     |                     |
| Prepaid insurance and taxes . . . . .   | \$ 693,871          | \$ 578,972          |
| Other deferred charges . . . . .  | 71,612              | 141,910             |
|   | <u>\$ 765,483</u>   | <u>\$ 720,882</u>   |
| <b>TOTAL DEFERRED CHARGES . . . . .</b>   | <u>\$ 765,483</u>   | <u>\$ 720,882</u>   |
|   | <u>\$52,303,027</u> | <u>\$55,847,872</u> |

(See accompanying notes)



# BROWN CORPORATION

## BALANCE SHEET

1949 and 1948

| LIABILITIES AND CAPITAL   | November 30         |                     |
|---|---------------------|---------------------|
|   | 1949                | 1948                |
| <b>CURRENT LIABILITIES:</b>   |                     |                     |
| Accounts payable . . . . .  | \$ 1,240,036        | \$ 1,750,867        |
| Accrued payrolls, interest and other expenses . . . . .   | 1,068,073           | 888,748             |
| Funded debt payable within one year:  |                     |                     |
| Serial note maturities . . . . .  | 300,000             | 300,000             |
| First mortgage and collateral trust bonds — sinking fund payments . . . . .   | 224,000             | 1,174,000           |
| Dividend on preferred stock, payable December 1, 1949 . . . . .   | 216,227             |                     |
| United States and Canadian income taxes for current and prior years (less United States Treasury notes — \$230,000 in 1949 and \$500,000 in 1948) . . . . . | 409,096             | 1,498,506           |
| <b>TOTAL CURRENT LIABILITIES . . . . .</b>  | <b>\$ 3,457,432</b> | <b>\$ 5,612,121</b> |
| <b>FUNDED DEBT OF BROWN COMPANY (Note C):</b>   |                     |                     |
| Serial notes, 2 $\frac{5}{8}$ %, maturing after one year to November 1, 1952 . . . . .  | \$ 600,000          | \$ 900,000          |
| First mortgage and collateral trust bonds, 3 $\frac{3}{8}$ %, payable 1953 to 1959 under minimum sinking fund requirements . . . . .                        | 3,353,000           | 3,576,000           |
| General mortgage bonds, 5%, maturing December 1, 1959 (Note F) . . . . .  | 12,824,400          | 12,824,400          |
| <b>TOTAL FUNDED DEBT . . . . .</b>  | <b>\$16,777,400</b> | <b>\$17,300,400</b> |
| <b>RESERVES FOR POSSIBLE FUTURE INVENTORY PRICE DECLINES AND OTHER CONTINGENCIES . . . . .</b>  | <b>\$ 2,000,000</b> | <b>\$ 4,575,000</b> |
| <b>CAPITAL STOCK OF BROWN COMPANY AND SURPLUS:</b>  |                     |                     |
| Convertible preferred stock, \$6 cumulative (Note G):   |                     |                     |
| Authorized — 144,483 shares, par value \$100  |                     |                     |
| Issued — 144,151 shares . . . . .   | \$14,415,100        | \$14,415,100        |
| (Cumulative dividends to November 30, 1949 not paid or declared — \$7,784,154)  |                     |                     |
| Common stock:   |                     |                     |
| Authorized — 4,011,040 shares, par value \$1  |                     |                     |
| Issued — 1,992,817 shares . . . . .   | 1,992,817           | 1,992,817           |
| (1,009,057 unissued shares reserved for conversion of preferred stock)  |                     |                     |
| Capital surplus . . . . .   | 2,577,016           | 2,577,016           |
| Earned surplus (Note H), per accompanying statement . . . . .   | 11,083,262          | 9,375,418           |
| <b>TOTAL CAPITAL STOCK AND SURPLUS . . . . .</b>  | <b>\$30,068,195</b> | <b>\$28,360,351</b> |
|   | <b>\$52,303,027</b> | <b>\$55,847,872</b> |

to financial statements)



# BROWN COMPANY AND BROWN CORPORATION

## CONSOLIDATED STATEMENT OF PROFIT AND LOSS

Years Ended November 30, 1949 and 1948

|   | Year ended November 30 |              |
|---|------------------------|--------------|
|   | 1949                   | 1948         |
| Net sales . . . . .   | \$43,263,495           | \$48,070,000 |
| Materials, services and other manufacturing costs, selling, general, administrative and research expenses, and other charges against operations (including depreciation and depletion of \$2,290,729 in 1949 and \$1,907,908 in 1948) . . . . . | 40,060,867             | 40,947,388   |
| Operating profit . . . . .  | \$ 3,202,628           | \$ 7,122,612 |
| Other charges (credits):  |                        |              |
| Interest on funded debt . . . . .   | \$ 807,509             | \$ 838,292   |
| Interest and dividend income, including \$97,727 in 1949 and \$50,000 in 1948 of dividends from St. Maurice Power Corporation ( <i>Note D</i> ) . . . . .   | (127,252)              | (76,189)     |
| Reduction in value of Canadian pulpwood inventories to estimated replacement cost ( <i>Note B</i> ) . . . . .   | 546,199                |              |
| Retirement allowances . . . . .   | 111,419                | 89,292       |
| Canadian tax withholdings on intercompany interest, dividends, and royalties . . . . .  | 141,761                | 136,481      |
| Other credits and charges, net . . . . .  | (5,155)                | (101,542)    |
|   | \$ 1,474,481           | \$ 886,334   |
| Profit before income taxes . . . . .  | \$ 1,728,147           | \$ 6,236,278 |
| Provision for Canadian and (in 1948) United States income taxes . . . . .   | 636,437                | 2,300,000    |
| Profit for the year . . . . .   | \$ 1,091,710           | \$ 3,936,278 |

## CONSOLIDATED STATEMENT OF EARNED SURPLUS

Year Ended November 30, 1949

|   |              |
|---|--------------|
| BALANCE, NOVEMBER 30, 1948 . . . . .  | \$ 9,375,418 |
| Profit for the year ended November 30, 1949, per accompanying statement . . . . .   | 1,091,710    |
| Restoration to surplus of portions of reserves for possible future inventory price declines and other contingencies . . . . .   | 2,575,000    |
|   | \$13,042,128 |
| Deduct:   |              |
| Dividends declared on convertible preferred stock — \$6 per share . . . . .   | \$864,906    |
| Adjustments relating to prior years arising primarily from amendment of "last in, first out" basis of valuation of pulpwood inventories . . . . .                     | 204,576      |
| Exchange loss on conversion of assets and liabilities of Brown Corporation incident to devaluation of Canadian currency in September 1949 ( <i>Note A</i> ) . . . . . | 889,384      |
|   | 1,958,866    |
| BALANCE, NOVEMBER 30, 1949 . . . . .  | \$11,083,262 |

(See accompanying notes to financial statements)



## NOTES TO FINANCIAL STATEMENTS

### *Note A — BASIS OF CONSOLIDATION AND CONVERSION*

The accompanying consolidated financial statements include the accounts of Brown Company, a Maine corporation, and its wholly-owned Canadian subsidiary, Brown Corporation. The statements are expressed in United States currency. The assets and liabilities of Brown Corporation at November 30, 1949, other than fixed assets acquired before the Canadian currency devaluation which occurred in September 1949, have been converted to United States currency at the official exchange rate prevailing since September 1949. Fixed assets acquired before the devaluation have been converted dollar for dollar, the basis used for all Canadian assets and liabilities as at November 30, 1948. The profit and loss accounts to the date of devaluation have been converted dollar for dollar and subsequent thereto (except for depreciation and depletion) at the reduced official rate. The conversion loss incident to devaluation, amounting to \$889,384, has been charged to earned surplus.

The consolidated financial statements as at November 30, 1949 include the following amounts of Canadian assets, liabilities and surplus expressed in United States dollars — current assets \$8,720,766, other assets \$11,061,012, current liabilities \$1,074,361 and unremitted surplus earnings of \$1,711,885 since November 30, 1940 the distribution of which is subject to foreign exchange control regulations. The Canadian earnings for the fiscal year 1949 amounted to approximately \$920,000. Dividend remittances from the Canadian company to its parent during the year were in excess of these earnings.

### *Note B — INVENTORIES*

Brown Company's inventories of pulpwood and pulpwood content of pulp, carried at \$1,450,299 as of November 30, 1949, are stated at cost determined by the "last in, first out" method of valuation adopted as of November 30, 1941. Otherwise the inventories are stated on the basis of cost or market whichever lower, cost representing actual, current average or current standard cost. Brown Corporation's pulpwood has been reduced \$546,199 at November 30, 1949 from current cost to market, market in this instance representing the estimated average replacement cost in the normal course of operations.

### *Note C — MORTGAGED PROPERTIES*

Substantially all of the fixed assets of Brown Company and Brown Corporation, together with investments in affiliated and associated companies, deposits with bond trustees and certain other investments are pledged as security for the funded debt of the respective companies. In addition, the capital stock and mortgage bonds of Brown Corporation, wholly owned by Brown Company and eliminated in consolidation, are pledged as security for the funded debt of Brown Company.

### *Note D — INVESTMENTS IN AFFILIATED AND ASSOCIATED COMPANIES*

Certain of the investments in affiliated and associated companies are carried at cost, and others, at underlying book value or nominal amounts of \$1 each. Investments carried at nominal amounts of \$1 include a 50% interest of Brown Corporation in the capital stock of St. Maurice Power Corporation, which furnishes power to the mills of Brown Corporation at La Tuque, Quebec, under a contract which is considered favorable to the latter company. Brown Corporation's proportionate share in the average yearly earnings of St. Maurice Power Corporation for the past five years amounts to approximately \$106,000, before deducting an average of \$31,000 amortization of bond discount and expense. From these and other factors it would appear that the investment is currently of significant value to the business.

### *Note E — FIXED ASSETS*

Plants and equipment are carried substantially at cost, less depreciation provided. Timberlands of Brown Company are carried at \$1 per cord of estimated standing softwood at November 30, 1904, plus subsequent additions at cost, and those of Brown Corporation, at cost plus carrying charges to March 15, 1915, less, in each case, depletion based on timber cut.

### *Note F — GENERAL MORTGAGE BONDS*

Under provisions contained in the indenture covering General Mortgage Bonds, such bonds are subordinated to the Serial Notes and First Mortgage and Collateral Trust Bonds as to payment of principal and interest and in other important particulars.

### *Note G — CONVERTIBLE PREFERRED STOCK*

The convertible preferred stock is callable (under certain conditions) at, and entitled in liquidation (in preference to common stock) to, \$102.50 per share plus accrued dividends.

### *Note H — EARNED SURPLUS*

The consolidated earned surplus represents undistributed earnings of Brown Company since November 30, 1941 and of Brown Corporation since November 30, 1940. The earned surplus of Brown Company at November 30, 1949, \$9,371,377, is subject to cumulative dividends on preferred stock and to other restrictions, under provisions of the indentures covering funded debt, which currently preclude the payment of dividends on common stock.



**SUMMARY OF ADDITIONAL INFORMATION FURNISHED UNDER INDENTURE  
SECURING GENERAL MORTGAGE BONDS OF BROWN COMPANY**

Year Ended November 30, 1949

|   | Brown<br>Company<br>(U. S. Currency) | Brown<br>Corporation<br>(Canadian Currency) | Consolidated <sup>1</sup><br>(U. S. Currency) |
|---|--------------------------------------|---|---|
| <b>AMOUNTS EXPENDED FOR:</b>  |                                      |   |   |
| Maintenance and repairs . . . . .   | \$ 2,460,344.10                      | \$1,059,308.16                              | \$ 3,500,000.00 <sup>2</sup>                  |
| Renewals and replacements . . . . .   | 659,914.67                           | 478,627.49                                  | 1,130,000.00 <sup>2</sup>                     |
| <b>AMOUNTS SET ASIDE FOR:</b>   |                                      |   |   |
| Depreciation of properties . . . . .  | 1,331,238.73                         | 856,185.89                                  | 2,187,424.62                                  |
| Depletion of timberlands . . . . .  | 67,622.24                            | 35,682.06                                   | 103,304.30                                    |
| <b>CERTAIN AMOUNTS AT NOVEMBER 30, 1949, AS DEFINED IN<br/>THE INDENTURE:</b> |                                      |   |   |
| Current assets <sup>3</sup> . . . . .   | \$11,570,114.13                      | \$9,903,735.45                              | \$20,227,978.17                               |
| Current liabilities . . . . .   | 1,859,070.33                         | 1,474,982.25                                | 2,933,431.44                                  |
| Working capital <sup>3</sup> . . . . .  | <u>\$ 9,711,043.80</u>               | <u>\$8,428,753.20</u>                       | <u>\$17,294,546.73</u>                        |

<sup>1</sup> After conversion of Canadian currency amounts to U. S. dollars and other intercompany eliminations.

<sup>2</sup> Approximate amounts — exact amounts of applicable Canadian currency conversion not readily determinable.

<sup>3</sup> Excluding special deposits consisting of cash and government obligations reserved by the management for plant improvement program.

The amount of consolidated "net income" for the year ended November 30, 1949, as defined in the indenture, is \$4,139,112.94. Such "net income" represents the consolidated profit before interest on funded debt, depreciation, depletion, amortization of patents and profit or loss on disposal of capital assets.

During the year ended November 30, 1949, \$166,288.94 of interest accrued (\$170,049.38 was actually paid on interest maturity dates) on Senior Lien Securities (Serial Notes and First Mortgage and Collateral Trust Bonds). The outstanding principal amount of Senior Lien Securities was reduced during the year by \$1,473,000, representing the payment of \$300,000 of Serial Note maturities and the application to the retirement of First Mortgage and Collateral Trust Bonds of \$1,173,000 of a sinking fund payment of \$1,174,000. No Senior Lien Securities were issued during the year. In accordance with the terms of the First Mortgage and Collateral Trust Indenture, an additional \$300,000 of Serial Notes will mature during the year ending November 30, 1950 and sinking fund payments totaling \$223,990 are required to be made for the benefit of the First Mortgage and Collateral Trust Bonds.

Sinking fund provisions of the general mortgage indenture are not effective while any Senior Lien Securities are outstanding and, unless all Senior Lien Securities are retired by May 31, 1950, no sinking fund payment will be required during the year ending November 30, 1950 for the benefit of the General Mortgage Bonds.

Working capital restrictions contained in the First Mortgage and Collateral Trust Indenture, computed as of November 30, 1949 (with special deposits excluded from working capital), preclude the payment of dividends on the company's common stock, and limit to \$986,392.73 the amount which may be expended to purchase, redeem or retire convertible preferred stock. There are no indenture restrictions which, as of November 30, 1949, would prevent the payment of all of the cumulative unpaid dividends on the convertible preferred stock.

Consolidated earnings for the fiscal year ended November 30, 1949, upon which the payment of \$641,220 of general mortgage bond interest falling due on June 1 and December 1, 1950 is dependent in part, amounted to \$1,755,144.62 (computed in accordance with the provisions of Article XVIII, Section 2 of the indenture). The net current assets as of November 30, 1949, computed under this article and section of the indenture, were substantially more than the minimum amount required to permit the payment of such interest.



PRICE, WATERHOUSE & CO.

75 FEDERAL STREET

BOSTON 10

February 10, 1950

To the Board of Directors  
of Brown Company:

We have examined the consolidated balance sheet of Brown Company and its wholly-owned Canadian subsidiary, Brown Corporation, as of November 30, 1949 and the related consolidated statements of profit and loss and earned surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements referred to above, with the notes thereto, present fairly the consolidated financial position of Brown Company and Brown Corporation at November 30, 1949 and the results of their operations for the year, in conformity with generally accepted accounting principles.

*Price, Waterhouse & Co.*



# REGISTRARS AND TRANSFER AGENTS

## *First Mortgage Bonds and Serial Notes:*

*Trustee, Registrar and Paying Agent* . . . . . STATE STREET TRUST COMPANY, BOSTON

## *General Mortgage Bonds:*

*Trustee, Registrar and Paying Agent* . . . . . OLD COLONY TRUST COMPANY, BOSTON

*Co-Registrars* . . . . . CENTRAL HANOVER BANK & TRUST COMPANY, NEW YORK

THE ROYAL TRUST COMPANY, MONTREAL

THE ROYAL TRUST COMPANY, TORONTO

## *Preferred Stock and Voting Trust Certificates for Preferred Stock:*

*Principal Transfer Agent* . . . . . OLD COLONY TRUST COMPANY

*Montreal Transfer Agent* . . . . . GUARDIAN TRUST COMPANY

*New York Transfer Agent* . . . . . THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

*Toronto Transfer Agent* . . . . . THE ROYAL TRUST COMPANY

*Principal Registrar* . . . . . STATE STREET TRUST COMPANY

*Montreal Registrar* . . . . . MONTREAL TRUST COMPANY

*New York Registrar* . . . . . THE NATIONAL CITY BANK OF NEW YORK

*Toronto Registrar* . . . . . MONTREAL TRUST COMPANY

## *Common Stock and Voting Trust Certificates for Common Stock:*

*Principal Transfer Agent* . . . . . STATE STREET TRUST COMPANY

*Montreal Transfer Agent* . . . . . GUARDIAN TRUST COMPANY

*New York Transfer Agent* . . . . . THE CHEMICAL BANK AND TRUST COMPANY

*Toronto Transfer Agent* . . . . . THE ROYAL TRUST COMPANY

*Principal Registrar* . . . . . THE SECOND NATIONAL BANK OF BOSTON

*Montreal Registrar* . . . . . MONTREAL TRUST COMPANY

*New York Registrar* . . . . . THE NEW YORK TRUST COMPANY

*Toronto Registrar* . . . . . MONTREAL TRUST COMPANY



# PRODUCTS OF BROWN COMPANY

**SOLKA** is the trade name of a group of highly purified wood fibres produced at both Berlin, N. H. and LaTuque, P. Q. plants. This group of pure fibres is made up of several grades. Each grade has a different balance of physical and chemical properties and satisfies some particular paper making or chemical process. For example, photographic papers, sanitary tissue, vegetable parchment, cellophane, etc.

**SOLKA-FLOC** is highly purified, finely divided wood cellulose. It is sold in several degrees of fineness, some of which are as fine as flour. It imports good bulk, smooth surface, and removes brittleness from many hard, dense compounds. A wide acceptance has been found in rubber, plastics, filtration, and cellulose base lacquers.

**NIBROC TOWELS** Brown Company is the largest producer of a complete line of paper towels for the institutional and industrial fields. NIBROC Towels are distributed by a selected group of leading paper merchants throughout the country, employing several thousand salesmen. NIBROC is used in factories, office buildings, hospitals, stores, restaurants, schools, hotels and in many other types of business and gathering places.

**ONCO** products, innersolings, linings, etc., are made from Solka, impregnated with a strong saturant, which gives them added strength with light weight. They are sold primarily to the shoe manufacturing industry for use in the major types of shoe construction. Onco products are also finding expanding uses in other fields.

**CELLATE** is the trade name of Brown Company's bleached sulphate pulp (and is produced at LaTuque, P. Q.). This pulp has the strength properties of brown kraft pulp but is pure white in color. It is sold for paper products demanding extra strength such as white flour bags, coffee bags, shipping tags, transparent glassine bags, coated papers, etc.

**NIBROC ENGINEERED PAPERS** Brown Company manufactures from its own high-grade pulps the NIBROC line of industrial conversion papers — Kraft, White, Duracel, Solkacel, Aqualized (Wet Strength) and Nibro-Cel — engineered to customers' particular requirements. Many of these paper grades are exclusive with Brown Company.

**BERMICO** products, distributed nationally, include Bermico Fibre Conduit, used in underground installations for electrical transmission and communications systems; Bermico Sewer Pipe for sewage disposal and non-pressure drainage systems; Bermico Perforated Pipe for septic tank disposal and drainage. In addition, Bermico Fibre Cores are sold for paper and textile winding.

**CHEMICALS** Most of the Company's chemicals go directly into the making of other Brown products. Surplus chemicals not needed by the Company have found a ready market. Products sold are: Liquid Chlorine, Caustic Soda, Soda Bleach and White Mountain Chloroform.



