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Stock



ANNUAL REPORT • 1951

BROWN *Company*



BERLIN, New Hampshire

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DIRECTORS

ORTON B. BROWN.....Berlin, New Hampshire <i>Director, New Hampshire Fire Insurance Company</i>	WILLIAM B. JOYCE.....New York, New York <i>President, Wm. B. Joyce & Company, Inc.</i>
JOHN B. CHALLIES.....Montreal, Quebec <i>Senior Vice President, The Shawinigan Water & Power Company</i>	CHARLES P. McTAGUE, K.C.....Toronto, Ontario <i>President, Eastern Canadian Greyhound Lines, Limited</i>
ARTHUR D. EMORY.....Montreal, Quebec <i>President, United Corporations, Limited</i>	JOHN L. SULLIVAN.....Washington, D. C. <i>Lawyer — Sullivan, Bernard, Shea and Kenney</i>
G. BLAIR GORDON.....Montreal, Quebec <i>President, Dominion Textile Company, Limited</i>	GENE TUNNEY.....New York, New York <i>Chairman of the Board, Denman Tire and Rubber Company</i>
ERNEST M. HOPKINS.....Montpelier, Vermont <i>Chairman, National Life Insurance Company</i>	ARTHUR G. WALWYN.....Toronto, Ontario <i>Vice President, Gairdner and Company, Limited</i>
LAURENCE F. WHITTEMORE....Pembroke, New Hampshire <i>President, Brown Company</i>	

OFFICERS

LAURENCE F. WHITTEMORE..... <i>President</i>	HERMAN G. SCHANCHE..... <i>Vice President — Woods Operations</i>
ERNEST H. MALING..... <i>Vice President — Finance</i>	WENTWORTH BROWN.... <i>Vice President — Assistant to President</i>
HOWARD G. BRUSH..... <i>Vice President & Treasurer</i>	JOHN W. JORDAN ... <i>Vice President, General Counsel and Secretary</i>
DOWNING P. BROWN..... <i>Vice President — Sales</i>	WILLIAM J. OLESON, JR..... <i>Controller</i>
LEONARD A. PIERCE..... <i>Clerk</i>	

REGISTRARS and TRANSFER AGENTS

PREFERENCE STOCKS

<i>Principal Transfer Agent</i>Old Colony Trust Company, Boston	<i>Principal Registrar</i>State Street Trust Company, Boston
<i>Montreal Transfer Agent</i>Guardian Trust Company	<i>Montreal Registrar</i>Montreal Trust Company
<i>New York Transfer Agent</i> The Chase National Bank of the City of New York	<i>New York Registrar</i>The National City Bank of New York
<i>Toronto Transfer Agent</i>The Royal Trust Company	<i>Toronto Registrar</i>Montreal Trust Company

COMMON STOCK

<i>Principal Transfer Agent</i>State Street Trust Company, Boston	<i>Principal Registrar</i>The Second National Bank of Boston
<i>Montreal Transfer Agent</i>Guardian Trust Company	<i>Montreal Registrar</i>Montreal Trust Company
<i>New York Transfer Agent</i>Chemical Bank and Trust Company	<i>New York Registrar</i>The New York Trust Company
<i>Toronto Transfer Agent</i>The Royal Trust Company	<i>Toronto Registrar</i>Montreal Trust Company

Executive Offices: BERLIN, NEW HAMPSHIRE General Sales Offices: 150 CAUSEWAY STREET, BOSTON 14, MASS.
Mills: BERLIN, NEW HAMPSHIRE—LA TUQUE, QUEBEC

The PRESIDENT'S LETTER

February 5, 1952

TO THE STOCKHOLDERS OF BROWN COMPANY:

In the fiscal year which ended November 30, 1951 the consolidated net sales of Brown Company and its wholly owned subsidiary Brown Corporation amounted to \$72,729,617 compared to \$53,102,469 in the previous year. Consolidated profit before income taxes amounted to \$17,015,040 compared to \$6,996,940. Consolidated profit after income taxes amounted to \$7,430,040 compared to \$4,021,940. Consolidated sales and profits established an all-time high record for Brown Company and the profits were realized after absorbing the following unusual charges: cost of recapitalization amounting to \$142,210; deposit to establish pension plan, \$892,280; increase in average effective income tax rates from 42.6% to 56%, resulting in additional taxes of \$2,295,000 on 1951 income.

The increase in consolidated net sales amounting to 37% was due in part to increased tonnage of products sold in all divisions of the Company and in part to increases in average prices. The depressed price condition of the pulp and paper industry in 1949 carried over into the early part of 1950. The market demand for the Company's products continued strong through 1951 and its principal mills were operated fully.

An increase of 143% in net income before taxes and 85% in net income after taxes resulted from a continuation of the policy stated in the 1949 and 1950 An-

nual Reports, that is, to control as far as possible raw material costs, attain higher production from plants and equipment at lower relative cost, and concentrate selling effort on those products which Brown Company can manufacture most advantageously.

After provision for preferred dividends, which were paid in full, the equity of the common shareholders in the net profits for the year amounted to \$3.17 per share as compared to \$1.58 in 1950.

Significant Developments

Several important developments took place during the year: a recapitalization plan which eliminated the arrears on the old \$6 preferred stock was completed; 36,249 shares of the new second preference stock, equal to 25% of the total issue, were purchased at a cost of \$1,785,844 for the account of the sinking fund due April 1, 1952; the Company's new preference stocks and common stock were listed on the New York Curb Exchange; the Voting Trust which was set up in 1941 expired; a contributory pension plan for employees and officers of the parent company was established; the program for plant improvement in both the United States and Canada was materially advanced.

Financial Position

At the close of business on November 30, 1951 inventories, mainly pulpwood, were \$7,799,361 higher than on the corresponding date for the previous year. Plant modernization expenditures for the year were \$7,390,571 or \$4,812,258 larger than the year's provision for depreciation and depletion. Redemption of preferred stock and provision for sinking fund reduced working capital by \$1,950,123. Preferred stock dividends totalled \$1,105,970 and establishment of the pension plan amounted to \$892,280. Funded debt was reduced by the payment of \$800,000 during the year. In spite of these expenditures, cash and government securities declined only \$3,153,792 and the net decrease in working capital was only \$460,633. This leaves the Company with a net working capital of \$17,385,656 and in addition special deposits for plant rehabilitation of \$2,277,612.

Recapitalization

As stated in the Annual Report to Stockholders for 1950, a Plan of Recapitalization had been agreed to by committees representing each class of stock, approved by the Directors and mailed to the stockholders on January 23, 1951. The purpose of the Plan was to settle the arrears of dividends on the Company's \$6 preferred stock. The details of the Plan were described in a pamphlet sent to each stockholder.

The Plan of Recapitalization and amended By-Laws were adopted at a meeting of the stockholders held on February 20, 1951. The preferred stockholders were then given an opportunity to deposit their stock for exchange into the new preference stocks as provided in the Plan. The final date for exchanging the \$6 preferred for the new preference stocks was August 20, and on that date 99.5 per cent had been exchanged, leaving only 695 of the total issue of 144,151 shares unexchanged. This small balance was called for redemption on September 1, 1951, at the call price of \$102.50 plus an amount equal to the dividends accrued and unpaid to that date.

After the completion of the Recapitalization Plan, the redemption of the unexchanged \$6 preferred stock, and the purchase of \$3 second preference stock for the sinking fund (as later explained), the capital stock of the Company consisted of 143,456 shares of the new \$5 first preference stock, 107,207 shares of the new \$3 second preference stock, and 1,992,817 shares of common stock outstanding, plus an additional 1,004,192 shares of common reserved for conversion of the first preference stock at the ratio of seven shares for one.

Purchase of Second Preference Stock for Sinking Fund

The Plan of Recapitalization and the amended By-Laws require a sinking fund for the benefit of the second preference stock. This is an annual noncumulative sinking fund to be paid first in 1952 (but only if the Company is current on the first preference and second preference dividends.) The annual sinking fund payment is to be equal to (a) 33 $\frac{1}{3}$ % of consolidated net in-

come for the preceding year after income taxes and after deducting the annual payment on funded debt and the preceding year's annual dividend requirements on the preference stocks, plus (b) an amount equal to the aggregate of any dividends declared during such preceding year on the common stock. The By-Laws also provide that the Company, in lieu of cash, may apply toward meeting the sinking fund requirements second preference stock at cost to the Company not exceeding the call price. There are similar sinking fund provisions for the first preference stock, except that the required payments do not include amounts equal to dividends on the common stock and such provisions do not become operative until after all second preference stock has been retired.

The Company purchased at market prices such portion of the shares offered for sale as was justified by an estimate of sinking fund requirements. To November 30, 1951, 36,249 shares of second preference stock had been purchased at a cost of \$1,785,844 and certificates for these shares have been delivered to the Sinking Fund Agent toward the requirements due April 1, 1952. The requirements call for an additional payment of \$45,147, which amount has been set aside in a special account at November 30, 1951 and subsequently used to purchase the remaining shares required.

Stocks Listed on Exchange

The first preference stock, second preference stock and common stock of the Company are fully listed on the New York Curb Exchange and trading on the Exchange started on May 3. For several years, Brown Company's preferred and common stocks have been traded on the Curb Exchanges in Montreal and Toronto and such trading continues.

Termination of Voting Trust Agreement

Under a Voting Trust Agreement dated October 1, 1941, the voting rights of the preferred and common stockholders with respect to the election of Directors were vested in Voting Trustees. That Agreement was originally required by the Reconstruction Finance Corporation and would have expired on October 1, 1946,

but an extension for an additional five years was approved by a requisite majority of the outstanding stock of each class at a meeting held on September 16, 1946.

By the terms of the extension, the Voting Trust Agreement expired on October 1, 1951. The Company was fortunate in having had as its Voting Trustees Messrs. Charles Francis Adams, T. Jefferson Coolidge and Ernest M. Hopkins. They performed the important duty of annually electing the Directors of the Company, and their service is appreciated.

Since the termination of the Voting Trust Agreement, the right to elect the Directors vests in the stockholders of record. The annual meeting of stockholders is to be held on the third Monday of April and under present conditions the By-Laws provide that the preference stocks voting as a class shall elect seven Directors and the common stock, four. The first preference stock has two votes per share and the second preference stock has one vote per share.

Increase in Board of Directors

The Plan of Recapitalization adopted in 1951 provides that there shall be a Board of eleven Directors, thus adding two Directors. The Voting Trustees on April 30 re-elected the nine Directors of the Company who were listed as members of the Board in the report for 1950 and elected as the two additional Directors, Messrs. Gene Tunney of Stamford, Connecticut and Arthur G. Walwyn of Toronto, Ontario.

Retirement Plan Adopted

As of November 1, 1951, Brown Company established a contributory retirement plan in which all officers and employees who have completed five years of continuous service are eligible to participate. The pension agreement calls for funding by the Company of the past service benefits over a period not to exceed 40 years. Under an agreement with the Prudential Insurance Company of America, the Company is required to make annual payments which will include the normal cost for the year

Brown Company Woods Road in Parmachenee Area



of current service benefits including the amounts contributed by employees and at least 2½% of the past service cost. The Company may contribute annually up to 10% of the past service cost.

The currently estimated amount, actuarially determined, required to fund the past service cost is \$6,399,800. For the fiscal year ended November 30, 1951, the Company has contributed 10% of the past service cost, or \$639,980, together with \$252,300, covering the Company's portion of the cost of current service benefits for one year, or a total of \$892,280. These payments have been charged to income for the year and are believed to be deductible for federal income tax purposes.

The Company reserved the right of termination or amendment of the plan but this right has been waived for an initial term of five years. The plan provides for minimum benefits at normal retirement of \$100 per month including the Federal Social Security benefits and for a maximum of \$10,000 per year.

The normal retirement age is 65 with the option of working until 68 and an employee may work beyond that age if he so desires and is requested to do so by the Company. Although the plan was not compulsory, nearly 100% of those eligible chose to take advantage of the benefits offered.

No plan has been adopted for employees of Brown Corporation, but a comparable plan is in preparation and it is anticipated it will be put into effect sometime in 1952.

Brown Company and Brown Corporation have been making retirement payments on a voluntary basis to certain former employees under year to year authorizations by the Board of Directors. Such payments made and included in other charges to income in the 1951 fiscal year amounted to \$177,513.

Plant Improvement Program

In 1951 Brown Company and Corporation made substantial progress on their programs of plant improvement intended to bring the various production units to their full potential capacity so that established lines can

be produced at competitive costs and new products introduced which fit into our sphere of activity. In addition to production facilities, necessary auxiliary units and equipment are being provided for.

The text and pictures hereinafter included cover the major details of the program in the plants in the United States and Canada as well. In the United States Brown Company has secured certificates of necessity permitting accelerated depreciation for tax purposes amounting to \$4,104,017 on projects having an aggregate estimated cost of \$7,925,166. Expenditures on these projects in 1951 were \$3,249,160 of a total of \$5,122,053 on all plant projects. Brown Corporation's plant expenditures in 1951 amounted to \$2,388,431 Canadian funds.

Woods Program

During the 1951 fiscal year the officers of both Brown Company and Brown Corporation have made careful surveys of the wood supply available for future operations.

In the Canadian woodlands we are just completing a successful cutting season in which the production of wood from Brown Corporation lands has reached new heights. It is evident that the purchase and construction of new machinery is enabling us to produce wood at a cost which compares favorably with that of other companies operating under similar conditions. The cost of making pulpwood in Canada has advanced on account of increases in wages and material costs. Nevertheless, it is felt that present levels can be maintained as long as general conditions remain as they are.

After a careful survey of the woodlands in the United States, it is evident that the growth on the lands of Brown Company has not been harvested over the last fifteen years, and that there is a substantially greater amount of wood available than previous surveys indicated. It is also evident that, in the hardwood stands particularly, there is much timber of higher quality than should ordinarily be economically used in the pulping process. Through a thorough-going reorganization of our woods practices we are now making arrangements to sell the

higher quality wood for uses which bring a higher profit than does its use as pulpwood. To implement this decision arrangements have been made to bring wood to Berlin in the form of long logs and to select from them the portion suitable for furniture and hardwood veneers. This better utilization of our timber resources will have a decided effect on the cost of pulpwood of the future giving Brown Company a favorable wood cost situation compared to competitors.

The conservation practices established early in the century on Brown Company's timberlands have led to the present fortunate woods situation in which the Company finds itself. These practices are being re-emphasized with increased effort at the present time, to the end that future production may be provided for adequately.

Future Prospects of Brown Company

The present indications for business of Brown Company and Brown Corporation during the fiscal year 1952 are favorable. The demand for most of our products

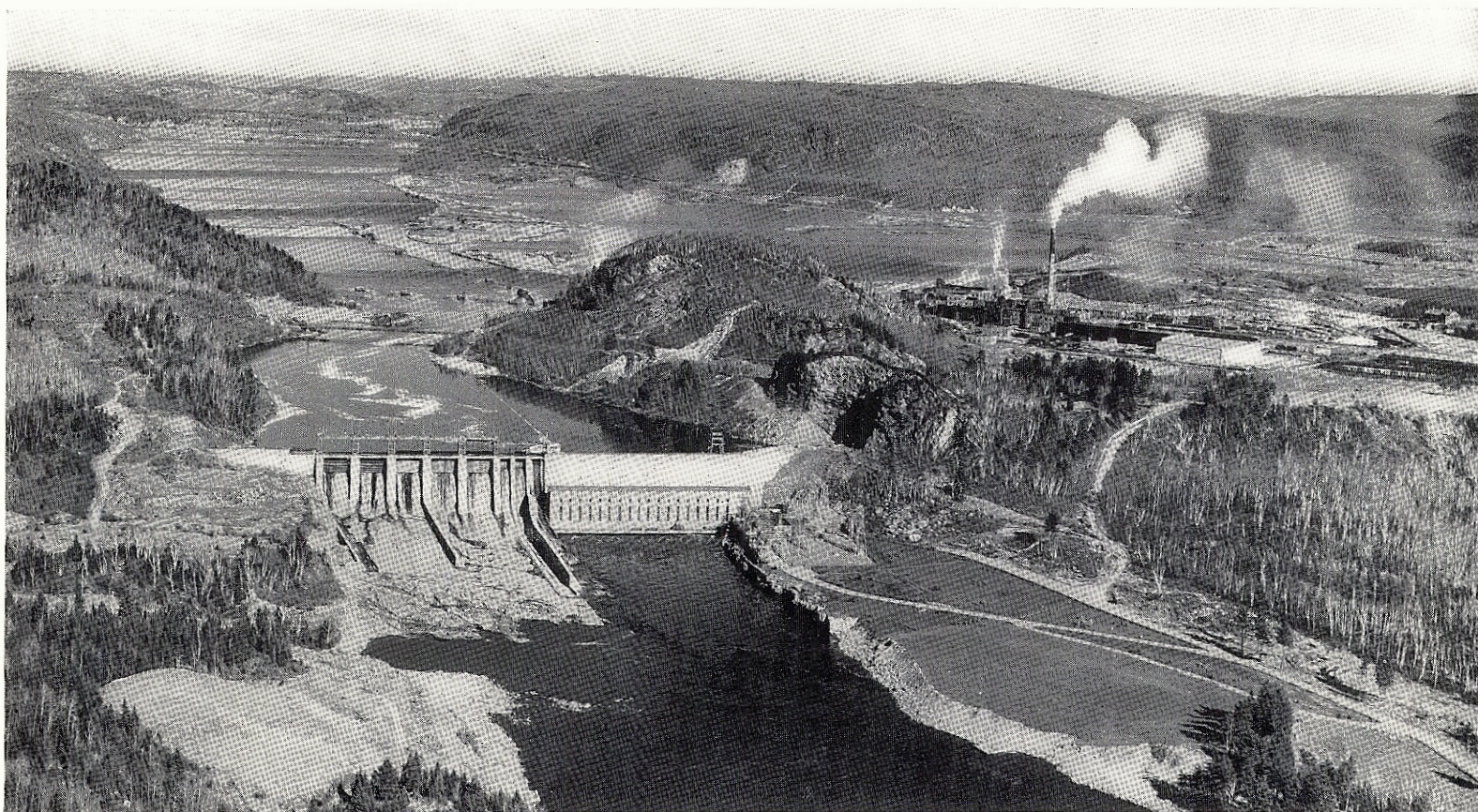
is good, and most of the present selling prices are reasonably sufficient barring cost increases. The sales outlook for the first half of the year indicates an expectation of earnings comparable with 1951. The prospects for the last half of the year, of course, depend on many circumstances not under the control of the Company, such as continuance of price ceilings which do not recognize increases in wages, freight rates and other charges. The impact of rehabilitation and new construction on both production and costs should be favorable if the demand for the products is sufficient to allow us full production.

There is every reason to expect a continuation of the vigorous cooperation of officers and employees towards the accomplishment of the Company's objectives.

Respectfully submitted,

L. F. Whittemore
President

St. Maurice Power Corporation's Dam and Powerhouse at La Tuque, Quebec, jointly owned by Brown Corporation and Shawinigan Water and Power Company, 222,500 horsepower installed capacity. Brown Corporation's sulphate pulp mills in background



BROWN COMPANY

AND ITS SUBSIDIARY BROWN CORPORATION

Consolidated Statement of Profit and Loss

Years Ended November 30, 1951 and 1950

	<i>Year ended November 30</i>	
	1951	1950
Net sales	\$72,729,617	\$53,102,469
Materials, services and other manufacturing costs, selling, general, administrative and research expenses, and other charges against operations (including depreciation and depletion of \$2,574,647 in 1951 and \$2,423,423 in 1950 and retirement plan costs of \$892,280 in 1951 (Note I))	55,081,234	44,497,062
<i>Operating profit</i>	<u>\$17,648,383</u>	<u>\$ 8,605,407</u>
Other charges (credits):		
Interest on funded debt	\$ 532,290	\$ 751,311
Interest and dividend income, including \$83,000 in 1951 and \$90,909 in 1950 of dividends from St. Maurice Power Corporation (Note D)	(216,717)	(162,925)
Retirement allowances to former employees	177,513	159,081
Canadian tax withholdings on intercompany interest and dividends	220,576	127,767
Recapitalization expenses (in 1950, cost of refinancing funded debt)	142,210	601,829
Other (credits) and charges, net	(222,529)	131,404
	<u>\$ 633,343</u>	<u>\$ 1,608,467</u>
<i>Profit before income taxes</i>	<u>\$17,015,040</u>	<u>\$ 6,996,940</u>
Provision for United States and Canadian income taxes (including United States excess profits tax of \$950,000 in 1951 and \$100,000 in 1950)	9,585,000	2,975,000
<i>Profit for the year</i>	<u>\$ 7,430,040</u>	<u>\$ 4,021,940</u>

{See accompanying notes to financial statements}

Consolidated Statement of Capital Surplus and Earned Surplus

Year Ended November 30, 1951

	<u>Capital surplus</u>	<u>Earned surplus</u>	
		<i>Reserved for retirement of preference stocks, etc.</i>	<i>Unreserved</i>
Balance, November 30, 1950	\$2,577,016		\$15,053,992
Additions (deductions):			
Profit for the year, per accompanying statement . . .			7,430,040
Adjustment for unrealized exchange gain on conversion of assets and liabilities of Brown Corporation			98,627
Dividends declared:			
First preference stock			(713,973)
Second preference stock			(384,901)
Preferred stock			(7,096)
Earned surplus reserved by vote of board of directors for retirement of 143,456 shares each of first and second preference stocks issued in exchange for preferred stock under Plan of Recapitalization consummated during year (excess of call and liquidating value over stated value):			
First preference stock — \$40 per share . . .		\$5,738,240	(5,738,240)
Second preference stock — \$14 per share . . .		2,008,384	(2,008,384)
Earned surplus reserved under Plan of Recapitalization for unpaid cumulative dividends as of December 1, 1950 on 695 shares of subsequently unexchanged preferred stock			
		37,530	(37,530)
Premium, and cumulative dividends as of December 1, 1950, paid on call for redemption of 695 shares of preferred stock not exchanged	(1,738)	(37,530)	
Excess of call and liquidating value over cost of 36,249 shares of second preference stock purchased and deposited with sinking fund agent for retirement .	161,237		
Reserved portion of earned surplus applicable to 36,249 shares of second preference stock purchased for retirement		(507,486)	
Restoration to surplus of reserves for possible future inventory price declines and other contingencies .			2,000,000
Balance, November 30, 1951	\$2,736,515	\$7,239,138	\$15,692,535

{See accompanying notes to financial statements}

BROWN COMPA

Consolidated Balance Sheet

Assets	<i>November 30</i>	
	1951	1950
<i>CURRENT ASSETS:</i>		
Cash in banks and on hand	\$ 3,190,351	\$ 5,673,687
United States and Canadian Government obligations, at cost and approximate value based on market quotations	5,133,705	5,804,161
Accounts receivable, trade, less allowance for bad debts	6,184,078	4,573,839
Accounts receivable, other	269,278	257,000
Inventories (Note C):		
Pulp and other products	\$ 1,447,011	\$ 1,242,864
Pulpwood	4,467,770	2,545,680
Pulpwood operations in progress	6,038,501	2,163,808
Other materials and supplies	4,770,457	2,972,026
	<u>\$16,723,739</u>	<u>\$ 8,924,378</u>
<i>Total current assets</i>	<u>\$31,501,151</u>	<u>\$25,233,065</u>
 <i>INVESTMENTS AND OTHER ASSETS:</i>		
Investments in affiliated and associated companies (Note D)	\$ 262,774	\$ 302,767
Cash held by bond trustee		107,005
Cash required for second preference stock sinking fund payment due April 1, 1952 (Note F)	45,147	
Special deposits — cash and United States and Canadian Government obligations (at cost and approximate value based on market quotations) reserved by the management for plant improvement program (Note J)	2,277,612	2,559,725
Other assets	109,635	117,099
	<u>\$ 2,695,168</u>	<u>\$ 3,086,596</u>
<i>Total investments and other assets</i>		
 <i>FIXED ASSETS (NOTE E):</i>		
Plants and equipment	\$64,929,110	\$58,986,242
Less — Depreciation	36,341,070	34,928,961
	<u>\$28,588,040</u>	<u>\$24,057,281</u>
Timberlands	\$12,259,385	\$12,342,305
Less — Depletion	6,965,883	7,058,038
	<u>\$ 5,293,502</u>	<u>\$ 5,284,267</u>
<i>Total fixed assets</i>	<u>\$33,881,542</u>	<u>\$29,341,548</u>
 <i>DEFERRED CHARGES:</i>		
Prepaid insurance and taxes	\$ 746,348	\$ 813,760
Other deferred charges	247,931	150,732
	<u>\$ 994,279</u>	<u>\$ 964,492</u>
<i>Total deferred charges</i>	<u>\$ 994,279</u>	<u>\$ 964,492</u>
	<u>\$69,072,140</u>	<u>\$58,625,701</u>

{See accompanying notes

ANY AND ITS SUBSIDIARY BROWN CORPORATION

— November 30, 1951 and 1950

	<i>November 30</i>	
	<i>1951</i>	<i>1950</i>
Liabilities and Capital		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,561,709	\$ 2,619,751
Accrued payrolls, interest and other expenses	1,665,640	1,072,756
Serial note, 2½%, payable within one year	800,000	800,000
Dividends payable	259,725	216,227
United States and Canadian income and excess profits taxes for current and prior years	7,828,421	2,678,042
<i>Total current liabilities</i>	<u>\$14,115,495</u>	<u>\$ 7,386,776</u>
FUNDED DEBT OF BROWN COMPANY (NOTE B):		
Serial notes, 2½%, maturing after one year to October 1, 1953	\$ 800,000	\$ 1,600,000
Collateral trust bonds, 3½%, payable serially October 1, 1954 to 1970	13,600,000	13,600,000
<i>Total funded debt</i>	<u>\$14,400,000</u>	<u>\$15,200,000</u>
RESERVES FOR POSSIBLE FUTURE INVENTORY PRICE DECLINES AND OTHER CONTINGENCIES		<u>\$ 2,000,000</u>
CAPITAL STOCK OF BROWN COMPANY AND SURPLUS:		
Convertible first preference stock, \$5 cumulative, without par value (Note F):		
Authorized to be issued, issued and outstanding — 143,456 shares, at stated value of \$60 per share (call and liquidating value, \$100 per share)	\$ 8,607,360	
Second preference stock, \$3 cumulative, without par value (Note F):		
Authorized to be issued and issued — 143,456 shares		
Outstanding (after deducting 36,249 shares purchased and deposited with sinking fund agent for retirement) — 107,207 shares, at stated value of \$40 per share (call and liquidating value, \$54 per share)	4,288,280	
Convertible preferred stock, \$6 cumulative, par value \$100:		
Outstanding at November 30, 1950 — 144,151 shares (143,456 shares subsequently exchanged for first and second preference stock and the balance called for redemption).		\$14,415,100
Common stock, par value \$1:		
Authorized to be issued at November 30, 1951 — 2,997,009 shares		
Issued and outstanding — 1,992,817 shares (1,004,192 unissued shares reserved at November 30, 1951 for conversion of first preference stock in the ratio of 7 for 1)	1,992,817	1,992,817
Capital surplus, per accompanying statement	2,736,515	2,577,016
Earned surplus (Note G), per accompanying statement:		
Reserved for retirement of first and second preference stocks outstanding (excess of call and liquidating value over stated value above)	7,239,138	
Unreserved	15,692,535	15,053,992
<i>Total capital stock and surplus</i>	<u>\$40,556,645</u>	<u>\$34,038,925</u>
	<u>\$69,072,140</u>	<u>\$58,625,701</u>

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, 1951, other than fixed assets, have been converted to United States currency at the quoted rate of exchange prevailing at that date. Fixed assets acquired before September 1949 have been converted dollar for dollar, and those acquired subsequently, at the average of exchange rates in effect at or about the time of acquisition. The profit and loss accounts for the year ended November 30, 1951 have been converted (except for depreciation and depletion to which averages of rates used for fixed assets have been applied) at average rates prevailing during the respective accounting periods.

The consolidated balance sheet as at November 30, 1951 includes the following amounts of Canadian assets and liabilities of Brown Corporation, expressed in United States dollars — current assets \$16,109,565, other assets \$11,418,463 and current liabilities \$5,668,818.

Note B—Pledge of Certain Assets:

The entire capital stock and \$5,000,000 issue of first mortgage bonds of Brown Corporation, owned by Brown Company and eliminated in consolidation, were pledged to secure Brown Company's funded debt outstanding at November 30, 1951. Brown Corporation's mortgage bonds were secured by its plants and equipment and timberlands, by its investment in the capital stock of St. Maurice Power Corporation (Note D) and by a so-called "floating charge" on all its other assets which permits free use and disposition of the assets subject thereto unless and until the Trust Deed of mortgage itself becomes enforceable.

Note C—Inventories:

Brown Company's inventories of pulpwood and pulpwood content of pulp, carried at \$1,142,524 as at November 30, 1951, 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.

Note D—Investments in Affiliated and Associated Companies:

Certain of the investments in affiliated and associated companies are carried at cost, and others, at 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 long-term 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 three years amounts to approximately \$68,000. 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—Sinking Fund for First and Second Preference Stocks:

On or before April 1 in each year Brown Company is required to pay to the sinking fund agent for the retirement of second preference stock an amount, in cash or in purchased shares at the cost thereof, equal to one-third of the balance of "net income" for the preceding fiscal year remaining after deducting therefrom required payments on principal of funded debt and dividends accrued on preference and preferred stocks for such year, plus an amount equal to dividends, if any, declared on the common stock during such year. Except to the extent of \$45,147, for which cash has been separately classified in the accompanying balance sheet, the company, at November 30, 1951, had met the required April 1, 1952 sinking fund payment by the purchase and deposit with the sinking fund agent of 36,249 shares of second preference stock. There are similar sinking fund provisions for the first preference stock, except that the required payments do not include amounts equal to common stock dividends declared and such provisions become operative only after the retirement of all the second preference stock.

Note G—Earned Surplus:

The consolidated earned surplus represents undistributed earnings of Brown Company since November 30, 1941 and of Brown Corporation since November 30, 1940. Under provisions of the indenture covering funded debt there are restrictions on the payment of dividends which would currently, and so long as the outstanding funded debt is \$10,000,000 or more, prevent the payment of dividends to the extent that "consolidated working capital" would thereby be reduced below \$10,000,000, and, after September 30, 1952, would prevent the payment of dividends to the extent that such payment, together with previous dividend payments and expenditures for the acquisition of shares of the company's capital stock since November 30, 1949, would exceed 70% of the "consolidated net earnings" since November 30, 1949. These restrictions, if both were applied at November 30, 1951, would have prevented the payment of cash dividends as of that date in excess of approximately \$4,400,000.

Note H—Renegotiation:

A portion of the consolidated sales for the year ended November 30, 1951 appears to be subject to renegotiation, and

it is possible that some of the profits on this business, less appropriate adjustments of federal income taxes, will eventually be determined to be refundable to the government. However, the results of renegotiation are currently not determinable or subject to reasonable estimate, and no provision therefor has been made in the accompanying financial statements. The management is of the opinion that if any refunds are required the effect on the financial statements would not be material.

Note I—Retirement Plan for Employees:

The retirement plan for employees established as of November 1, 1951 and the charges to income in respect thereof for the fiscal year ended November 30, 1951, totaling \$892,280, are described in the President's letter.

Note J—Commitments:

At November 30, 1951 the consolidated companies had unexpended balances totaling approximately \$5,200,000 under approved authorizations for plant extension and improvement projects. A substantial portion of this amount was under firm commitment.

PRICE WATERHOUSE & CO.

75 Federal Street
BOSTON 10

January 25, 1952

*To the Board of Directors
of Brown Company:*

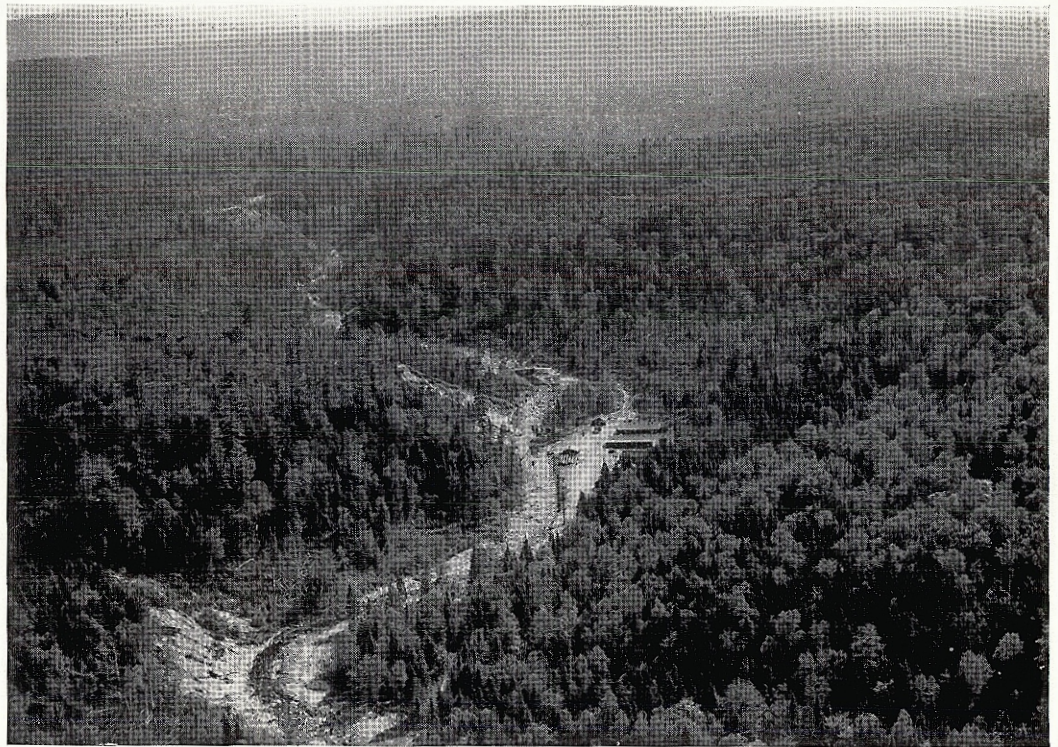
In our opinion, the accompanying consolidated balance sheet and related statements of profit and loss and surplus, with the notes thereto, present fairly the consolidated financial position of Brown Company and its subsidiary, Brown Corporation, at November 30, 1951 and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent in all material respects with that of the preceding year. Our examination of such statements 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.

PRICE WATERHOUSE & CO.

WOODLANDS and PLANT IMPROVEMENTS

During 1951 Brown Company acquired several tracts of timberland. The most significant was the purchase of 34,000 acres in nearby Success, Riley and Grafton Townships. This is in line with the policy of the Company of consolidating its holdings of woodlands in this area.

Good forestry practice on the part of Brown Company since the early part of the century has resulted in new crops of maturing timber. An example of this is shown in the area of Rump Pond, Parmachenee, Maine. This area was cut in the '90's, and the accompanying

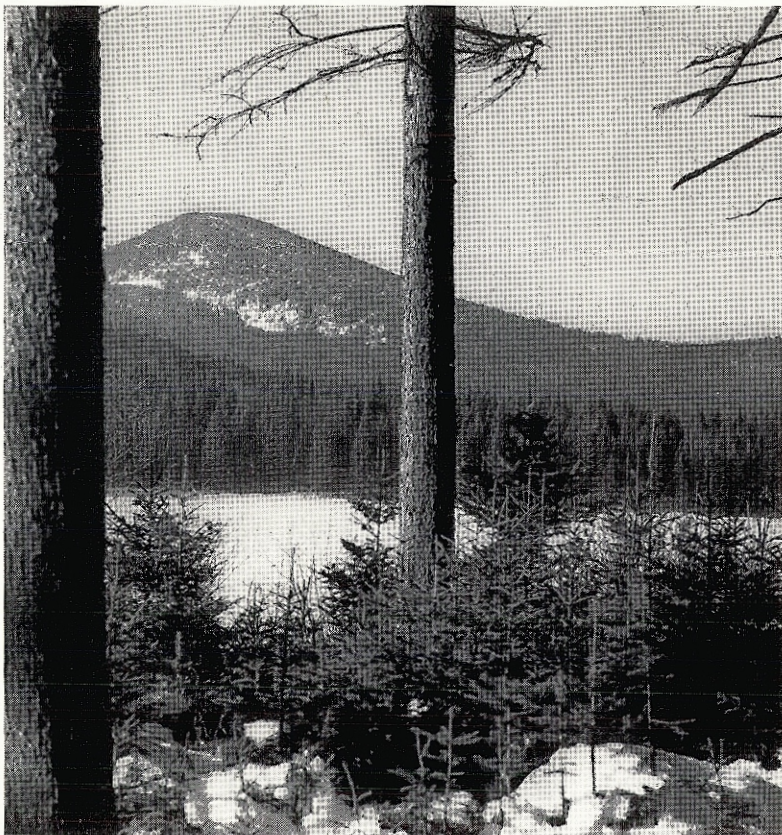


Aerial View—Success, New Hampshire

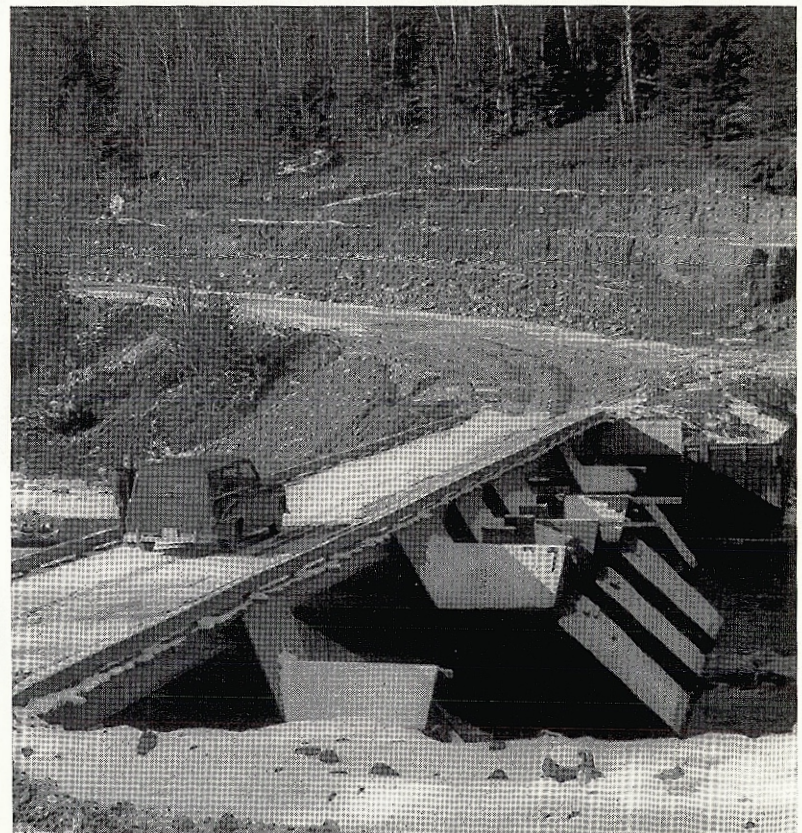
photograph shows a heavy growth of softwood in this location. Future crops are assured by selective cutting and by protecting the young trees when the timber is cut.

To harvest the timber crop, the Woods Department of Brown Company must build and maintain roads for both summer and winter use.

Rump Pond—Parmachenee, Maine



New Road across Brown Company Dam—Parmachenee, Maine



In 1951 Brown Company started working out an application of the technique of logging in long lengths and the procurement of part of its hardwood supply in these lengths. The purposes of this move are to utilize the most valuable wood for high grade lumber and veneer and to use the balance of the cut in the pulp mill. The wood is cut in long lengths, loaded mechanically onto trucks, unloaded at the mill in one lift by a derrick and is there sorted and cut into the proper lengths for its ultimate use.

Three new barking drums and rail and truck unloading facilities are being installed. This constitutes an important step toward modernizing wood handling into the pulp mills and will give additional capacity.

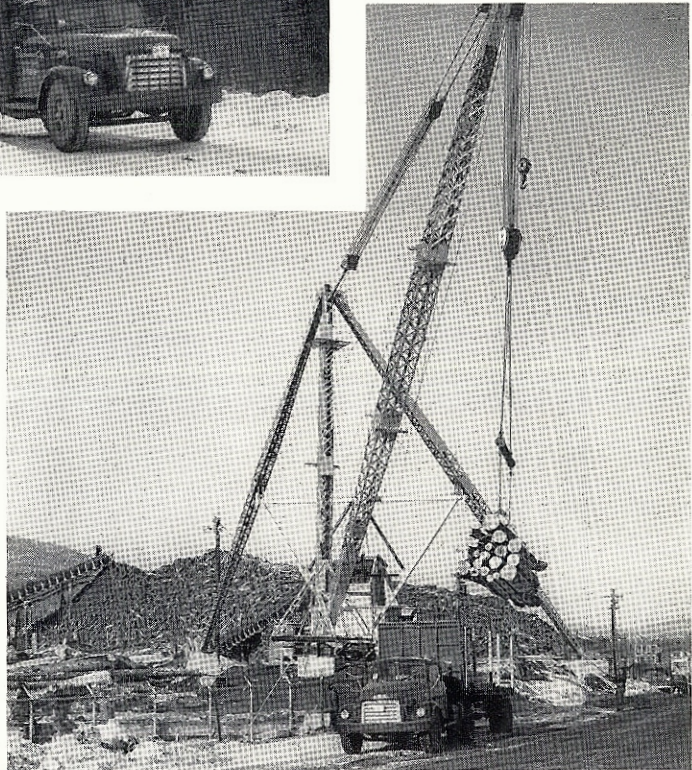
The current sulphur shortage is being met by the installation of a plant that will produce sulphur dioxide gas from pyrrhotite tailings to be obtained from a copper mine in Vermont. This gas is used in making the acid with which the wood chips are cooked in the Sulphite Mill. The acid making system is being further modernized by the addition of a Jenssen pressure tower and a second hot acid accumulator.



Loading Long Logs

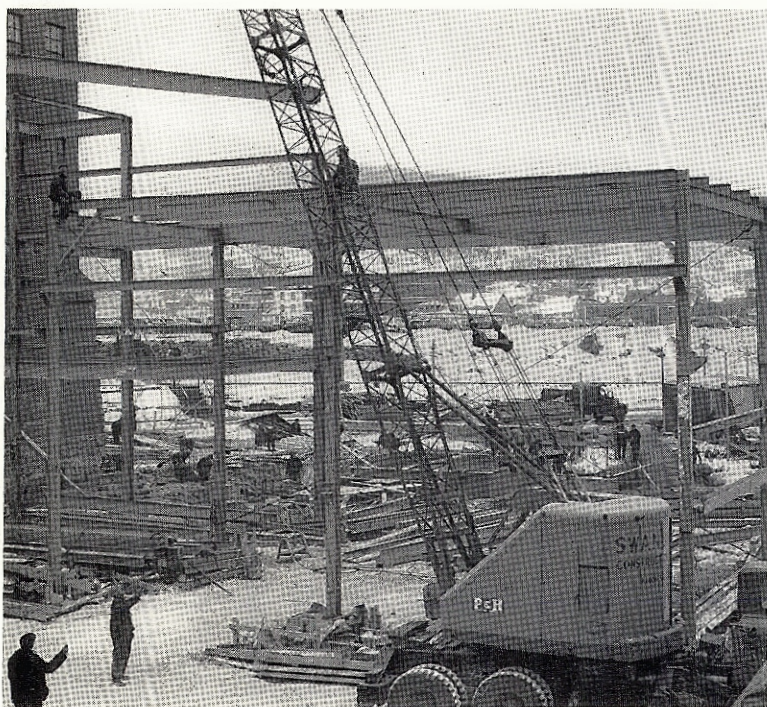


Logs enroute to Mill over Brown Company Road

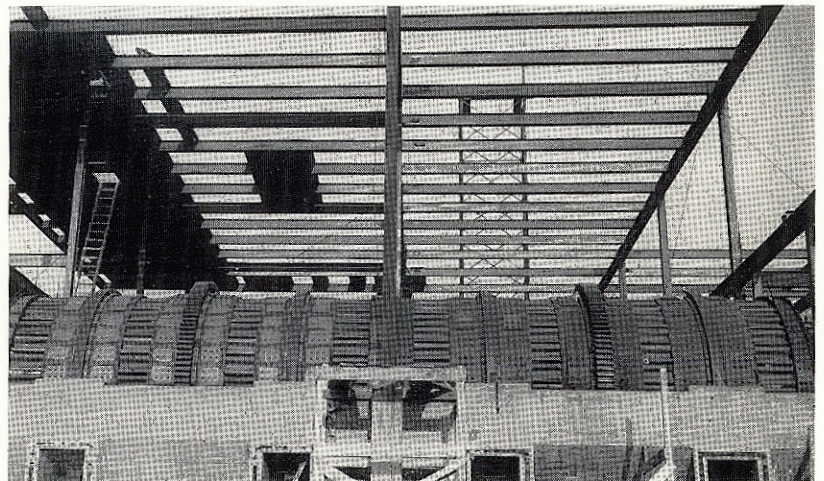


Unloading logs at pulpwood stockpile—Berlin, N. H.

Pyrrhotite Roasting Plant under construction—Berlin, N. H.



Barking Drum installation under construction—Berlin, N. H.



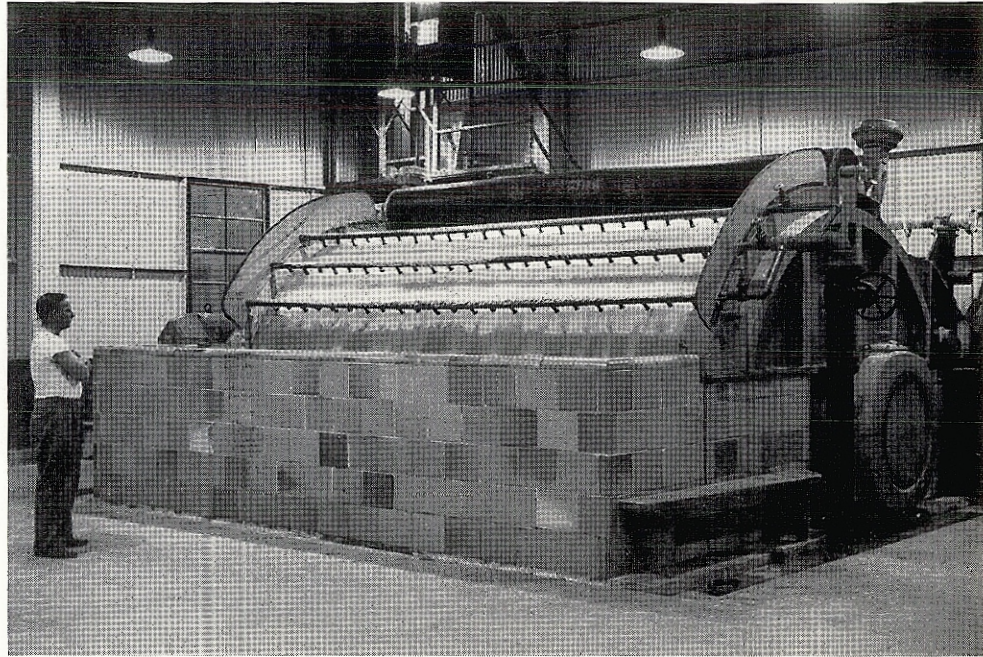
An open canal supplying water to the filter plant ahead of the pulp and paper mills was replaced by a 1,500 ft. penstock 6 feet in diameter. In order to assure full production of sulphite pulp during the summer months, a storage lagoon for waste liquors was completed and put into operation.

High capacity thickeners and washers, with additional storage tank capacity and related facilities, have been installed in the Sulphite pulp mill. These facilities have made possible increased production rates and will permit further increases with the coming into operation of the new barking and wood handling facilities. New heat economizers have been installed in connection with the pulp dryers.

In the Kraft pulp mill a new black stock washer and an additional digester are being added. These will increase the productive capacity of this unit and will give savings in raw material usage.

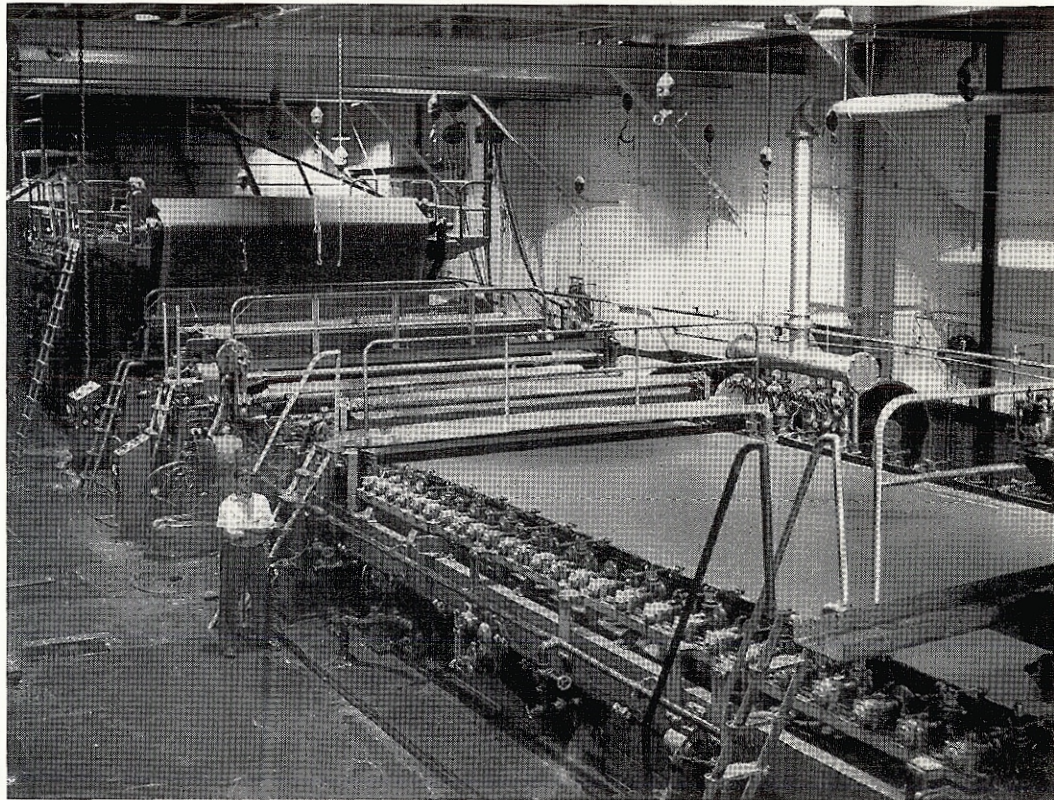
The Riverside paper mill has been tied in with the Kraft pulp mill by stock pipe lines and storage tanks which permit the use of slush pulp, eliminating the extra expense involved in drying and in handling baled pulp. Also, equipment in the stock preparation system at this paper mill has been modernized.

The largest single investment in new equipment in 1951 was the rebuilding of No. 1 paper machine at Cascade and its stock preparation system. The modernized machine is designed to make Brown Company's present lines of papers at higher speeds and with improved quality. Greater flexibility has



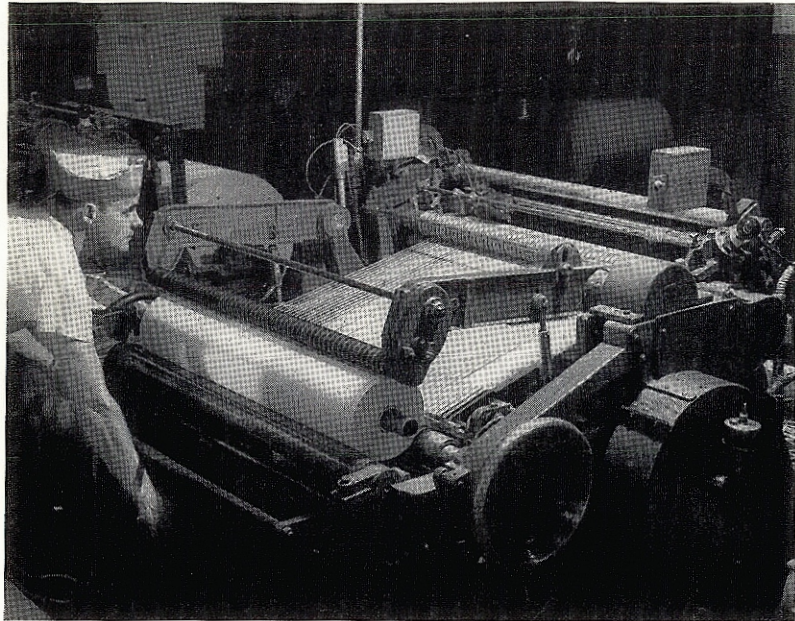
New Stock Washer—Sulphite Pulp Mill

Partial view of No. 1 Paper Machine after modernization



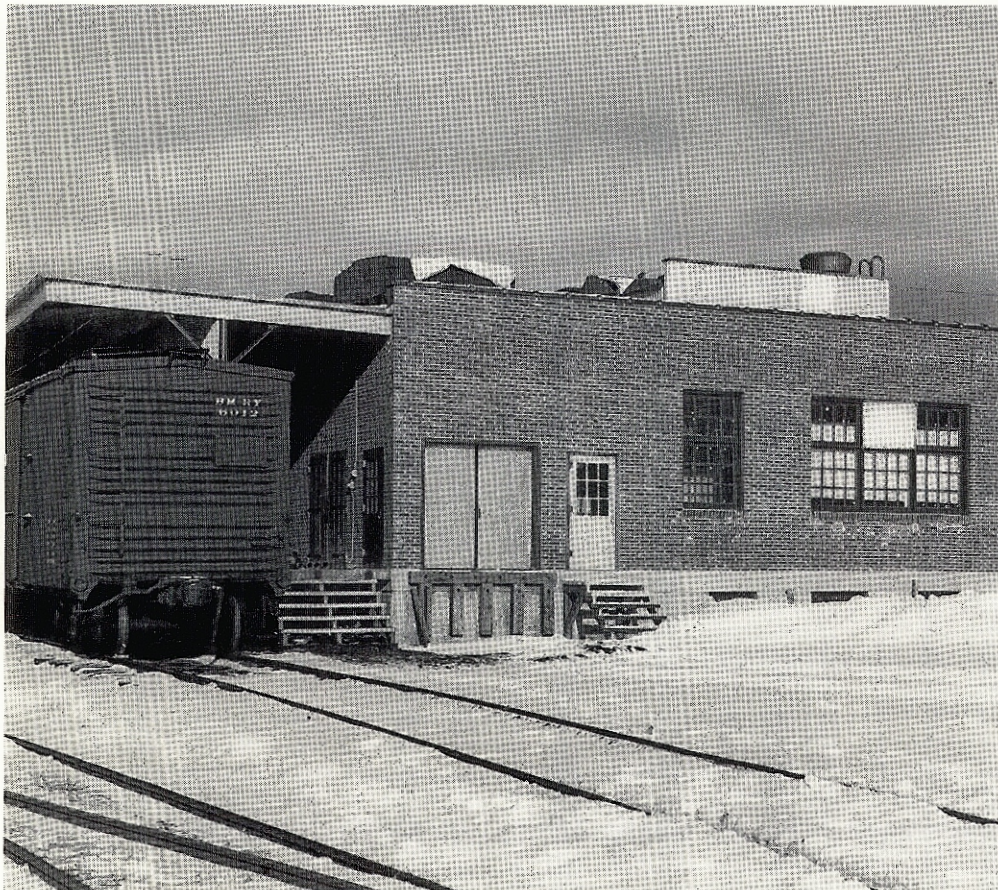
been given to the towel converting operation by the purchase of new converting equipment.

A new end product, Communications Tape, has been added to the Company's line with converting equipment installed for its manufacture.



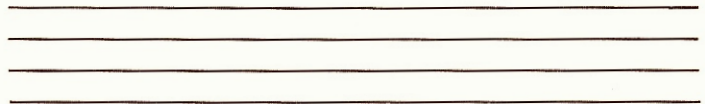
Converting communications tape—Cascade Paper Mill

New Solka-Floc Plant



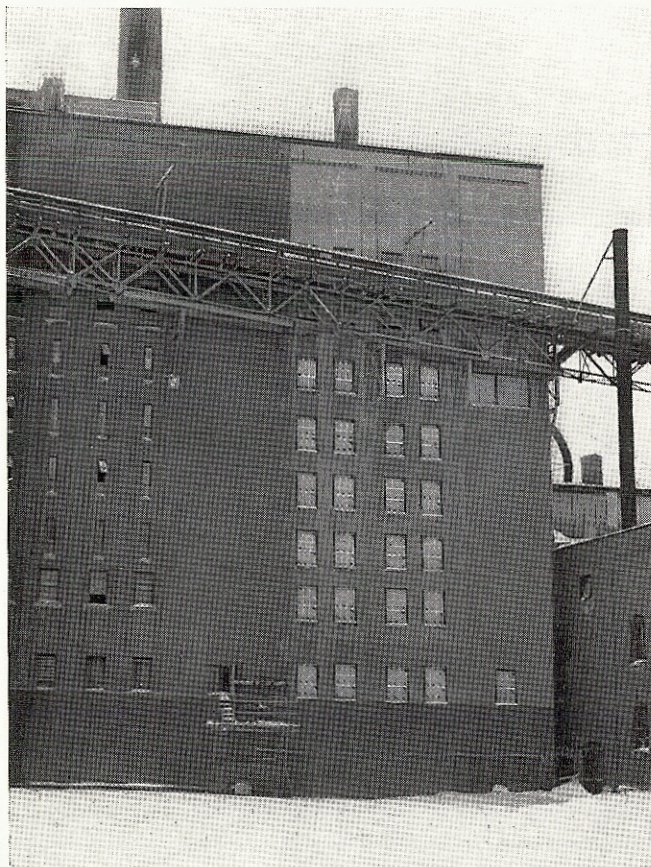
The growth of the market for Solka-Floc (finely divided, highly purified wood cellulose) indicated the need for a large increase in productive capacity. This product is used in the plastics, chemical and rubber fields, as well as in welding rod coating, important in defense production. A new plant is being completed which will permit the Company to meet the increasing demand for this product and provide for the development of new types of Solka-Floc.

A further step in the modernization of the Chemical Mill was taken by the installation of two additional lines of Hooker type electrolytic cells. This move increased the capacity of the plant by 4,000 tons of chlorine and 4,400 tons of caustic per year.

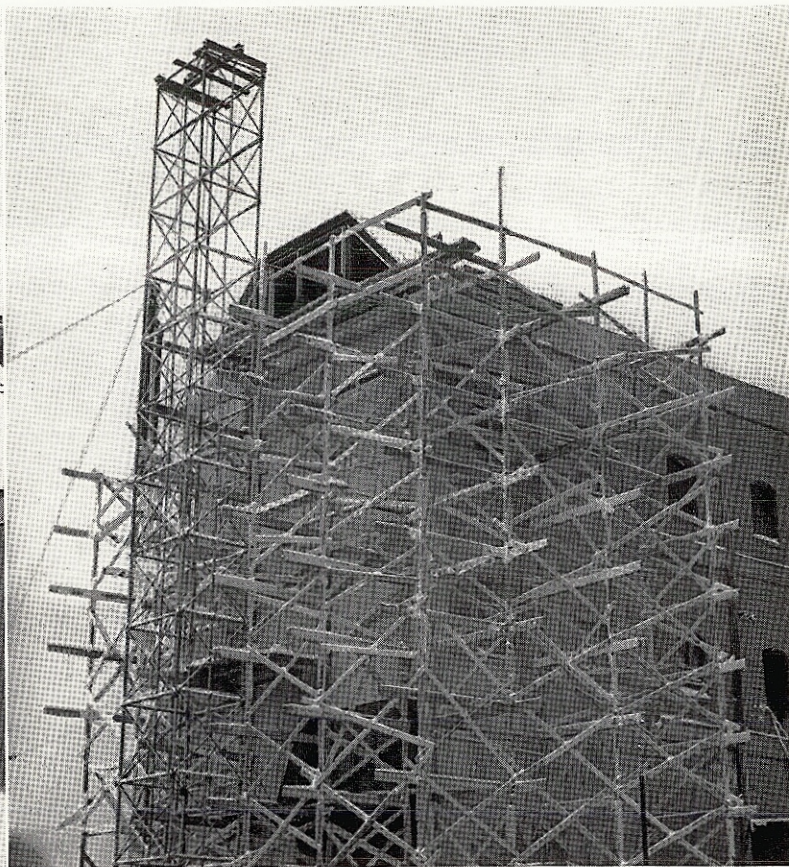


During the year, facilities for the transforming and distribution of electric power were improved and partially replaced in order to reduce power costs and at the same time provide for the additional power requirements arising out of other steps of the plant program.

An experimental pilot plant is nearing completion and will be used by the Research Department in the development of new and improved pulps. This installation will permit the trial of processes developed in the laboratory on a semi-plant scale and will reduce the expense of production interruptions in pulp mills. This pilot plant, combined with the Company's experimental paper machine, will constitute an important facility with which to carry on Brown Company's research and development program.



New Combustion Engineering Recovery Unit—La Tuque, Quebec



Digester building addition for two new digesters, La Tuque, Quebec

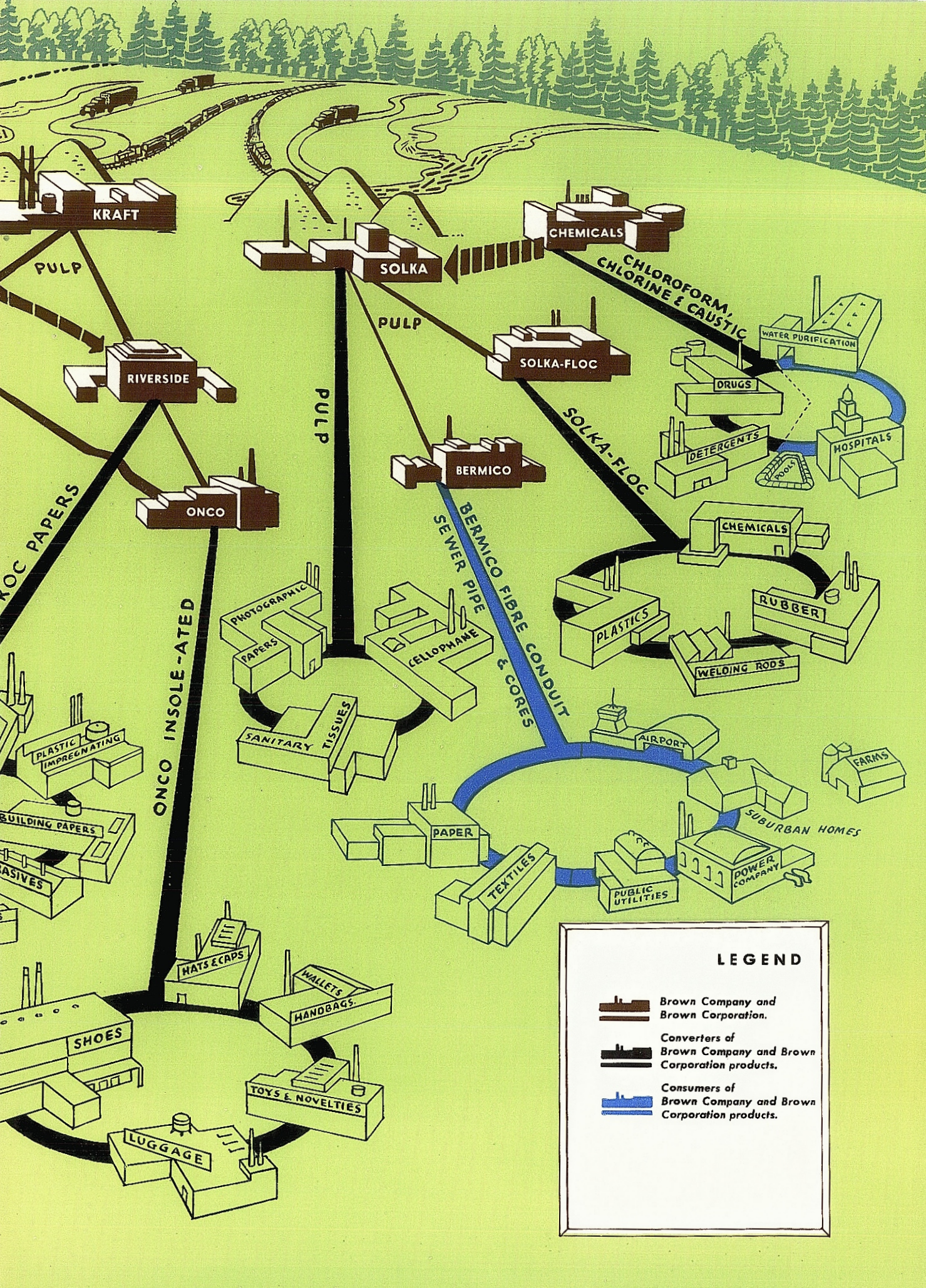
BROWN CORPORATION

A new barking drum was put into operation at the beginning of 1951, and the whole barking installation was housed so that it could be operated in the wintertime. New conveyors for unloading rail delivered wood have been provided. New sorting equipment is being installed in the river to permit the change from 13 foot to 4 foot logs. Some of the logs are still being received in 13 foot lengths. The equipment for handling these is likewise being rebuilt.

An additional steam generating boiler, which can be fired by both coal and bark, is on order. This new installation will provide additional steam capacity, and at the same time provide a means for the advantageous disposal of the bark.

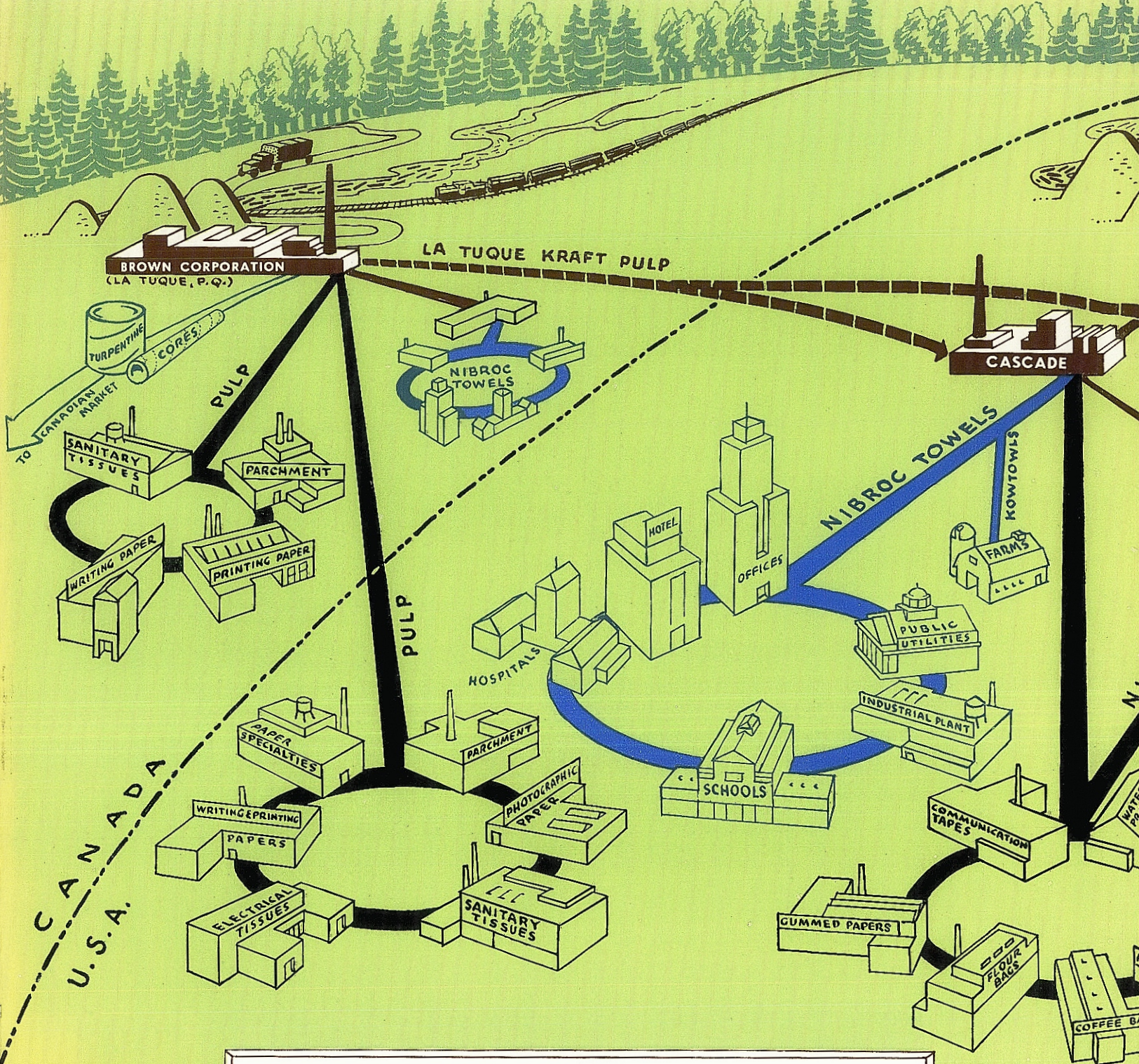
Two new digesters, a new blow tank and increased heat recovery facilities are being installed. The black stock washing system is being completely modernized, including new knoter screens. A bank of new rotary screens is being provided for semi-bleached and bleached fibres. These moves will increase productive capacity and effect operating economies.

During the year a new recovery furnace and boiler were installed. This unit, together with a similar one provided a few years ago, will handle the full liquor requirements for the mill. A new electrical precipitator, large enough to take the stack gasses from both of these boilers, was put into operation toward the close of the year replacing one of inadequate size.



LEGEND

-  Brown Company and Brown Corporation.
-  Converters of Brown Company and Brown Corporation products.
-  Consumers of Brown Company and Brown Corporation products.



This pictorial chart illustrates the diversified activities of Brown Company and Brown Corporation and the markets which they serve. The interdependence of the various units is portrayed, as well as the way in which these products play an important part in community and personal life.

BROWN



COMPANY, Berlin, New Hampshire
CORPORATION, La Tuque, Quebec

