

file

1958

ANNUAL REPORT



PURVIS HALL
LIBRARIES
JUN 30 1959
McGILL UNIVERSITY

BROWN



COMPANY

THE DIVERSIFIED FOREST PRODUCTS OF BROWN COMPANY

SOLKA PULPS are highly purified wood cellulose fibres especially designed to meet the requirements of modern papermaking and chemical industries. For conversion into cellophane, photographic papers, letterheads, boxed stationery, invitations, printing, laminated plastic, parchment, facial tissue, glassine, greaseproof papers, etc.

SOLKA-FLOC a pure wood cellulose powder used in the manufacture of cigarette filters, welding rod coatings, rubber soles, heels, and flooring, and in the processing of pharmaceuticals and food. It is also used as an aid in the filtering of oils, caustic soda, chemicals, and for ion exchange purification.

NIBROC PAPERS are well-known lines of engineered papers, both bleached and unbleached, for conversion into bags for food products, sandpaper, gummed tape, laminated plastics, pressure sensitive tapes, etc. Bleached papers are being made for the printing and allied trades, including such grades as envelope, offset, tablet, endleaf, coating raw stock, label paper, register bond, and check paper.

NIBROC INDUSTRIAL TOWELS AND TISSUES—Nibroc towels continue to be the leading brand in the industrial and institutional market. Combined with Nibroc Sofwite and Softan Tissue, they provide an economical, efficient, quality washroom service.

NIBROC WINDSHIELD AND INDUSTRIAL WIPERS—A rugged, efficient, and economical wiper is being supplied to the service station trade and for industrial applications. We believe this is the finest product of its kind. Nibroc industrial wipers were engineered to provide an economical means of wiping machinery and equipment.

BERMICO SEWER AND DRAINAGE PIPE and connection fittings, made of tough wood fiber 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. In addition, a complete line of perforated Bermico pipe is used for land drainage on farms, golf courses, marshlands, industrial areas, highways and airports. It is also used for septic tank disposal beds and foundation drains.

BERMICO CONDUIT also made of pitch impregnated cellulose fibers, is engineered specifically for encasing electrical wires beneath the ground. Widely used by electrical contractors and by public utilities.

ONCO is a strong, durable, leatherlike material made of Solka Pulp impregnated with compounds which give lasting resilience. It is used in making hat brims and cap fronts, handbags, belts, and imitation leathers. It is a leader in the field of innersoles as well as other shoe components for all types of footwear. Solkaf, a top quality material containing some leather fibre, went into commercial production in 1958.

CHEMICALS include Chlorine and Soda Bleach for bleaching pulps, paper, and textiles, and for water purification by municipalities and schools; Chloroform for use as a solvent by pharmaceutical houses; Muriatic acid for general chemical processing.

BROWN COMPANY HIGH GRADE LUMBER, principally yellow birch and hard maple for fine furniture, pianos, and panelling as well as for general use. The hard woods are sold through Atlantic Lumber Company of Boston. Brown Company also supplies spruce dimension lumber and graded white pine lumber to the building industry and to users of crating and boxing materials.

PLYWOOD AND VENEER from the mills of Brown Company's subsidiaries in North Stratford, New Hampshire, for high grade panelling in homes and offices and for doors, counter tops and cupboards, as well as interiors for house trailers.

SALES AND PRODUCTION PERSONNEL

Gilford F. Henderson, *General Sales Manager, Paper Products* • Frederick L. Graham, *European Sales Representative*

Harold E. Moley, *Manager Paper Sales* • William T. LaRose, *Manager Towel & Tissue Sales*

John J. McDonald, *Manager Pulp & Floc Sales* • Robert J. Van Nostrand, *Assistant Manager Pulp & Floc Sales*

Francois X. Guimond, *Manager—Pulp Manufacturing* • Frederick E. Macy, *Manager—Paper Manufacturing*

Urban J. Dacier, *Manager Onco Sales* • Henry A. Eaton, *Manager Chemical & Floc Manufacturing*

Allie E. Salls, *Executive Vice President & General Manager* {Granite State Veneer, Inc.

{Plywood Products Inc.

Arthur R. Taylor—*General Manager Bermico Division*

The paper used for the cover of this Report is Nibroc Cover Offset, Basis 120, and the text is printed on Nibroc White Offset, Basis 80. Both are products of Brown Company. The Report is offset-printed throughout.

HIGHLIGHTS OF THE REPORT

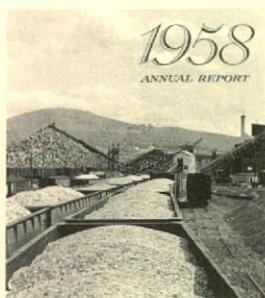
	<i>Year ended November 30</i>	
	1958	1957
Tons of pulp, paper, and towels sold	190,586	212,402
Net sales	\$55,407,620	\$61,158,180
Net income before income taxes	\$ 1,389,980	\$ 3,180,305
Net income	\$ 1,295,631*	\$ 2,080,305
Average number of common shares	2,588,651	2,589,836
Earnings per share	\$.50*	\$.80
Net working capital at end of year	\$14,917,525	\$13,350,128
Ratio of current assets to current liabilities	3.2 to 1	2.4 to 1
Expenditures for plant and equipment	\$ 2,280,693	\$ 7,939,855
Depreciation and depletion charges	\$ 3,185,265	\$ 2,855,592
Acres of timberlands owned at end of year, including Brown Company share of jointly owned lands	635,271	634,578
Common stockholders' ownership in net assets at end of year:		
Total	\$56,644,429	\$56,012,318
Per share	\$21.88	\$21.64
Number of common stockholders at end of year	7,622	7,648
Average number of employees (not including seasonal woods labor)	3,842	4,155
Payrolls and employee benefits	\$19,238,659	\$20,943,718

* Net income for 1958 includes \$315,651 or 12¢ per share for refunds received of prior years' Federal income taxes.

TABLE OF CONTENTS

	<i>Page</i>
The Company's Products	Inside Front Cover
Highlights of Report	1
Report to the Stockholders	2
Balance Sheet	10-11
Statements of Income and Retained Earnings	12
Notes to Financial Statements	13
Report of Independent Accountants	14
Financial Position—Last Eleven Years	15
Ten-Year Comparison of Income	16
Officers and Directors	Inside Back Cover

ABOUT THE COVERS

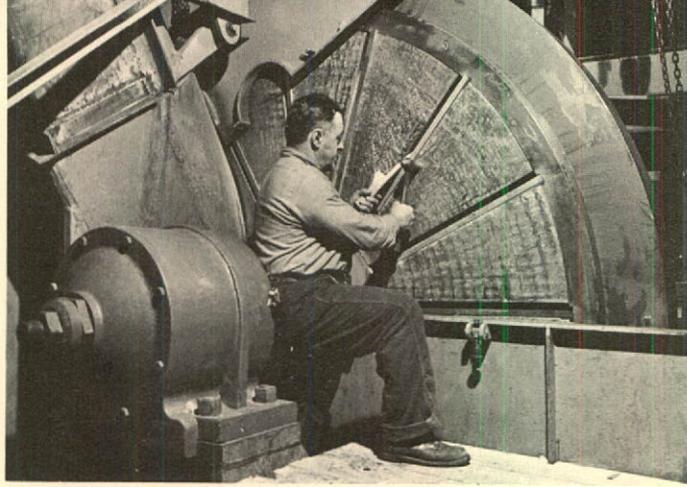


BROWN COMPANY



Brown Company (front cover) has pioneered in the East in conversion of sawmill slabs and edgings into chips for use in its pulp mills. Approximately 20% of the Kraft Mill requirements are now supplied from this source. These chips replace pulpwood formerly cut from growing forests, a practical conservation effort. The back cover illustrates the beauty of the grain found in many of the birch plywood panels manufactured in the plant at North Stratford, N. H.

(Both photographs by Victor Beaudoin)



The new Norman chipper, installed in 1958, produces up to 1500 cords of chips per day. It is designed to produce more uniform chips from pulpwood, for highest quality pulp. Workman is shown adjusting one of the knives.

Report **TO THE STOCKHOLDERS**

Consolidated net income for the year ended November 30, 1958 was \$1,295,631, or 50¢ per share of Common Stock, including \$315,651, or 12¢ per share, represented by refunds received of prior years' Federal income taxes. In the previous fiscal year Brown Company had consolidated net income of \$2,080,305, which was equivalent to 80¢ per share.

As indicated in our Mid-Year Report to Stockholders, the general business recession caused a very sharp drop in our sales and earnings in the first half of 1958. A loss in the first quarter was offset by improvement in the second quarter, with the result that earnings amounted to 2¢ per share in the first half of the year. The last half showed substantial improvement in both sales and earnings over the first half, with consolidated net income amounting to 36¢ per share for that portion of the year, including year-end adjustments but not including the tax refund referred to above.

Factors causing lower earnings for the year included lower sales volume, a certain amount of price cutting in the industry due to over-capacity (particularly in the dissolving pulp field), an increase of \$398,323 in depreciation charges over the previous year, and unusual costs of about \$300,000 pertaining to the start-up of the new magnesia recovery plant. Higher hourly wage rates, and higher costs of both incoming and outgoing freight, were offset to some extent by vigorous cost reduction efforts, but selling prices of our products could not be increased to compensate for the remainder of the cost advances, and in some cases our prices actually had to be reduced to meet competition from both domestic and foreign sources. Dissolving pulp prices were reduced \$10.00 per ton in November, 1958.

Net sales of all products totaled \$55,407,620 in 1958 as against \$61,158,180 in 1957, a reduction of \$5,750,560, or 9.4%. Approximately half of this reduction was in sulphite pulp (principally dissolving grades) with most of the remainder of the reduction falling in the fields of paper, towels and Bermico electrical conduit and sewer pipe. On the other hand, sales of plywood showed a substantial increase from the previous year with a corresponding increase in earnings from that source. Satisfactory profits were also realized from the Company's Woods operations, which supplied high quality veneer logs and saw logs to the plywood and lumber divisions.

Dividends on Common Stock

In the first half of 1958 two quarterly dividends, each in the amount of 15¢ per share, were paid on the Common Stock. Dividends were suspended for the last half of the year in view of the conditions previously described in this report. Thus, a total of 30¢ was paid in dividends as compared with total net income for the year of 50¢ per share, including the tax refund of 12¢ per share.

On January 23, 1959, the Board of Directors declared a 2% stock dividend, payable March 1 to Common Stockholders of record at the close of business February 6, 1959. This action enabled the Company to conserve cash for reinvestment in the business. Further details will be given in a letter to be mailed to stockholders on March 1.

It is our intention to resume cash dividend payments as early as practicable in 1959, subject to what we believe will be continued recovery from the recession and improvement in Brown Company's sales and earnings position. The outlook for such improvement is discussed in a separate section of this report.

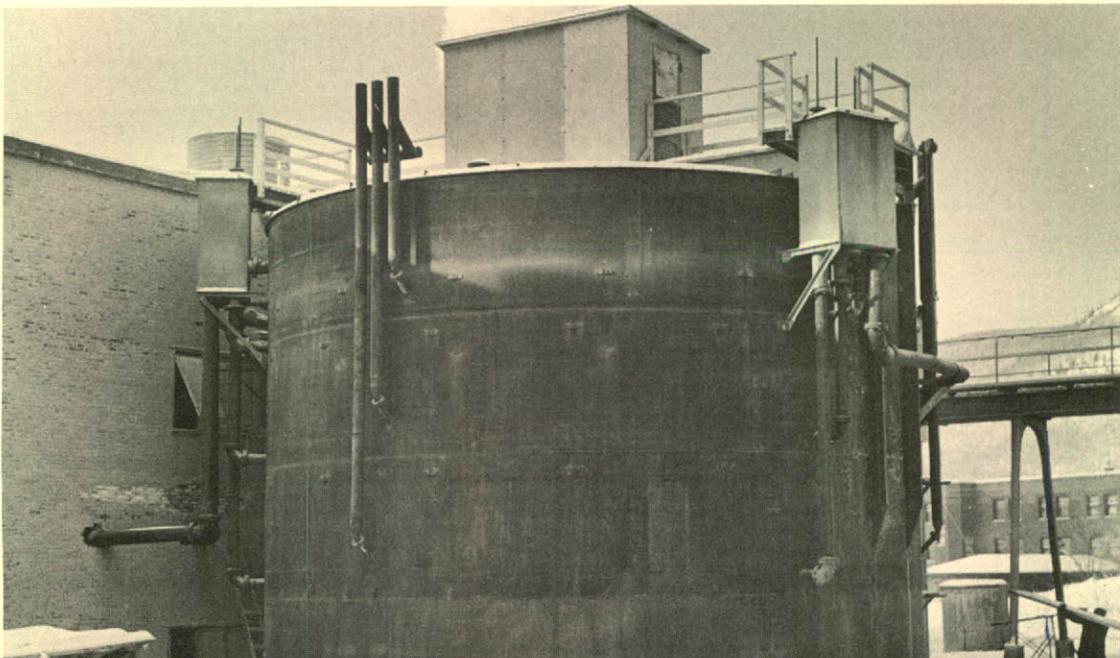
Financial Position

In spite of the financial problems connected with the past year, we were able to reduce our current bank borrowing by \$1,000,000. As a result, such borrowing amounted to only \$1,200,000 at November 30, 1958 as compared to \$2,200,000 at the previous year-end.

Long term debt (including the current portion), consisting of the Company's 4½% Debentures maturing in 1975, amounted to \$4,787,100 at the year-end as compared to \$4,862,600 a year earlier. The annual sinking fund requirement of \$213,000 due June 15, 1959 has been partially anticipated and prepaid to the extent of \$102,500, leaving a balance due next June of \$110,500. There was no preferred stock outstanding. Thus, only a very modest debt stands ahead of the Common stockholders.

Working capital at November 30, 1958 (current assets minus current liabilities) amounted to \$14,917,525, an increase of \$1,567,397 over the figure of \$13,350,128 at the previous year-end. The current ratio at November 30, 1958 was 3.2 as compared to a ratio of 2.4 a year earlier. The increase in working capital was attributable primarily to the fact that expenditures for plant and equipment, which totaled \$2,280,693 for the year, were approximately \$900,000 less than depreciation and depletion charges of \$3,185,265. Receipt of the cash refund of prior years' Federal income taxes in the amount of \$315,651 also improved our working capital position.

This new clarifier in the kraft mill separates lime sludge (for re-use) from liquids produced in the pulp cooking and chemical recovery operations. It will assist in maintaining full production and will reduce costs.



Plant and Process Improvement

The plant improvement program was purposely curtailed in 1958, following three years of heavier than normal expenditures. Despite this curtailment, however, a number of significant improvements were made. The largest single item was the expenditure required to complete construction of the new magnesia recovery plant, which went into operation on January 11, 1958, and which was described fully in last year's report.

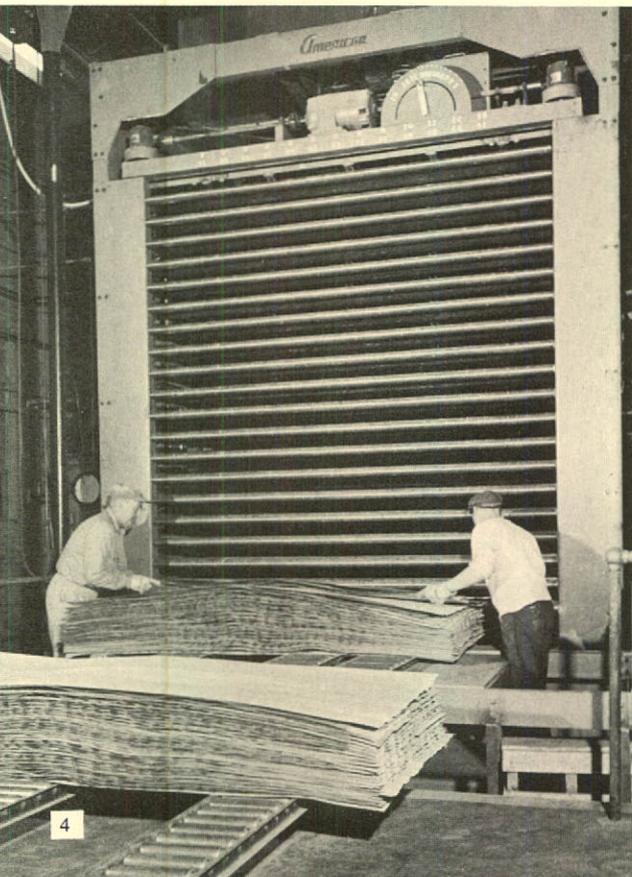
Other items included a comprehensive system of underground water lines and fire protection towers to safeguard the pulpwood storage piles adjacent to the mills in Berlin. A new slush maker and pulp handling system was installed at the Cascade Paper Mill, together with a new reel and unwind stand for our No. 3 paper machine at that mill. To provide for increased sales of our new fine, white papers, we installed a modern, high speed guillotine trimmer. Substantial labor savings were accomplished through the consolidation of beater room controls in a single new modern control room for beaters supplying four of the paper machines at our Cascade Mill.

In addition, one of our old chippers, used in converting pulpwood into chips for pulp, was replaced by a new chipper of latest design, which is reducing costs as a result of making more uniform chips and reducing the amount of fine chip particles which are unsatisfactory for pulp. A project underway in our Kraft Pulp Mill is the replacement of our mud wash clarifier with a new clarifier, which will assist in maintaining full production and improving chemical recovery, thereby reducing costs.

At our North Stratford veneer and plywood operations, additional building space has been completed to give storage areas needed as a result of the increased volume of business and to permit installation in the near future of new equipment for prefinishing plywood door skins and panels. Prefinished plywood is sanded or burnished, lacquer coated, dried and packed, thus eliminating the need for our customers to perform these operations at the point of installation. We expect this more complete product line to give us new customers and additional business from present customers.

New projects planned for 1959 include expansion of our sheeting, packing and handling facilities for new fine, white papers, including offset printing papers, to take care of a constantly growing volume of business in this field. Additional floor area is required for this purpose. A number

of paper machine improvements are scheduled, to give increased output from the machines and permit the development of different grades of paper which have a more stable sales outlook and higher profit margins. Additional pulp cleaning equipment will be installed at both of the pulp mills to meet and stay ahead of competitive requirements for ever-cleaner pulps and papers. Replacement of certain items in our sulphite bleachery will also be required. In general, we expect that our expenditures for plant and equipment in 1959 will be about equal to our depreciation charges, and that no new financing will be required for capital items pertaining to present plants, in the coming year.



Designed to produce plywood at an improved rate, a 20-opening plywood press of the most modern design has been installed by the company. Heat and pressure are applied in this machine to bond together and form the wood veneer layers into finished plywood.



Graded white pine lumber is moved from the saw mill to the storage yard for seasoning prior to shipment. Boards are carefully stacked with spacers between layers to permit free circulation of air.

New Products

New magnesia base sulphite pulps introduced in 1958 were Dur Natus BH for continuous cellophane manufacture, a special grade for sales to makers of glassine and greaseproof papers, and a bright plastics grade for print and overlay sheet in decorative laminates.

The new white papers introduced in 1957 grew in volume, and No. 1 Tablet, Register Bond, Check Paper, and "Scotchgard" (grease and water resistant) Nibroc White were added to the line. A Banker's Envelope stock, for pressure sensitive sealing to avoid tampering and reuse, was developed. Two new grades of Nibrocel Saturating were introduced, one for electrical laminates and one for polyester decorative laminates.

Four new Onco products, including "Solkaf" a top quality material containing some leather fibre, were put into commercial production.

A distinct improvement in Industrial Wipers, involving making a sheet of special chemical composition, resulted from the development of a new alkaline-curing Resichem wet strength resin.

Future Prospects

We expect that the progress shown in sales and earnings for the last half of 1958 as compared to the first half will be continued in 1959. That is not to say that we will be without difficult problems in the year ahead, because we fully realize that the condition of serious over-capacity in the dissolving pulp field which affected the industry last year will still be with us in 1959. Nevertheless, there are bright spots in several of our lines of product, and we believe that paper and towels should do very well in the coming year. Our backlog of paper orders is presently at a higher level than it has been at any time in the last two years. Lumber and plywood should do well in the coming months. Bermico pipe and conduit face a situation of temporary over-capacity in the industry, but we are convinced that this problem can be met through continued improvement in service to customers and intensified selling efforts. We think the coming year, while not a boom year, will be a good year. Our first quarter results will show the effect of a three-week strike which ended on Saturday, December 27, 1958, as mentioned later in this report, but we believe that the year as a whole will show substantial improvement in both sales and earnings.

Directors—Officers—Employees

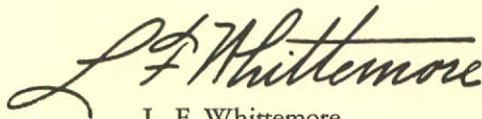
There have been no changes in the Board of Directors since the last Annual Report to Stockholders. Changes in our officers included the employment of Mr. Malcolm T. Murray as Vice President in charge of Specialty Product Sales, to give additional impetus to our sales attack on such products as towels and tissue, industrial wipers, windshield wipers, Bermico conduit and pipe, and Onco artificial leather products. During the year Mr. T. Richard Probst, Vice President in charge of Operations, resigned to accept a position as Executive Vice President of another company with which he had been associated formerly.

In December 1958, a three-week strike occurred in our mills at Berlin and Gorham, New Hampshire, principally because we could not justify granting the Union's demands. Business conditions did not warrant granting any increase in the summer of 1958, and an extension of the contract had been arranged on the basis of reopening the contract for discussion of wages in November. A settlement was finally reached on the basis of a 4¢ per hour increase effective December 28, 1958, and an additional 4¢ per hour increase to be effective June 15, 1959, along with certain improvements in our Blue Cross-Blue Shield Plan, for a contract ending June 15, 1960. We believe that this 18-month agreement will give us an opportunity to improve labor relations as well as our operating efficiencies, and at the same time provide assurance of a continued supply of production to our customers.

We sincerely appreciate the loyalty of our customers and suppliers, as well as the work of our Directors, Officers and Supervisory Staff, all of whom were called upon to put forth additional effort to cope with problems of the recession and to improve efficiency and quality as the basis for future growth.

February 2, 1959

Sincerely,



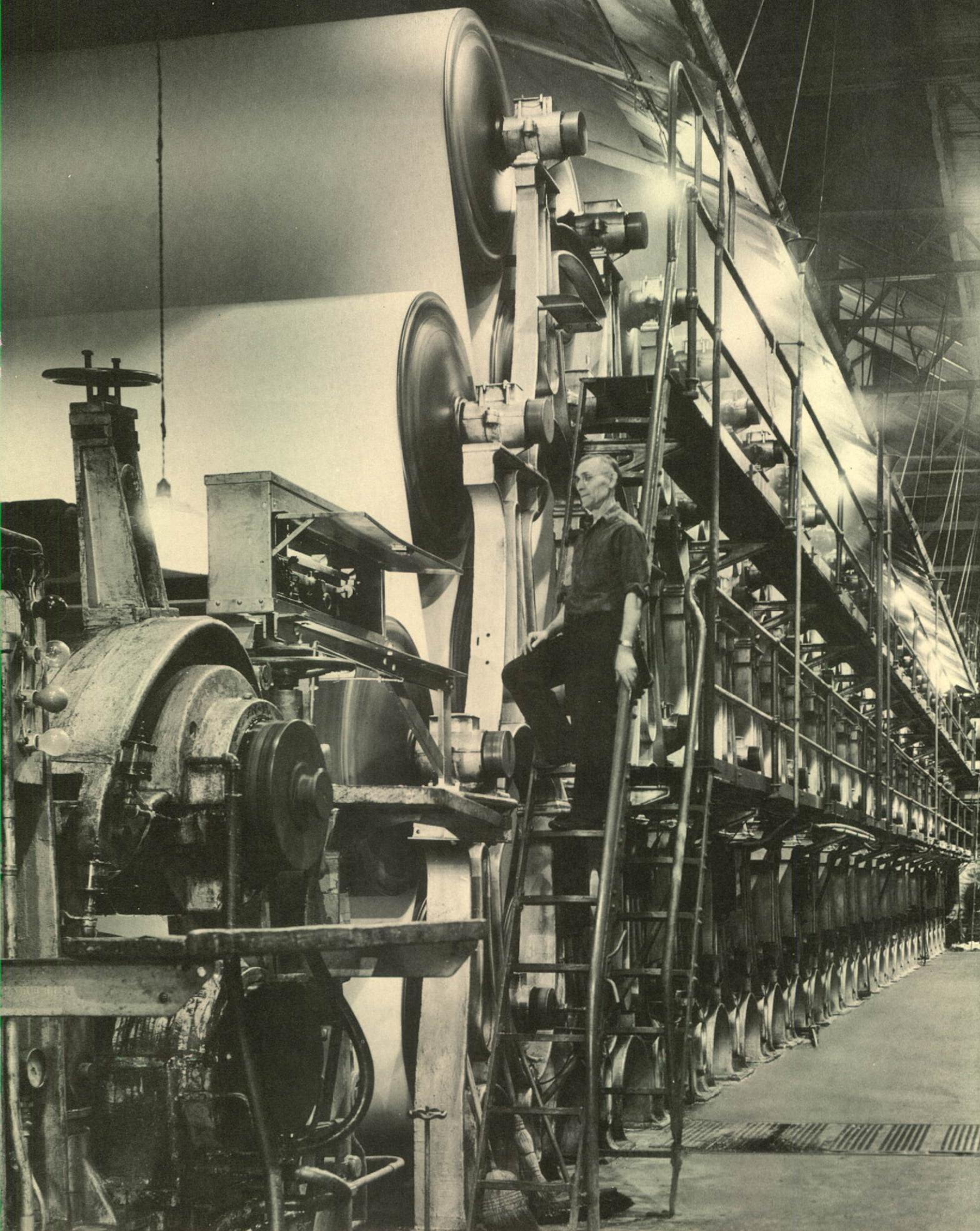
L. F. Whittemore
Chairman of the Board



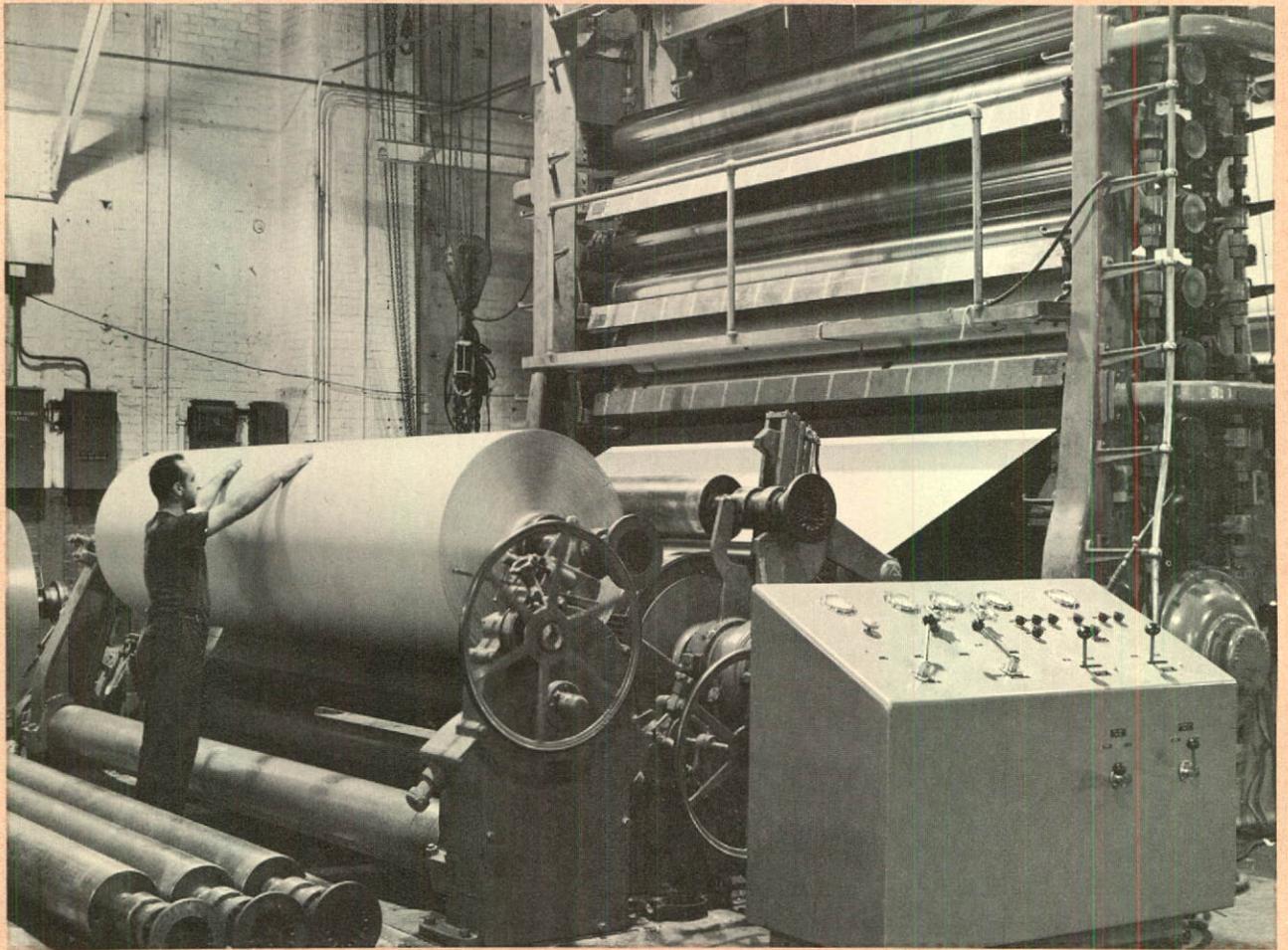
A. E. H. Fair
President

Bermico fibre pipe, used in homes, farms, and factories to duct water and, in some instances, corrosive liquids that attack metal, is loaded aboard railway freight cars at the tube mill for shipment to many parts of the United States.



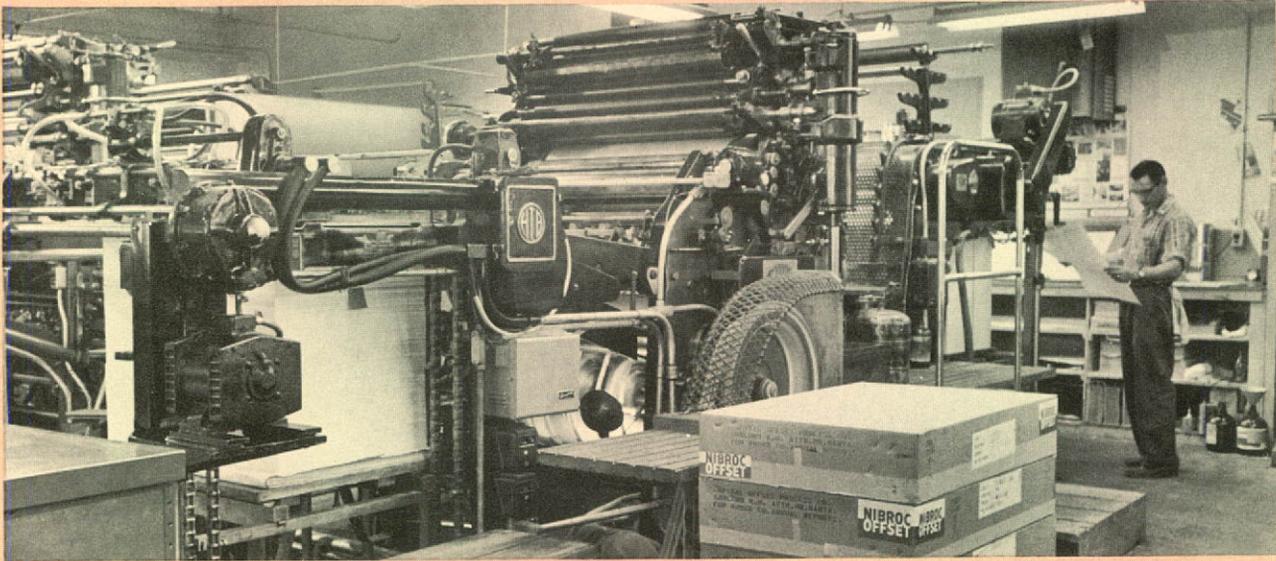


The various high-grade sulphite pulps produced by Brown Company are dried before shipment. This view shows one of two giant pulp driers, each capable of handling 200 tons of pulp per day.

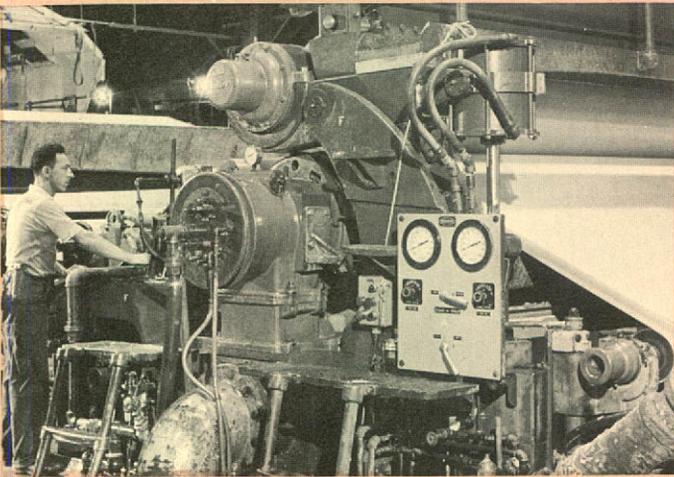


Paper machine No. 1 has been modernized to make high-grade, light-weight specialty papers. This view shows paper being wound on the giant reel. In the right foreground stands the control station for both the calender stack and the reel.





Nibroc offset is being widely accepted in the printing industry as a well-balanced, strong, bright paper of good uniformity. Pictured here is Nibroc offset paper in use on a modern color press.



Pictured at left is one of the new suction presses which have been installed as part of the modernization program of the Cascade paper machines, where specialty papers and printing papers are produced.



Selective cutting, illustrated in Brown Company's old growth pine forest at Shelburne, N. H., shows how both pulp wood and saw logs can be cut in such a way that perpetual reproduction will assure a continuous yield of raw materials for pulp and other wood products. This is the timber remaining after the removal of one million board feet of high-quality saw logs and 800 cords of pulpwood. The land is left in excellent growing condition.

BROWN



AND CONSOLIDATED

BALANCE

ASSETS

November 30

Current assets:

	<u>1958</u>	<u>1957</u>
Cash	\$ 1,608,739	\$ 1,709,996
Accounts receivable, trade, less allowance for doubtful accounts	5,774,214	5,046,442
Accounts receivable, other	142,659	99,030
Inventories (Note 2)	13,278,605	14,952,414
Prepaid insurance, taxes and other expenses	786,320	792,599
Total current assets	<u>\$21,590,537</u>	<u>\$22,600,481</u>

Fixed assets (Note 3):

Plants and equipment	\$78,420,072	\$76,706,008
Less—Depreciation	35,176,890	32,641,195
	<u>\$43,243,182</u>	<u>\$44,064,813</u>
Timberlands	\$ 8,734,282	\$ 8,732,824
Less—Depletion	5,820,299	5,823,932
	<u>\$ 2,913,983</u>	<u>\$ 2,908,892</u>
Total fixed assets	<u>\$46,157,165</u>	<u>\$46,973,705</u>

Investments and other assets:

Investments in unconsolidated subsidiaries and associated companies, at cost or less	\$ 333,007	\$ 358,007
Other assets and deferred charges	1,178,332	1,458,078
	<u>\$ 1,511,339</u>	<u>\$ 1,816,085</u>
	<u>\$69,259,041</u>	<u>\$71,390,271</u>

COMPANY

SUBSIDIARIES SHEET

LIABILITIES AND CAPITAL

November 30

Current liabilities:

	<u>1958</u>	<u>1957</u>
Notes payable to banks	\$ 1,200,000	\$ 2,200,000
Funded debt payable within one year	110,500	—
Accounts payable	4,182,147	4,847,231
Accrued payrolls, interest and other expenses	526,869	577,060
Dividend payable	—	647,163
Federal income taxes	653,496	978,899
Total current liabilities	<u>\$ 6,673,012</u>	<u>\$ 9,250,353</u>

Funded debt:

4½% Debentures due June 15, 1975 (at November 30, 1958 subject to sinking fund payments of \$110,500 on June 15, 1959, provided for in current liabilities, and \$213,000 annually thereafter)	\$ 4,676,600	\$ 4,862,600
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------	--------------

Deferred income taxes (relating to amortization of assets acquired under Certificates of Necessity)

	\$ 1,265,000	\$ 1,265,000
--	--------------	--------------

Capital and retained earnings:

Common stock, par value \$1 per share:		
Authorized—3,500,000 shares		
Issued—2,640,865 shares (Note 5)	\$ 2,640,865	\$ 2,640,865
Capital in excess of par value of common stock	10,717,287	10,717,287
Retained earnings (Note 6)	44,175,725	43,543,614
	<u>\$57,533,877</u>	<u>\$56,901,766</u>
Less—cost of 52,214 shares of issued common stock held in treasury	889,448	889,448
Total capital and retained earnings	<u>\$56,644,429</u>	<u>\$56,012,318</u>
	<u>\$69,259,041</u>	<u>\$71,390,271</u>

BROWN COMPANY

AND CONSOLIDATED SUBSIDIARIES

STATEMENT OF INCOME

	Year ended November 30	
	1958	1957
Sales, less discounts, returns and allowances	\$55,407,620	\$61,158,180
Materials, services and other manufacturing costs, selling, general, administrative and research expenses—including depreciation and depletion of \$3,185,265 in 1958 and \$2,855,592 in 1957	53,631,279	57,653,781
Net operating income	\$ 1,776,341	\$ 3,504,399
Other charges:		
Interest on funded debt	\$ 217,341	\$ 223,068
Other interest expense (net)	161,585	48,184
Miscellaneous other charges (net)	7,435	52,842
	\$ 386,361	\$ 324,094
Net income before federal income taxes	\$ 1,389,980	\$ 3,180,305
Provision for federal income taxes	410,000	1,100,000
Net income before tax refunds	\$ 979,980	\$ 2,080,305
Refunds received of federal income taxes for prior years with interest	315,651	—
Net income	\$ 1,295,631	\$ 2,080,305

STATEMENT OF RETAINED EARNINGS

YEAR ENDED NOVEMBER 30, 1958

Balance, November 30, 1957	\$43,543,614
Net income	1,295,631
Additional gain on sale of Canadian assets in 1954 and liquidation of Brown Corporation	113,075
Cash dividends on common stock—\$.30 per share (deduct)	(776,595)
Balance, November 30, 1958	\$44,175,725

BROWN COMPANY AND CONSOLIDATED SUBSIDIARIES NOTES TO FINANCIAL STATEMENTS

Note 1—Basis of consolidation:

The financial statements include the accounts of Brown Company and its wholly-owned subsidiaries, Granite State Veneer, Inc., Plywood Products, Inc. and Stratford Realty Corporation. The accounts of unconsolidated subsidiaries are not significant.

Note 2—Inventories:

The inventories at November 30, 1958 and November 30, 1957 consisted of the following:

	1958	1957
Pulpwood and logs.....	\$ 1,651,785	\$ 3,115,444
Pulpwood and logging operations in progress.....	3,149,728	4,028,656
	\$ 4,801,513	\$ 7,144,100
Other materials and supplies.....	3,668,190	3,860,465
Pulp, paper and other manufactured products.....	4,808,902	3,947,849
	\$13,278,605	\$14,952,414

Inventories of pulpwood and pulpwood content of pulp, carried at \$1,871,238 as at November 30, 1958, 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 is lower, cost representing actual, current average or current standard cost.

Note 3—Fixed assets:

Plants and equipment are carried substantially at cost, less depreciation provided. Timberlands 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. The carrying values of timberlands do not reflect regrowth in areas which have been cut or current market values for stumpage which are believed to be substantially higher than carrying values.

Note 4—Retirement plan for employees:

The currently estimated amount required to complete the funding of past service cost under Brown Company's retirement plan for employees is approximately \$5,100,000.

Note 5—Stock options:

Changes during the year and other information regarding options granted to certain officers and employees to purchase shares of the common stock of Brown Company are as follows:

Fiscal year granted	Option price per share	Number of shares			
		Under option November 30, 1957	Changes during the year		Under option November 30, 1958
		Options granted	Options expired*	Options expired*	Options expired*
1955	\$13.39	20,000			20,000
1955	14.77	43,400		(1,000)	42,400
1956	18.07	4,000			4,000
1956	14.99	2,000			2,000
1957	13.39	6,500			6,500
1957	12.22	3,000			3,000
1958	8.93		1,500		1,500
1958	10.63		4,000		4,000
		78,900	5,500	(1,000)	83,400

*Due to termination of employment

All options are exercisable during a nine-year period beginning one year from the date granted. Under the company's present option plan additional options may be granted which, together with options previously exercised and options then outstanding, will aggregate not more than 5% of the then outstanding shares of common stock, at a price not less than 85% of the fair market value of the stock at the time the option is granted. Options for an additional 28,500 shares were granted in December 1958 at \$12.54 per share, leaving a balance of 15,432 shares for possible future option under the plan.

Note 6—Dividend and other restrictions:

In the indenture covering the 4½% debentures of Brown Company there are restrictions on the payment of cash dividends on the company's common stock and on the application of any property or assets to the purchase or retirement of its common stock. As of November 30, 1958 such payments and applications were restricted to approximately \$3,700,000.

REPORT OF INDEPENDENT ACCOUNTANTS

PRICE WATERHOUSE & CO.

75 FEDERAL STREET

BOSTON 10

January 15, 1959

To the Board of Directors and
Stockholders of Brown Company

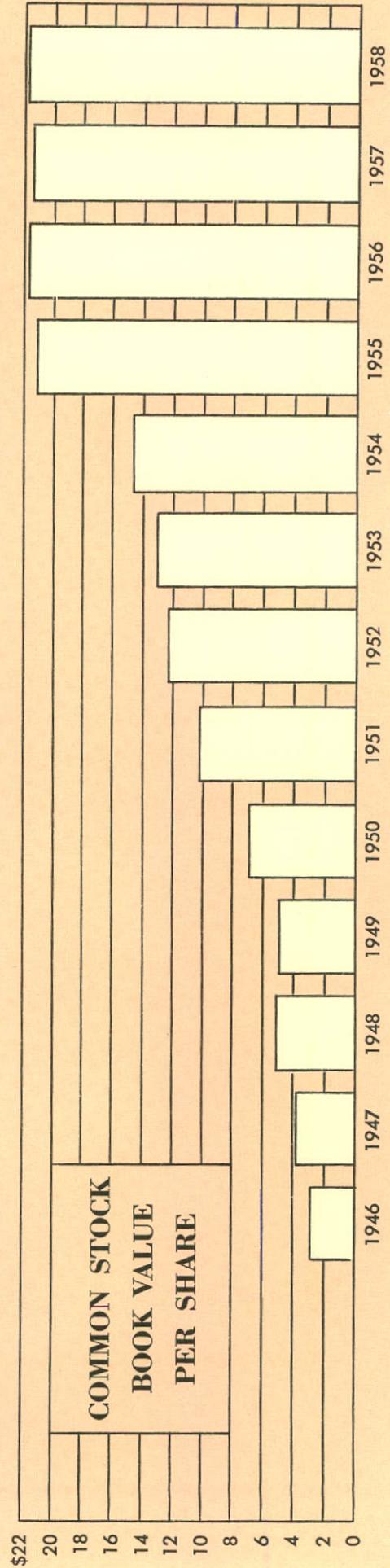
In our opinion, the accompanying balance sheet and statements of income and retained earnings present fairly the financial position of Brown Company and consolidated subsidiaries at November 30, 1958 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these 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 FINANCIAL POSITION AND STOCKHOLDERS' OWNERSHIP

(in thousands of dollars)
AS OF NOVEMBER 30

	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
Current assets	\$26,271	\$22,813	\$28,714	\$34,525	\$28,162	\$28,156	\$28,722	\$37,155	\$28,382	\$22,600	\$21,591
Current liabilities	4,927	3,057	7,387	14,102	9,584	8,718	11,238	10,085	9,256	9,250	6,673
Net working capital	\$21,344	\$19,756	\$21,327	\$20,423	\$18,578	\$19,438	\$17,484	\$27,070	\$19,126	\$13,350	\$14,918
Plants and equipment, less depreciation	23,096	23,597	24,057	28,588	32,879	33,173	34,994	30,398	38,813	44,065	43,243
Timberlands, less depletion	5,498	5,422	5,284	5,294	5,438	5,295	5,315	3,129	3,054	2,909	2,914
Investments and other assets	568	470	571	666	872	513	1,041	708	1,618	1,816	1,511
	\$50,506	\$49,245	\$51,239	\$54,971	\$57,767	\$58,419	\$58,834	\$61,305	\$62,611	\$62,140	\$62,586
Less—											
Funded debt (except portion in current liabilities)	17,300	16,777	15,200	14,400	13,600	12,800	12,000	5,181	5,059	4,863	4,677
Deferred income taxes	—	—	—	14	91	298	520	750	965	1,265	1,265
Net assets	\$33,206	\$32,468	\$36,039	\$40,557	\$44,076	\$45,321	\$46,314	\$55,374	\$56,587	\$56,012	\$56,644
Stockholders' ownership in net assets shown above:											
Convertible preferred stock, \$6	\$22,560	\$22,560	\$22,560	—	—	—	—	—	—	—	—
Convertible first preference stock, \$5	—	—	\$14,346	\$14,346	\$14,346	\$14,346	\$14,233	—	—	—	—
Second preference stock, \$3	—	—	—	5,789	5,172	4,297	2,818	—	—	—	—
Total preferred stocks	\$22,560	\$22,560	\$22,560	\$20,135	\$19,518	\$18,643	\$17,051	—	—	—	—
Common stock	10,646	9,908	13,479	20,422	24,558	26,678	29,263	\$55,374	\$56,587	\$56,012	\$56,644
	\$33,206	\$32,468	\$36,039	\$40,557	\$44,076	\$45,321	\$46,314	\$55,374	\$56,587	\$56,012	\$56,644
Number of common shares outstanding at end of year	1,992,817	1,992,817	1,992,817	1,992,817	1,992,817	1,992,817	2,000,727	2,606,765	2,592,451	2,588,651	2,588,651
Common stock book value per share	\$5.34	\$4.97	\$6.76	\$10.25	\$12.32	\$13.39	\$14.63	\$21.24	\$21.83	\$21.64	\$21.88



SUMMARY OF CONSOLIDATED INCOME AND CERTAIN EXPENDITURES

(in thousands of dollars)

	YEAR ENDED NOVEMBER 30									
	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958
Net sales	\$43,263	\$53,102	\$72,730	\$65,638	\$67,197	\$66,970	\$53,821	\$59,683	\$61,158	\$55,408
Net income before depreciation and depletion, interest on funded debt and income taxes	\$ 4,826	\$10,172	\$20,122	\$11,008	\$ 9,287	\$ 9,493	\$ 5,700	\$ 7,234	\$ 6,259	\$ 4,793
Charges for:										
Depreciation and depletion	\$ 2,291	\$ 2,424	\$ 2,575	\$ 2,818	\$ 3,134	\$ 3,081	\$ 2,116	\$ 2,433	\$ 2,856	\$ 3,185
Interest on funded debt	807	751	532	513	492	471	204	229	223	217
Provision for United States and Canadian taxes on income	711	2,975	9,585	3,280	2,610	2,530	1,350	1,960	1,100	410
Refunds of prior years' Federal income taxes										(315)
Total of above charges	\$ 3,809	\$ 6,150	\$12,692	\$ 6,611	\$ 6,236	\$ 6,082	\$ 3,670	\$ 4,622	\$ 4,179	\$ 3,497
Net income	\$ 1,017	\$ 4,022	\$ 7,430	\$ 4,397	\$ 3,051	\$ 3,411	\$ 2,030	\$ 2,612	\$ 2,080	\$ 1,296
Dividends paid or accrued on preferred stocks	865	865	1,106	1,028	982	931	178			
Balance of net income applicable to common stock	\$ 152	\$ 3,157	\$ 6,324	\$ 3,369	\$ 2,069	\$ 2,480	\$ 1,852	\$ 2,612	\$ 2,080	\$ 1,296
Average number of common shares outstanding during the year	1,992,817	1,992,817	1,992,817	1,992,817	1,992,817	1,996,772	2,295,315	2,591,976	2,589,836	2,588,651
Earnings per share of common stock	\$.08	\$1.58	\$3.17	\$1.69	\$1.04	\$1.24	\$.81	\$1.01	\$.80	\$.50*

Note—Amounts for 1949 through 1954 include the operations of Brown Corporation, Brown Company's wholly-owned Canadian subsidiary, which sold its assets on December 1, 1954.

*Including 12¢ per share attributable to refunds received of prior years' Federal income taxes.

Cash Expenditures For:

Reduction of funded debt	\$ 1,473	\$ 1,301	\$ 800	\$ 800	\$ 800	\$ 800	\$ 12,935	\$ 120	\$ 179	\$ 76
Purchase and retirement of preferred stocks			1,905	579	824	1,487	3,495			
Plant improvements, additions, and acquisitions, and additions to timberlands, less proceeds of disposal:										
Properties in the United States	1,199	2,140	5,094	4,790	2,353	3,999	5,893	10,775	7,961	2,280
Properties in Canada which were sold on December 1, 1954	1,535	833	1,959	2,470	918	988				

Directors

ORTON B. BROWN..... <i>Berlin, New Hampshire Director, New Hampshire Fire Insurance Co.</i>	CHARLES P. McTAGUE, Q. C..... <i>Toronto, Ontario Lawyer—White, Bristol, Beck & Phipps</i>
JOHN B. CHALLIES..... <i>Montreal, Quebec Consulting Civil Engineer — Retired Senior Vice President, Shawinigan Water & Power Company</i>	G. A. MORRIS..... <i>Montreal, Quebec Chairman, Habitant Food Products Limited</i>
THOMAS L. DUNBAR..... <i>Montreal, Quebec Industrial Consultant</i>	STUART W. SKOWBO..... <i>Berlin, New Hampshire Senior Vice President and Treasurer</i>
ARTHUR D. EMORY..... <i>Montreal, Quebec Chairman, United Corporations Limited</i>	JOHN L. SULLIVAN..... <i>Manchester, New Hampshire Lawyer—Sullivan and Wynot (Manchester, N. H.) —Sullivan, Bernard, Shea & Kenney (Wash- ington, D. C.)</i>
A. E. HAROLD FAIR..... <i>Newton, Massachusetts President</i>	GENE TUNNEY..... <i>Stamford, Connecticut Chairman of the Board, The McCandless Corporation</i>
MAURICE FORGET, Q. C..... <i>Montreal, Quebec Partner, Forget & Forget</i>	ARTHUR G. WALWYN..... <i>Toronto, Ontario President, Corporate Consultants Limited</i>
ERNEST M. HOPKINS..... <i>Hanover, New Hampshire Chairman, National Life Insurance Company</i>	LAURENCE F. WHITTEMORE..... <i>Pembroke, N. H. Chairman of the Board</i>
WILLIAM B. JOYCE..... <i>New York City President, Wm. B. Joyce & Company, Inc.</i>	

Director Emeritus

ERNEST H. MALING.....*Kennebunkport, Maine
Retired Vice President—Finance*

Principal Officers

Laurence F. Whittemore, *Chairman* • A. E. Harold Fair, *President* • Stuart W. Skowbo, *Senior Vice President & Treasurer*
Henry F. Scheetz, Jr., *Assistant to the Chairman* • Clarence S. Herr, *Vice President* • Edward H. Petrick, *Vice President*
Malcolm T. Murray, *Vice President* • John W. Jordan, *Vice President & Secretary*
Hugh D. Jordan, *Assistant Treasurer* • William J. Oleson, Jr., *Controller*

Other Senior Staff

Robert W. Andrews, *Vice President* • Newton L. Nourse, *Vice President*
George A. Day, *Technical Director* • Paul M. Goodloe, *Mgr. of Research & Development*
Douglas H. McMurtie, *Research Director* • Alfred B. Clark, *Director of Labor Relations*
Alexander B. Walker, *Budget Director* • Van R. Woolsey, *General Purchasing Agent*
George Craig, *Chief Engineer* • Roland E. Fickett, *Mgr. of Coordination & Special Services*
Edward J. Reichert, *Assistant Secretary* • Leonard A. Pierce, *Clerk*

Registrars and Transfer Agents for Common Stock

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

Registrar for the Company's 4½% Debentures

Old Colony Trust Company..... Boston

Auditors

Price Waterhouse & Co..... Boston

General Office: Berlin, New Hampshire *Executive and General Sales Offices:* 150 Causeway Street, Boston 14, Mass.
Mills: Berlin, Gorham and North Stratford, New Hampshire; Corvallis, Oregon

