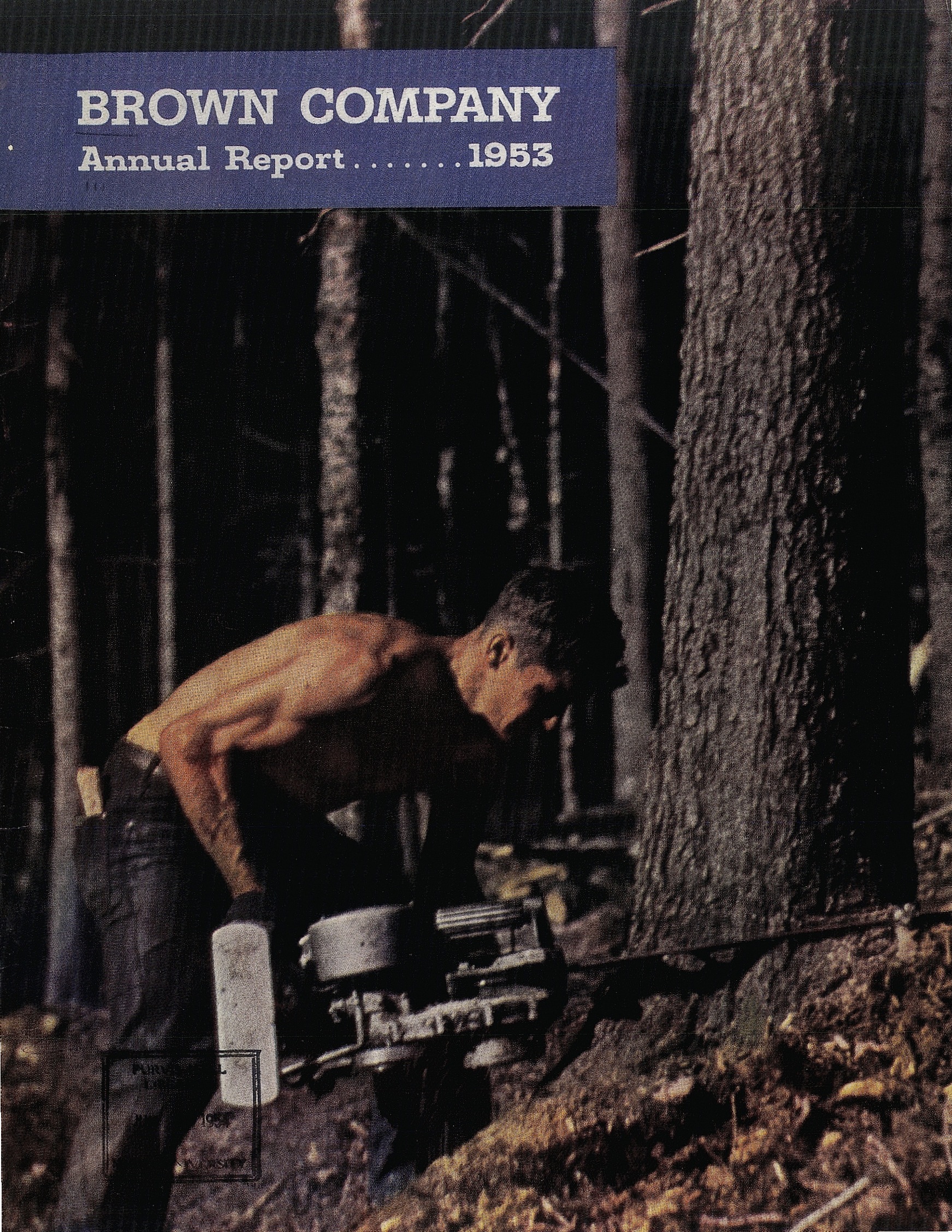


BROWN COMPANY

Annual Report 1953



Published by
Brown Company
1953
Brown Company

Brown Company's diversified products

Brown Company Sells
Under These Names:

You Will Find Them
In These Forms Or Places:

SOLKA FIBRES

A group of pure wood fibre grades made at both Berlin and LaTuque and possessing soft, strong but silklike properties.

Boxed stationery, invitations, letterheads, photo prints, facial tissues, butter wrappers, cellophane and many others.

CELLATE

Very strong white kraft pulp, produced at LaTuque.

Flour bags, coffee bags, gummed tapes, glossy coated papers, glassine food bags, parchment wraps, typing and posting ledgers and blueprint papers.

SOLKA-FLOC

A pure, fine cellulose powder.

Welding rod coating, cigarette filters, rubber soles and heels, molded plastics; in filter presses when filtering oils, alumina, caustic soda and many chemicals.

NIBROC PAPERS

Specially engineered papers for technical industries.

Sandpaper, potato bags, pressure-sensitive papers, gummed tapes, carpet yarns, coffee bags, flour bags, resin-treated table tops and counters, etc.

NIBROC TOWELS AND TISSUES

Made from special strong but soft pulps in both white and natural colors. The world's largest selling industrial towel.

For highest grade washroom service in factories, stores, office buildings, schools, colleges, hospitals, restaurants, institutions, service stations, and soon to be introduced for use in the home.

NIBROC KOWTOWLS

A large, strong paper towel.

On dairy farms for washing cows before milking; for keeping equipment sanitary.

BERMICO SEWER PIPE AND FITTINGS

Made from tough wood fibre uniformly impregnated with special coal tar pitch.

House connections to sewer or septic tank, drains and downspouts, non-pressure irrigation.

BERMICO PERFORATED PIPE AND FITTINGS

Septic tank disposal beds, foundation drains; land drainage: marshlands, golf courses, farmlands, orchards, athletic fields and industrial areas.

BERMICO CONDUIT

Made of the same durable material as Bermico Sewer Pipe.

Tubes which carry wires underground.

ONCO

A tough, durable leatherlike material made from Solka fibres.

Innersoles for shoes; handbags, hat brims, cap fronts, wallets, belts and imitation leathers.

CHEMICALS

Liquid chlorine, chloroform and soda bleach.

Chlorine for bleaching pulps, paper and textiles, and for water purification by municipalities, colleges and schools. Chloroform as a solvent by pharmaceutical manufacturers. Soda bleach by textile plants and laundries.

A comparative summary of the year

	Years ended November 30	
	1953	1952
Net Sales	\$67,197,203	\$65,638,483
Sales of pulp, paper and towels	\$57,866,143	\$57,227,331
Sales of all other products	\$ 9,331,060	\$ 8,411,152
Net income before taxes on income	\$ 5,660,696	\$ 7,676,967
Net income	\$ 3,050,696	\$ 4,396,967
Earnings per common share	\$ 1.04	\$ 1.69
Net working capital at end of year	\$18,222,877	\$17,818,787
Expenditures for plant improvement	\$ 3,444,370	\$ 7,327,561
Book value of Stockholders' Equity in net assets at year end	\$45,320,861	\$44,075,765
Tons of pulp, paper and towels sold	324,363	297,336
Number of employees (not including seasonal woods labor)	4,866	4,734
Timberland acreage:		
Owned in United States and Canada	1,411,643	1,411,263
Cutting rights on Crown land in Canada	1,693,687	1,693,687
Total acreage	3,105,330	3,104,950

The company today and tomorrow

Brown Company is an important producer of wood pulp, paper and kindred products, with plants concentrated at Berlin and Gorham, New Hampshire, supported by extensive timberlands conveniently located in relation to the mills. The company's reserves of timber ensure a more than adequate supply of raw materials over the years to come. Through a long-range approach to woods harvesting, new crops of timber for future needs are constantly maturing on once-harvested lands.

The management is convinced that the various moves made toward a more complete utilization of its high quality timber resources have been wise. It is expected that Brown Company tomorrow, in addition to producing pulp and paper products, will become a leading producer of other products of the forest. This production will include sawed lumber both hard and soft, and veneer for plywood and laminates.

Brown Corporation, a wholly-owned subsidiary, with its kraft mill at La Tuque, Quebec, supported by adequate power and timber resources, is one of the large producers of highly bleached kraft pulps on the North American continent.

Both the company and the corporation are equipped with extensive research laboratories and development departments. Most of the products of each had their inception in these laboratories. A special section of this report is devoted to current research activities which promise to bring commercial benefit to the company.

The program of modernization and improvement of woods and plant facilities, which has been under way during the postwar period, was further advanced during the past year. A total of \$34,600,000 has been invested for this purpose since 1945.



The President's Letter . . . to the stockholders

IN THE fiscal year which ended November 30, 1953, both Brown Company and its Canadian subsidiary, Brown Corporation, showed a substantial increase in production and in tonnage sales. Demand for our products was generally good, resulting in the sale of 324,363 tons of pulp and paper products, compared with 297,336 tons in the previous year. Average selling prices in the industry, however, were lower than in the preceding year, particularly for Canadian production. Consolidated dollar net sales, therefore, did not fully reflect the increase in tonnage sales, though they rose to \$67,197,203 from the \$65,638,483 of the preceding year.

Net sales of our Canadian subsidiary were sharply affected by the continued low price prevailing for bleached kraft pulp. The corporation's increased sales, tonnage-wise, could not offset the low price, with the result that both dollar sales and earnings of the subsidiary declined.

Dollar sales of the parent company showed a substantial increase, more than enough to offset the decline in net sales of the Canadian subsidiary. The parent company's profits after taxes also held up well, but were not sufficient to compensate for the decrease in earnings of the subsidiary. Consolidated profit before income taxes amounted to \$5,660,696, compared with \$7,676,967 in the previous year. Consolidated profit after income taxes amounted to \$3,050,696, compared with \$4,396,967. After provision for preferred stock dividends, which were paid in full, the equity of the common stock shareholders in the net profits for the year, figured on the actual dividends paid on the preferred during the year, amounted to \$1.04 per share compared with \$1.69 in the preceding year.

Market Conditions

While demand for the company's products continued to be strong, the industry is in a period of competitive selling, brought about in part by expansions of productive capacity. These factors have contributed to the maintenance of low selling prices. During the early months of 1952 the company enjoyed generally higher prices than were experienced in the later months of that year and throughout 1953. Comparative net earnings have been adversely affected by this fact. The company experienced a gradual but steady increase in operating and material costs, which were offset to some extent by higher production, greater efficiency and lower costs for pulpwood.

Preferred Stock Sinking Fund Operations

The original 143,456 shares of new second preference stock, issued in 1951, had been reduced at November 30, 1953 to 79,568 shares, and was further reduced during December to 78,528 shares. This stock was issued as part of a plan of re-capitalization which retired the old \$6 preferred stock and eliminated the dividend arrearage thereon of \$54 per share. Under the revised by-laws providing for this issue the company is required to provide, from earnings, a sinking fund for its retirement. A total of 16,204 shares were purchased and retired during the past fiscal year.

Expenditures from the fund up to December 31, 1953 were \$114,400 in excess of the accumulated sinking fund requirements to April 1, 1954, based on all earnings up to and including the fiscal year ended November 30, 1953. Since retirement of this

issue is thus progressing at a rate faster than required, the company is in a favorable position in this respect.

Financial Position

Consolidated net working capital increased during the year by \$404,090, bringing the total at the year end to \$18,222,877. This increase was accomplished despite expenditures for the retirement of second preference stock, and a further payment of \$800,000 on the company's funded debt.

Your attention is again invited to the two tabulated summaries at the end of this report. Constituting a postwar financial history, this material merits study by every stockholder who wishes to follow the company's progress in re-funding of debt, re-capitalization, and investment of earnings. The chart portrays the increase in asset value of each share of common stock after all liabilities have been provided for.

Modernization and Growth in the U. S.

Again during the past year, various steps were taken toward modernization of plant facilities and extension of the company's activities. The more important of these are outlined in the following paragraphs.

Construction of New Dam

A new dam 325-feet long, providing increased flood discharge capacity at Berlin, N. H., was completed during the year at a cost of \$275,000. Designed by company engineers, it is of reinforced concrete construction, providing 170 feet of flood spillway and five heavy flood gates. All gates are motorized, and two may be operated through remote controls at the power house. This dam replaces the major part of an old dam, built in 1887 of rock-filled timber crib construction, which had deteriorated to a precarious condition during flood periods of recent years. The new unit has a flood discharge capacity of 29,000 cubic feet per second, compared with 18,300 before, and also provides improved river control.

Construction of Second Sawmill

As reported last year, the company took steps to realize a greater return on its high quality hardwood by erecting a sawmill to cut furniture-grade lumber from such logs before using the balance for pulp. During 1953 the sawmill was operated by Heywood-Wakefield Company, a large furniture manufacturer, with advantageous results. After experience had been gained it was determined that a second sawmill could profitably be added to meet the full potential of this operation. The second mill is now under construction. In the future the two mills will be operated in relation to each other, sawing those yellow birch and hard maple logs which are satisfactory for lumber but not for high grade veneer. Such portions of logs which can be sold as lumber or as veneer bring a greater return to the company than if they were used for pulp.

The company has under consideration a further plan to erect a veneer plant during 1954, in keeping with its program to gain the greatest possible utilization and profit from the products of its woodlands.

Bermico Fittings Plant

Production of fittings or joint components for use with the impregnated cellulose sewer pipe and conduit produced by our Bermico plant was broadened during the year. We are

now successfully making Y's, T's and one-eighth bends in quantity, and one-quarter bends in smaller volume. Market acceptance of these fittings has been exceptionally good. The fittings are the first to be produced from the same materials used in the pipe and conduit.

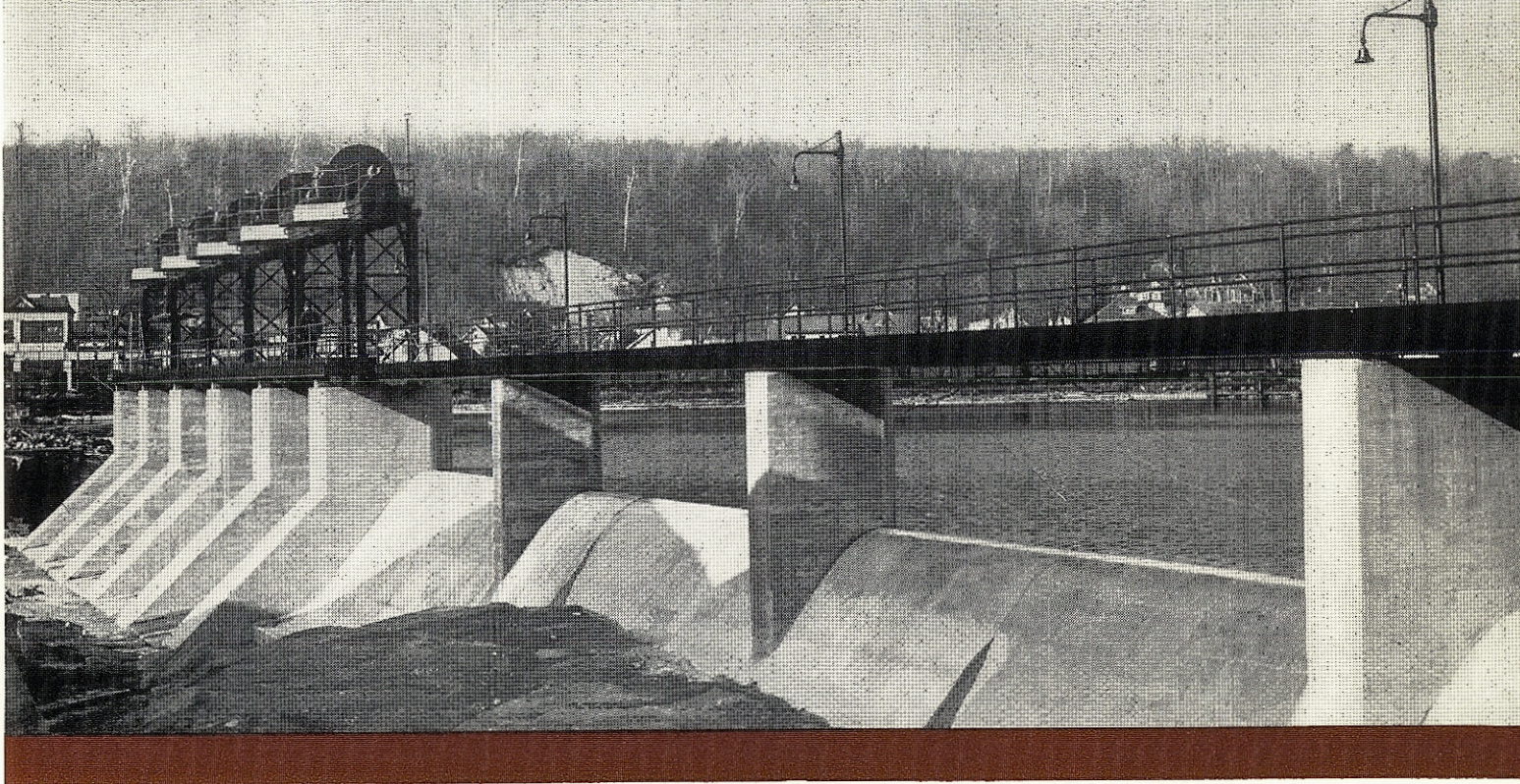
Furfural Recovery

A pilot plant has been operating for several months for study of the recovery of furfural from hardwood sulphite waste liquor. Furfural, a synthetic chemical derived from the natural sugars in hardwood, has a large and growing list of applications as a solvent. It is used in the manufacture of nylon and of a number of tough, synthetic resins, the purification of lubricating oils and various solvent extraction processes. Its current price is \$230 per ton. While our pilot operation has not been fully proved-out as yet, results thus far indicate that the basic process proposal is sound, and that a recovery of 30 tons per day may be anticipated during hardwood operations. Data on operating conditions and product quality are being obtained, leading to an estimate of capital investment required for full production. Apart from the profit which may be realized, recovery of furfural would bring a significant drop in stream pollution from this source.



A portion of Brown Company's concentration of plants at Berlin, N. H. Individual units are: 1 — Kraft pulp mill; 2 — Burgess sulphite pulp mill group; 3 — Penstocks carrying water to Riverside power house; 4 — Woods and Personnel departments; 5 — Administration building; 6 — Portion of Bermico tube mill; 7 — Riverside paper mill;

8 — Boiler plant; 9 — Barking plant; 10 — Softwood log pile; 11 — Hardwood log pile; 12 — Water filtration plant; 13 — Pulp driers building; 14 — Pulp bleachery; 15 — Pulp storage buildings; 16 — Sawmill. Off photo to right, not shown: Onco plant, Solka Floc plants, Chemical mill, and Research laboratories. Off photo to left: Cascade paper mill.



This new dam, 325 feet long, provides almost 60 per cent more flood discharge capacity than the old dam which it replaces. Two of the five 14-ton motorized flood gates are remote-controlled from the power house.

Stand-by Power Installation

An important improvement made during the year was the installation of three 1100 kva diesel electric generating units producing approximately 4000 horsepower. These will be used as a stand-by source of electric power at times when diminished river flow might otherwise force curtailment of mill operations. The installation also permits us to shut down our steam power generating equipment for needed repairs, using the diesels to maintain operations. These units have already proved their worth in tiding us over on occasions when available power from other sources was insufficient.

Addition to Woodlands

Negotiations for the acquisition of 12,245 acres of woodlands from the estate of Albert M. Bean of Errol, N. H. were concluded after the close of the fiscal year. The purchase of these lands is in keeping with the company's plans to acquire timberlands as they become available within the general area of present operations. This purchase brings the total acreage acquired during the past three years to 79,064.

Mechanization of Woods Operations

Both the company and the corporation developed further the mechanization of their woods operations during the year, in a continuing drive to reduce the cost of pulpwood production. Various new types of equipment, some of them developed by company engineers, were introduced in the woods operations in both countries. By and large, the cost of production of pulpwood was substantially reduced. In the United States, the utilization of the high quality component of hardwood logs for lumber also serves to reduce the cost of the pulpwood component to the company.

Modernization and Growth in Canada

Facilities for the production of chlorine dioxide as a bleaching agent are being installed at our kraft mill at La Tuque. When completed in April, this equipment will enable

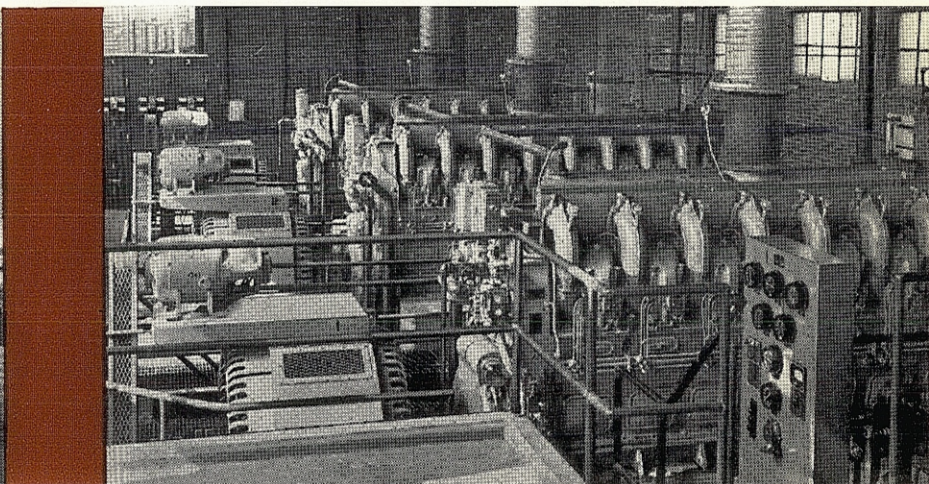
Brown Corporation to produce kraft of a higher brightness and better quality than is possible with the bleaching process currently in use.

Sixth Unit at St. Maurice

St. Maurice Power Corporation, under the joint ownership of Brown Corporation and Shawinigan Power and Water Company, completed a successful year of operation in 1953. Substantial sums were expended in amortization of debt, and construction was begun on a sixth power unit which will bring the installed capacity now at 222,500 horsepower up to 270,000 horsepower. The additional capacity, utilizing spilled water now wasted, will be operated for the benefit of Shawinigan which has contracted to purchase the output of the unit on terms which will wholly amortize the unit by the end of the present power contract in 1970. At that time the two companies will own the entire property subject to a debt of not over \$7,000,000. The value to Brown Corporation of its half-ownership of this important installation is increasing substantially from year



Operation of the sawmill by Heywood-Wakefield has proved so successful that a second mill (lighter portion at left) is being built to utilize more high-value lumber from hardwood logs before using the balance for pulp.



Another new installation is this battery of diesel powered generators, serving as a stand-by source of electric power for mill operations at times when river water power may be inadequate. Each of the three units provides 1,100 kva capacity.

to year. It is now carried on the books for \$1.00. In the meantime both owners enjoy low cost power and substantial dividends from the power company.

Towel and Tissue Developments

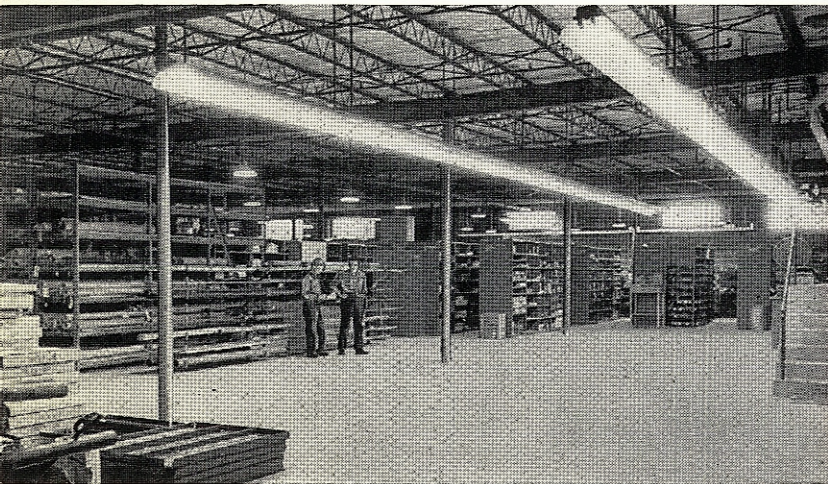
One of the company's long-term objectives is to market a diversified line of consumer products. Brown Company is already a foremost producer of industrial and institutional paper towels, of which over 40,000 tons were sold in the United States and Canada in 1953. During the past year the company developed two lines of high quality toilet paper and introduced them to the institutional field through our existing towel marketing organization. As a natural extension of these activities, we are planning to introduce roll towels and toilet tissue for household use. Preliminary market studies, in our opinion, justify the introduction of these products to the consumer market. It is ex-

pected that an advertising and sales promotion program will be undertaken to launch these items. A laminated machine wipe has also been developed and will soon be introduced for industrial use.

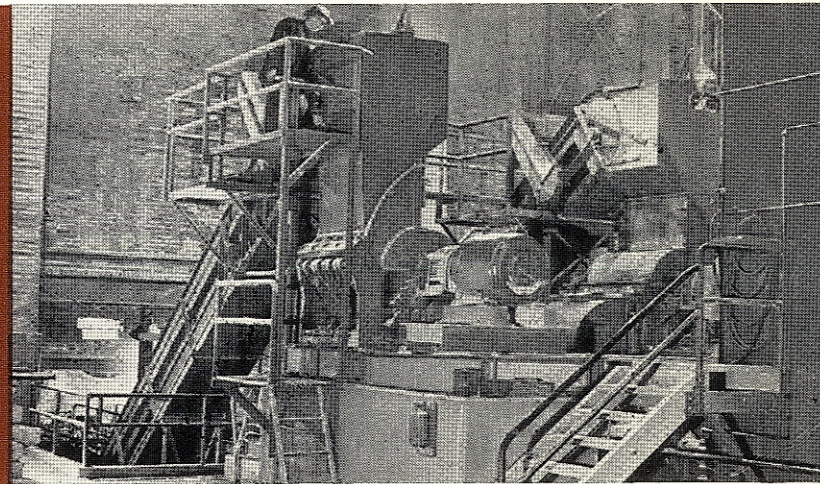
Board of Directors

The directors, officers and employees of the company were shocked by the sudden death on October 12, 1953, of Mr. Edward E. Johnson of Toronto, who had served as a director since April 12, 1952. Mr. E. H. Maling, retired vice president in charge of finance, was elected to fill the vacancy. The following resolution was unanimously adopted by the directors:

“We, the Directors of Brown Company, herewith record our deep regret at the passing of our associate, Mr. Edward E. Johnson; that we further record on behalf of ourselves, the stockholders and the employees of the Company a deep feeling of gratitude for the contribution made by him to the welfare of the Company with particular



Built last year, this new storehouse for the Burgess mill marks another step in the company's program of replacing old facilities with efficient new units. Greater economy in storing and handling supplies will result.



Always wasted before, bark is now being used for steam generation at La Tuque. Bark is first hogged and pressed, then fed to a special firebox. The bark accumulations of years are being profitably reclaimed. Similar equipment will eventually be installed at Berlin.

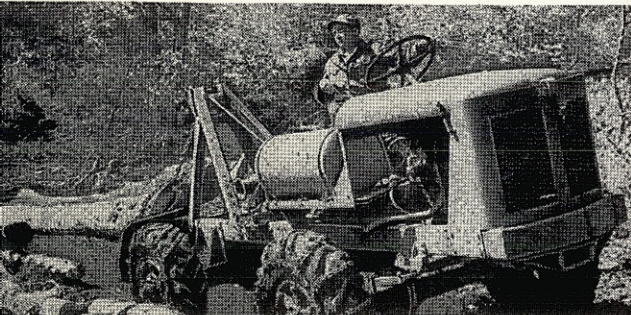
reference to the greater and more profitable utilization of the Company's wood resources, a subject which was close to his heart and to which he brought a wealth of experience and sound judgment; that this resolution be spread upon the minutes of the Board and that with expression of deep sympathy a copy of this resolution be transmitted to Mrs. Johnson.”

Future Prospects

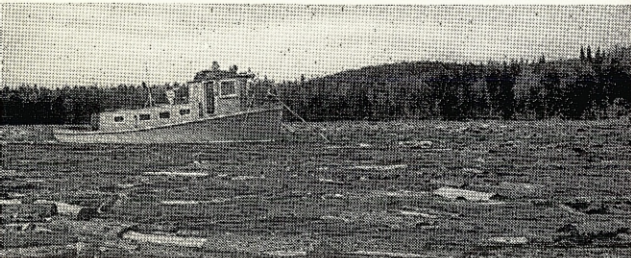
It is felt that prospects for the fiscal year ending November 30, 1954, appear reasonably good, although many of the conditions which will govern the results are not fully determinable at this time. The progress in plant improvements, together with vigorous efforts to reduce costs, particularly of pulpwood, are resulting in a gradual improvement in the company's competitive position. The book value of the common stock



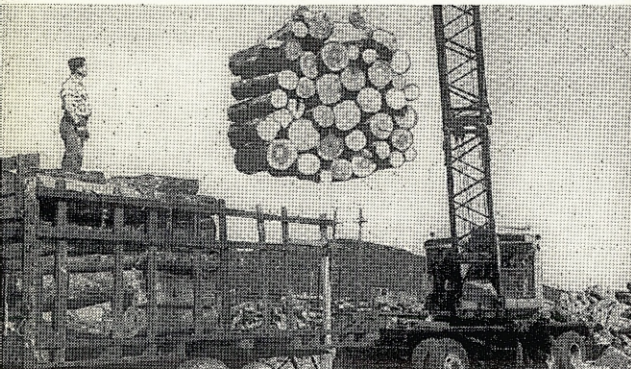
Company engineers designed this new grapple which handles logs in multiple without need for time-wasting bundling with cables. It can be rotated from the crane for alignment in picking up logs.



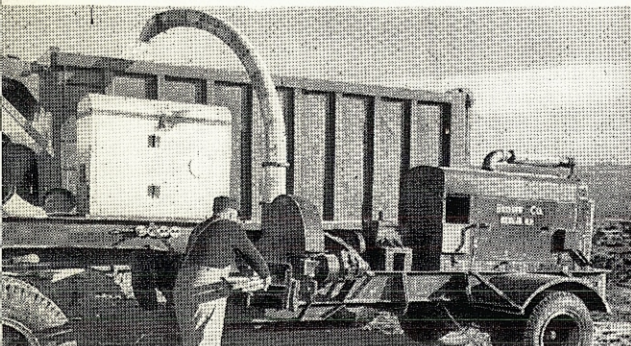
Brown is testing this new rubber-tired tractor for skidding logs from stump to road. More agile than crawler type tractors, it can skid logs over greater distances with less need for costly road construction.



This new all-steel diesel towboat recently went into service on Aziscoos Lake, where it tows "booms" of logs to the dam, where they are sluiced over into the river for their journey to the mills.



Crane replacements will be of this wheeled type, more mobile and faster moving than the crawler type. Their speed permits travel on regular roads with a minimum of lost time between jobs.



A Brown adaptation of a Carthage chipper, this new, portable unit is designed to be driven to sawmills where hardwood slabs and edgings, formerly wasted, are chipped for pulp making.

The new L & M Filter cigarettes are the result of an extensive three-year investigation of possible filter media by Liggett & Myers Tobacco Co. and their consultants. Seeking a strictly non-mineral material, they developed a highly effective filter tip using the miracle product, Solka Floc, Brown Company's purified alpha cellulose, after determining that it is "the purest and best material now available for filtering cigarette smoke." This special-purpose Floc is another product developed in our research laboratories.



equity increased during the year from \$12.32 to \$13.39. Certain of the company's assets are still carried at book values substantially less than their actual value.

The Board of Directors is well aware of the desirability of placing the common stock on a dividend-paying basis and is giving serious consideration to the problem. The second preference stock was issued in lieu of dividends which had been earned but not paid on the old \$6 preferred stock. The by-laws require that a third of the earnings after preferred dividends and payments on funded debt must be used for the retirement of the preference stocks. In addition to the earnings sinking fund, the company must also use a further amount for second preference stock retirement equal to the amount of any dividends paid on the common stock. The second preference stock, issued in September, 1951, has at the date of this report been reduced by over 45%.

While market conditions in the industry have been somewhat spotty, the company has increased its production substantially as indicated by the sale of 324,363 tons of pulp and paper products compared to 297,336 tons in the previous year. We know of no reason that the progress of the company, as measured by production and sales, should not approach or even exceed the high rate obtained in 1953. The profits derived therefrom will be dependent on plant efficiency, cost of raw materials and prices for finished goods.

Employees

The directors and officers take this occasion to thank the employees of the company for their continued support. Labor negotiations throughout the year in both parent and subsidiary companies have been vigorous but amicable and, in the main, the company has had the advantage of full and willing cooperation by all concerned.

February 26, 1954

Sincerely,

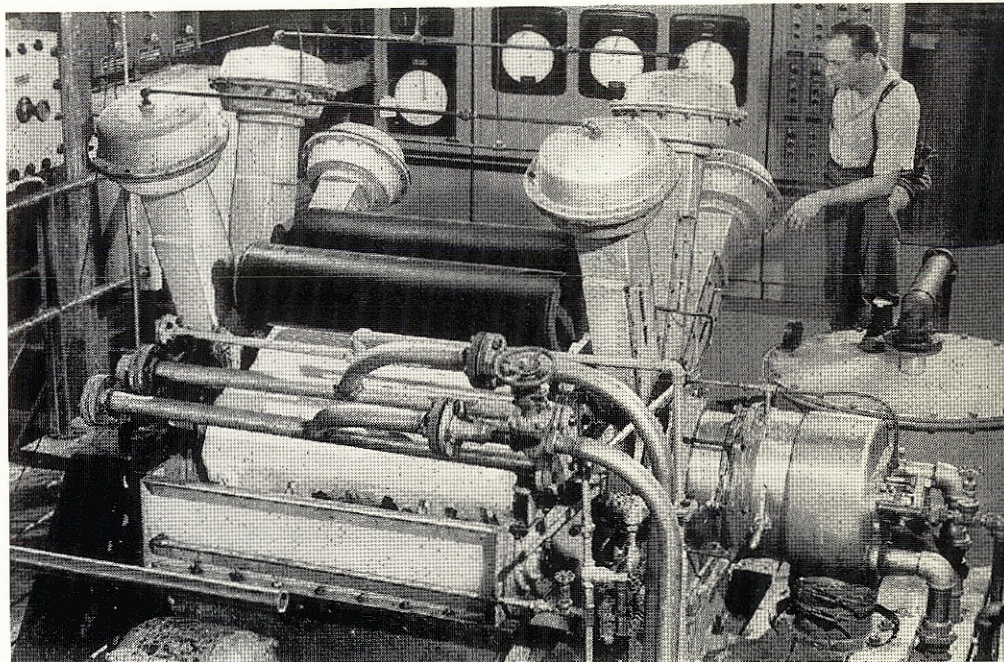
L. F. Whittemore
President

End products for household use

Much of the production of Brown Company plants is sold for conversion into finished products by other manufacturers. Slightly less than half of our pulp output is converted by the company into finished paper and towel products. For the most part, however, even these are not end products in the sense that they reach the individual consumer under a Brown Company label and trademark.

It has been our intention, once our program of plant improvement and modernization had been carried well along, to begin branching out into the household products field. As a step in this direction, the company plans to introduce roll paper towels and two types of high quality toilet papers, both for the domestic market. Engineering of their production will be perfected shortly, leading to the introduction of these items to the general market some time during the current year.

Preliminary studies of the potential of this market have been made, as well as pilot studies of consumer response to experimental types of product. Indications are that an opportunity exists for the company to compete in this field. It should be noted, however, that while the manufacture and distribution of end products ultimately brings a higher profit than the manufacture of products for conversion, some time will be needed to develop consumer acceptance to the point where sales volume will make a substantial contribution to earnings. A consumer advertising and promotional campaign is being contemplated to help bring this about.



Our forthcoming household towels and tissues were developed through this pilot pulping and bleaching plant. One of very few in the U. S., it permits unlimited experimentation with the production of different pulps. It complements a pilot paper-making plant, on which almost any type of paper can be made experimentally. The two units are basic to all pulp and paper research.



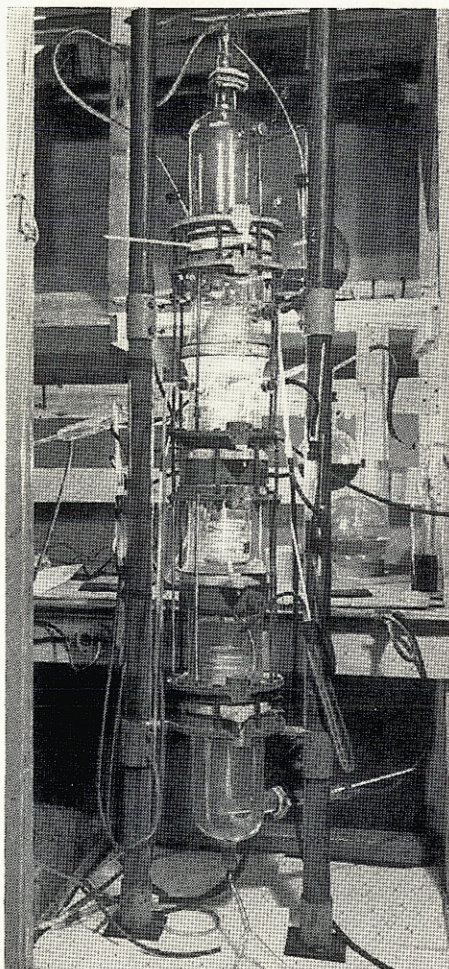
Consumer use-testing of the new household roll towels is an essential step in the development of a new product before it is introduced to the market.

Trademark names and package designs have been adopted. Nibroc for roll towels, Softan for natural color toilet tissue, Sofwhite for white toilet tissue.

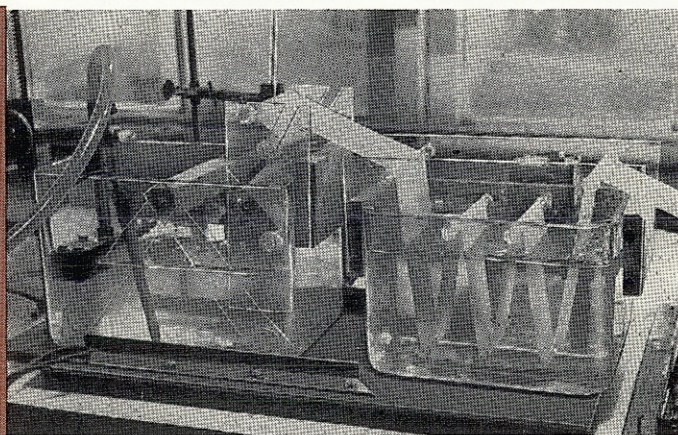
Research and development

BROWN Company and Corporation are in an industry in which research can be endlessly productive and profitable. Our basic raw material, wood cellulose, inherently lends itself to a vast number of forms and applications. While thousands have been developed, many more thousands remain to be explored.

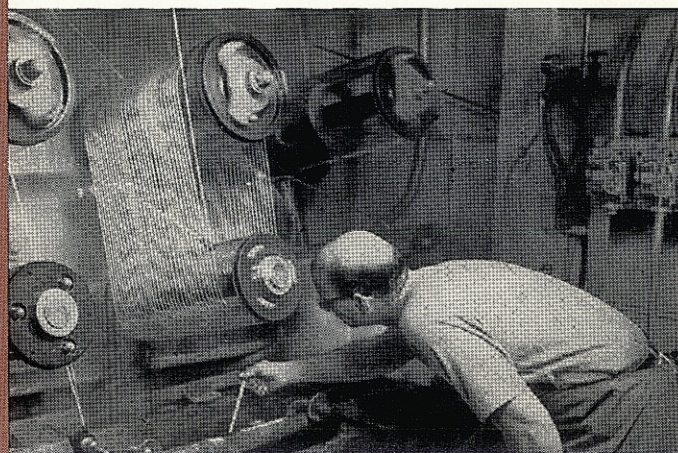
We believe that our research and development departments are in the forefront of the field. Most of our present products originated in our laboratories, and some of them are exclusive with the company. More than 100 persons are currently engaged in exploring new avenues of opportunity. The more important of their present projects are briefly described on these pages.



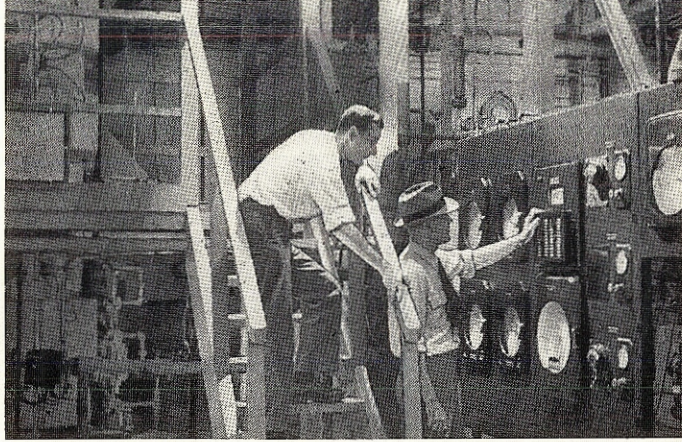
An entirely new method for producing chlorine dioxide, used for bleaching pulp, has been developed by the research department, and patented. Offering the cheapest way of producing chlorine dioxide yet developed, the process will be offered under license arrangements to other users. This bleach is superior to others in that it does not attack pulp fibers.



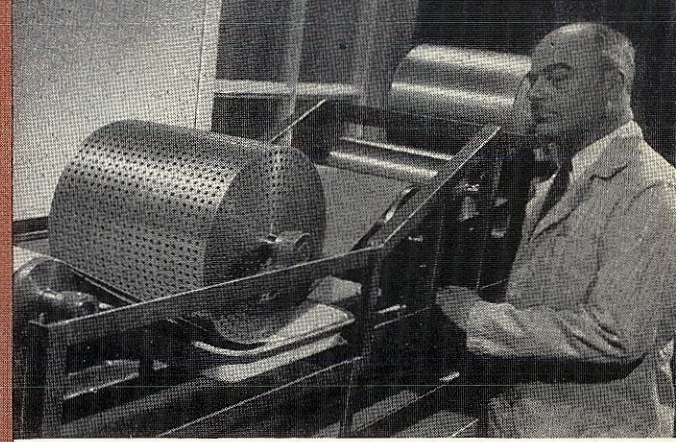
Good progress has been made toward developing the ideal dissolving-pulp for the continuous process of making cellophane, which in some instances is replacing the batch-process of cellophane manufacture. This pulp research has already brought results that point to the development of dissolving-pulps for uses other than cellophane.



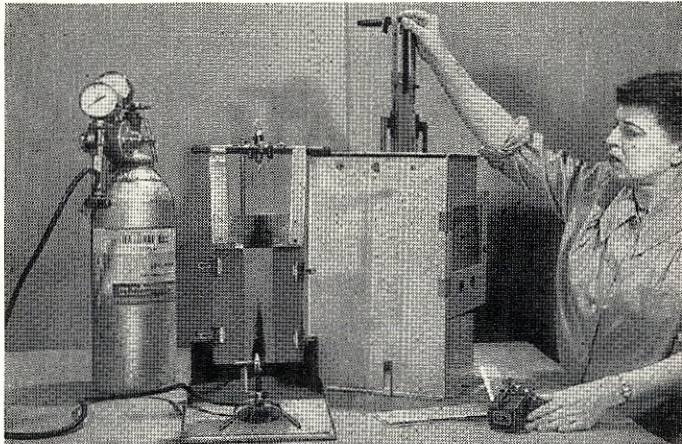
This continuous-spinning pilot plant for production of high tenacity rayon for tire cord has been installed to assist in the development of a hardwood pulp tailored specifically for this use. Experimental pulps have been produced which result in rayon yarn of greatly improved fatigue resistance.



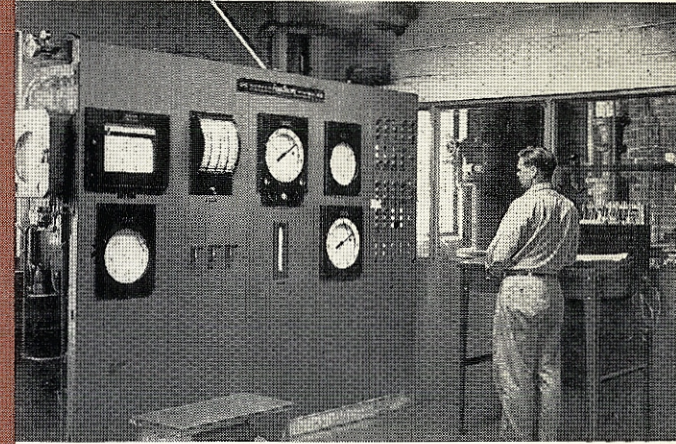
A project of major importance is the pilot plant development of a process for the recovery of furfural, a by-product of waste hardwood sulphite liquors. Potentially of great value to the company, this study is being pursued vigorously. Furfural is in rising demand as a preferential solvent, but theoretically as many different products can be made from it as from coal tar.



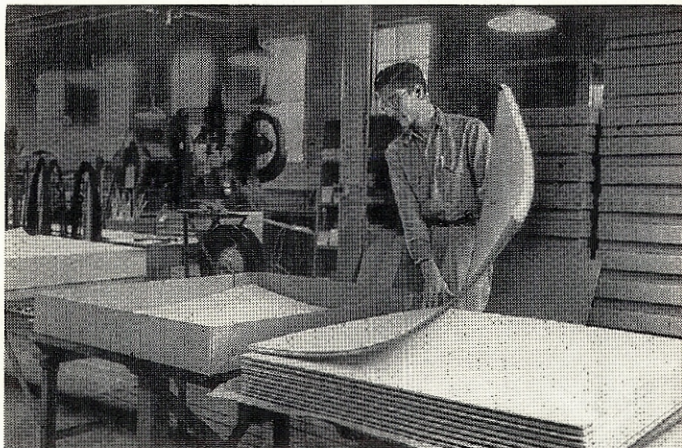
A completely different method of making Onco, a Brown Company product, has been developed on a laboratory basis. Eliminating the need for laminating and providing better scuff resistance, the process will be tested on the experimental equipment shown above. If it produces better material at lower cost as now indicated, the process will be adopted in Onco manufacture.



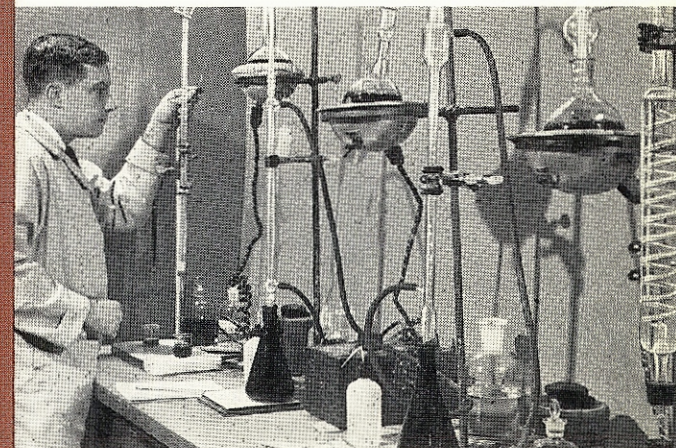
Our laboratories have perfected an olive drab paper blanket for emergency use by the U. S. Army. Now in production for stockpiling, the creped paper combines qualities of fire resistance, water resistance and strength to a higher degree than ever before. Other uses can be developed for this remarkable paper.



A research technician is shown during a test to determine whether the addition of small quantities of sulphur would bring a proportionately greater output of SO_2 gas in normal operation of the Pyrrotite plant. This experiment proved successful. SO_2 gas is used in sulphite pulp production.



Research work on cellulose gasket material is under way. Important progress was made last year when samples of tough gasketing received initial approval for use in automatic transmissions by a major automotive manufacturer in Detroit. Acceptance for this application will lead to the opening of other markets.



Restricted work on munitions is under way in our laboratories at the invitation of the U. S. Army Ordnance Department. The company is proud to have contributed the development of an important new process on which patents were granted. For security reasons these patents have not been published.

BROWN

and its subsidiary,

Consolidated Statement of Income

	<i>Year ended November 30</i>	
	<u>1953</u>	<u>1952</u>
Net sales	\$67,197,203	\$65,638,483
Materials, services and other manufacturing costs, selling, general, administrative and research expenses, and other charges against operations (including depreciation and depletion of \$3,134,016 in 1953 and \$2,818,558 in 1952 and retirement plan contributions of \$456,157 in 1953 and \$919,657 in 1952 (Note H))	60,833,947	57,245,230
Net operating income	<u>\$ 6,363,256</u>	<u>\$ 8,393,253</u>
Other charges (credits):		
Interest on funded debt	\$ 492,658	\$ 512,658
Interest and dividend income, including \$76,000 in 1953 and \$89,000 in 1952 of dividends from St. Maurice Power Corporation (Note D)	(86,922)	(134,713)
Retirement allowances to former employees	185,177	186,581
Canadian tax withholdings on intercompany interest and dividends	131,561	144,097
Other charges (credits), net	(19,914)	7,663
Net income before income taxes	<u>\$ 702,560</u>	<u>\$ 716,286</u>
Net income before income taxes	\$ 5,660,696	\$ 7,676,967
Provision for United States and Canadian taxes on income (in 1953, no provision required for excess profits tax; in 1952, less \$370,000 reduction in 1951 excess profits tax attributable to credit carry-back) (Note E)	2,610,000	3,280,000
Net income for the year	<u>\$ 3,050,696</u>	<u>\$ 4,396,967</u>
Adjustment for unrealized exchange gain on conversion of assets and liabilities of Brown Corporation (Note A)		729,236
Net income for the year and exchange adjustment	<u>\$ 3,050,696</u>	<u>\$ 5,126,203</u>

(See accompanying notes to financial statements)

COMPANY

Brown Corporation

Consolidated Statement of Capital Surplus and Earned Surplus

YEAR ENDED NOVEMBER 30, 1953

	<i>Earned surplus</i>		
	<i>Capital surplus</i>	<i>Reserved for retirement of preference stocks</i>	<i>Unreserved</i>
Balance, November 30, 1952	\$2,774,862	\$7,079,048	\$19,790,798
Additions (deductions):			
Net income for the year, per accompanying statement			3,050,696
Dividends declared:			
First preference stock			(717,280)
Second preference stock			(264,398)
Excess of call and liquidating value over cost of 16,204 shares of second preference stock purchased and deposited with sinking fund agent for retirement	51,094		
Reserved portion of earned surplus applicable to 16,204 shares of second preference stock purchased for retirement		(226,856)	
Balance, November 30, 1953	<u>\$2,825,956</u>	<u>\$6,852,192</u>	<u>\$21,859,816</u>

(See accompanying notes to financial statements)

BROWN
and its subsidiary,
CONSOLIDATED
NOVEMBER 30,

	<i>November 30</i>	
Assets	<i>1953</i>	<i>1952</i>
CURRENT ASSETS:		
Cash	\$ 2,436,907	\$ 2,370,296
Accounts receivable, trade, less allowance for bad debts	5,059,347	5,445,604
Accounts receivable, other	235,393	376,021
Inventories (Note C):		
Pulp and other products	\$ 3,565,152	\$ 3,247,479
Pulpwood	6,422,977	7,345,419
Pulpwood operations in progress	5,334,065	4,774,417
Other materials and supplies	4,185,013	3,934,254
	<u>\$19,507,207</u>	<u>\$19,301,569</u>
Total current assets	<u>\$27,238,854</u>	<u>\$27,493,490</u>
 INVESTMENTS AND OTHER ASSETS:		
Investments in affiliated and associated companies (Note D)	\$ 256,369	\$ 259,571
Cash required for second preference stock sinking fund payment due April 1, 1953		336,639
Other assets	99,631	88,939
	<u>\$ 356,000</u>	<u>\$ 685,149</u>
Total investments and other assets		
 FIXED ASSETS (NOTE E):		
Plants and equipment	\$73,617,246	\$71,160,913
Less — Depreciation	40,444,472	38,281,807
	<u>\$33,172,774</u>	<u>\$32,879,106</u>
Timberlands	\$12,563,826	\$12,556,494
Less — Depletion	7,268,461	7,118,851
	<u>\$ 5,295,365</u>	<u>\$ 5,437,643</u>
Total fixed assets	<u>\$38,468,139</u>	<u>\$38,316,749</u>
 DEFERRED CHARGES:		
Prepaid insurance and taxes	\$ 815,953	\$ 668,394
Other deferred charges	257,892	186,686
	<u>\$ 1,073,845</u>	<u>\$ 855,080</u>
Total deferred charges	<u>\$67,136,838</u>	<u>\$67,350,468</u>

(See accompanying notes to financial statements)

COMPANY

Brown Corporation

BALANCE SHEET

1953 AND 1952

	<i>November 30</i>	
	<u>1953</u>	<u>1952</u>
Liabilities and Capital		
<i>CURRENT LIABILITIES:</i>		
Notes payable to banks	\$ 1,200,000	\$ 2,250,000
Accounts payable	3,202,116	2,848,790
Accrued payrolls, interest and other expenses	1,426,719	1,161,977
Funded debt payable within one year	800,000	800,000
Dividends payable	242,146	251,149
United States and Canadian taxes on income (Note E)	2,144,996	2,362,787
Total current liabilities	<u>\$ 9,015,977</u>	<u>\$ 9,674,703</u>
<i>FUNDED DEBT OF BROWN COMPANY (NOTE B):</i>		
Collateral trust bonds, 3½%, payable serially October 1, 1955 to 1970	<u>\$12,800,000</u>	<u>\$13,600,000</u>
<i>CAPITAL STOCK OF BROWN COMPANY AND SURPLUS:</i>		
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	\$ 8,607,360
Second preference stock, \$3 cumulative, without par value (Note F):		
Authorized to be issued and issued — 89,048 shares at November 30, 1953, 106,107 shares at November 30, 1952		
Outstanding (after deducting from the issued shares, shares purchased and deposited with sinking fund agent for retirement) — 79,568 shares at November 30, 1953, 95,772 shares at November 30, 1952, at stated value of \$40 per share (call and liquidating value, \$54 per share)	3,182,720	3,830,880
Common stock, par value \$1:		
Authorized to be issued — 2,997,009 shares		
Issued and outstanding — 1,992,817 shares (1,004,192 unissued shares reserved for conversion of first preference stock in the ratio of 7 for 1)	1,992,817	1,992,817
Capital surplus, per accompanying statement	2,825,956	2,774,862
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)	6,852,192	7,079,048
Unreserved	21,859,816	19,790,798
Total capital stock and surplus	<u>\$45,320,861</u>	<u>\$44,075,765</u>
	<u>\$67,136,838</u>	<u>\$67,350,468</u>

(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 Canadian assets and liabilities of Brown Corporation, other than fixed assets, have been converted to United States currency at the quoted rates of exchange prevailing at the respective balance sheet dates. 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 income accounts have been converted at average rates prevailing during the respective years except that in the case of depreciation and depletion averages of rates used for fixed assets have been applied. The conversion of Canadian assets and liabilities resulted in an unrealized exchange gain for 1953 of less than \$1,000 which has been credited to income.

The consolidated balance sheet as at November 30, 1953 includes the following amounts of Canadian assets and liabilities of Brown Corporation, expressed in United States dollars — current assets \$10,676,313, other assets \$11,075,081 and current liabilities \$2,533,703.

Note B — Pledge of Certain Assets:

The entire capital stock and the \$5,000,000 issue of first mortgage bonds of Brown Corporation, owned by Brown Company and eliminated in consolidation, are pledged to secure Brown Company's funded debt. Brown Corporation's mortgage bonds are 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 \$2,722,154 as at November 30, 1953, are stated at cost determined by the "last-in, first-out" method of valuation. 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 owns a power plant of 222,500 horsepower installation and 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 earnings of St. Maurice Power Corporation for the past three years has averaged approximately \$60,000 per year. These and other factors indicate that the investment is of substantial 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 purchase acquisitions 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.

On plant and equipment properties authorized under Certificates of Necessity, Brown Company is providing for depreciation on the books at normal rates based on estimated useful lives of such facilities rather than on the basis of the shorter amortization period of five years which is permitted, and is being used, for federal income tax purposes. To obtain a fair allocation of income tax charges to the income accounts for the years during which these properties are expected to be useful, the company is providing for federal income taxes on the basis of deducting only the amount of depreciation charges recorded on the books. Federal tax provisions computed on this basis and reflected in the accompanying statements are approximately \$208,000 more for 1953 and \$77,000 more for 1952 than the amounts of taxes accruing for these years based on the five-year amortization allowable. Such additional provisions, aggregating \$298,000 at November 30, 1953, will be used to absorb a portion of the taxes for years after the conclusion of the five-year amortization period, when further tax deductions for exhaustion of the properties in question are not available.

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 de-

ducting therefrom required payments on principal of funded debt and dividends accrued on preference stocks for such year, plus an amount equal to dividends, if any, declared on the common stock during such year. At November 30, 1953 the company had met the required April 1, 1954 sinking fund payment of \$423,006, and all previous sinking fund payments, by the purchase of shares of second preference stock and the deposit of such shares with the sinking fund agent.

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 dividend restrictions one of which, so long as the outstanding funded debt is \$10,000,000 or more, prevents the payment of dividends to the extent that "consolidated working capital" would thereby be reduced below \$10,000,000. The other restriction prevents the payment of dividends to the extent that any 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. The second, and currently more restrictive, of these provisions would have prevented the payment of further cash dividends as at November 30, 1953 in excess of approximately \$6,200,000.

Note H — Retirement Plan for Employees:

Brown Company has paid, or provided for, and charged to income \$456,157 in 1953 and \$919,657 in 1952 of contributions to the company's retirement plan fund, such contributions including in each case the cost of current service benefits for one year, plus, in 1953, 2½% and, in 1952, 10% of the past service cost. The currently estimated amount, actuarially determined, required to complete the funding of the past service cost is approximately \$5,300,000.

Note I — Commitments:

At November 30, 1953 the consolidated companies had unexpended balances totaling approximately \$2,400,000 under approved authorizations for plant extension and improvement projects.

Report of independent accountants

PRICE WATERHOUSE & CO.

75 Federal Street
Boston 10
January 25, 1954

To the Board of Directors of Brown Company:

In our opinion, the accompanying consolidated balance sheet and related statements of income and surplus, with the notes thereto, present fairly the consolidated financial position of Brown Company and its subsidiary, Brown Corporation, at November 30, 1953 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.

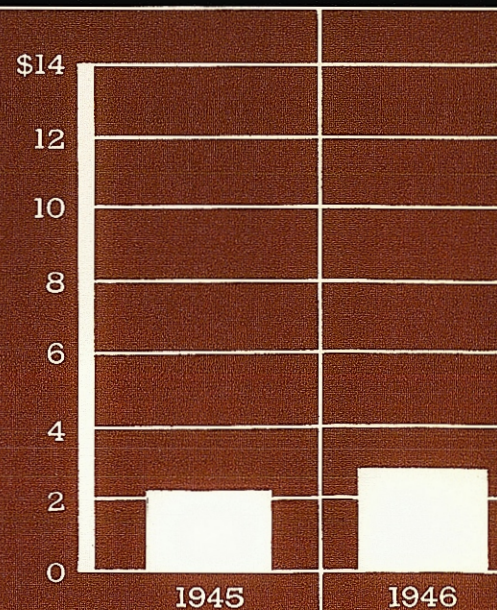
Price Waterhouse & Co.

Condensed statement of consolidated

	1945	1946
Current assets, deferred charges and special deposits for plant improvements	\$19,765,003	\$24,354,241
Current liabilities	3,007,297	3,108,701
Net working capital and special deposits	\$16,757,706	\$21,245,540
Plants and equipment, less depreciation	13,365,028	15,270,514
Timberlands, less depletion	8,384,073	8,189,654
Investments and other assets	949,914	966,873
Total assets, less current liabilities	\$39,456,721	\$45,672,581
Funded debt (except portion in current liabilities)	15,098,573	19,099,300
Net assets	\$24,358,148	\$26,573,281
Stockholders' equity in net assets:		
Convertible preferred stock, \$6	\$19,964,914	\$20,829,820
Convertible first preference stock, \$5		
Second preference stock, \$3		
Total preferred and preference stocks	\$19,964,914	\$20,829,820
Common stock	4,393,234	5,743,461
	\$24,358,148	\$26,573,281
Common stock equity per share	\$2.20	\$2.88

The figures as of November 30, 1945 to 1949, inclusive, have been restated in certain respects, as compared with amounts

Common Stock Equity

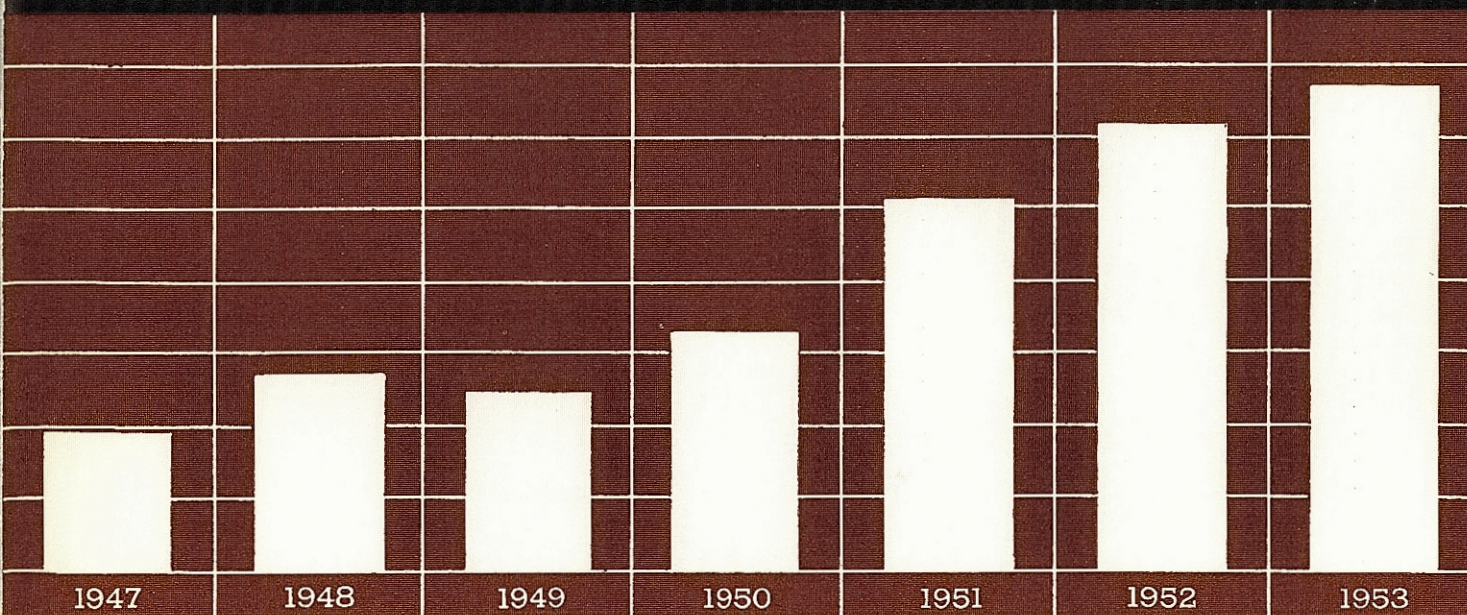


financial position and stockholders' equity

AS OF NOVEMBER 30

1947	1948	1949	1950	1951	1952	1953
\$25,387,885	\$26,412,810	\$22,885,053	\$28,864,287	\$34,773,042	\$28,348,570	\$28,312,699
4,601,845	4,927,121	3,057,431	7,386,776	14,115,495	9,674,703	9,015,977
\$20,786,040	\$21,485,689	\$19,827,622	\$21,477,511	\$20,657,547	\$18,673,867	\$19,296,722
20,590,627	23,095,916	23,597,519	24,057,281	28,588,040	32,879,106	33,172,774
5,587,576	5,498,140	5,422,526	5,284,267	5,293,502	5,437,643	5,295,365
1,153,794	426,439	397,928	419,866	417,556	685,149	356,000
\$48,118,037	\$50,506,175	49,245,595	\$51,238,925	\$54,956,645	\$57,675,765	\$58,120,861
18,799,300	17,300,400	\$16,777,400	15,200,000	14,400,000	13,600,000	12,800,000
\$29,318,737	\$33,205,775	\$32,468,195	\$36,038,925	\$40,556,645	\$44,075,765	\$45,320,861
\$21,694,726	\$22,559,632	\$22,559,632	\$22,559,632	\$14,345,600	\$14,345,600	\$14,345,600
				5,789,178	5,171,688	4,296,672
\$21,694,726	\$22,559,632	\$22,559,632	\$22,559,632	\$20,134,778	\$19,517,288	\$18,642,272
7,624,011	10,646,143	9,908,563	13,479,293	20,421,867	24,558,477	26,678,589
\$29,318,737	\$33,205,775	\$32,468,195	\$36,038,925	\$40,556,645	\$44,075,765	\$45,320,861
\$3.83	\$5.34	\$4.97	\$6.76	\$10.25	\$12.32	\$13.39

previously reported to stockholders, to give effect to the adjustments referred to in the footnote on the following page.



Summary of consolidated income and certain expenditures

YEARS ENDED NOVEMBER 30

	1946	1947	1948	1949	1950	1951	1952	1953
Net sales	\$36,760,490	\$42,630,468	\$48,070,000	\$43,263,495	\$53,102,469	\$72,729,617	\$65,638,483	\$67,197,203
Net income before depreciation and depletion, interest on funded debt and income taxes	\$ 4,864,523	\$ 7,139,766	\$ 8,859,673	\$ 4,826,372	\$10,171,674	\$20,121,977	\$11,008,183	\$ 9,287,370
Charges for:								
Depreciation and depletion	\$ 1,612,844	\$ 1,527,158	\$ 1,907,875	\$ 2,290,716	\$ 2,423,423	\$ 2,574,647	\$ 2,818,558	\$ 3,134,016
Interest on funded debt	772,493	842,152	838,292	807,509	751,311	532,290	512,658	492,658
Provision for United States and Canadian taxes on income	975,000	2,025,000	2,250,000	711,437	2,975,000	9,585,000	3,280,000	2,610,000
Total of above charges	\$ 3,360,337	\$ 4,394,310	\$ 4,996,167	\$ 3,809,662	\$ 6,149,734	\$12,691,937	\$ 6,611,216	\$ 6,236,674
Net income	\$ 1,504,186	\$ 2,745,456	\$ 3,863,506	\$ 1,016,710	\$ 4,021,940	\$ 7,430,040	\$ 4,396,967	\$ 3,050,696
Dividends paid or accrued on preference and preferred stocks	864,906	864,906	864,906	864,906	864,906	1,105,970	1,027,940	981,678
Balance of net income applicable to common stock	\$ 639,280*	\$ 1,880,550	\$ 2,998,600	\$ 151,804*	\$ 3,157,034*	\$ 6,324,070*	\$ 3,369,027*	\$ 2,069,018
Earnings per share of common stock	\$.32*	\$.94	\$ 1.50	\$.08*	\$ 1.58*	\$ 3.17*	\$ 1.69*	\$ 1.04
	\$695,429			(\$889,384)	\$413,696	\$98,627	\$729,236	
	\$.35			(\$.45)	\$.21	\$.05	\$.37	
Expenditures made during the year for:								
Plant improvements and additions to timberlands, less proceeds of disposal	\$3,248,515	\$3,864,243	\$4,188,887	\$2,733,657	\$2,973,319	\$7,052,855	\$7,260,477	\$3,270,579
Reduction in funded debt (increase in 1946)	(3,790,727)	300,000	1,473,000	1,301,400	800,000	800,000	800,000	800,000
Purchase and retirement of second preference and preferred stocks						1,904,977	579,143	823,922

*Exclusive of unrealized exchange gains (loss) on conversion of assets and liabilities of Canadian subsidiary, credited (charged) to surplus:
 Exchange gain (loss)
 Amount per share of common stock

The data for the years 1946 to 1949, inclusive, have been restated in certain respects, as compared with amounts previously reported to stockholders, to give effect in the income account of applicable years to charges and credits made to the earned surplus account or made to the income account in a year subsequent to the applicable year, and to give effect in the applicable years to final determinations of taxes on income and other adjustments necessary to make the data comparable.

Directors

ORTON B. BROWN.....	Berlin, New Hampshire Director, New Hampshire Fire Insurance Co.	ERNEST H. MALING.....	Kennebunkport, Maine Vice Chairman of the Board
JOHN B. CHALLIES.....	Montreal, Quebec Consulting Engineer — Retired Vice President, Shawinigan Water & Power Company	CHARLES P. McTAGUE, Q. C.....	Toronto, Ontario President, Eastern Canadian Greyhound Lines, Ltd.
ARTHUR D. EMORY.....	Montreal, Quebec President, United Corporations, Ltd.	JOHN L. SULLIVAN.....	Washington, D. C. Lawyer — Sullivan, Bernard, Shea & Kenney
G. BLAIR GORDON.....	Montreal, Quebec President, Dominion Textile Company, Ltd.	GENE TUNNEY.....	New York City Chairman of the Board, Denman Tire and Rubber Company
ERNEST M. HOPKINS.....	Hanover, New Hampshire Chairman, National Life Insurance Company	ARTHUR G. WALWYN.....	Toronto, Ontario President, Corporate Consultants, Ltd.
WILLIAM B. JOYCE.....	New York City President, Wm. B. Joyce & Company, Inc.	LAURENCE F. WHITTEMORE.....	Pembroke, New Hampshire Chairman of the Board

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HOWARD G. BRUSH.....	Vice President and Treasurer	GORDON BROWN.....	Assistant to President, Brown Corporation
DOWNING P. BROWN.....	Vice President—Administration	JOHN A. McNALLY.....	Woods Manager, Brown Corporation
ROBERT W. ANDREWS.....	Vice President and Works Manager, Brown Company	JAMES D. WILLSON.....	Assistant Treasurer
JOHN W. JORDAN.....	Vice President, General Counsel and Secretary	PAUL GOODLOE.....	Assistant Director of Research
NEWTON L. NOURSE.....	Vice President — Sales	MILTON W. HAYES.....	Director of New Products
CLARENCE S. HERR.....	Vice President, Woods Operations, Brown Company	WILLIAM J. OLESON, JR.....	Controller, Brown Company
GEORGE A. DAY.....	Research Director	ALEXANDER B. WALKER.....	Controller, Brown Corporation
WARREN B. BECKLER.....	Vice President, Brown Corporation	LEONARD A. PIERCE.....	Clerk, Brown Company

Registrars and Transfer Agents

Preference Stocks

Principal Transfer Agent.....	Old Colony Trust Company, Boston
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, Boston
Montreal Registrar.....	Montreal Trust Company
New York Registrar.....	The National City Bank of New York
Toronto Registrar.....	Montreal Trust Company

Common Stock

Principal Transfer Agent.....	State Street Trust Company, Boston
Montreal Transfer Agent.....	Guardian Trust Company
New York Transfer Agent.....	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

Executive Offices: Berlin, New Hampshire General Sales Offices: 150 Causeway Street, Boston 14, Mass.

Mills: Berlin, New Hampshire — La Tuque, Quebec

