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BROWN COMPANY



Annual Report 1954

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Brown Company Products

are processed and used in many ways

SOLKA FIBRES, a group of pure wood fibre grades possessing soft, strong but silklike properties, made by Brown for conversion into such articles as cellophane, photo prints, letterheads, boxed stationery, invitations, facial tissues, butter wrappers, etc.

SOLKA-FLOC, a pure, fine cellulose powder; used in the manufacture of cigaret filters, welding rod coating, rubber soles and heels, and molded plastics; also used in filter presses when filtering oils, alumina, caustic soda and many chemicals.

NIBROC PAPERS, a wide variety of engineered papers, both bleached and unbleached, made to customer specifications for conversion into flour bags, gummed tapes, sandpaper, potato bags, carpet yarns, resin-treated table tops, coffee bags, pressure-sensitive tapes, etc.

NIBROC INDUSTRIAL TOWELS AND TISSUES are the world's largest selling industrial towels, and with the tissues they provide highest grade washroom service in offices, factories, stores, schools and hospitals.

NIBROC ROLL TOWELS, AND SOFWITE AND SOFTAN TOILET TISSUES are made for household use, giving homemakers highest quality products of the type which made the name Nibroc famous.

NIBROC KOWTOWLS are large, strong paper towels used on dairy farms for washing cows prior to milking, and for keeping equipment sanitary.

BERMICO SEWER PIPE and connection fittings, made of tough wood fibre impregnated with special coal tar pitch, are used as house connections to sewer or septic tank, for drains and downspouts, and for non-pressure irrigation systems.

BERMICO PERFORATED PIPE and connection fittings are used in septic tank disposal beds, foundation drains, and in land drainage as on golf courses, farms and orchards, marshlands, athletic fields and industrial areas.

BERMICO CONDUIT is also made of pitch-impregnated cellulose fibres, and is designed specifically for encasing electrical wires underground.

ONCO is a tough, durable, leatherlike material made of Solka fibres impregnated with compounds which impart a lasting resilience. It is used in making hat bands and cap fronts, handbags, wallets, belts and imitation leathers, and is a leader in the field of innersoles for shoes.

CHEMICALS include Chlorine for bleaching pulps, paper and textiles, and for water purification by municipalities and schools; Chloroform for use as a solvent by pharmaceutical houses; and Soda Bleach for use by textile plants and laundries.

BROWN COMPANY HIGH GRADE LUMBER, principally yellow birch and hard maple, is now being produced for general use; it is sold through Atlantic Lumber Company of Boston, Mass. Brown Company is also producing spruce dimension lumber and graded white pine lumber in increasing amounts.

The President's Letter . . . to the Stockholders

On December 1st, 1954, after the close of our fiscal year which ended November 30, Brown Company transferred to Canadian International Paper Company the woodlands and physical properties of its Canadian subsidiary, Brown Corporation, except for cash, accounts receivable and miscellaneous items. At the same time the Corporation's half interest in the common stock of St. Maurice Power Corporation was sold to Shawinigan Water and Power Company, the owner of the other half interest. Since December 1st, 1954, arrangements have been completed to dissolve Brown Corporation, the Canadian subsidiary.

Reasons for Sale

The Board of Directors has witnessed the trend in the pulp and paper industry to integrated operations, with the resulting increased dependence of market pulp mills for their sales on small paper converters who do not have pulp-making capacity. While the market for the high grade pulps produced by Brown Corporation at La Tuque had been good in times of relative prosperity, at other times, the large paper converters used their own pulp before purchasing from market pulp mills such as the La Tuque mill. Full integration or expansion of the La Tuque mill into one producing end products would have been indicated if it was felt that the Canadian market was sufficient to make the large capital expenditure involved practicable. While pulp enters the United States market duty free, end products produced from pulp are subject to various import duties of the United States.

The principal reason for the sale of the assets of Brown Corporation was that purchasers were found to whom, in the judgment of the company's officers and directors, the properties were worth more than they were to the company. Brown Corporation's mill and timberlands were contiguous to other large properties of Canadian International Paper Company, and it was believed that these assets could be made more useful to it, in combination with its own properties, than to Brown Corporation operating alone as a non-integrated

market pulp mill. As the 50% stock ownership of St. Maurice Power constituted an important asset to Brown Corporation primarily because St. Maurice Power furnishes electricity for the La Tuque mill, its sale was also indicated.

While Brown Corporation has contributed substantially to the earnings of Brown Company, it should be recognized that the company has been the largest purchaser (about 20% over the last three years) of the corporation's products and has paid the full market price for pulp purchased from the subsidiary, thus contributing substantially to the subsidiary's earnings. The prices paid by the parent company to its Canadian subsidiary were higher than the cost at which it could have produced such pulp in its U. S. plants if it had constructed a sulphate bleachery, which the company now plans to do.

The sale was approved overwhelmingly by the stockholders of Brown Company at a special meeting on November 19, 1954. At this meeting the first preference shares were entitled to two votes and the second preference and common shares were entitled to one vote per share. The final count indicated 1,911,225 votes in favor as against 11,761 votes opposed.

We are happy to report that Canadian International Paper Company, as part of the purchase agreement, took over the retirement allowances heretofore granted on a year-to-year basis to retired employees of Brown Corporation, for the year 1955. They also continued the employment of all officers and employees other than those moving to the parent company. In anticipation of the transfer of the Canadian employees to C.I.P., Brown Corporation set up a pension plan as of November 1, 1954 at a cost of \$500,000. C.I.P. accepted the plan on December 1st. The plan was enthusiastically accepted by Brown Corporation employees, and many expressions of good will and thanks were forthcoming. The policy of Canadian International Paper Company in regard to these matters made the transfer of the officers and employees from our company to theirs much more pleasant than it might otherwise have been.

Highlights of the year

	<i>Years ended November 30</i>	
	1954	1953
Net Sales	\$66,969,748	\$67,197,203
Sales of pulp, paper and towels	\$57,171,689	\$57,866,143
Sales of all other products	\$ 9,798,059	\$ 9,331,060
Net income before income taxes	\$ 5,941,175	\$ 5,660,696
Net income	\$ 3,411,175	\$ 3,050,696
Earnings per common share	\$ 1.24	\$ 1.04
Net working capital at end of year:		
Before sale of Canadian assets	\$17,483,635	\$19,437,524
After sale of Canadian assets	\$33,827,987	—
Expenditures for plant improvement:		
Brown Company	\$ 3,970,334	\$ 2,502,572
Brown Corporation	\$ 1,018,342	\$ 941,798
Book value of stockholders' equity in net assets at year-end:		
Before sale of Canadian assets	\$46,313,987	\$45,320,861
After sale of Canadian assets	\$63,962,414	—
Tons of pulp, paper, and towels sold	323,880	324,363

Proceeds of Sale

The amount received for the properties sold, plus the value of the retained cash, receivables and miscellaneous items, less ordinary current payables, totaled about \$49,500,000 in U. S. dollars. Canadian taxes relating to the sale and transfer of the properties, withholding taxes on the distribution to the parent company, and certain other costs totaled approximately \$3,500,000, leaving a balance of about \$46,000,000 before providing for U. S. taxes and other miscellaneous expenses of sale.

Further details regarding the sale of the assets are given in footnote B to the accompanying financial statements, page 12. This footnote refers primarily to the properties and items actually sold or transferred to the purchasers (that is, the proceeds exclude the value of retained cash and accounts receivable including approximately \$2,400,000 due from the parent company, and other miscellaneous items not sold), and it therefore shows a total consideration for the properties and other items transferred to the purchasers of approximately \$45,759,000. The excess of consideration received from the purchasers over book value of assets sold, after deducting expenses of sale and miscellaneous adjustments, but before providing for U. S. income taxes applying to the capital gain and liquidation, was approximately \$21,178,000, which is equivalent to an increase of more than \$10.00 per share in the book value of the common stock of Brown Company.

In the adjusted consolidated balance sheet as of November 30, 1954, which gives effect to the sale of assets on December 1, 1954, provision has been made for U. S. income taxes pertaining to the liquidation and the gain on the sale of the Canadian properties, in the amount of \$2,930,000. This is the maximum tax computed under a ruling received from the Commissioner of Internal Revenue; however, under this same ruling a minimum tax of \$430,000 has been computed as an alternative. The actual amount will be determined later, as explained in footnote F to the financial statements.

Use of Proceeds

This sale brought the company into position to take certain actions in accordance with its statement of intentions in the proxy statement recommending approval of the proposed sale by the stockholders. We are pleased to report that many of the proposed actions have already been taken: all current bank borrowing has been repaid; the funded debt of Brown Company, amounting to \$12,800,000 at November 30, 1954, has been retired and the 52,191 shares of second preference stock outstanding on November 30, 1954 have been redeemed; substantial work has been done toward solution of the problem which exists in connection with the first preference stock, and it is expected that an announcement will be sent to stockholders in the near future in this connection; contracts have been placed for substantial portions of certain plant facilities at Berlin, New Hampshire, including a new kraft bleachery, new steam generating facilities, and new indirect heating, screening and cleaning equipment for the sulphite pulp mill.

Accordingly, the company's outlook has improved rapidly by reason of this change of circumstances. We have problems relating to the wise application of the funds available to us, which we plan to approach in such a way as to regain the earning power formerly attributable to the Canadian operations. We are confident that this will be accomplished when the plant improvement programs and other projects now in the planning stage are completed. Meanwhile, it is evident that there will be a reduction of earnings, both because of loss of income formerly attributable to Brown Corporation, and because the plant improvement program at Berlin will, to some extent, interfere physically with normal production while certain major portions of the program are in progress.

Earnings, Sales and Costs

Turning to operations, consolidated net profit of Brown Company and Brown Corporation amounted to \$3,411,175 for the year ended November 30, 1954, as compared with \$3,050,696 for the previous year. After deducting dividends declared on the preferred stocks during the year, the earnings per share of common stock amounted to \$1.24 compared with \$1.04 for the previous year.

Consolidated net sales for the year ended November 30, 1954 totaled \$66,969,748, approximately the same as the previous year's figure of \$67,197,203. The parent company's sales were down about 4% from the previous year, practically all of which was offset by improved sales of the Canadian subsidiary.

While the year 1954 opened with considerable uncertainty as to business conditions in general, predictions of a depression were not borne out. Business became more competitive during the year, while the increases in wages, employee benefits and local taxes were not offset by any increase in prices. In the pulp and paper industry, increased productive capacity prevented higher prices and it is evident that the company must redouble its efforts to obtain lower costs through greater efficiency, improved machinery and equipment, and through the use of new methods.

Financial Position

The Company's consolidated balance sheet at November 30, 1954, as adjusted to give effect to the sale of Canadian assets on December 1, shows a very strong working capital condition. Current assets totaled \$63,972,050, of which more than \$32,000,000 was in cash, while an additional \$12,800,000 was represented by cash on deposit with the Bond Trustee. As against this amount, current liabilities (including the entire funded debt of \$12,800,000) totaled \$30,144,063, leaving working capital of \$33,827,987, as compared with \$19,437,524 a year earlier. Before the sale of Canadian assets, working capital at November 30, 1954 amounted to \$17,483,635, a reduction of about \$1,950,000 from the previous year-end. This reduction was due primarily to the fact that the company's expenditures for plant, amounting to \$3,970,000 in the U. S., as well as for calls and purchases of second preference stocks totalling about \$1,487,000, exceeded amounts available from depreciation recovery and retained earnings.



A new softwood sawmill, currently producing pine and spruce lumber at the rate of four million board feet annually, was constructed last year to round out our lumber operations.

Growth in Stockholders' Equity

The post-war financial history of the company is shown in two tabulated summaries at the end of this report. Included with these is a chart which portrays the increase in net book value of each share of common stock. This shows that the common stock equity per share rose from \$2.20 at November 30, 1945 to \$4.97 at November 30, 1949, and to \$14.63 at November 30, 1954 before giving effect to the sale of Canadian assets. After giving effect to the sale, and after providing for all relevant taxes including U. S. income taxes at the maximum amount computed under a ruling from the Commissioner of Internal Revenue, the equity per common share has risen to \$23.45.

First Preference Stock

At the close of business on November 30, 1954, there were outstanding 142,326 shares of convertible \$5 first preference stock which is callable at \$100 per share and convertible into seven shares of common stock. The Board of Directors believe that it is proper to retire this stock as soon as practicable.

A meeting of the common stockholders is being called to obtain authority to offer to holders of the first preference stock who refrain from converting their shares, the opportunity of purchasing a package of a \$100 debenture (non-convertible) and one share of common stock for each \$100 received on redemption. Acceptance of this offer by a large number of holders will minimize dilution of per-share earnings and book values of common stock. If authorized, this offer would be made in early May, 1955. A formal proxy statement describing this plan will shortly be sent to common stockholders.

Plant Modernization in the U. S.

As indicated in previous reports, the company has been following a program of plant modernization and expansion for a number of years. A review of some of the more important steps taken to implement this program during the eight-year period from 1946 to 1953 inclusive is given on pages 6 and 7 of this report. These activities were continued in 1954 with expenditures on U. S. plants and equipment totaling approximately \$3,970,000, as compared

with about \$2,500,000 in the previous year. The more important improvements made in the U. S. during the past year are outlined in the following paragraphs.

New Washers for Sulphite Mill

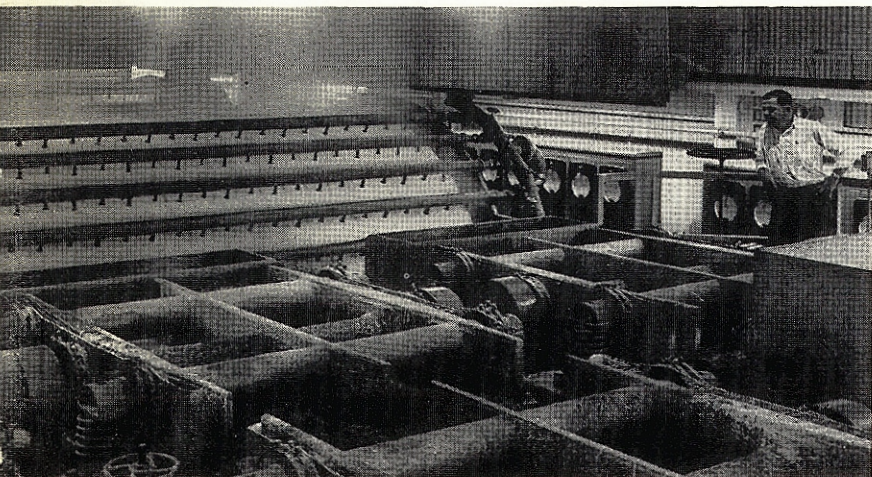
New washers were installed at the sulphite pulp mill to provide more efficient washing of the stock as discharged from the digesters. This installation reduces and controls the flow of waste liquors and reduces the loss of wood fiber to the sewers and the Androscoggin River. It is expected that a substantial reduction in fiber losses, maintenance expenses, and consumption of chemicals will result from this installation.

New Steam Generating Equipment

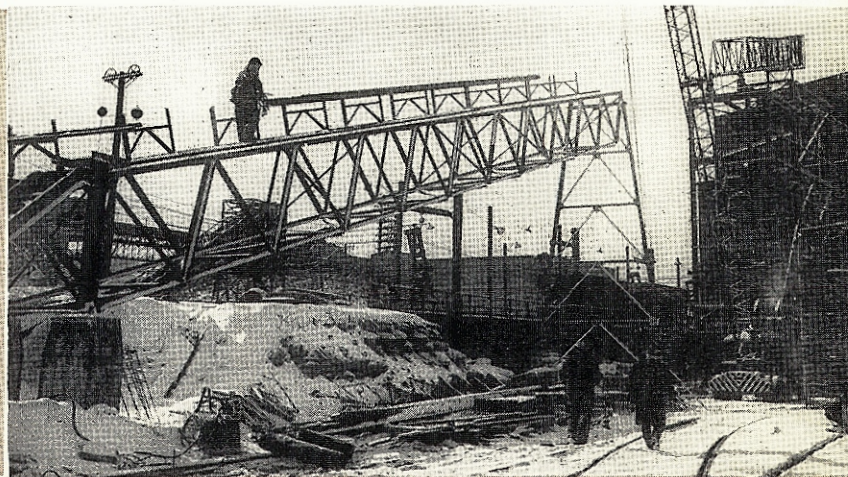
Installation work is now under way on a new steam generating boiler which, when completed, is expected to deliver steam at a cost of \$.50 to \$.55 per thousand pounds as compared to costs of up to \$1.00 per thousand pounds from present old and inefficient equipment. The unit now being installed has a capacity of 220,000 pounds per hour at 900 pounds pressure and, after deducting steam consumed in boiler auxiliaries, can deliver 190,000 pounds per hour. Modern coal and ash handling equipment is being installed in conjunction with this new facility. The 900-pound pressure will permit further important savings if the company later decides to install a new turbine generator unit to reduce power costs.

Expansion of Sawmills

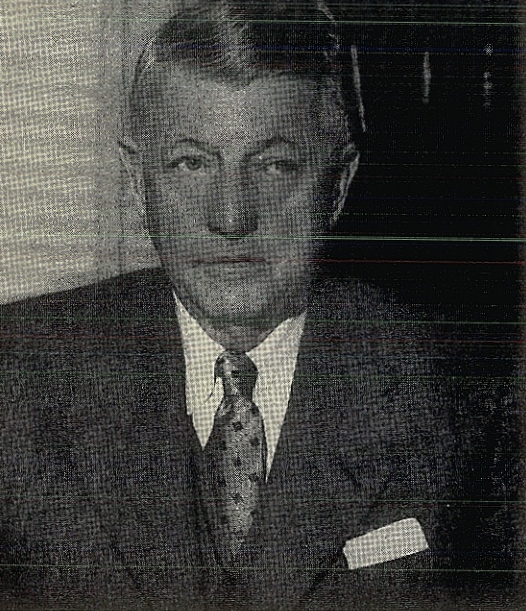
During 1954, in furtherance of the company's program of utilization of forest resources to the best advantage, the company doubled the capacity of its hardwood sawmill, built in 1952, so that it now has a capacity of 8 to 10 million board feet per year. In addition, the company built a sawmill on the Androscoggin River to produce pine and spruce lumber; this latter mill is currently producing at the rate of about 4,000,000 board feet per year. In addition to these mills, the company is using the facilities of three other sawmills on a contract basis, to obtain full utilization of the hard and soft-wood saw logs made available in its woods operation. In all of these mills, the slabs and edgings usually burned as waste are being turned into chips for the pulp mill.



New washers and thickeners were installed in the sulphite mill during the year, providing more efficient washing of raw stock, greater concentration of waste liquors, and reduced maintenance expense.



Under construction are new steam generating facilities with related coal and ash handling equipment, designed to produce 220,000 pounds of steam per hour at far less cost than present inefficient equipment permits.



Downing P. Brown

The company suffered a severe loss by the sudden death on April 1, 1954 of Downing P. Brown, vice president in charge of administration. The following resolution was unanimously adopted by the Directors:

"Son of the founder, Downing Potter Brown maintained with courage and foresight the traditions of greater growth, enlightened conservation and community responsibility inherent in the family of which he was so distinguished a member; through forty-six years of devoted service spent in almost every major phase of the Company's activities, he acquired a comprehension and vision of the business second to none; in the fullness of time the pulp and paper industry,

grown incredibly over the span of his life, accorded to him the place and honors of an international figure; yet all was accomplished with modesty and dignity, there being combined in him the grace of manner and gentleness of character which Newman must have had in mind when he described a gentleman as one who never knowingly inflicted pain on his fellow man.

"With the foregoing, we thus record our deep sorrow at the passing of Downing Potter Brown and it is directed that this Resolution be spread upon the minutes of this Board and that with expression of deep sympathy a copy be transmitted to Mrs. Brown."

Furfural Recovery

Last year's annual report discussed the possibility of the recovery of furfural from the waste liquor of the Burgess sulphite mill. Experimentation at the pilot plant has been pursued vigorously, and it is expected that the engineering work now being done will result in the erection of furfural processing facilities in the near future. The washer installations already completed and the boiler installations nearing completion are facilities which would be necessary in a full-scale program of furfural recovery.

Brown Forest Products, Limited

In view of the dissolution of Brown Corporation, and because we have important customers in Canada for Onco, Bermico and other products, the company has recently established a new Canadian subsidiary, Brown Forest Products, Limited, to handle orders of this type.

Future Prospects

The plants of Brown Company at Berlin and Gorham, N. H., which will undergo further modernization this year, and the new facilities to be added as the result of the availability of money, will not be fully productive during the fiscal year 1955. It appears, therefore, that the company's earnings during that year will be substantially less than normal. Management's planning calls for vigorous sales promotion and efforts toward cost reduction, and as the new facilities come

into use in the latter part of 1955 and early 1956, it is felt that both gross sales and earnings will be materially increased, and that by 1957 there is a possibility that Brown Company's earnings should at least equal those of both the parent company and its subsidiary in 1954.

Employees

The company's executive staff was considerably strengthened during the year with the appointment of A. E. Harold Fair as executive vice-president, and Stuart W. Skowbo as treasurer. Both of these men have had long experience in their respective fields, and the company is fortunate in having secured their services.

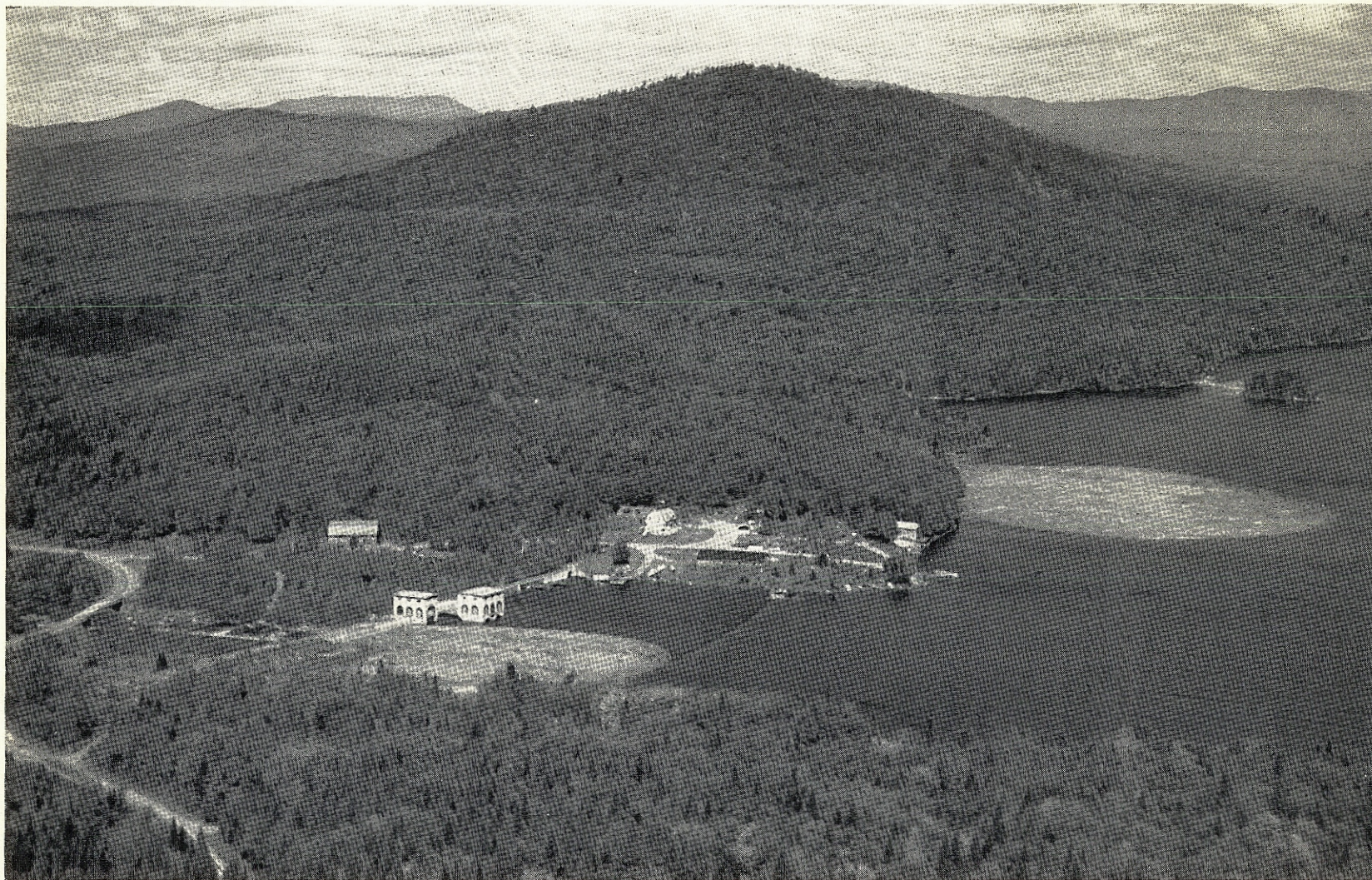
The directors and management wish to acknowledge, with sincere thanks, the cooperation of the employees and officers of the company, its customers and friends, throughout the past year.

February 28, 1955

Sincerely,

L. F. Whittemore
President

Forest resources



This view of a portion of Brown Company woodlands surrounding Aziscoos Lake in Maine shows two great rafts of pulpwood waiting to be sluiced over the dam at the high-water period for their river journey which carries them direct to the Berlin mills.

Brown Company has in its sole ownership in the states of Maine, Vermont, and New Hampshire about 511,149 acres of land which has been under practical forest management since about 1900.

The company is believed to have been the first lumber or paper company in the United States to employ a graduate forester to plan its cutting program. The late Austin Carey set the pattern for woods harvesting and management, which has generally been followed since that time. This fact undoubtedly accounts for the fortunate position in which the company finds itself as regards forest resources.

In addition to the wholly-owned acreage mentioned above, our ownership in 300,000 acres of jointly owned land amounts to 105,273 acres. Through arrangements with

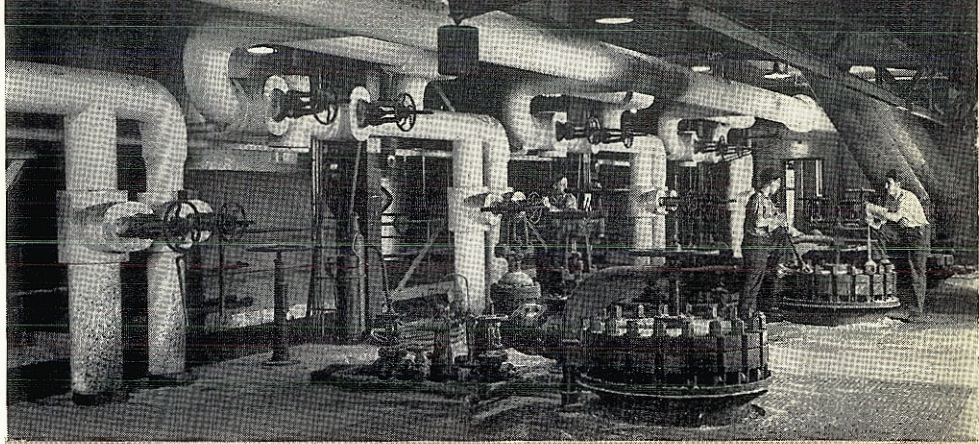
the other owners, Brown Company is the chief harvester on these lands. Thus the growth on about 800,000 acres is available to the Berlin property. In addition, Berlin is the center of a great forest area, not owned by the company, but which looks to Berlin as its market for pulpwood. These resources constitute large amounts of spruce, fir balsam and pine in the soft wood field and almost limitless amounts of beech, birch and maple in the hardwood field, with yellow birch predominating.

The larger part of our owned land is carried on our books at the 1904 value, less the value of the cuttings since that time. The balance sheet valuation of \$3,209,270 is thus greatly exceeded by the actual value, inasmuch as the growth has ordinarily been greater than the annual cut.

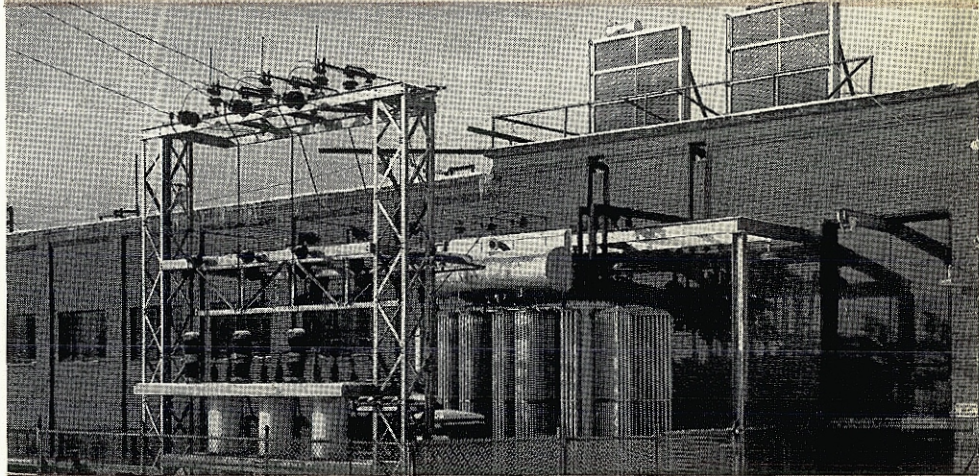
During the last three years it has been found feasible to reinstitute Brown Company as a producer of sawed lumber from its woodlands, as well as a producer of pulp wood. The plan of sawing the high grade timber into lumber and using the waste and the low grade for chips for the pulp mills brings about a more efficient use of our ample forest resources. It is expected that during 1955, approximately 30 million feet of high quality lumber will be produced at Berlin. One effect of this harvest will be to materially reduce the cost of wood for the pulp mills.

The map on the back cover of this report shows that these lands, both those wholly-owned and owned in part, are reasonably accessible to the Berlin operation, which is assured of an adequate and excellent supply of pulpwood in perpetuity.

Building the Brown Company of tomorrow



1946 One of the first major projects in the company's broad program of improvement and integration of plant operations was the construction of a sulphate pulp mill with a daily capacity of over 200 tons of kraft pulp.



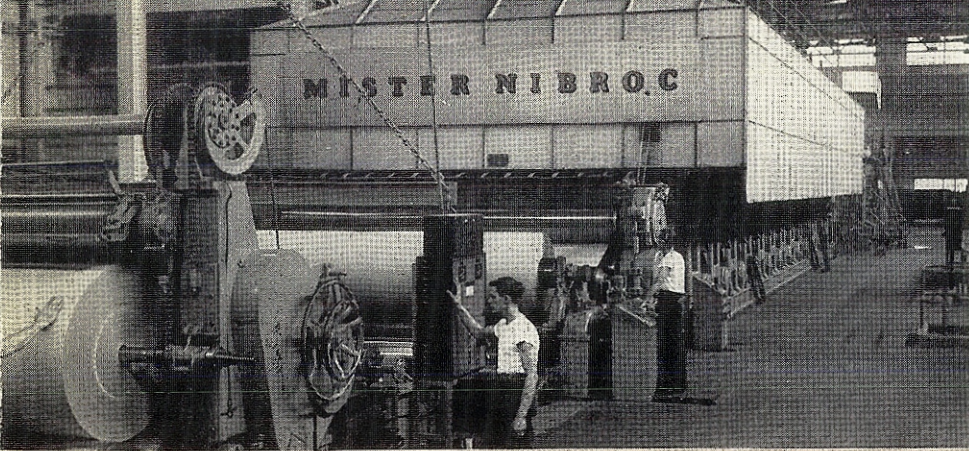
1948 New current transformers for the Chemical Mill, above, improvements on two paper machines, and the rebuilding of turbines and turbogenerators to reduce power costs, were among the top projects of 1948.



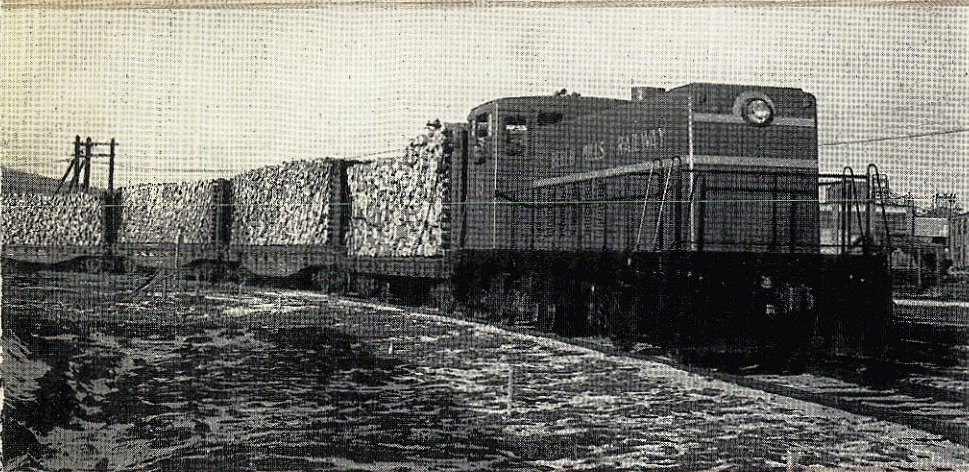
1950 The Riverside Paper Mill was modernized with the installation of a new hydrafiner and pulper with automatic controls. Also, many improvements were made to increase mill efficiency and to reduce pulpwood costs.



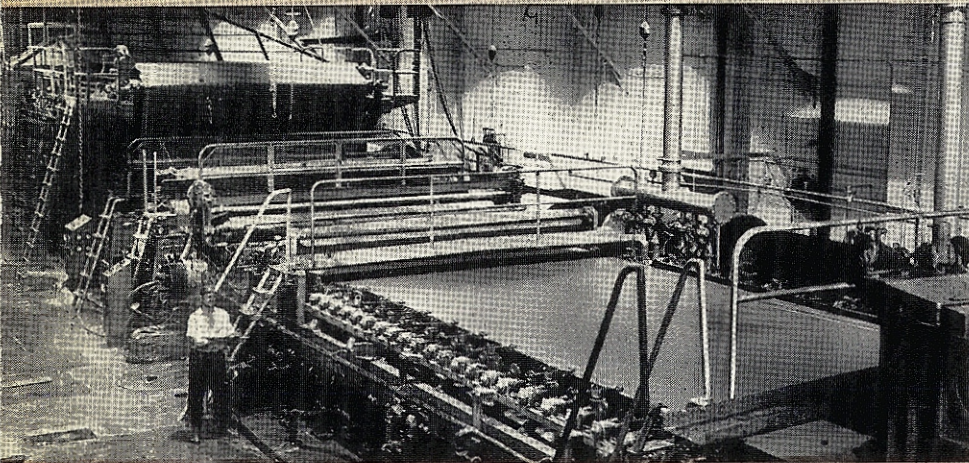
1952 Completion of a new Solka-Floc plant, above, a new barking drum plant, and a lumber sawmill were features of 1952. Manufacture of Bermico fittings was begun, and Kraft production capacity was increased.



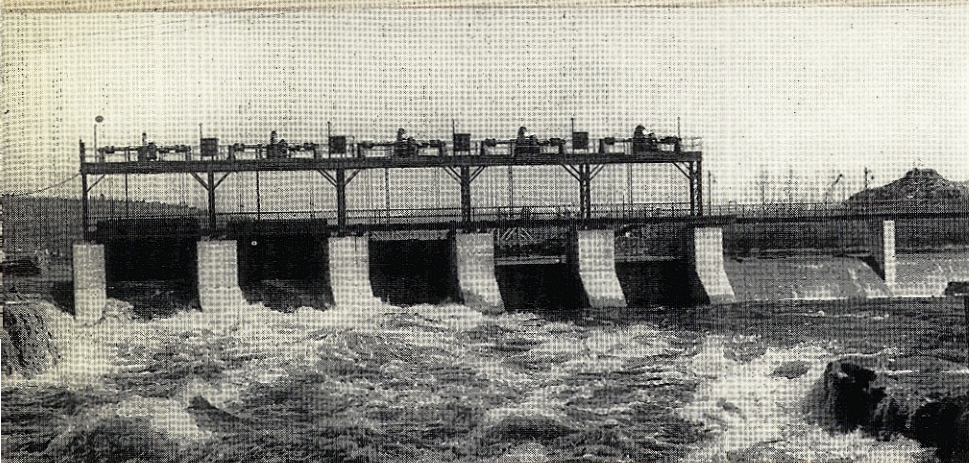
1947 Installation of this 196-inch towel paper machine, called Mr. Nibroc, highlighted 1947 improvements. Others were the acquisition of machines and equipment to mechanize woods operations.



1949 Inefficient steam locomotives were replaced with diesel engines, the Chemical Mill dam was partly rebuilt, paper towel production was further modernized, and new pulpwood barking equipment was purchased in 1949.



1951 The rebuilding of the No. 1 paper machine at Cascade, above, highlighted 1951, which also brought expansion of the Chemical Mill, construction of a Pyrrhotite plant, new stock washers and a pilot pulp plant.



1953 This new 325-foot dam was completed at Berlin, and diesel stand-by power equipment was installed to insure uninterrupted operations. Woods operations were further mechanized with cost-saving equipment.

The postwar history of Brown Company is a story of revitalization. Stockholders who have followed the company's fortunes over a period of years will remember that when the war came to an end, the company was at a disadvantage because most of its physical plant was outdated in comparison with the newer plants with which it was forced to compete. Our woods harvesting costs were high due to insufficient mechanization and inadequate road and camp facilities.

Starting early in 1946, the company undertook what might be called "Operation Bootstrap." Such a designation fits the situation because the company was not considered to have sufficient borrowing power to obtain outside capital for rebuilding its plants. All its efforts and earnings went into rebuilding and modernizing of plant and equipment; to building roads and mechanizing of woods operations; to cost reduction and increased productivity; and to the reassertion of Brown Company's traditional leadership in new product development. Over the years since 1946, vigorous selling efforts were applied to bring sales up from \$36 to \$67 million.

The pictorial review at the left shows some of the more important projects accomplished in prior years, while a number of the steps taken in 1954 are illustrated on previous pages. How stockholders have benefited from this program is graphically illustrated in the chart of common stock equity on pages 14 and 15.

With the sale of the company's Canadian assets at the beginning of the current year, it is now possible to plan more intensive modernization of our properties in the United States. With the retirement of both classes of preferred and with the funded debt retired, there will remain ahead of the common stock only such debentures as are issued to retire the first preferred stock. It is planned that \$10,000,000 of the receipts from the sale of the Canadian assets, plus such sums as are available from depreciation, will be spent on plant improvement at Berlin and Gorham, N. H. As this program is completed and the increased earning power thus provided is realized, the Brown Company of tomorrow should attain a new era of prosperity.

And Its Subsidiary,

Consolidated Statement of Income

	<i>Year ended November 30</i>	
	<u>1954</u>	<u>1953</u>
Sales, less discounts, returns and allowances	\$66,969,748	\$67,197,203
Materials, services and other manufacturing costs, selling, general, administrative and research expenses, and other charges against operations (including depreciation and depletion of \$3,080,958 in 1954 and \$3,134,016 in 1953)	60,396,731	60,833,947
Net operating income	\$ 6,573,017	\$ 6,363,256
Other charges (income):		
Interest on funded debt	\$ 471,321	\$ 492,658
Interest and dividend income	(74,685)	(86,922)
Retirement allowances to former employees	186,039	185,177
Canadian tax withholdings on intercompany interest and dividends	154,120	131,561
Other income, net	(104,953)	(19,914)
Net income before income taxes	\$ 631,842	\$ 702,560
Net income before income taxes	\$ 5,941,175	\$ 5,660,696
Provision for United States and Canadian taxes on income (Note F)	2,530,000	2,610,000
Net income for the year	\$ 3,411,175	\$ 3,050,696

(See notes to financial statements)

Brown Corporation

Consolidated Statement of Surplus

Year Ended November 30, 1954

	<u>Capital surplus</u>	<u>Earned surplus</u>	
		<u>Reserved for retirement of preference stocks</u>	<u>Unreserved</u>
Balance, November 30, 1953	\$2,825,955	\$6,852,192	\$21,859,816
Additions (deductions) for the year:			
Net income, per accompanying statement			3,411,175
Dividends declared:			
First preference stock			(715,464)
Second preference stock			(215,831)
Excess of call and liquidating value of 1,130 shares of first preference stock converted into common stock, over par value of 7,910 shares of common stock issued therefor	105,090		
Premium paid (amount of accrued dividend) on call for redemption of 18,000 shares of second preference stock			(11,880)
Excess of call and liquidating value over cost of 9,377 shares of second preference stock purchased and deposited with sinking fund agent for retirement	3,484		
Reserved portion of earned surplus applicable to 1,130 shares of first preference stock converted into common stock and 27,377 shares of second preference stock called for redemption or purchased for retirement		(428,478)	
Balance, November 30, 1954	\$2,934,530	\$6,423,714	\$24,327,816
Adjustments to give effect to sale of Canadian assets on December 1, 1954 and taxes on subsequent distributions in liquidation of Brown Corporation:			
Excess of consideration received over book value of assets sold and expenses relating or incident to the sale (Note B)			21,178,427
Provision for Canadian income tax withholdings on distributions in liquidation of Brown Corporation			(600,000)
Provision for United States income tax on distributions in liquidation of Brown Corporation (Note F)			(2,930,000)
Balance, November 30, 1954, after giving effect to the above adjustments	\$2,934,530	\$6,423,714	\$41,976,243

(See notes to financial statements)

BROWN

And Its Subsidiary,

Consolidated

November 30

Assets

CURRENT ASSETS:

	1954 <i>Adjusted*</i>	1954	1953 **
Cash	\$32,410,723	\$ 2,156,496	\$ 2,436,907
Cash on deposit with bond trustee (Note G)	12,800,000		
Accounts receivable, trade, less allowance for doubtful accounts	5,641,971	5,641,971	5,059,347
Account receivable, Canadian International Paper Company, from sale of Canadian assets (Note B)	2,357,048		
Accounts receivable, other	289,576	289,576	235,393
Inventories (Note D):			
Pulp and other products	\$ 3,860,071	\$ 4,168,315	\$ 3,565,152
Pulpwood	1,101,397	5,517,677	6,422,977
Pulpwood operations in progress	1,619,251	5,433,928	5,334,065
Other materials and supplies	2,891,052	4,301,183	4,185,013
	\$ 9,471,771	\$19,421,103	\$19,507,207
Prepaid insurance, taxes and other expenses	\$ 1,000,961	\$ 1,213,352	\$ 916,647
Total current assets	\$63,972,050	\$28,722,498	\$28,155,501

FIXED ASSETS (NOTE E):

Plants and equipment	\$53,751,121	\$77,630,651	\$73,617,246
Less — Depreciation	27,179,419	42,637,022	40,444,472
	\$26,571,702	\$34,993,629	\$33,172,774
Timberlands	\$ 8,495,428	\$12,674,744	\$12,563,826
Less — Depletion	5,286,158	7,359,445	7,268,461
	\$ 3,209,270	\$ 5,315,299	\$ 5,295,365
Total fixed assets	\$29,780,972	\$40,308,928	\$38,468,139

INVESTMENTS AND OTHER ASSETS:

Investments in affiliated and associated companies, at cost or written-down amounts	\$ 253,168	\$ 253,169	\$ 256,369
Claims for refund of prior years' income taxes (Note F)	410,979	410,979	
Other assets and deferred charges	209,308	377,276	256,829
	\$ 873,455	\$ 1,041,424	\$ 513,198
	\$94,626,477	\$70,072,850	\$67,136,838

(See notes to financial statements)

* Adjusted to give effect to sale of Canadian assets on December 1, 1954, etc. (Note B)
** Amounts previously reported reclassified in certain respects for comparative purposes

COMPANY

Brown Corporation

Balance Sheet

November 30

Liabilities and Capital

CURRENT LIABILITIES:

	1954 <i>Adjusted*</i>	1954	1953 <i>**</i>
Notes payable to banks	\$ 2,000,000	\$ 2,000,000	\$ 1,200,000
Accounts payable	4,797,073	4,762,596	3,202,116
Accrued payrolls, interest and other expenses	1,689,062	1,689,062	1,426,719
Unpaid expenses, other than income taxes, relating to sale of Canadian assets (Note B)	763,404		
Dividends payable	217,334	217,334	242,146
United States and Canadian taxes on income (Note F)	7,877,190	1,769,871	1,846,996
Funded debt payable within one year (paid in February, 1955)	12,800,000	800,000	800,000
Total current liabilities	\$30,144,063	\$11,238,863	\$ 8,717,977

FUNDED DEBT OF BROWN COMPANY (NOTE G):

Collateral trust bonds, 3½%, payable after one year (paid in February, 1955)		\$12,000,000	\$12,800,000
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DEFERRED INCOME TAXES

	\$ 520,000	\$ 520,000	\$ 298,000
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CAPITAL STOCK AND SURPLUS:

Convertible first preference stock, \$5 cumulative, without par value (Note H) — at stated value of \$60 per share (call and liquidating value, \$100 per share)	\$ 8,539,560	\$ 8,539,560	\$ 8,607,360
Second preference stock, \$3 cumulative, without par value (Note H) — at stated value of \$40 per share (redeemed after November 30, 1954 at a cost of \$2,844,085)	2,087,640	2,087,640	3,182,720
Common stock — at par value of \$1 per share (Note H)	2,000,727	2,000,727	1,992,817
Capital surplus, per accompanying statement	2,934,530	2,934,530	2,825,956
Earned surplus (Note I), per accompanying statement:			
Reserved for retirement of first and second preference stocks outstanding (excess of call and liquidating value over stated value above)	6,423,714	6,423,714	6,852,192
Unreserved	41,976,243	24,327,816	21,859,816
Total capital stock and surplus	\$63,962,414	\$46,313,987	\$45,320,861

	\$94,626,477	\$70,072,850	\$67,136,838
--	---------------------	---------------------	---------------------

(See notes to financial statements)

Notes to financial statements

Note A—Basis of Consolidation and Conversion

The accompanying 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, except fixed assets, have been converted at exchange rates prevailing on the balance sheet dates. Fixed assets and charges for depreciation and depletion have been converted at historical rates. Except for depreciation and depletion charges the Canadian income accounts have been converted at averages of rates prevailing during the year.

Note B—Sale of Canadian Assets on December 1, 1954

On December 1, 1954 Brown Corporation sold for cash substantially all of its assets, except cash, receivables and its investment in St. Maurice Power Corporation, and assigned substantially all of its contracts relating to the operation of its business, to Canadian International Paper Company. Simultaneously the Corporation sold, also for cash, its 50% interest in the capital stock of St. Maurice Power Corporation to Shawinigan Water and Power Company, the holder of the other 50% interest. The consideration received, certain expenses and adjustments relating or incident to the sale, the book value of assets sold and the resulting gain on the sale (all expressed in U. S. dollars with Canadian amounts converted at appropriate exchange rates) are summarized as follows:

Total consideration for the sale, including \$4,639,175 U. S. dollar equivalent of \$4,500,000 in Canadian dollars received for the investment in St. Maurice Power Corporation	\$45,759,110	
Less—Canadian income tax and other expenses and adjustments relating or incident to the sale (partly estimated)	3,838,703	\$41,920,407
Book value of assets sold:		
Inventories	\$ 9,949,332	
Plants and equipment, \$23,879,530, less depreciation, \$15,457,603	8,421,927	
Timberlands, \$4,179,315, less depletion, \$2,073,286	2,106,029	
Investment in capital stock of St. Maurice Power Corporation	1	
Other investments and sundry assets	264,691	20,741,980
Excess of consideration received over book value of assets sold, expenses and adjustments		<u>\$21,178,427</u>

The above statement is subject to possible further adjustments not presently determinable, the net effect of which is not expected to be material in amount. Of the total consideration, \$43,402,062 was received in cash on December 1, 1954. Payment of the balance was deferred pending final determination of the value of the inventories and other adjustments provided for in the sale agreements. After reflecting the sale as above, the assets and liabilities of Brown Corporation consisted of the following amounts (expressed in U. S. dollars, including Canadian assets totaling \$8,227,282 and Canadian liabilities totaling \$6,316,496 after conversion at the then current exchange rate):

Assets:	
Cash	\$30,842,718
Cash on deposit with bond trustee (Note G)	12,800,000
Account receivable, Canadian International Paper Company	2,357,048
Account receivable, Brown Company	2,395,257
Other accounts receivable, etc.	2,536,378
Claims for refund of income taxes	410,979
	<u>\$51,342,380</u>
Liabilities:	
Collateral trust bond (owned by Brown Company)	\$ 5,000,000
Accounts payable and accrued expenses, including expenses relating to the sale	3,137,583
Canadian taxes on income	3,731,460
	<u>\$11,869,043</u>
Excess of assets over liabilities	<u>\$39,473,337</u>

In anticipation of the pending liquidation of Brown Corporation and distribution of its net assets to Brown Company (Note C) further provision has been made in the adjusted consolidated balance sheet as of November 30, 1954 for Canadian and United States income taxes on the distribution, as more fully explained in Note F.

A substantial part of the consolidated net income for 1954 and previous years is attributable to the operations of Brown Corporation. Reference is made to comments contained in the accompanying letter of the president concerning the reduction in earnings which will result from the sale of Canadian assets and possibilities for the recovery thereof.

Note C—Certain Transactions Subsequent to Sale of Canadian Assets

The following is a summary of certain transactions consummated by Brown Company and Brown Corporation subsequent to the sale of Canadian assets on December 1, 1954 and up to February 17, 1955, relating to the liquidation of Brown Corporation and the disposition of proceeds of the sale, etc.:

Brown Corporation's assets remaining after the sale have been substantially liquidated except for income tax refund claims, and its liabilities have been substantially paid except for Canadian taxes on income.

Cash of Brown Corporation in the amount of approximately \$39,800,000 has been distributed to Brown Company as dividends (less Canadian tax withholdings thereon), as payments of intercompany indebtedness (net), or as partial distributions pursuant to a plan of complete liquidation of Brown Corporation adopted by its stockholders in January, 1955, leaving approximately \$4,500,000 of cash balances with Brown Corporation for the payment of unpaid Canadian taxes on income and other liabilities and for further distribution to Brown Company.

Brown Company has paid its notes payable to banks, which at November 30, 1954 amounted to \$2,000,000.

Brown Company has redeemed all of its outstanding second preference stock at an aggregate cost of \$2,844,085 (Note H).

Brown Company has paid in full its outstanding funded debt at a cost of \$12,864,000 plus accrued interest to the date of payment.

Reference is made to comments contained in the accompanying letter of the president regarding the contemplated call for redemption of first preference stock of Brown Company and the proposed offer for sale, to the holders thereof, of debentures and common stock.

Note D—Inventories

Brown Company's inventories of pulpwood and pulpwood content of pulp, carried at \$1,708,100 as at November 30, 1954, 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 E—Fixed Assets

Plants and equipment of Brown Company 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, less depletion based on timber cut.

Note F—United States and Canadian Taxes on Income

In the balance sheet at November 30, 1954 provision has been made for accrued unpaid United States and Canadian taxes on income for the fiscal year then ended and for possible additional assessments less refunds for unsettled prior years (1950 to 1953 in the case of Brown Company and 1949 to 1953 in the case of Brown Corporation).

In the adjusted balance sheet at November 30, 1954, further provision has been made for the Canadian income tax attributable to the sale of Canadian assets on December 1, 1954 (Note B) and, on the basis that Brown Corporation's remaining assets are to be transferred in liquidation to Brown Company, for Canadian and United States income taxes on the liquidation. With reference to the latter, Brown Company has obtained a ruling from the Commissioner of Internal Revenue determining certain questions with respect to United States income taxes which might otherwise be subject to controversy. Under this ruling the United States income tax on the liquidation is computed at a maximum of \$2,930,000 based on cost to Brown Company of its investment in Brown Corporation, or at a minimum of \$430,000 based on a claimed value of the investment as of March 1, 1913 (plus subsequent additions at cost) which is \$10,000,000 more than cost. As finally determined, the two tax computations might vary somewhat from the foregoing, but it is believed that any such variations would not be material. The difference of \$2,500,000 in the two tax computations represents the capital gain tax at the rate of 25% on \$10,000,000. The 1913 value will be passed on by the Commissioner when the income tax return has been examined and the tax liability is finally determined. Provision for United States income tax on the liquidation of Brown Corporation has been made in the adjusted balance sheet at November 30, 1954 in the amount of \$2,930,000, the maximum amount computed under the Commissioner's ruling. The actual tax liability will be less, dependent upon the extent to which the claimed appreciation in 1913 value is substantiated, when the return is examined.

The Canadian Department of National Revenue has assessed against Brown Corporation additional income taxes for the years ended November 30, 1949 to 1952, inclusive, based on the disallowance of a portion of administrative and research expenses allocated by Brown Company to Brown Corporation. The Corporation has paid these assessments under protest. The amounts, together with a proposed similar assessment for 1953, total \$410,979 (U. S. dollars). It is believed that, to the extent that the additional taxes are not recoverable from Canada, Brown Company would have a substantially equivalent claim against the United States under provisions of the tax convention designed to prevent double taxation by the two countries.

Note G—Funded Debt

On November 30, 1954 Brown Company's funded debt, consisting of \$12,800,000 of 3½% collateral trust bonds, was secured by the pledge of the entire capital stock and the \$5,000,000 outstanding first mortgage bond of Brown Corporation (both owned by Brown Company and eliminated in consolidation). At the same time Brown Corporation's \$5,000,000 first mortgage bond was secured by the pledge of substantially all its assets. Coincident with the sale of assets on December 1, 1954 (Note B), and in consideration of the release from the mortgage of the assets to be sold, Brown Corporation issued a new \$5,000,000 collateral trust bond to Brown Company in exchange for the \$5,000,000 mortgage bond (which was thereupon canceled) and deposited with the trustee, as collateral security for the new bond, \$12,800,000 of the proceeds from the sale of assets.

As indicated in Note C, the funded debt of both Brown Company and Brown Corporation has subsequently been paid in full, and all pledged collateral restored free and clear to the respective companies.

Brown Company's funded debt is classified as a current liability in the adjusted balance sheet as at November 30, 1954 on the basis that the debt was to be paid in full if the sale of Canadian assets were consummated.

Note H—Capital Stock

The number of authorized, issued and outstanding shares of capital stock of Brown Company at November 30, 1954 and 1953 is as follows:

	November 30	
	1954	1953
First preference stock, convertible:		
Authorized to be issued, issued and outstanding	142,326	143,456
Second preference stock:		
Authorized to be issued	78,528	89,048
Issued	78,528	89,048
Outstanding*	52,191	79,568
Common stock:		
Authorized to be issued	2,997,009	2,997,009
Issued	2,000,727	1,992,817
Outstanding	2,000,727	1,992,817
Reserved for conversion — 7 shares of common for each share of first preference	996,282	1,004,192

*After deducting from the issued shares, shares purchased and deposited with sinking fund agent for retirement

In December, 1954 Brown Company purchased for retirement an additional 650 shares of its second preference stock at \$54 per share and on February 1, 1955 redeemed the remaining 51,541 shares which were outstanding at November 30, 1954, at the redemption price of \$54.50 per share which includes \$.50 per share for accrued dividends. The aggregate cost of such acquisition and redemption was \$2,844,085, of which \$2,087,640, the stated value of \$40 per share, has been charged to the second preference stock account, \$730,674, or \$14 per share, to the reserved portion of earned surplus and \$25,771, or \$.50 per share on the shares called, to the unreserved portion of earned surplus.

Upon the redemption of the second preference stock the first preference stock became entitled under the by-laws to the benefit of an annual sinking fund whereby the company is required to pay to the sinking fund agent on or before April 1 of each year for the retirement of such 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 stocks for such year. The first such sinking fund payment is required to be made on April 1, 1956 based on "net income", less deductions, for the company's fiscal year which will end on November 30, 1955.

Also, subsequent to November 30, 1954, and up to February 17, 1955, an additional 155 shares of first preference stock have been converted by shareholders into common stock in the established ratio of 7 shares of common for each share of first preference stock. The effect of these subsequent conversions has been to increase the common stock account by \$1,085 and the capital surplus account by \$14,415 and to decrease the first preference stock account by \$9,300 and the reserved portion of earned surplus by \$6,200.

Note I—Earned Surplus

Earned surplus of Brown Company has been reserved by vote of the Board of Directors to the extent of the excess of the aggregate call and liquidating value of the first and second preference stocks over their aggregate stated value. Such reserved earned surplus, amounting to \$6,423,714 at November 30, 1954, is being reduced proportionately when shares of preference stock are retired or purchased for retirement and is not available for dividends. As a result of the redemption of the second preference stock in February, 1955, and the conversion since November 30, 1954 of 155 shares of first preference stock (Note H), the reserved earned surplus was reduced to \$5,686,840.

At November 30, 1954 the earned surplus of Brown Company was subject to restrictions on the payment of dividends provided for in the indenture covering the company's 3½% collateral trust bonds. These restrictions have been removed as a result of the subsequent payment of the bonds (Note C).

Note J—Retirement Plan for Employees

Brown Company has contributed to the company's retirement plan fund, and charged to income for the year, \$457,111 for 1954 and \$456,157 for 1953, such contributions representing in each case the cost of current service benefits for the year plus 2½% of the past service cost. The currently estimated amount required to complete the funding of past service cost is approximately \$5,100,000.

Note K—Stock Option

In January, 1955 Brown Company granted an option to the president of the company to purchase 20,000 shares of its common stock at \$13.39 per share, or slightly more than 85% of the market value on the date granted as permitted to qualify as a Restricted Stock Option under the Internal Revenue Code. The option is subject to the approval of stockholders and authorization of the required shares. It is exercisable during the period of nine years, or less under certain conditions, beginning in January, 1956.

Note L—Commitments

At November 30, 1954 Brown Company had unexpended balances totaling approximately \$1,600,000 under approved authorizations for plant extension and improvement projects. Further authorizations totaling approximately \$7,500,000, including funds for a new kraft bleachery, have been approved since November 30, 1954 up to February 17, 1955.

Report of independent accountants

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, 1954 (before and after giving effect to the sale of Canadian assets on December 1, 1954 referred to in Note B) 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.

Boston, Massachusetts
February 17, 1955

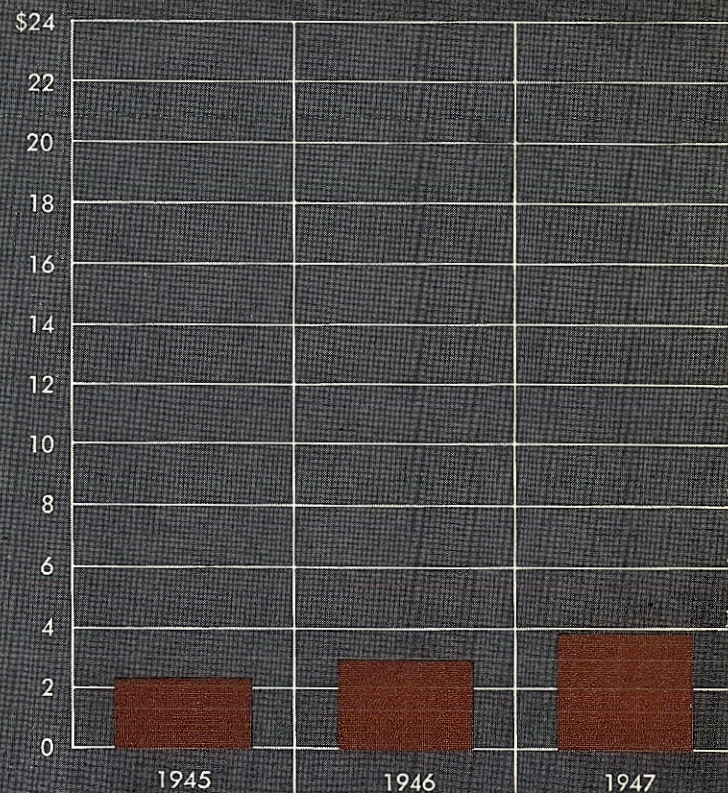
PRICE WATERHOUSE & CO.

Condensed statement of consolidated

	1945	1946	1947
Current assets and (in 1951 and prior years) special deposits for plant improvements	\$19,677,182	\$24,289,336	\$25,242,322
Current liabilities and deferred income taxes	3,007,297	3,108,701	4,601,845
Net current assets and special deposits, less deferred income taxes	\$16,669,885	\$21,180,635	\$20,640,477
Plants and equipment, less depreciation	13,365,028	15,270,514	20,590,627
Timberlands, less depletion	8,384,073	8,189,654	5,587,576
Investments and other assets	1,037,735	1,031,778	1,299,357
Total assets, less liabilities except funded debt	\$39,456,721	\$45,672,581	\$48,118,037
Funded debt (except portion in current liabilities)	15,098,573	19,099,300	18,799,300
Net assets	\$24,358,148	\$26,573,281	\$29,318,737
Stockholders' equity in net assets:			
Convertible preferred stock, \$6	\$19,964,914	\$20,829,820	\$21,694,726
Convertible first preference stock, \$5			
Second preference stock, \$3			
Total preferred stocks	\$19,964,914	\$20,829,820	\$21,694,726
Common stock	4,393,234	5,743,461	7,624,011
	\$24,358,148	\$26,573,281	\$29,318,737
Common stock equity per share	\$2.20	\$2.88	\$3.83

The figures as of November 30, 1945 to 1949, inclusive, have been restated in certain respects, as compared with amounts
 * Adjusted to give effect to sale of Canadian assets on December 1, 1954, etc. (Note B of notes to Financial Statements.)

Common stock equity

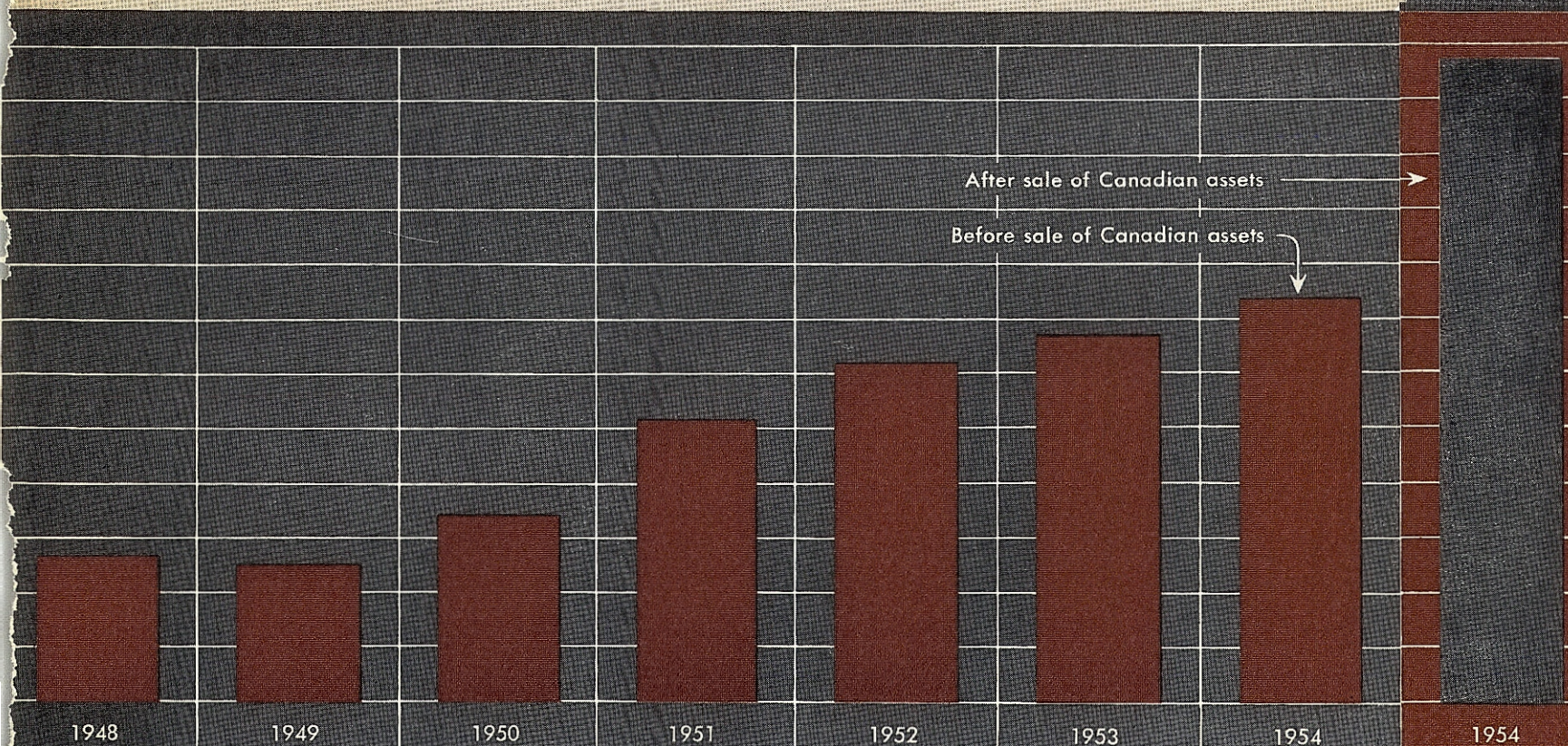


financial position and stockholders' equity

AS OF NOVEMBER 30

1948	1949	1950	1951	1952	1953	1954	1954 Adjusted*
\$26,270,900	\$22,813,441	\$28,713,555	\$34,525,111	\$28,161,884	\$28,155,501	\$28,722,498	\$63,972,050
4,927,121	3,057,431	7,386,776	14,115,495	9,674,703	9,015,977	11,758,863	30,664,063
\$21,343,779	\$19,756,010	\$21,326,779	\$20,409,616	\$18,487,181	\$19,139,524	\$16,963,635	\$33,307,987
23,095,916	23,597,519	24,057,281	28,588,040	32,879,106	33,172,774	34,993,629	26,571,702
5,498,140	5,422,526	5,284,267	5,293,502	5,437,643	5,295,365	5,315,299	3,209,270
568,340	469,540	570,598	665,487	871,835	513,198	-1,041,424	873,455
\$50,506,175	\$49,245,595	\$51,238,925	\$54,956,645	\$57,675,765	\$58,120,861	\$58,313,987	\$63,962,414
17,300,400	16,777,400	15,200,000	14,400,000	13,600,000	12,800,000	12,000,000	—
\$33,205,775	\$32,468,195	\$36,038,925	\$40,556,645	\$44,075,765	\$45,320,861	\$46,313,987	\$63,962,414
\$22,559,632	\$22,559,632	\$22,559,632					
			\$14,345,600	\$14,345,600	\$14,345,600	\$14,232,600	\$14,232,600
			5,789,178	5,171,688	4,296,672	2,818,314	2,818,314
\$22,559,632	\$22,559,632	\$22,559,632	\$20,134,778	\$19,517,288	\$18,642,272	\$17,050,914	\$17,050,914
10,646,143	9,908,563	13,479,293	20,421,867	24,558,477	26,678,589	29,263,073	46,911,500
\$33,205,775	\$32,468,195	\$36,038,925	\$40,556,645	\$44,075,765	\$45,320,861	\$46,313,987	\$63,962,414
\$5.34	\$4.97	\$6.76	\$10.25	\$12.32	\$13.39	\$14.63	\$23.45

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	1954
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	\$66,969,748
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	\$ 9,493,454
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	\$ 3,080,958
Interest on funded debt	772,493	842,152	838,292	807,509	751,311	532,290	512,658	492,658	471,321
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	2,530,000
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	\$ 6,082,279
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	\$ 3,411,175
Dividends paid or accrued on preferred stocks	864,906	864,906	864,906	864,906	864,906	1,105,970	1,027,940	981,678	931,295
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	\$ 2,479,880
Earnings per share of common stock	\$.32*	\$.94	\$ 1.50	\$.08*	\$ 1.58*	\$ 3.17*	\$ 1.69*	\$ 1.04	\$ 1.24
*Exclusive of unrealized exchange gains (loss) on conversion of assets and liabilities of Canadian subsidiary, credited (charged) to surplus:									
Exchange gain (loss)	\$695,429			(\$889,384)	\$413,696	\$98,627	\$729,236		
Amount per share of common stock	\$.35			(\$.45)	\$.21	\$.05	\$.37		
Expenditure 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	\$4,987,420
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 preferred stocks						1,904,977	579,143	823,922	1,486,754

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

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- A. E. HAROLD FAIR.....*Executive Vice President*
- STUART W. SKOWBO.....*Treasurer*
- ROBERT W. ANDREWS
Vice President and Works Manager
- JOHN W. JORDAN
Vice President, General Counsel and Secretary
- NEWTON L. NOURSE.....*Vice President— Sales*
- CLARENCE S. HERR
Vice President— Woods Operations
- DR. GEORGE A. DAY.....*Research Director*
- DR. PAUL M. GOODLOE
Director of Quality and Process Control
- KENNETH V. COOMBES...*General Purchasing Agent*
- MILTON W. HAYES.....*Director of New Products*
- WILLIAM J. OLESON, JR.....*Controller*
- ALEXANDER B. WALKER.....*Budget Director*
- HUGH D. JORDAN.....*Manager of Costs*
- JOHN J. McDONALD
Manager, Pulp and Floc Sales Division
- GILFORD F. HENDERSON
Manager, Paper Sales Division
- WILLIAM T. LaROSE
Manager, Towel and Tissue Sales Division
- URBAN J. DACIER.....*Manager, Onco Sales Division*
- JOSEPH G. SKIRM...*Manager, Bermico Sales Division*
- NICHOLAS C. NELSON
Manager, Foreign Sales Division
- ALBERT E. PENNEY
Production Manager, Pulp and Paper
- ARTHUR R. TAYLOR
Production Manager, Bermico, Onco and Chemicals
- STANLEY H. WENTZELL
General Logging Superintendent
- CHARLES G. RAEBURN...*Controller, Woods Department*
- LEONARD A. PIERCE.....*Clerk*

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*
Second Bank — 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

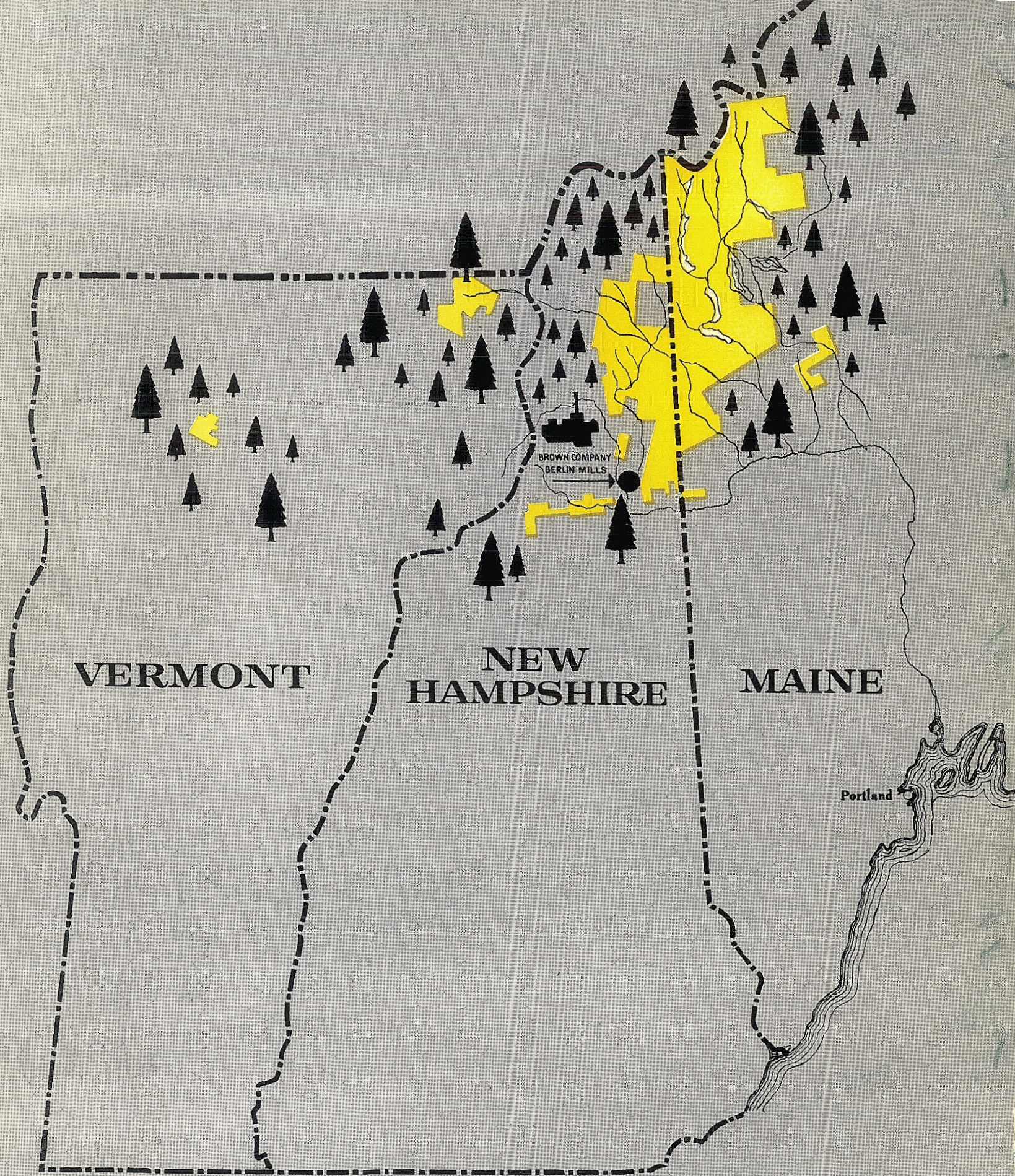
Common Stock

- Principal Transfer Agent*
Second Bank — State Street Trust Company, Boston
- Montreal Transfer Agent*.....Guardian Trust Company
- New York Transfer Agent*
Chemical Corn Exchange Bank
- Toronto Transfer Agent*.....The Royal Trust Company
- Principal Registrar*..The First 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



Forest Land Ownership