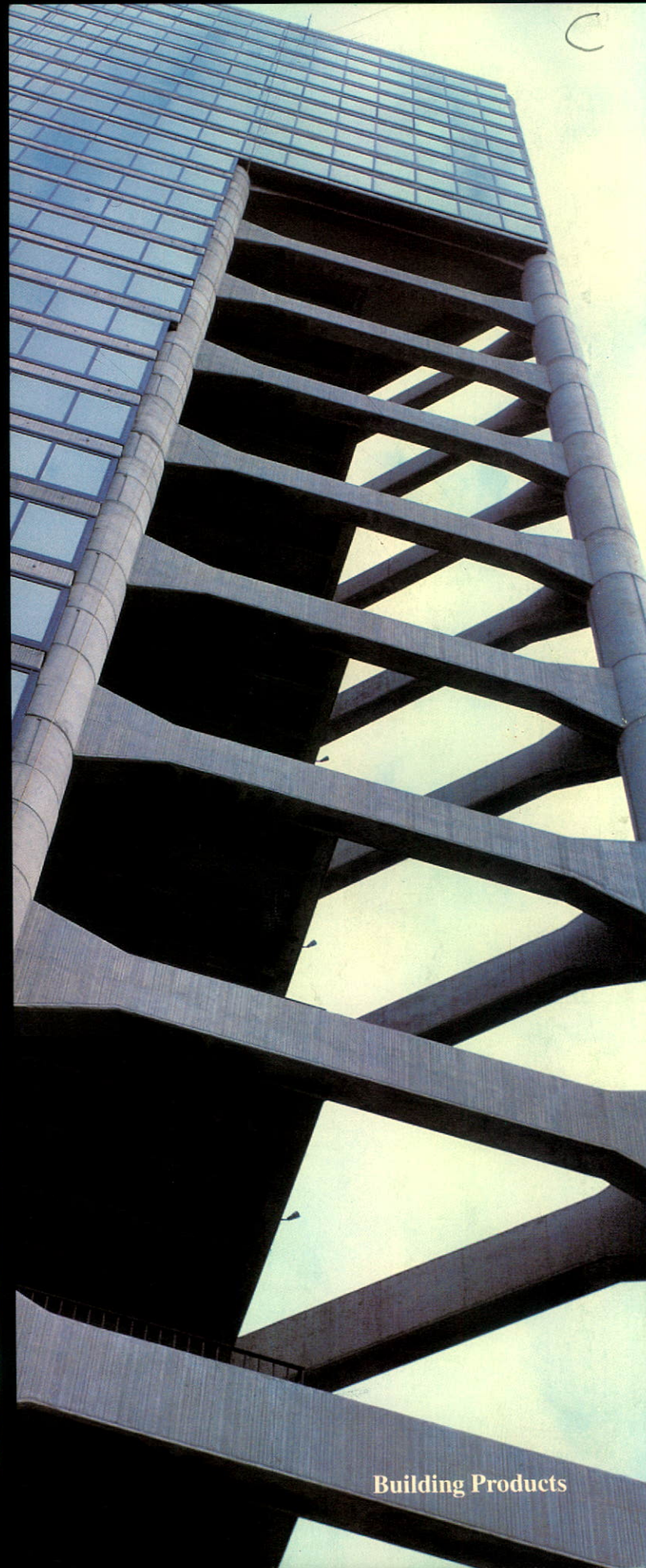



Paper Products



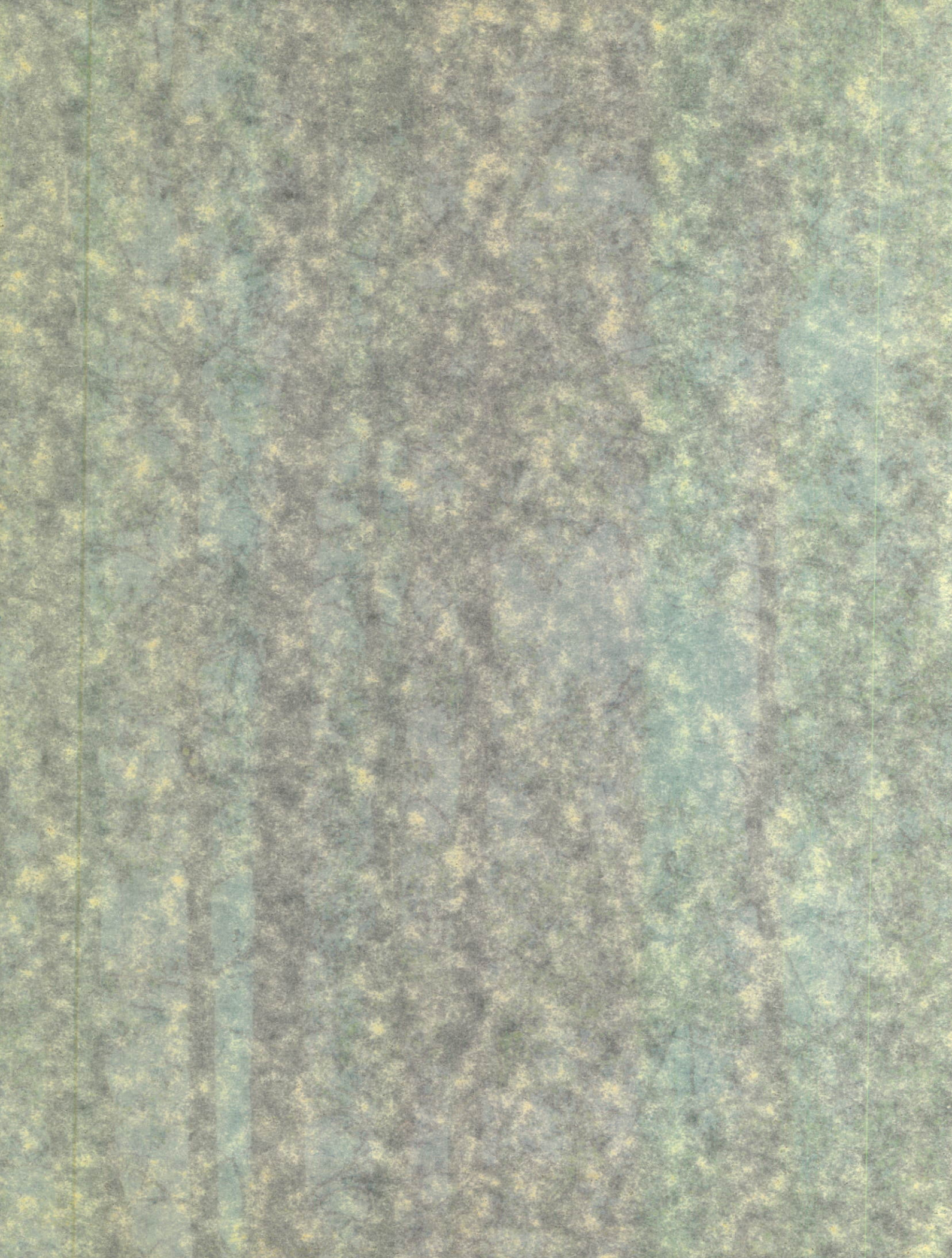
Building Products

Front cover—Brown's paper products and building products are depicted by this paperboard machine (left photo) and the unusual design of this office building achieved by using Brown's concrete forming systems (right photo).



Brown Company at its paper mill in Parchment, Michigan is a major and one of the oldest producers of Genuine Vegetable Parchment paper. In addition to a variety of industrial applications Genuine Vegetable Parchment has many decorative uses in reports and brochures as illustrated on the opposite page.





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Brown Company Highlights

Year Ended or at July 31	1979	1978
Net sales	\$573,069,000	\$492,009,000
Operating income	42,314,000	17,730,000
Earnings before extraordinary charge	22,340,000	6,496,000
Net earnings	17,183,000	6,496,000
Depreciation and depletion	16,964,000	14,901,000
Capital expenditures	17,069,000	19,638,000
Per share of stock:		
Earnings before extraordinary charge	\$ 3.12	\$.91
Net earnings	2.40	.91
Book value	23.06	21.01
Percentages:		
Earnings before extraordinary charge to net sales	3.9%	1.3%
Earnings before extraordinary charge to average shareholders' equity	14.1%	4.4%
Long-term debt to shareholders' equity	68.2%	81.8%
Working capital	\$106,447,000	\$ 93,054,000
Total assets	386,530,000	358,896,000
Long-term debt	113,003,000	122,920,000
Shareholders' equity	165,726,000	150,353,000
Number of employees	8,100	8,900
Number of shareholders	4,500	5,000

Report to Shareholders

We are pleased to report a recovery in earnings in fiscal 1979 from the depressed level of the prior year. Earnings for the year before an extraordinary charge were higher than any prior year ended July 31. The improved performance reflects a strong recovery in the paper products segments of our business and record results from building products.

Sales for the year ended July 31, 1979 rose to \$573.1 million from \$492.0 million in the prior year, and earnings, before an extraordinary charge, increased to \$22.3 million from \$6.5 million a year ago. Earnings per share before the extraordinary charge were \$3.12 in 1979 versus 91 cents in 1978.

The extraordinary charge of \$5.1 million, net of income tax benefits of \$2.3 million, reduced net earnings for 1979 to \$17.2 million, or \$2.40 per share. This charge arose from the settlement of numerous private folding carton class action lawsuits filed against Brown Company and 23 other folding carton producers for alleged price fixing. These suits have been pending for several years, all of the other defendants had reached settlements, and we concluded that it was in Brown's best interest to settle these lawsuits.

Construction activity was at a high level in 1979 and income from building products operations, after a record \$12.8 million in 1978, rose to a new high of \$21.5 million in 1979. Demand was strong for rock, sand, gravel and concrete that we sell in Southern California and concrete forming equipment and accessories that we sell throughout the United States and overseas. Our diversification into building products starting in 1970 has been very successful. This segment of our business accounted for 24 percent of sales and 44 percent of operating income before corporate expenses in 1979.

Our paper products operations, especially our pulp and paper mill at Berlin, New Hampshire, recovered sharply in 1979 from the depressed level of last year. Operating income from paper products increased from \$9.6 million in 1978 to \$26.9 million in 1979, due in large part to a recovery in the market for pulp and commodity-grade uncoated printing and writing papers. A reduction in the North American and European pulp inventory from a high of almost three million tons in

the early part of fiscal 1978 to less than one million tons by July 1979 was a major factor in the market recovery.

Brown's financial position also improved during the year. Cash rose from \$19.7 million at the end of 1978 to \$38.8 million at the end of 1979. Long-term debt declined from \$122.9 million to \$113.0 million and the ratio of long-term debt to shareholders' equity improved from .82 to 1 to .68 to 1.

During 1979 we continued our program to dispose of businesses that do not fit well with our overall operations and to acquire businesses that will increase the profitability of these operations. We sold two of our small paper operations—a paperboard and carton plant at Castleton-on-Hudson, New York and a fine papers plant at Holyoke, Massachusetts. We acquired a previously-leased Bristol, Pennsylvania business that manufactures parchment paper. The addition of the Bristol facility expands the parchment making capability of our specialty papers operations.

On October 16, 1979 Brown Company announced that it had reached an agreement in principle with James River Corporation for James River to purchase the assets of Brown's Berlin, New Hampshire pulp and paper mill, including approximately 600,000 acres of timberland and the assets of Brown's specialty paper products operations located principally in Parchment, Michigan for \$130.0 million in cash and \$40.0 million of James River's 9% convertible preferred stock, convertible at \$30 per share. In addition, James River would assume approximately \$46.0 million of debt relating to the assets to be purchased and certain other liabilities. The proposed purchase price is substantially in excess of book value. The operations to be sold had sales of \$282.1 million and operating income of \$18.1 million during the fiscal year ended July 31, 1979, and identifiable assets at year end of \$184.8 million. Completion of the transaction is subject to numerous contingencies including the approval of the directors of Brown and James River and also the approval of Brown's shareholders. Full information concerning the proposed transaction will be contained in a proxy statement that will be sent to shareholders at a later date.



Merrill L. Nash
Chairman of the Board and President
October 16, 1979



At tunnel construction sites forms are moved into position by this tunnel form traveler.

(millions of dollars)	1979	1978
Customer sales:		
Rock, sand, gravel and transit-mixed concrete	\$ 65.2	\$ 50.4
Concrete forming equipment and related services	71.3	57.7
	<u>\$136.5</u>	<u>\$108.1</u>
Operating income	\$ 21.5	\$ 12.8
Identifiable assets	\$ 76.2	\$ 63.6
Depreciation and depletion	\$ 2.3	\$ 1.6
Capital expenditures	\$ 3.1	\$ 1.0

Building Products

Operating income from building products reached a new high in 1979 and was sharply above the record level of the prior year rising to \$21.5 million from \$12.8 million. The construction markets that Brown serves (mostly commercial and industrial construction) were strong in fiscal 1978 and remained strong throughout fiscal 1979.

Building products operations are all related to concrete construction and include the mining and processing of rock, sand and gravel and the manufacture of reusable forms and accessories used in concrete construction.

Brown, through its Livingston-Graham Division, is a principal supplier of rock, sand and gravel and ready-mixed concrete in Southern California. Rock, sand and gravel are mined and processed in five locations. Ready-mixed concrete is distributed to construction sites from the Company's fourteen concrete batch plants. Many of the Southern California highways, freeways, harbor improvements, skyscrapers, houses and other structures are built using building products supplied by Brown.

Production of rock, sand and gravel totaled 6.8 million tons in fiscal 1979 compared with 6.3 million tons in fiscal 1978, approximately 30 percent of which is used by Brown to make concrete.

Brown Company through its subsidiaries, Symons Corporation and Richmond Screw Anchor Company, is a major producer and distributor of factory-built reusable forms and accessories used in concrete construction. Most reusable forms consist of various-sized steel frames containing plywood inserts that are joined together by metal ties to make forms for building concrete walls, floors and other structures. After the concrete is set, the forms are removed and used again resulting in labor savings and other efficiencies.





Welding (right photo) is a major step in the manufacture of accessories used in concrete construction (opposite page). A variety of trucks, bulldozers and other equipment is used in the mining and processing of rock, sand and gravel (left and center photos).

Brown also provides engineering and technical services to the users of its forming systems and manufactures bolts, screw anchors, hanging devices and other products for the on-site construction of forms. In addition, Brown supplies contractors with accessories used in concrete construction such as scaffolding, chemicals for curing and sealing concrete and equipment for transporting materials at tunnel construction sites.

Steel and cement are major raw materials used in the manufacture of building products. In fiscal 1979 the building products operations purchased 35,000 tons of steel and 375,000 tons of cement, up from 27,000 tons of steel and 323,000 tons of cement in fiscal 1978.

Prior to 1970, Brown Company was primarily a producer of paper products. Diversification into concrete-related building products began in 1970 with the acquisition of the rock, sand and gravel operations followed by the purchase of the concrete forming and accessories businesses in the 1972 through 1974 period. This diversification program has been very successful. Building products accounted for 24 percent of sales and 44 percent of operating income before corporate expenses in 1979.

The number of building products employees stood at about 1,800 at the end of 1979, representing 22 percent of the total number of Brown Company employees.

Inventories, receivables, plant, equipment and other properties related to the manufacture and sale of building products represent 23 percent of Brown's operating assets. Plant and equipment of the rock, sand and gravel operations include mineral reserves, rock, sand and gravel processing plants, power shovels, dump trucks, draglines, cranes, batch plants for mixing concrete and mixer trucks. Equipment used to make forms and accessories includes metal punch presses, brake units and forging machines.



These trees will be cut into chips to make pulp.

(millions of dollars)	1979	1978
Customer sales:		
Pulp	\$ 31.6	\$ 26.7
Paper (including corrugating medium)	183.7	156.1
Paperboard	17.4	18.9
	<u>\$232.7</u>	<u>\$201.7</u>
Operating income	\$ 18.0	\$ 2.5
Identifiable assets	\$180.0	\$186.8
Depreciation and depletion	\$ 11.1	\$ 10.1
Capital expenditures	\$ 11.8	\$ 14.7

Pulp, Paper and Paperboard

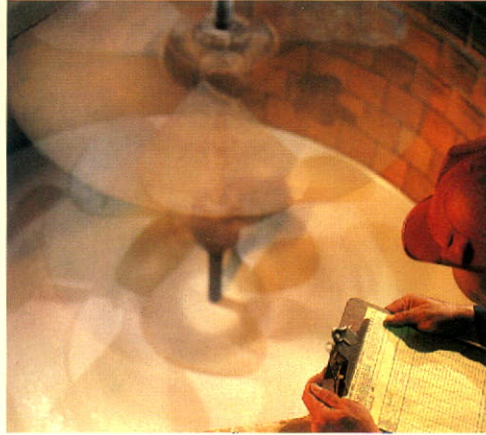
Operating income from Brown's pulp, paper and paperboard business segment rose significantly in 1979 to \$18.0 million from the low level of \$2.5 million in the prior year. A recovery from the depressed levels of 1977 and 1978 in the market for pulp and commodity-grade uncoated printing and writing papers, especially at the Company's pulp and paper mill in New Hampshire, was the main reason for the improved results. Production totaled 806,000 tons in 1979 compared with 785,000 tons in 1978 as shown below:

	Tons Produced	
	1979	1978
Pulp	258,000	239,000
Paper	324,000	295,000
Corrugating medium	87,000	90,000
Paperboard	137,000	161,000
Total production	<u>806,000</u>	<u>785,000</u>

Papers manufactured by Brown include printing and writing papers, papers used for computer printouts, flexible packaging papers used for food overwraps, lightweight papers used in the publishing industry, and parchment papers used for greeting cards and labels as well as various applications in the construction industry. In addition, Brown makes corrugating medium which is used by corrugated box manufacturers.

Pulp, paper, corrugating medium and paperboard are sold directly to paper manufacturers and converters. In 1979 Brown sold 103,000 tons of pulp, 231,000 tons of paper, 84,000 tons of corrugating medium and 70,000 tons of paperboard to customers. The remaining pulp produced was used by Brown to make paper from pulp. The remaining paper and paperboard produced were used by Brown in its converted paper products business segment to make institutional towels and tissues and food service disposables from paper and to make folding cartons from paperboard.





Pulp is mixed in a beater (right photo) to make parchment paper on this machine (opposite page) in Parchment, Michigan. Paperboard manufactured by Brown is stored for shipment or conversion into other products (left photo).

Trees, a renewable resource, are the backbone of Brown Company's paper operations. The constant growth of trees on the nation's Federal and privately-owned lands and the rising use of wastepaper as a substitute for pulp made from trees provide a continuous and assured stream of raw materials for the production of paper products. The manufacture of products by the pulp, paper and paperboard segment of Brown's business is achieved by using a combination of trees, wastepaper and purchased pulp as raw materials. During 1979, 457,000 cords of wood were used to make pulp, 138,000 tons of wastepaper were used to make paperboard, and 157,000 tons of purchased pulp were used to make paper.

Pulp and paper mills consume large amounts of energy and Brown is always striving to make its mills more energy efficient. This not only helps meet the nation's energy goals but reduces operating costs. At present a new boiler is being installed at Brown's New Hampshire pulp mill which will burn bark removed from logs during the pulp manufacturing process and reduce oil consumption by 10 million gallons annually.

At the end of 1979, 44 percent, or 3,600, of Brown's employees worked at Brown's pulp, paper and paperboard operations.

Inventories, receivables, plant, equipment and other properties related to the manufacture and sale of pulp, paper and paperboard represent 54 percent of Brown's operating assets. Properties include a pulp and paper mill in New Hampshire and paper and paperboard mills in Michigan. The New Hampshire mill is served by 600,000 acres of timberland owned by Brown and includes six paper machines and a corrugating medium machine. The Michigan mills contain six paper machines together with facilities for making paperboard from wastepaper on two paperboard machines.



Brown makes a wide variety of products from paper and paperboard.

(millions of dollars)	1979	1978
Customer sales:		
Towels and tissues	\$ 93.5	\$ 76.4
Food service disposables	42.4	35.6
Folding cartons	59.8	61.0
Matches and other	8.2	9.2
	<u>\$203.9</u>	<u>\$182.2</u>
Operating income	\$ 8.9	\$ 7.1
Identifiable assets	\$ 77.1	\$ 78.7
Depreciation and depletion	\$ 3.6	\$ 3.2
Capital expenditures	\$ 2.1	\$ 3.9

Converted Paper Products

Operating income from the manufacture and sale of converted paper products was \$8.9 million in fiscal 1979 compared with \$7.1 million in fiscal 1978. Most of the increase was due to an improvement in the towel and tissue portion of the converted paper products operation.

Brown converts paper and paperboard into a wide range of products including towels and tissues for use by institutions and for the private label consumer markets, folding cartons such as ice cream and cereal cartons, book matches used for advertising, and food service disposables such as baking cups, pan liners, coffee filters and sandwich wraps. Brown also makes plastic cups to round out its line of paper-based food service disposables.

The Company's converted products are sold primarily to distributors, retailers and food processors by Brown Company salesmen and by brokers. Most of Brown's consumer-oriented products such as towels and tissues are sold for private label distribution.

Photography, art work and design are significant to the production of cartons and other packaging material. Brown's experienced packaging design department performs these functions for the Company's product lines and for many brand name producers of food, drugs, household supplies and other products.

Paper and paperboard are the basic raw materials used in the manufacture of converted paper products. In fiscal 1979, 158,000 tons of paper and 94,000 tons of paperboard were used in the manufacturing process compared with 140,000 tons of paper and 107,000 tons of paperboard in 1978. In fiscal 1979, 75,000 tons of the paper used were produced internally by the converted paper products operations and 30,000 tons of the paperboard used were purchased from outside sources. Essentially all remaining paper and paperboard were acquired from the pulp, paper

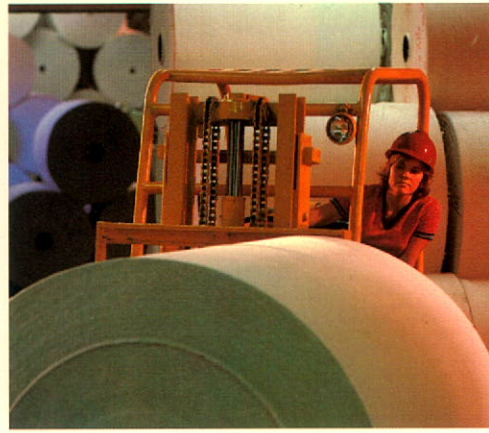
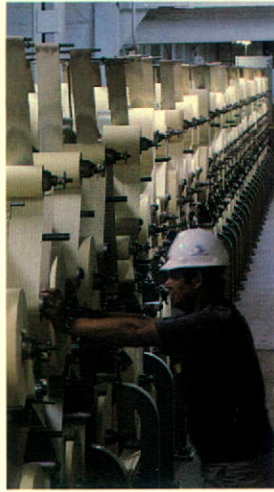
Bounty
Unscented
BLEACH
For all surfaces
All colors

Kotex
MAXI PADS
FOR HEAVY DAYS



people
make Jewel the place





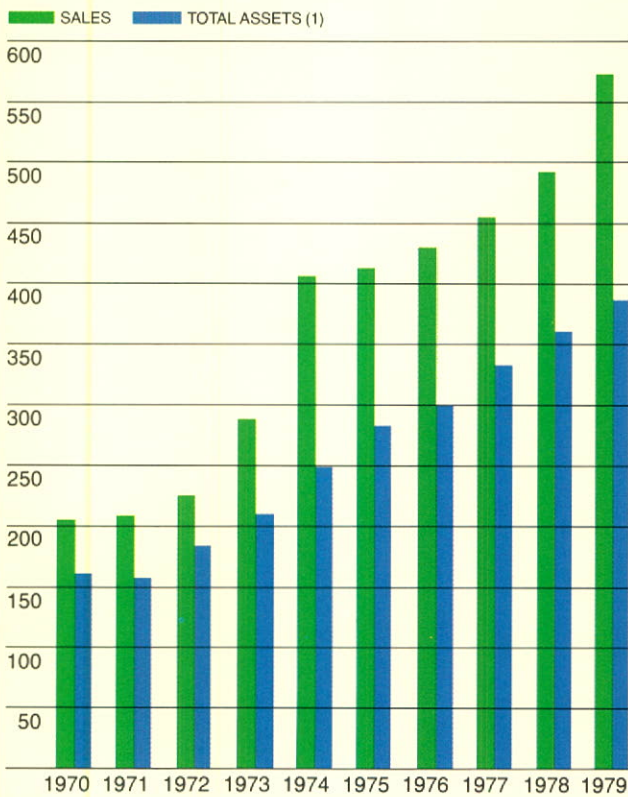
Brown is a major producer of folding cartons and other packages (opposite page). Paper manufactured in Wisconsin (right photo) is converted into facial tissue on this machine (left photo).

and paperboard segment of Brown's business. The paper produced internally was made from wastepaper and 105,000 tons of wastepaper were used to make paper in 1979.

Employment at Brown's converted paper products operations totaled 2,500 at the end of 1979, representing 31 percent of the total employees of Brown Company.

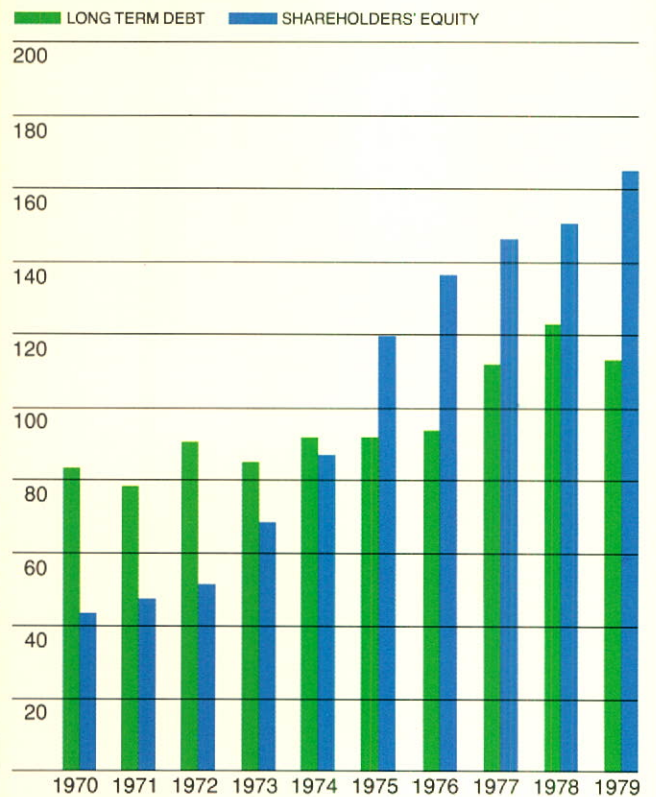
Inventories, receivables, plant, equipment and other properties related to converted paper products account for 23 percent of Brown's operating assets. Properties are located in Wisconsin, New Hampshire, Michigan and Illinois. Mills in Wisconsin make towels and tissues from wastepaper. The Wisconsin mills contain seven paper machines, together with equipment to convert the paper manufactured on these machines into towels and tissues. Equipment at the New Hampshire mill converts paper acquired from the pulp, paper and paperboard segment of Brown's business into towels and tissues used by institutions such as hospitals, factories and restaurants. Mills in Michigan include a plastic cup plant and equipment for converting paperboard and paper into folding cartons and food service disposables. These Michigan mills contain a wide variety of printing presses, gluers, waxers and cutting and trimming equipment and are served by a packaging design department that designs cartons and other packages for the Company's products and for customers. Book matches are manufactured from paperboard at a plant in Illinois.

Sales and Total Assets (millions)



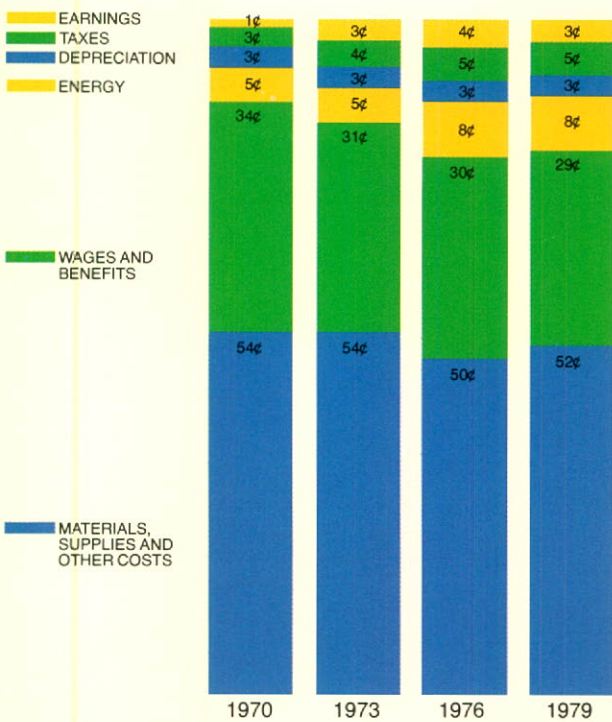
(1) At end of year.

Capital Structure (millions) (1)

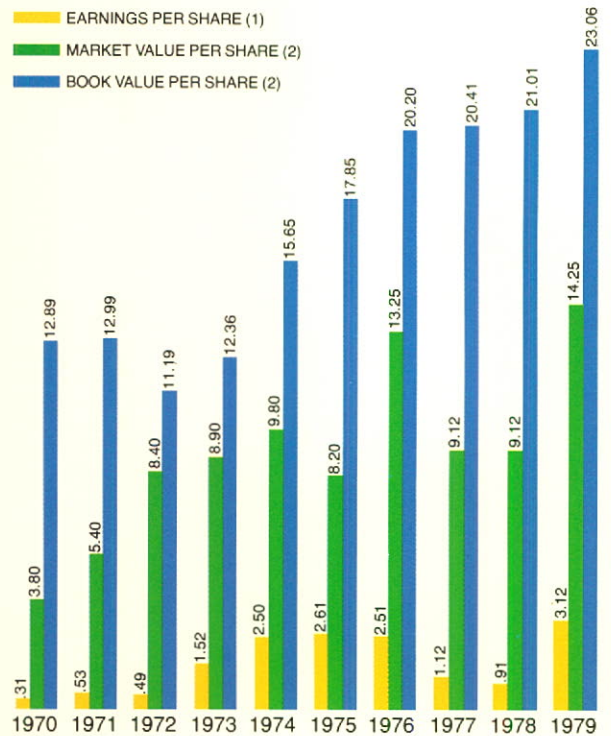


(1) At end of year.

Distribution of the Sales Dollar



Earnings and Value Per Share (dollars)



(1) Before extraordinary charge.

(2) At end of year.



Brown's computer center in Michigan and network of computer terminals (left photos) provide Brown's operations with data processing services.

Corporate Activities and Financial Review

Brown's corporate office is located in Pasadena, California where overall control, planning, direction and staff assistance are provided for the various operating divisions and subsidiaries. A major data processing center is centrally located in Kalamazoo, Michigan to handle most of the data processing needs of Brown Company operations scattered throughout the United States.

The charts on the opposite page show the following selective information regarding Brown's financial position and results of operations over the past ten years:

Total assets have been and remain high in relation to sales reflecting the capital intensive nature of Brown's operations. However, the amount of assets compared with sales have declined over the past ten years reflecting in part diversification into building products which is not as capital intensive as paper products.

Over the ten-year period Brown's financial position has improved materially as shown by the change in the relationship of long-term debt to shareholders' equity.

The distribution of Brown's sales dollar shows that more of each sales dollar is being spent on energy costs and less on wages and benefits. This reflects the well-publicized cost increases in energy and the successful effort by Brown to keep at a minimum the number of people needed to operate its businesses efficiently.

Earnings, before an extraordinary charge in 1979, increased from 31 cents per share in 1970 to \$3.12 per share in 1979.

Brown Company and Subsidiaries
Consolidated Statements of Earnings and Retained Earnings

Year Ended July 31	1979	1978
Net sales	\$573,069,000	\$492,009,000
Operating costs:		
Cost of sales	\$471,907,000	\$421,104,000
Selling, administrative and general expenses	58,848,000	53,175,000
	<u>\$530,755,000</u>	<u>\$474,279,000</u>
Operating income	\$ 42,314,000	\$ 17,730,000
Interest cost:		
Interest expense—Note 4	\$ 10,045,000	\$ 10,015,000
Interest income	(3,763,000)	(1,221,000)
Net interest cost capitalized—Notes 1 and 10	—	(343,000)
	<u>\$ 6,282,000</u>	<u>\$ 8,451,000</u>
Earnings before income taxes and extraordinary charge	\$ 36,032,000	\$ 9,279,000
Income tax provision—Notes 1 and 11	13,692,000	2,783,000
Earnings before extraordinary charge	\$ 22,340,000	\$ 6,496,000
Extraordinary charge after income tax benefits of \$2,328,000—Note 12	5,157,000	—
Net earnings	<u>\$ 17,183,000</u>	<u>\$ 6,496,000</u>
Earnings per share—Note 13:		
Before extraordinary charge	\$ 3.12	\$.91
Extraordinary charge—Note 12	.72	—
Net earnings	<u>\$ 2.40</u>	<u>\$.91</u>
Changes in retained earnings:		
Beginning balance	\$ 86,597,000	\$ 82,246,000
Net earnings	17,183,000	6,496,000
Dividends (\$.30 per share in 1979 and 1978)	(2,152,000)	(2,145,000)
Ending balance	<u>\$101,628,000</u>	<u>\$ 86,597,000</u>

See notes to consolidated financial statements.

Brown Company and Subsidiaries

Consolidated Statements of Changes in Financial Position

Year Ended July 31	1979	1978
Funds provided from operations:		
Earnings before extraordinary charge	\$22,340,000	\$ 6,496,000
Items included in earnings not affecting working capital:		
Depreciation and depletion	16,964,000	14,901,000
Deferred income taxes	2,600,000	1,289,000
Provision for disposition of assets	2,383,000	1,800,000
Total before extraordinary charge	<u>\$44,287,000</u>	<u>\$24,486,000</u>
Extraordinary charge net of income tax benefits	(5,157,000)	—
Other funds provided:		
Asset dispositions	\$ 7,383,000	\$ 1,341,000
Debt issued	3,368,000	18,068,000
Stock issued	342,000	35,000
Other	229,000	158,000
	<u>\$11,322,000</u>	<u>\$19,602,000</u>
Total funds provided	\$50,452,000	\$44,088,000
Funds used:		
Plant additions	\$17,069,000	\$19,638,000
Property, plant and equipment of a purchased business	1,425,000	—
Pre-1977 leases capitalized	—	3,883,000
Reduction in long-term debt and other liabilities	13,886,000	6,728,000
Funds reserved (expended) to pay for pollution control facilities	(2,458,000)	9,408,000
Cash dividends declared	2,152,000	2,145,000
Increase in non-current receivables	4,985,000	—
	<u>\$37,059,000</u>	<u>\$41,802,000</u>
Increase in working capital	<u>\$13,393,000</u>	<u>\$ 2,286,000</u>
Elements of change in working capital		
Increase (decrease):		
Cash and cash equivalents	\$19,149,000	\$ 5,216,000
Accounts receivable	9,852,000	4,011,000
Inventories	4,576,000	2,359,000
Prepaid expenses	(5,000)	(962,000)
Current maturities of long-term debt	(2,834,000)	(918,000)
Accounts payable	(3,492,000)	(1,377,000)
Accrued expenses	(11,429,000)	(3,430,000)
Income taxes payable	(2,424,000)	(2,613,000)
Increase in working capital	<u>\$13,393,000</u>	<u>\$ 2,286,000</u>

See notes to consolidated financial statements.

Brown Company and Subsidiaries Consolidated Balance Sheets

Assets	At July 31	1979	1978
Current assets:			
Cash and cash equivalents—Note 17		\$ 38,826,000	\$ 19,677,000
Accounts receivable (less allowance of \$990,000 in 1979 and \$899,000 in 1978)		71,492,000	61,640,000
Inventories—Notes 1 and 2		80,245,000	75,669,000
Prepaid expenses		721,000	726,000
Total current assets		<u>\$191,284,000</u>	<u>\$157,712,000</u>
Properties—Notes 1, 4 and 14:			
Land and improvements		\$ 8,950,000	\$ 9,722,000
Timberlands and quarries		9,967,000	9,967,000
Buildings, machinery and equipment		343,788,000	345,137,000
		<u>\$362,705,000</u>	<u>\$364,826,000</u>
Accumulated depreciation and depletion		<u>(191,836,000)</u>	<u>(185,721,000)</u>
		<u>\$170,869,000</u>	<u>\$179,105,000</u>
Other assets:			
Funds restricted for pollution control facilities		\$ 13,149,000	\$ 15,607,000
Investments and non-current receivables—Note 17		7,400,000	2,241,000
Other		3,828,000	4,231,000
		<u>\$ 24,377,000</u>	<u>\$ 22,079,000</u>
Total assets		<u><u>\$386,530,000</u></u>	<u><u>\$358,896,000</u></u>

See notes to consolidated financial statements.

Liabilities and Shareholders' Equity	At July 31	1979	1978
Current liabilities:			
Current maturities of long-term debt		\$ 9,264,000	\$ 6,430,000
Accounts payable		19,696,000	16,204,000
Accrued expenses—Note 17		49,725,000	38,296,000
Income taxes payable		6,152,000	3,728,000
Total current liabilities		<u>\$ 84,837,000</u>	<u>\$ 64,658,000</u>
Other liabilities:			
Long-term debt—Note 4		\$113,003,000	\$122,920,000
Deferred income taxes		21,582,000	18,982,000
Other		1,382,000	1,983,000
		<u>\$135,967,000</u>	<u>\$143,885,000</u>
Shareholders' equity—Notes 1, 4, 5, 6 and 7:			
Common stock		\$ 7,198,000	\$ 7,168,000
Other capital		57,056,000	56,744,000
Retained earnings		101,628,000	86,597,000
Treasury stock		(156,000)	(156,000)
		<u>\$165,726,000</u>	<u>\$150,353,000</u>
Total liabilities and shareholders' equity		<u><u>\$386,530,000</u></u>	<u><u>\$358,896,000</u></u>

Brown Company and Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Accounting Policies

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. At July 31, 1979, Gulf + Western Industries, Inc. owned 80.3 percent of the Company's common stock.

Inventories are generally valued at the lower of average cost or market.

Properties are stated at cost. Maintenance and repairs are expensed. Betterments and renewals are charged to the appropriate property account. The cost of assets and the related accumulated depreciation are eliminated from the accounts when assets are retired or otherwise disposed of. Gains on disposition of assets are reflected in income in the year of disposal and losses are reflected when a decision is made to dispose of assets.

Depreciation is, in general, computed using the straight-line method over the estimated useful lives of the various classes of properties. The estimated useful lives fall largely within the following ranges:

Buildings and other structures	10-50 years
Automotive equipment	3-10 years
Machinery (including capitalized leases), furniture and other equipment	2-25 years

The Company capitalized the net interest cost during construction on bonds issued to finance pollution control facilities since interest during construction was included in the proceeds from the sale of the bonds and such interest is considered part of the cost of

the facilities. Net interest cost capitalized consists of bond interest expense less interest income received on the investment of bond proceeds until such proceeds are used to pay for the facilities.

Provisions for income taxes reflect the recognition of investment tax credits in the year realized (flow-through method). The Company and its subsidiaries are included in the consolidated Federal income tax return of Gulf + Western Industries, Inc. The Company's provision for Federal income taxes is computed (and payment made to Gulf + Western) as if the Company filed a separate consolidated return.

Contributions are made to pension trusts to fund accrued pension expense, including amounts needed to amortize the unfunded cost of past service over 30 years.

2. Inventories

At July 31	1979	1978
Raw materials, work in process and supplies	\$36,098,000	\$37,088,000
Paper and other manufactured products	44,147,000	38,581,000
Total	<u>\$80,245,000</u>	<u>\$75,669,000</u>

Inventories used in computing the cost of sales were \$80,245,000, \$75,669,000 and \$73,310,000 at July 31, 1979, 1978 and 1977, respectively.

Brown Company and Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Notes Payable

At July 31, 1979 and 1978, there were no short-term notes payable nor were there any short-term borrowings during either 1979 or 1978. The Company has line of credit arrangements with banks totaling \$21,000,000

which do not have termination dates, but are reviewed annually for renewal. The Company is not required to maintain material compensating balances in connection with these arrangements and at July 31, 1979 none of the credit lines were being used.

4. Long-Term Debt

At July 31	1979	1978
Senior long-term debt:		
7% to 7 $\frac{3}{8}$ % notes payable to institutional investors 1980 to 1986	\$ 24,552,000	\$ 28,852,000
11% notes payable to institutional investors 1980 to 1991	30,000,000	30,000,000
Capitalized leases—Note 14	6,176,000	6,835,000
6 $\frac{1}{2}$ % to 9% pollution control revenue bonds payable 1981 to 2007	48,375,000	49,800,000
Other notes (5% to 9%) payable 1980 to 1986	3,409,000	3,899,000
	<u>\$112,512,000</u>	<u>\$119,386,000</u>
Current maturities	(9,264,000)	(6,430,000)
Total senior long-term debt	<u>\$103,248,000</u>	<u>\$112,956,000</u>
9% subordinated debentures due 1995	9,755,000	9,964,000
Total long-term debt	<u>\$113,003,000</u>	<u>\$122,920,000</u>

Note agreements with institutional investors provide for the possible future mortgage (if certain conditions are not met) of the Company's New England timberlands and properties in Berlin and Gorham, New Hampshire and Kalamazoo and Parchment, Michigan. Certain pollution control revenue bonds are secured by the related pollution control facilities and a mortgage on approximately 79,000 acres of New England timberlands. Certain long-term loan agreements restrict

the payment of dividends. Under the most restrictive of the agreements, retained earnings at July 31, 1979 of \$26,914,000 were not restricted.

Interest expense is attributable to long-term debt.

Payments required on the above long-term debt are \$9,264,000, \$9,589,000, \$9,739,000, \$8,896,000 and \$8,055,000 during the five years ending July 31, 1980, 1981, 1982, 1983 and 1984, respectively.

Brown Company and Subsidiaries
Notes to Consolidated Financial Statements (continued)

5. Capital Stock

There are 10,000,000 shares of \$1 par value common stock and 2,500,000 shares of preferred stock authorized. At July 31, 1979 and 1978 there were outstanding 7,185,578 and 7,155,411 shares of common stock, respectively, excluding 12,280 treasury shares. Each share is entitled to one vote. No preferred stock is outstanding.

At July 31, 1979, 1,536,253 unissued shares

of common stock were reserved for the exercise of warrants and options consisting of 1,337,878 shares for warrants exercisable to May 15, 1980 at \$13.20 per share, 67,500 shares for employee stock options outstanding, and 130,875 shares for employee stock options available for grant.

During the year ended July 31, 1979, 18,792 shares of common stock were issued upon exercise of warrants.

6. Stock Options

At July 31		1979		1978		
Year of Grant	Number of Shares	Option Price		Number of Shares	Option Price	
		Per Share (c)	Total		Per Share (c)	Total
1973(a)	—	\$ —	\$ —	4,750	\$ 8.35	\$ 39,672
1974(a)	—	—	—	6,625	8.25	54,643
1975(a)	2,500	8.80	22,000	2,500	8.80	22,000
1976(b)	65,000	10.45	679,120	65,000	10.45	679,120
Total	67,500		\$701,120	78,875		\$795,435

(a) Year ended November 30. (b) Eight months ended July 31. (c) Market price on date option was granted.

The above table summarizes information relating to common stock options outstanding at July 31.

The Company's stock option incentive plans provide for the grant of qualified stock options to key employees to buy common stock of the Company at a price not less than fair market value on date of grant. Subject to termination of employment, the options expire five years from the date of grant or on May 20, 1981 with respect to any options granted after May 20, 1976.

During the year ended July 31, 1979 options for 11,375 shares were exercised at a total

price of \$94,315 at prices ranging from \$8.25 to \$8.35 per share, and options for 16,250 shares became exercisable at a price of \$10.45 per share. The market value of the 11,375 shares at time of exercise was \$108,438 (ranging from \$8.75 to \$10.63 per share) and the market value of the 16,250 shares at the time the related options became exercisable was \$227,500 (\$14.00 per share).

During the year ended July 31, 1978 options for 4,000 shares were exercised at a total price of \$34,832 at prices ranging from \$8.25 to \$8.90 per share, and options for 16,875 shares became exercisable at a total price of

Brown Company and Subsidiaries
Notes to Consolidated Financial Statements (continued)

\$175,280 at prices ranging from \$8.80 to \$10.45 per share. The market value of the 4,000 shares at time of exercise was \$34,313 (ranging from \$8.25 to \$8.75 per share) and the market value of the 16,875 shares at the time the related options became exercisable was \$149,688 (ranging from \$8.75 to \$8.88 per share).

At July 31, 1979 options for 67,500 shares were exercisable. At July 31, 1978 options for 62,625 shares were exercisable. Options for 130,875 shares were available for future grants at July 31, 1979 and 1978. No charges were made to income for option transactions in 1979 or 1978. The excess of proceeds from the exercise of stock options over par value of shares of common stock issued is credited to other capital.

7. Other Capital

Year Ended July 31	1979	1978
Beginning balance	\$56,744,000	\$56,713,000
Warrants exercised	229,000	—
Stock options exercised	83,000	31,000
Ending balance	\$57,056,000	\$56,744,000

8. Pension Plans

Substantially all employees are covered by pension plans. Pension expense was \$12,902,000 for the year ended July 31, 1979 and \$12,250,000 for the year ended July 31, 1978. On January 1, 1979 (the latest actuarial valuation date), the actuarially computed value of vested benefits under the pension plans exceeded the actuarial value of pension trust assets and balance sheet accruals by approximately \$43,000,000 and the estimated unfunded past service liability under the plans approximated \$87,000,000.

9. Incentive Compensation Plans

The Company has incentive compensation plans for key management personnel under which at July 31, 1979 the amount payable to individual participants is limited to 25 percent of the participant's base salary. The Company also has a deferred incentive compensation plan based on meeting certain return on shareholders' equity requirements. Expense for incentive compensation plans was \$2,095,000 for the year ended July 31, 1979 and \$1,468,000 for the year ended July 31, 1978.

10. Capitalized Interest

Net interest cost capitalized increased net earnings \$257,000 (four cents per share) for the year ended July 31, 1978.

Brown Company and Subsidiaries
Notes to Consolidated Financial Statements (continued)

11. Income Taxes

Year Ended July 31	1979	1978
Analysis of income tax provision:		
Current Federal provision	\$ 8,744,000	\$ 398,000
Current state provision	2,348,000	1,096,000
Deferred provision	<u>2,600,000</u>	<u>1,289,000</u>
Total income tax provision (net of investment tax credits of \$3,210,000 in 1979 and \$1,506,000 in 1978)	<u>\$13,692,000</u>	<u>\$ 2,783,000</u>
Analysis of deferred provision:		
Effect of tax depreciation in excess of book depreciation	\$ 2,850,000	\$ 2,760,000
Investment tax credits	948,000	(948,000)
Effect of expense accruals deductible when paid for income tax purposes but when incurred for financial reporting purposes	<u>(1,198,000)</u>	<u>(523,000)</u>
Deferred portion of income tax provision	<u>\$ 2,600,000</u>	<u>\$ 1,289,000</u>
Reconciliation of statutory and effective tax rates:		
Statutory rate	47%	48%
Decrease arising from investment tax credits	(9)	(16)
State income taxes	7	6
Other items	<u>(7)</u>	<u>(8)</u>
Effective tax rate	<u>38%</u>	<u>30%</u>

12. Extraordinary Charge

The extraordinary charge of \$5,157,000 after income tax benefits of \$2,328,000 results from settlement of numerous private antitrust treble damage class action lawsuits involving the Company's folding carton business.

13. Earnings Per Share

Earnings per share are based on weighted average common shares and dilutive com-

mon share equivalents (warrants and options) outstanding during the years assuming that the warrants and options were exercised and the proceeds therefrom used first to buy 20 percent of the outstanding common shares for the treasury and the remainder to retire debt at market values. For the years ended July 31, 1979 and 1978 common share equivalents were not dilutive.

Average common shares outstanding were 7,168,000 in 1979 and 7,153,000 in 1978.

Brown Company and Subsidiaries
Notes to Consolidated Financial Statements (continued)

14. Leases

Lease Commitments at July 31, 1979		
Year Payable	Capitalized Leases	Non- Cancellable Operating Leases
1980	\$ 1,859,000	\$ 1,406,000
1981	1,670,000	847,000
1982	1,236,000	509,000
1983	890,000	347,000
1984	649,000	140,000
After 1984	1,686,000	570,000
Total commitments	\$ 7,990,000	\$ 3,819,000
Amount representing interest	1,814,000	
Balance representing capitalized lease commitments of which \$1,347,000 is payable currently	\$ 6,176,000	

The Company leases various buildings, machinery and equipment under both capital leases and operating leases. All capital leases have been capitalized and reflected in the financial statements as a liability and the related properties have been recorded as an asset. Property recorded pursuant to such leases includes machinery and equipment at July 31, 1979 of \$12,491,000 less accumulated depreciation of \$6,619,000 and at July 31, 1978 of \$12,151,000 less accumulated depreciation of \$5,408,000.

Rental expense totaled \$3,937,000 for the year ended July 31, 1979 and \$5,191,000 for the year ended July 31, 1978.

15. Contingencies

Brown and its subsidiaries are defendants in various lawsuits generally arising in the ordinary course of business. Damages requested in such lawsuits are covered by liability insurance or involve immaterial amounts.

Brown Company and Subsidiaries
Notes to Consolidated Financial Statements (continued)

16. Supplementary Earnings Statement Information

Year Ended July 31	1979	1978
Maintenance and repairs	<u>\$42,559,000</u>	<u>\$37,020,000</u>
Taxes other than income taxes:		
Local property taxes	\$ 4,752,000	\$ 5,154,000
Payroll taxes	8,961,000	8,904,000
Other taxes	<u>765,000</u>	<u>851,000</u>
Total	<u>\$14,478,000</u>	<u>\$14,909,000</u>

Royalties, advertising and amortization of intangible assets did not exceed one percent of net sales in 1979 and 1978.

17. Supplementary Balance Sheet Information

At July 31	1979	1978
Cash and cash equivalents:		
Cash	\$26,457,000	\$12,824,000
Certificates of deposit and other cash equivalents	<u>12,369,000</u>	<u>6,853,000</u>
Total	<u>\$38,826,000</u>	<u>\$19,677,000</u>
Investments and non-current receivables:		
Amounts receivable from officers, directors and employees	\$ 461,000	\$ 474,000
Notes receivable	5,099,000	101,000
Other	<u>1,840,000</u>	<u>1,666,000</u>
Total	<u>\$ 7,400,000</u>	<u>\$ 2,241,000</u>
Accrued expenses:		
Compensation and taxes thereon	\$12,313,000	\$10,341,000
Pensions	16,528,000	15,636,000
Other	<u>20,884,000</u>	<u>12,319,000</u>
Total	<u>\$49,725,000</u>	<u>\$38,296,000</u>

Brown Company and Subsidiaries
Notes to Consolidated Financial Statements (continued)

18. Analysis of Operations by Business Segments

Years Ended or at July 31 (000)	Building Products	Pulp, Paper and Paperboard	Converted Paper Products	Corporate Items and Eliminations	Consolidated
1979:					
Sales	\$136,529	\$232,673	\$203,867	\$ —	\$573,069
Intersegment sales	—	60,267	—	(60,267)	—
Operating income	21,463	17,978	8,888	(6,015)	42,314
Identifiable assets	76,236	180,003	77,140	53,151	386,530
Depreciation and depletion	2,345	11,066	3,553	—	16,964
Capital expenditures	3,147	11,847	2,075	—	17,069
1978:					
Sales	\$108,123	\$201,710	\$182,176	\$ —	\$492,009
Intersegment sales	—	53,401	—	(53,401)	—
Operating income	12,823	2,468	7,060	(4,621)	17,730
Identifiable assets	63,646	186,764	78,655	29,831	358,896
Depreciation and depletion	1,601	10,070	3,230	—	14,901
Capital expenditures	1,034	14,730	3,874	—	19,638

The Company is engaged in the production and sale of building products; pulp, paper and paperboard; and converted paper products. Operating results and other financial data are presented above for these three business segments as of and for the years ended July 31, 1979 and 1978.

Operating income is total sales less all costs other than interest cost (net of interest income), extraordinary charge and income taxes. In computing operating income corporate administration expenses are included under corporate items. The year 1978 has been restated for \$4,560,000 of corporate administration expenses that were allocated to the business segments in last year's report.

Identifiable assets are those assets used in the Company's operations in each business

segment. Corporate assets are principally cash and investments.

Export sales to foreign customers and total sales to a single customer are each less than 10 percent of consolidated sales. Intersegment sales consist principally of sales at prevailing market prices to the converted paper products segment of paper to make towels and tissues and food service disposables and of paperboard to make folding cartons.

Operating income of the pulp, paper and paperboard business segment is after a provision of \$4,806,000 in 1979 and \$1,136,000 in 1978 for the disposition of assets. Operating income of the converted paper products business segment is after a similar provision of \$664,000 in 1978.

Brown Company and Subsidiaries
Notes to Consolidated Financial Statements (continued)

19. Sales by Classes of Products (unaudited)

Years Ended July 31 (000)	1979	1978	1977	1976	1975
Rock, sand, gravel and transit-mixed concrete	\$ 65,165	\$ 50,441	\$ 41,745	\$ 34,088	\$ 30,051
Concrete forming equipment and related services	71,364	57,682	46,773	44,070	54,949
Total building products	\$136,529	\$108,123	\$ 88,518	\$ 78,158	\$ 85,000
Pulp	\$ 31,615	\$ 26,679	\$ 31,810	\$ 30,506	\$ 25,877
Paper	183,712	156,138	144,752	146,804	134,393
Paperboard	17,346	18,893	16,841	16,442	13,489
Total pulp, paper and paperboard	\$232,673	\$201,710	\$193,403	\$193,752	\$173,759
Towels and tissues	\$ 93,496	\$ 76,346	\$ 75,064	\$ 63,037	\$ 61,213
Food service disposables	42,333	35,568	32,152	32,581	30,344
Folding cartons	59,818	61,035	55,370	53,167	51,324
Matches and other	8,220	9,227	9,448	9,607	9,105
Total converted paper products	\$203,867	\$182,176	\$172,034	\$158,392	\$151,986
Total sales	\$573,069	\$492,009	\$453,955	\$430,302	\$410,745

The table above shows sales by classes of products within each of the Company's three business segments for the five years ended July 31, 1979.

20. Replacement Cost Information (unaudited)

In compliance with regulations of the Securities and Exchange Commission (SEC), the Company has estimated replacement cost of inventories and certain property, plant and equipment at July 31, 1979 and 1978 and the related estimated effects (before income tax benefits) on cost of sales and depreciation expense for the years then ended. This information is included in the Company's annual report on Form 10-K filed with the SEC. The replacement cost information was prepared based on guidelines provided by the SEC which required the use of many

hypothetical assumptions and subjective judgments and does not represent actual costs which will be incurred in future periods, nor the manner in which replacement of assets will occur.

Cost of sales and depreciation expense computed on a replacement cost basis (which does not reflect operating cost savings which would result from the replacement of existing assets) exceed comparable amounts computed on an historical cost basis as a result of the continuing impact of inflation on the prices of goods and services. Over the past several years, the Company's operating results have been subjected to these pressures of inflation; however, the Company has been able to offset certain of the effects of inflation through increased productivity, emphasis on cost and expense controls, and selective price increases.

Brown Company and Subsidiaries
Notes to Consolidated Financial Statements (continued)

21. Summary of Quarterly Results of Operations (unaudited)

Years Ended July 31 (000 except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
1979:				
Net sales	\$142,129	\$136,298	\$142,675	\$151,967
Gross profit	26,783	24,079	26,838	23,462
Operating income	11,411	10,657	12,405	7,841
Earnings before extraordinary charge	6,249	4,748	6,592	4,751
Extraordinary charge	—	—	(4,400)	(757)
Net earnings	6,249	4,748	2,192	3,994
Per common share:				
Earnings before extraordinary charge	\$.87	\$.67	\$.92	\$.66
Extraordinary charge	—	—	(.62)	(.10)
Net earnings	.87	.67	.30	.56
Dividends	.075	.075	.075	.075
Market price:				
High	10¾	10¼	19¼	15⅞
Low	7¼	7½	9¾	13
1978:				
Net sales	\$120,506	\$108,689	\$125,501	\$137,313
Gross profit	16,011	11,139	18,579	25,176
Operating income (loss)	3,193	(1,459)	5,540	10,456
Net earnings (loss)	846	(2,824)	2,614	5,860
Per common share:				
Net earnings (loss)	\$.12	\$ (.40)	\$.37	\$.82
Dividends	.075	.075	.075	.075
Market price:				
High	9	10¼	9¼	9⅝
Low	8	8	8¼	8¼

Unaudited quarterly financial results for the years ended July 31, 1979 and 1978 are summarized above. Results for the fourth quarter of 1979 are after a provision of \$4,806,000 for the disposition of assets that reduced net earnings by \$2,403,000 (34

cents per share) and results for the fourth quarter of 1978 are after a provision of \$1,800,000 for the disposition of assets that reduced net earnings by \$1,300,000 (18 cents per share).

Brown Company and Subsidiaries

Notes to Consolidated Financial Statements (continued)

22. Event Subsequent to Date of Auditors' Report

On October 16, 1979 Brown Company announced that it had reached an agreement in principle with James River Corporation for James River to purchase the assets of Brown's Berlin, New Hampshire pulp and paper mill, including approximately 600,000 acres of timberland and the assets of Brown's specialty paper products operations located principally in Parchment, Michigan for \$130,000,000 in cash and \$40,000,000 of James River's 9% convertible preferred stock, convertible at \$30 per share. In addi-

tion, James River would assume approximately \$46,000,000 of debt relating to the assets to be purchased and certain other liabilities. The proposed purchase price is substantially in excess of book value. The operations to be sold had sales of \$282,137,000 and operating income of \$18,083,000 during the fiscal year ended July 31, 1979, and identifiable assets at year end of \$184,826,000. Completion of the transaction is subject to numerous contingencies including the approval of the directors of Brown and James River and also the approval of Brown's shareholders.

Report of Independent Auditors

To the Shareholders and
Board of Directors of Brown Company

We have examined the consolidated balance sheets of Brown Company and subsidiaries as of July 31, 1979 and 1978, and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consoli-

dated financial position of Brown Company and subsidiaries at July 31, 1979 and 1978, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

New York, New York
September 14, 1979

Brown Company and Subsidiaries

Five Year Comparison and Management's Discussion and Analysis of Change in Earnings

Year Ended or at July 31 (millions of dollars except per share amounts)	1979	1978	1977	1976	1975
Net sales	\$573.1	\$492.0	\$454.0	\$430.3	\$410.7
Operating costs	530.8	474.3	438.5	398.3	375.9
Operating income	42.3	17.7	15.5	32.0	34.8
Interest expense	10.0	9.6	8.0	5.4	5.8
Interest income	3.7	1.2	.9	.6	1.5
Earnings before income taxes and extraordinary charge	36.0	9.3	8.4	27.2	30.5
Income tax provision	13.7	2.8	.6	9.6	12.4
Earnings before extraordinary charge	22.3	6.5	7.8	17.6	18.1
Extraordinary charge	5.1	—	—	—	—
Net earnings	17.2	6.5	7.8	17.6	18.1
Earnings per share of stock:					
Before extraordinary charge	\$ 3.12	\$.91	\$ 1.12	\$ 2.51	\$ 2.61
Net earnings	2.40	.91	1.12	2.51	2.61
Depreciation and depletion	\$ 17.0	\$ 14.9	\$ 13.2	\$ 11.5	\$ 10.4
Capital expenditures	17.1	19.6	31.2	27.3	40.5
Working capital	\$106.4	\$ 93.1	\$ 90.8	\$ 74.8	\$ 63.4
Net properties	170.9	179.1	171.8	151.7	137.5
Total assets	386.5	358.9	331.7	298.1	280.4
Long-term debt	113.0	122.9	111.6	93.9	91.7
Shareholders' equity	165.7	150.4	146.0	136.1	119.8
Book value per share	\$23.06	\$21.01	\$20.41	\$20.20	\$17.85
Ratio of long-term debt to shareholders' equity	.68	.82	.76	.69	.76

1979 Compared with 1978

Net sales rose 16 percent in 1979, operating income increased 139 percent and earnings before an extraordinary charge of \$5.1 million rose 243 percent. The increase in sales and the substantial rise in operating income and earnings reflect improved results at both paper and building products operations.

Operating income from paper products increased 180 percent from \$9.6 million in 1978 to \$26.9 million in 1979 while sales rose 14

percent from \$383.9 million to \$436.6 million. Product mix improvements, higher prices and increased sales volume and productivity more than offset cost increases caused by inflation (labor rates and wastepaper costs rose 9 percent, energy costs were up 11 percent and the price of purchased pulp was 13 percent higher than the prior year). The major reason for the increase in paper products operating income was a recovery in the market for pulp and commodity-grade uncoated printing and writing papers.

Brown Company and Subsidiaries

Five Year Comparison and Management's Discussion and Analysis of Change in Earnings (continued)

Construction activity was at a high level in 1979 and income from building products operations while at a record \$12.8 million in 1978 rose 68 percent to a new high of \$21.5 million in 1979. Building products sales increased 26 percent from \$108.1 million in 1978 to \$136.5 million in 1979. Demand was strong for rock, sand, gravel, concrete and concrete forming equipment and accessories resulting in both higher volume and higher prices that more than offset inflationary cost increases.

The extraordinary charge in 1979 of \$5.1 million, after income tax benefits of \$2.3 million, results from the settlement of numerous private antitrust treble damage class action lawsuits involving the Company's folding carton business.

1978 Compared with 1977

Net sales rose 8 percent in 1978 and operating income increased 14 percent. The increase in operating income reflects an increase in income from building products operations. However, net earnings dropped 17 percent reflecting higher interest expense and income taxes than in the prior year.

During both 1978 and 1977 the Company's earnings were depressed by a cyclical drop in demand for major commodity-grade paper products such as hardwood pulp and uncoated printing and writing papers. While paper product sales rose from \$365.3 million in 1977 to \$383.9 million in 1978, income from paper products operations, which were at a low level in 1977, declined further from \$10.8 million in 1977 to \$9.6 million in 1978.

Demand for building products was strong in 1978 reflecting the effect of an increase in construction activity throughout the United States, the building boom in Southern California and a rise in demand for concrete forming equipment and accessories. Building

products sales increased 22 percent from \$88.5 million in 1977 to \$108.1 million in 1978, and the 41 percent rise in building products operating income from \$9.1 million to \$12.8 million more than offset the slight decline in income from paper products operations.

Interest Expense and Interest Income

The increase in interest expense in 1978 and 1979 was due mainly to an increase in long-term debt in 1978 and in both 1978 and 1979 to the inclusion in expense of interest on debt capitalized in prior years as a part of the cost of pollution control facilities. The rise in interest income in both years reflects an increase in funds available for temporary investment and an increase in the rate of interest earned on these investments.

Corporate Administration

In prior-year reports corporate administration expenses were allocated to paper and building products in arriving at income from these operations. Years prior to 1979 have been restated to treat these expenses as a separate item in determining Brown's total operating income. Corporate expenses rose from \$4.6 million in 1978 to \$6.1 million in 1979 due mainly to higher legal costs.

Income Taxes

The effective income tax rate varies from year to year because of changes in the amount of earnings before income taxes in relation to investment tax credits, capital gains from timber cutting, depletion allowances and differences in the tax and financial reporting basis of certain assets (see Note 11 to the consolidated financial statements). The change in the effective income tax rate from 8 percent in 1977 to 30 percent in 1978 to 38 percent in 1979 was due primarily to changes in the amount of available investment tax credits in relation to earnings before income taxes.

Directors and Officers

Directors

- John E. Cherrix—Vice President-Finance and Treasurer
- †Sherwood C. Chillingworth—President, Chillingworth Corporation (a real estate development company)
- *David D. Davis—Senior Vice President
- *Don F. Gaston—Executive Vice President, Gulf + Western Industries, Inc. (a multi-industry company)
- Leonard E. Hickey—Vice President and Controller
- *David N. Judelson—President, Gulf + Western Industries, Inc.
- James R. Maurer—Vice President, Secretary and General Counsel
- *Merrill L. Nash—Chairman of the Board and President
- †William T. Pascoe, III—Chairman of the Board, Amcord, Inc. (a cement manufacturer)
- †Herbert J. Seakwood—Management Consultant and Attorney

*Member of Executive Committee

†Member of Audit Committee

Officers

- Merrill L. Nash—Chairman of the Board and President
- David D. Davis—Senior Vice President
- R. James Alexy—Vice President
- John E. Cherrix—Vice President-Finance and Treasurer
- Edgar T. Dean—Vice President
- Leonard E. Hickey—Vice President and Controller
- Richard S. Longnecker—Vice President
- James R. Maurer—Vice President, Secretary and General Counsel
- Robert J. Sherry—Vice President-Administration
- Francis A. Somers—Vice President
- Charles M. Williams—Vice President

Miscellaneous Data

Common Stock Transfer Agents and Registrars

Manufacturers Hanover Trust Company, 40 Wall Street, New York, New York 10015

Bank of America, 555 South Flower Street, Los Angeles, California 90071

Debenture Trustee and Warrant Agent

Manufacturers Hanover Trust Company, 40 Wall Street, New York, New York 10015

Stock Exchange Listings

Common Stock—New York Stock Exchange and Pacific Stock Exchange

\$13.20 Warrants—American Stock Exchange and Pacific Stock Exchange

Debentures Payable in 1995—Pacific Stock Exchange

Auditors

Ernst & Whinney, Citicorp Center, 153 East 53rd Street, New York, New York 10022

Executive Offices

251 South Lake Avenue, Pasadena, California 91101

Annual Meeting

The Annual Meeting of Stockholders will be held on Wednesday, December 5, 1979 at 10:00 A.M. in the Yosemite Room of the Hilton Hotel, 150 South Los Robles, Pasadena, California.

Supplemental Information

A copy of the Company's current annual report filed with the Securities and Exchange Commission on Form 10-K may be obtained free of charge by writing to the Treasurer, Brown Company, 251 South Lake Avenue, Pasadena, California 91101.

Parchkin Printing Parchment 60-lb. Mottled manufactured by the Brown
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