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BROWN COMPANY

Paper Products

Building Materials

ANNUAL REPORT
AND FORM 10-K
EIGHT MONTHS ENDED JULY 31, 1976

A GULF + WESTERN COMPANY

CONTENTS

Our building materials operations are for the most part related to non-residential concrete construction. Although there has been some improvement in residential construction markets, demand has been soft in the non-residential area.

During this period of low earnings we are keeping all costs under close control and are studying ways and taking steps to upgrade our product mix so that we will be less dependent on commodity-grade products. Also, we are continuing to increase productivity and efficiency. Since the beginning of the fiscal year we acquired a small paper mill to increase the capacity of our absorbent paper products business and we sold an unprofitable fine papers line of business. A new plastic cup manufacturing facility is scheduled for completion in early 1977 to increase the profitability of our Service Products Division.

If, as generally predicted, the current sluggishness in the economy ends and an increase in growth in the gross national product resumes early in calendar 1977, demand for both paper products and non-residential construction should improve in the third and fourth quarters of our fiscal year.

Sincerely,

M L Nash

Merrill L. Nash
Chairman of the Board and President

December, 1976

WHEN NESTLE NEEDED NEW PACKAGING FOR ITS HOT COCOA MIX—IT CAME TO BROWN COMPANY

The highly competitive convenience food industry demands shopper-stopping packaging that protects the product and is economical to produce. When Nestle entered the market with its new Hot Cocoa Mix it found the solution to its packaging problem in a new pouch and carton combination developed by Brown Company.

BROWN COMPANY
251 South Lake Avenue, Pasadena, California 91101
A GULF + WESTERN COMPANY

Printed on Linweave Early American
Plymouth Gold, Sub 75 - text weight

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BROWN COMPANY

Paper Products
Building Materials

Quarterly Report to Shareholders

First Quarter Ended October 31, 1976

Report to Shareholders

Net earnings for the first quarter of fiscal 1977 ended October 31, 1976 were $1.4 million, or 20 cents per share, versus $6.6 million, or 94 cents per share for the year-ago period. Net sales for the quarter were $112.8 million compared with $110.5 million for the quarter ended October 31, 1975. This reflects lower results for both our paper and building materials operations.

The Brown Company annual meeting of shareholders was held in Los Angeles on December 8, 1976 at which ten incumbent directors were elected and at which the selection of Ernst & Ernst as auditors for fiscal 1977 was ratified. Future annual meetings will be held in December of each year because of the change in the Company's fiscal year from a year ending November 30 to a year ending July 31 effective July 31, 1976.

The following is a summary of my remarks at the annual meeting:

Based on lower results for the first quarter and a continuation of this trend in the second quarter, it is now apparent that earnings for fiscal 1977 will be substantially below earnings for the last full fiscal year that ended November 30, 1975. What caused the decline in earnings and what is being done about it?

The basic problem is that costs are up but because of weak market conditions selling prices are not. In some significant markets selling prices have actually declined. Brown is a large producer of hardwood pulp. It is also a large producer of commodity-type printing and writing papers. Demand for these products has been especially weak.

BROWN COMPANY AND SUBSIDIARIES

Summary of Earnings

Three Months Ended October 31

	1976	1975
Net sales	**$112,783,000**	$110,493,000
Operating costs	**109,342,000**	98,541,000
Operating income	**3,441,000**	11,952,000
Interest expense (net)	**1,572,000**	1,298,000
Income tax provision	**505,000**	4,049,000
Net earnings	**$ 1,364,000**	$ 6,605,000
Net earnings per share (A)	**$ .20**	$ .94 (B)

(A) The earnings per share amounts are based on the weighted average common shares and common share equivalents (warrants and options) outstanding during the respective periods assuming that the warrants and options were exercised and the proceeds therefrom used to first buy 20% of the outstanding common shares for the treasury and the remainder to retire debt at market values.

(B) Adjusted to reflect the five-for-four split-up of the Company's common stock effected in February 1976.

BROWN COMPANY AND SUBSIDIARIES

Summary of Financial Position

At October 31

	1976	1975
Current assets	**$128,133,000**	$126,926,000
Properties	**158,214,000**	142,405,000
Other assets	**21,866,000**	17,874,000
Total assets	**$308,213,000**	$287,205,000
Current liabilities	**$ 57,154,000**	$ 59,730,000
Senior long-term debt	**89,747,000**	80,209,000
Subordinated debentures	**9,964,000**	11,030,000
Other liabilities	**14,420,000**	9,803,000
Shareholders' equity	**136,928,000**	126,433,000
Total liabilities and shareholders' equity	**$308,213,000**	$287,205,000

HIGHLIGHTS

This annual report reflects a change in the fiscal year-end of Brown Company from November 30 to July 31. It is for a short period of eight months ended July 31, 1976 and therefore the results are not comparable with the prior fiscal year. Unlike reports covering a full year of twelve months, it consists mainly of the Brown Company Form 10-K without exhibits filed with the Securities and Exchange Commission.

	Year Ended November 30 1975	Eight Months Ended July 31 1976
Net sales	$400,310,000	$281,433,000
Earnings before income taxes	26,942,000	12,210,000
Income tax provision	10,238,000	3,907,000
Net earnings	16,704,000	8,303,000
Net earnings per share	2.41	1.19
Cash dividends paid and accrued – per common share	—	.22½

	At November 30 1975	At July 31 1976
Total assets	$288,947,000	$298,125,000
Long-term debt	90,049,000	93,889,000
Shareholders' equity	129,180,000	136,063,000
Shareholders' equity per share	19.22	20.20

BROWN COMPANY

SUMMARY OF EARNINGS AND FINANCIAL POSITION

	Year Ended November 30 1975	Eight Months Ended July 31 1976
SUMMARY OF EARNINGS		
Net sales	$400,310,000	$281,433,000
Other revenues	41,000	91,000
Total revenues	400,351,000	281,524,000
Operating costs	368,505,000	265,928,000
Operating income	31,846,000	15,596,000
Interest cost (net)	4,904,000	3,386,000
Earnings before income taxes	26,942,000	12,210,000
Income tax provision	10,238,000	3,907,000
Net earnings	$ 16,704,000	$ 8,303,000
Net earnings per share	$2.41	$1.19

	At November 30 1975	At July 31 1976
FINANCIAL POSITION		
Current assets	$128,313,000	$128,783,000
Properties (net)	143,155,000	151,673,000
Other assets	17,479,000	17,669,000
Total assets	$288,947,000	$298,125,000
Current liabilities	$ 57,212,000	$ 53,939,000
Long-term debt	90,049,000	93,889,000
Deferred income taxes	12,060,000	13,923,000
Other liabilities	446,000	311,000
Shareholders' equity	129,180,000	136,063,000
Total liabilities and shareholders' equity	$288,947,000	$298,125,000

The Form 10-K included in this report contains audited financial statements for the last two fiscal periods, a summary of operations for the last five fiscal years and the eight months ended July 31, 1976, and information concerning the business and operations of Brown Company.

REPORT TO SHAREHOLDERS

Brown Company changed its fiscal year to a year ending July 31 effective July 31, 1976. Results for the eight month period ended July 31, 1976 are therefore not comparable with the prior year ended November 30, 1975. The change was made for administrative purposes. It aligns Brown's year with that of Gulf & Western Industries, Inc., the owner of approximately 80 percent of Brown's outstanding common stock.

Although there was a substantial improvement in paper industry operating rates during the eight months ended July 31, 1976, results of operations of our Paper Group were lower than expected. This was due mainly to problems caused by the start-up of the Paper Group's new secondary fiber pulp mill in Kalamazoo, Michigan. The secondary fiber pulp mill is now running well. However, the group is experiencing significant cost increases that are not being offset by selling prices in certain key markets. This situation is expected to continue during the first part of fiscal 1977. Steps have been taken to keep all costs under rigid control and prices should improve later in the fiscal year.

Results of operations of the Building Materials Group were at a lower level during the eight months ended July 31, 1976 than in the comparable period in 1975 due to reduced demand in some of the group's non-residential construction markets and to losses related to the distribution of concrete reinforcing materials in the New York City area. The New York City operation has been sold. An increase in demand for most of the group's products is anticipated during fiscal 1977.

We are continuing to improve the productivity and efficiency of our paper operations. Projects have been approved to construct a new plastic cup manufacturing facility, install two new printing presses at our folding carton operations, rebuild two paper machines, and add an off-machine sheeter to one of our paperboard machines. In August 1976, we acquired Peavey Paper Mills, Inc. to increase the capacity of our absorbent paper products operations, and we recently sold an unprofitable fine papers line of business at Holyoke, Massachusetts.

Although earnings for the first part of fiscal 1977 are expected to be substantially below the prior year, we believe market conditions and operating results will improve as the year progresses.

Merrill L. Nash
Chairman of the Board and President

October 8, 1976

DIRECTORS

John E. Cherrix — Vice President and Treasurer
Sherwood C. Chillingworth — President, Adorada 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

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 and Treasurer
Edgar T. Dean — Vice President
Harold L. Ellsworth — 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
Charles M. Williams — Vice President

COMMON STOCK TRANSFER AGENTS AND REGISTRARS

Manufacturers Hanover Trust Company, 40 Wall Street, New York, New York 10015
Bank of America, 111 West Seventh Street, Los Angeles, California 90014

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

COMMON STOCK PRICES(1)

	Year Ended November 30, 1975		Eight Months Ended July 31, 1976	
	High	Low	High	Low
First quarter	$9⅛	$7½	$13	$ 6⅞
Second quarter	9⅜	7⅝	13⅜	10⅞
Third quarter	8⅞	7¾	13⅜(2)	11⅜(2)
Fourth quarter	7⅞	6¾	—	—

(1) Stock prices from trading on the New York Stock Exchange through January 23, 1976 and thereafter on the composite tape covering transactions on all exchanges, adjusted where appropriate for the five-for-four stock split-up effected in February 1976.

(2) Two months ended July 31, 1976.

NUMBER OF SHAREHOLDERS

5,300

AUDITORS

Ernst & Ernst, 140 Broadway,
New York, New York 10005

EXECUTIVE OFFICES

251 South Lake Avenue,
Pasadena, California 91101

ANNUAL MEETING

The Annual Meeting of Stockholders will be held on Wednesday, December 8, 1976 at 10:00 A.M. at the Hilton Hotel, Yosemite Room, 150 South Los Robles Avenue, Pasadena, California.

BROWN COMPANY

Paper Products
Building Materials

FORM 10-K
EIGHT MONTHS ENDED JULY 31, 1976

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

For the 8 months ended July 31, 1976 — Commission file number 1-5077

BROWN COMPANY

(Exact name of registrant as specified in its charter)

Delaware	02-0112919
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
251 South Lake Avenue, Pasadena, California	91101
(Address of principal executive offices)	(Zip Code)

Registrant telephone number including area code: (213) 684-1800

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $1 par value	New York Stock Exchange Pacific Stock Exchange
Warrants to purchase Common Stock $1 par value, expiring May 15, 1980	American Stock Exchange Pacific Stock Exchange
9% Subordinated Debentures due June 1, 1995	Pacific Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. YES X NO __

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the close of the period covered by this report.

Title of each class	Number of shares outstanding
Common Stock, $1 par value	6,737,257

ITEM 1. BUSINESS

Brown Company and its subsidiaries ("Brown") are engaged in the forest and paper products business and in the building materials business. Forest and paper products operations include the manufacture and sale of pulp, a variety of papers, paperboard and paperboard products, packaging materials, towels and tissues, book matches and other miscellaneous products. Building materials operations involve the mining, processing, manufacture and sale of rock, sand, gravel and transit-mixed concrete in the Southern California area, the manufacture and distribution of concrete forming equipment used by the construction industry for on-site placement of concrete, and the manufacture and distribution of other products used in concrete construction. A more detailed description of Brown's business is set forth below. For information on Brown's controlling stockholder, Gulf & Western Industries, Inc., see "Parent of Brown" (Item 4 "Parents and Subsidiaries").

Brown's executive offices are located at 251 South Lake Avenue, Pasadena, California 91101, and its telephone number is (213) 684-1800. Brown, a Delaware corporation since 1965, was originally incorporated in Maine in 1888 as the Berlin Mills Company.

Some of the following financial and other information describing Brown's business is not comparable to prior years since Brown changed its fiscal year from a year ended November 30 to a year ended July 31, effective July 31, 1976. This report, therefore, covers a short fiscal period of 8 months ended July 31, 1976 rather than a full 12-month period. However, certain of the operating data included herein is for a full 12 months ended July 31, 1976 to make such data generally comparable with 12-month information included in Forms 10-K for prior periods of 12 months ended November 30.

SALES AND PRODUCTS

The following table sets forth the net sales and operating income of Brown's lines of business and the net sales of Brown's major product categories during each of the past 5 fiscal years and the 8-month fiscal period ended July 31, 1976. Operating income excludes interest income and expense, minority interest and income taxes. In Brown's opinion, operating income is the only meaningful measurement of its operations by line of business. Allocation of interest income and expense, minority interest and income taxes to the lines of business cannot be made on any logical or systematic basis and, accordingly, Brown considers it impracticable to set forth contributions to income after provision for such items. The following table should be read in conjunction with Brown's financial statements and the notes thereto appearing elsewhere herein.

	(In thousands of dollars) Year ended November 30										Eight months ended July 31	
	1971		1972		1973		1974		1975		1976	
NET SALES												
Forest and Paper Products												
Pulp and Timber	$ 11,562	6%	$ 14,006	6%	$ 16,045	5%	$ 22,621	5%	$ 29,445	8%	$ 17,531	6%
Paper and paperboard	90,499	44	97,802	39	121,207	37	179,825	41	137,086	34	110,984	39
Folding cartons	33,131	16	36,571	15	42,789	13	48,535	11	51,677	13	32,555	11
Absorbent paper products and food service disposables	35,163	17	36,288	15	51,367	16	85,196	20	91,460	23	64,603	23
Matches	7,946	4	8,524	3	8,258	3	8,955	2	8,900	2	6,491	3
Total	178,301	87	193,191	78	239,666	74	345,132	79	318,568	80	232,164	82
Building Materials												
Concrete forming equipment and related products and services	—	—	25,617	10	51,187	16	59,587	14	49,963	12	27,142	10
Rock, sand and gravel, and transit-mixed concrete	27,257	13	30,417	12	31,949	10	29,826	7	31,779	8	22,127	8
Total	27,257	13	56,034	22	83,136	26	89,413	21	81,742	20	49,269	18
Total net sales	$205,558	100%	$249,225	100%	$322,802	100%	$434,545	100%	$400,310	100%	$281,433	100%
OPERATING INCOME												
Forest and Paper Products	$ 3,753	55%	$ 6,056	54%	$ 12,396	67%	$ 39,916	88%	$ 24,717	78%	$ 14,079	90%
Building Materials	3,073	45	5,082	46	6,066	33	5,544	12	7,129	22	1,517	10
Total operating income	$ 6,826	100%	$ 11,138	100%	$ 18,462	100%	$ 45,460	100%	$ 31,846	100%	$ 15,596	100%

Operating income for the building materials category includes the results of operations of Symons Corporation ("Symons") from March 1, 1972. For the period March 1, 1972 through November 30, 1972, Symons had net sales of $25,617,000 and operating income of $3,066,000, amounting to 13% of Brown's total net sales and 32% of total operating income for that 9-month period.

Brown acquired a 48% interest in Shattuck Denn Mining Corporation ("Shattuck") in fiscal 1972, and the remaining 52% interest in fiscal 1973. Net sales and operating income from building materials operations include $14,382,000 and $626,000, respectively, for the fiscal year ended November 30, 1973 in respect of the operations formerly carried on by Shattuck. Sterling Pulp & Paper Company, Inc. ("Sterling") was acquired in the third quarter of fiscal 1973. Net sales and operating income from forest and paper products operations include $13,017,000 and $225,000, respectively, for the fiscal year ended November 30, 1973 in respect of the operations formerly carried on by Sterling.

Results of Brown's operations are currently substantially below the prior year and are expected to continue at a lower level until pulp and paper market conditions improve sufficiently for selling prices to offset the significant cost increases being experienced by the forest and paper products group. Currently Brown's costs and profits are being adversely affected by an unfavorable ratio (as compared to recent years) between the prices of some of Brown's commodity type forest and paper products and the cost of the Canadian pulp and secondary fiber which Brown uses in its paper operations. For additional information see other sections of Item 1. "Business," Item 2. "Summary of Operations", including "Management's Discussion and Analysis of the Consolidated Summary of Operations," and Item 10. "Financial Statements and Exhibits Filed".

FOREST AND PAPER PRODUCTS

Pulp and Timber

Pulp — Brown produces virgin fiber wood pulp (primarily hardwood) from pulpwood at its kraft (sulphate) pulp mill in Berlin-Gorham, New Hampshire at daily production levels which vary with the type of pulp being produced and other factors. Part of the wood pulp produced is used by Brown to make paper and the remainder is sold on the open market.

During the 12 months ended July 31, 1976 the mill produced approximately 202,000 tons of unbleached pulp at an average daily rate of 610 tons. From January until June, 1976 capacity of the pulp mill was reduced by approximately 30% as a result of a recovery boiler explosion. The repair costs and loss of earnings resulting from the explosion were covered by insurance. The repairs to the boiler were completed in June 1976, and current pulp production is near capacity.

Since 1971 Brown has spent approximately $8,000,000 to improve pulp quality and increase production at Berlin-Gorham.

Pulp is a world commodity whose short-term price movements can be significantly affected by the balance between world demand and world production capacity and inventory levels. Although bleached hardwood pulp has had a small unfavorable price differential compared to bleached softwood pulp, the unfavorable differential has currently widened somewhat. Brown believes that a relevant factor in this changing differential may be the increased use of secondary fiber as a substitute for hardwood pulp in certain applications.

Brown's other operations do not have virgin fiber pulp mills and are required to obtain their pulp from outside sources and from Berlin-Gorham. However, Brown has a secondary-fiber pulp mill at Kalamazoo, Michigan and a wastepaper pulping operation at Eau Claire, Wisconsin. For further information concerning Brown's pulp supply, see "Raw Materials and Supplies" below.

Timber and Miscellaneous Products — During the 12 months ended July 31, 1976 Brown produced at Berlin-Gorham from pulpwood and corrugated clippings approximately 84,000 tons of corrugating medium which it sold primarily to the corrugated box industry. In addition it produced approximately 12,000 tons of a highly purified, finely divided, wood cellulose product (Solka-Floc®) which is used in many industries, including food, pharmaceutical, adhesive and plastics. In New England, Brown sells logs and stumpage (standing timber) not economically usable in its own operations.

Paper and Paperboard

Paper — Brown produces a variety of papers at its Parchment, Michigan mills from both virgin and secondary fiber pulp, at its Berlin-Gorham, New Hampshire and Holyoke, Massachusetts mills primarily from virgin fiber pulp and at its Eau Claire, Wisconsin mill from wastepaper. Papers produced include (i) converting papers (i.e., base papers from which other paper products are made) for packaging, envelopes, coating base stocks and other specialized end uses, (ii) printing papers for business uses, commercial printing and advertising, (iii) technical papers for the reprographic and other industries, (iv) stock for towels and tissues and (v) specialty paper for book publishing, business forms, printing, packaging and technical applications. Paper production totaled approximately 388,000 tons during the 12 months ended July 31, 1976, consisting of approximately 139,000 tons at the Parchment operations, approximately 177,000 tons at the Berlin-Gorham operations, approximately 22,000 tons at the Holyoke operations and approximately 50,000 tons at the Eau Claire operations. Current total paper production is at approximately 84% of capacity.

In October 1976 Brown sold its Eagle A and Quality fine paper business representing approximately one-third of the tonnage of fine papers produced at the Holyoke, Massachusetts plant.

Since 1971 Brown has increased its capacity to produce paper for publishing and packaging uses at the Parchment facility, by rebuilding and improving 5 paper machines located there.

A significant part of the papers produced by Brown are of the commodity type. Supply-demand balances and pulp prices are significant factors affecting the movement of commodity type paper prices.

During the 12 months ended July 31, 1976 Brown converted approximately 39,000 tons of the Berlin-Gorham and 47,000 tons of the Eau Claire paper production into towels and tissues, approximately 65,000 tons of the Parchment paper production into flexible packaging, coated and parchmentized papers and food service disposables and substantially all of the Holyoke paper production into various types of fine paper products. The remainder of the paper production at these locations was sold to other paper converters.

At Parchment, Michigan, Brown converts base papers produced by it into flexible packaging papers used for food and dry-goods packaging. These flexible packaging materials are sold for packaging use in the meat and poultry processing industries and as labels, package overwraps, and food pouches and as direct-contact wraps for soap and candy. These Parchment operations also convert base papers produced by Brown into industrial technical papers (including release papers, backing papers and laminating papers), waxed and other mineral-coated papers, and into parchmentized papers.

Paperboard — During the 12 months ended July 31, 1976 Brown produced approximately 137,000 tons of paperboard from recycled paper at Kalamazoo, Michigan and a smaller plant at Castleton-on-Hudson, New York. Current paperboard production is at approximately full capacity. Approximately 62,000 tons of the paperboard produced was converted into folding cartons, other packaging material and food-service disposables at Brown's own plants and the balance was sold to independent converters.

Folding Cartons

Brown converts both purchased paperboard and paperboard made by it at its folding carton plants in Kalamazoo, Michigan and Castleton-on-Hudson, New York into folding cartons which it sells primarily to producers and marketers of food and nondurable consumer goods.

Absorbent Paper Products and Food Service Disposables

Absorbent Paper Products — Brown converts paper produced by it primarily from its virgin fiber pulp into absorbent industrial towels and tissues at its Berlin-Gorham operations, all of which are sold for industrial and institutional use. Brown converts paper produced from secondary fibers at its plant in Eau Claire, Wisconsin into absorbent consumer paper products, including towels, napkins, bathroom tissues, facial tissues and disposable diapers, for sale under its own label and private labels.

Recently the Eau Claire operation was expanded to include a tissue mill in nearby Ladysmith, Wisconsin, acquired by Brown in August, 1976, which is expected to increase Brown's absorbent products business by approximately 15%. Since 1974 Brown has spent approximately $6,700,000 to improve the efficiency of its Eau Claire and Berlin-Gorham absorbent paper products operations, including the installation of wastepaper pulping facilities to permit the 100% usage of secondary fiber as a raw material at Eau Claire.

Food Service Disposables — At plants in Kalamazoo, Michigan, Brown converts paper and paperboard produced by it into an extensive range of food service disposable products for consumer food service markets (including grocery, meat processing and bakery) and for fast-food franchises and carry-out institutions. Brown is constructing and equipping at a cost of $4,100,000 a facility in

Kalamazoo (to be completed in early calendar 1977) to manufacture plastic drinking cups which are presently made by other firms to Brown's specifications.

Matches

Under the trade names Superior Match Company and Monarch Match Company, Brown manufactures from both purchased and its own paper and paperboard specialty book matches used primarily for advertising purposes.

BUILDING MATERIALS

Concrete Forming Equipment and Related Products and Services

Brown's subsidiary, Symons Corporation ("Symons") is primarily engaged in manufacturing and distributing prefabricated concrete forming equipment systems used by the construction industry for on-site placement of concrete. The forming equipment systems generally consist of standard or custom prefabricated forms made of steel frames with plywood or steel inserts and held in position during the pouring and hardening of the concrete with steel rods, called ties. In addition, Symons manufactures and distributes various other products used by contractors in concrete construction including various chemical products formulated by Symons which are used to facilitate the curing and surface healing of concrete and to eliminate adhesion of concrete to forms.

Most of the products manufactured by Symons can either be purchased or rented under rental agreements containing purchase option provisions which encourage purchase by long-term users by granting generous rental credits against the purchase price in the initial months. Equipment returned from lease may be sold as used equipment or refurbished and sold as new equipment.

Symons' products are primarily sold and rented to contractors for high-rise apartment houses and for nonresidential construction, including heavy or engineering construction, water and sewage treatment plants, electric power plants, industrial and commercial buildings, highway structures and institutional buildings.

Brown's subsidiary, Richmond Screw Anchor Co., Inc. ("Richmond"), manufactures and distributes various concrete forming products (including anchoring and hanging devices) which are principally used in major construction projects involving on-site methods of building concrete forms.

In January of 1976, Brown sold the operating assets of The Fireproof Products Co., Inc. ("Fireproof"), a subsidiary which primarily distributed concrete reinforcing materials, steel bars and wire fabrics directly to contractors in the Greater Metropolitan New York area. For the fiscal year ended November 30, 1975 and the 8-month fiscal period ended July 31, 1976, Fireproof's operating losses were $588,293 and $354,230, respectively, and its revenues were $10,092,000 and $649,155 for the same periods.

Rock, Sand and Gravel and Transit-mixed Concrete

Rock, sand and gravel ("aggregates") are mined from properties in 5 locations owned or leased by Brown's Livingston-Graham division ("Livingston") and are refined into various grades and sizes at Livingston's processing plants at those locations. Production capacity totals 3,950 tons of refined aggregates per hour. During the 12 months ended July 31, 1976 aggregates plant operations were at approximately 63% of normal capacity (one shift) and current aggregates plant operations are at approximately the same percentage of capacity.

Approximately 25% of Livingston's aggregates is used by Livingston in the manufacture of transit-mixed concrete, and the remainder is delivered to customers for uses such as asphalt paving, concrete roads and construction, and the manufacture of concrete products.

Livingston also operates 13 Southern California concrete batch plants which fill transit-mix trucks with the aggregates cement and water used to make concrete. Transit-mixed concrete is made on transit-mix trucks enroute to the construction sites of homes, factories, office buildings, roads, dams, harbor improvements and other concrete construction.

MARKETING AND DISTRIBUTION

Marketing and sales offices of Brown are located in principal cities in the United States. Sales of forest and paper products are handled primarily through Brown's own sales force, although certain products are handled by independent merchants, brokers and distributors. Livingston's sales are made entirely in the Southern California area and substantially all sales are made by Livingston's sales personnel directly to construction contractors. Symons' forming equipment sales and rentals are made throughout the continental United States by its regional distribution and service centers plus several independent distributors, and its sales outside the continental United States are made by independent distributors located in Alaska, Puerto Rico, North America and the Middle East. Richmond distributes its products used in concrete construction throughout the continental United States, primarily through Symons and a network of independent distributors.

CUSTOMERS, BACKLOG AND SEASONALITY

Brown has many customers and is not dependent upon a few customers for a material part of its business. Although the loss of any one customer would not have a materially adverse effect on Brown's business, the loss of some of Brown's larger customers would probably result in a reduction in production on some pulp, paper or paperboard machines until new customers were obtained.

Substantially all orders for forest and paper products were filled in fiscal 1976, and are presently filled, on a current order and shipment basis. Orders for building materials are filled primarily by current orders except for some backlog in Livingston's concrete business and Symons' custom forming business. On November 30, 1975 and July 31, 1976 the backlogs in concrete were 198,900 and 276,643 cubic yards, respectively, and in custom forming were $600,000 and $2,197,000 on the same dates.

The sales volume for building materials varies with the seasonal aspects of construction in areas of the country which are subject to extended periods of bad weather. Seasonal factors are not substantial in Brown's paper products business.

RESEARCH AND DEVELOPMENT

Brown does not expend a significant amount on research and development. Brown employs a small number of chemists, engineers and technicians who work in material and product research and development to maintain and increase the quality and competitiveness of Brown's products, to increase production efficiency and to develop new uses for existing products and new and improved products, particularly in the food packaging, folding carton and concrete forming fields.

TRADEMARKS

Significant trademarks of Brown include "Nibroc" and "Pert," under which Brown sells towels, tissues and napkins; "Linweave" for fine papers; "Paper Maid" and "Purity," for paper consumer products; and "Burgess," under which Brown's bleached hardwood pulp is sold.

RAW MATERIALS AND SUPPLIES

Brown purchases large quantities of pulp, pulpwood and certain grades of paper and paperboard, chemicals and other materials and supplies from outside sources. Brown has firm contracts ranging from one to ten years with major and reliable suppliers for most of its purchased basic raw materials, including pulp (primarily Canadian softwood), solid bleached board, chemicals and fuel oil. Brown does not believe that the loss of any single supplier would have a material effect on its ability to obtain the raw materials required to operate its businesses. Brown is placing a greater reliance on substitutes for virgin pulp as described in this section.

Brown's paper and forest product group purchases large quantities of secondary fiber and Canadian softwood pulp for use as raw materials. Changes in the ratio of the market prices of the products sold by Brown's forest and paper products group to the cost of secondary fiber and Canadian softwood pulp can have a significant effect on Brown's costs and profits. See "Sales and Products" above.

Pulpwood (including sawmill chips), one of the principal raw materials required in pulp manufacturing operations, is obtained from timberlands and sawmills in Northern New England. Brown's timberlands are harvested on a "sustained yield" basis – i.e., trees are cut on a rotating basis so that replacements are growing at least as fast as cutting takes place. Although Brown estimates that its "controlled" lands (lands either owned outright by Brown or owned jointly with others) could produce as much as 35% of its pulpwood needs, in recent years it has been more advantageous to obtain approximately 25% of Brown's needs from lands "controlled" by Brown. The balance is obtained from local suppliers and timber sources who are sufficiently numerous that the loss of any single source would not be material.

For many years Brown has used various grades of secondary fibers as raw material sources in its paper and paperboard manufacturing operations and uses secondary fibers exclusively at Eau Claire, Wisconsin. During the 12 months ended July 31, 1976 Brown used approximately 299,000 tons of secondary fibers.

Starting in fiscal 1974 Brown has spent approximately $8,700,000 for a secondary fiber pulp mill in Kalamazoo, Michigan which utilizes wastepaper secondary fiber to produce secondary fiber pulp for use as a virgin pulp substitute in making paper. During the 8 months ended July 31, 1976 this facility encountered certain start-up problems and caused some operational difficulties in Brown's Parchment, Michigan paper operations where the secondary fiber pulp is used. The facility is now running well and is producing approximately 145 tons of secondary fiber pulp per day. The mill is expected to benefit Brown's Parchment paper operations by reducing dependency on outside pulp sources, and the cost of producing secondary fiber pulp is expected to be less than the cost of purchased virgin fiber pulp. However, these cost savings are not materializing at present because of the high cost of the grades of wastepaper which the mill is presently required to use in relation to the current cost of virgin fiber pulp.

Reserves of aggregates owned or leased by Livingston are estimated to provide Livington's requirements for its principal market for approximately 20 years based on present usage. Livingston supplies substantially all of its own aggregates for its concrete business and purchases large quantities of cement from readily available outside sources. The principal raw material used by Richmond is steel wire. Symons' principal raw materials are steel products and plywood. Steel products and steel wire are available from various sources of supply, but the plywood used by Symons is a specially constructed, high-density variety presently available from only one source of supply. Symons does not have any long-term contracts with this plywood source which could temporarily adversely affect Symons' operations by failing to supply Symons' needs.

PETROLEUM PRODUCTS

Brown uses fuel oil in large quantities at all of its paper operations and at present has adequate commitments for fuel oil. Brown believes any required oil supply sources are readily available at the present time. If the availability of fuel oil supplies is decreased as a result of production cutbacks, embargoes, rationing or other actions by energy suppliers or national governments, Brown could be faced with fuel shortages. The severity of such possible shortages and their effect on Brown's operations cannot be estimated at this time.

COMPETITION

All of Brown's businesses are very competitive. Brown believes it is not a significant factor in any market for forest and paper products other than certain low-volume specialized papers, certain folding cartons, book matches and as one of the principal domestic suppliers of hardwood pulp in the northeastern United States and of a certain specialized wood cellulose product. Principal factors affecting competition in the pulp, paperboard, paper and converted products markets are price, proximity to customers, product quality and customer service.

Livingston believes it is one of the largest of 6 major aggregates and concrete producers in Southern California. The principal factors affecting competition in Livingston's market are proximity of aggregates reserves and concrete batch plants to customers, price and customer service.

Symons believes it is one of the largest manufacturers and distributors of prefabricated forming equipment in the United States. Symons competes with at least 2 national manufacturers and distributors and numerous regional and local manufacturers and distributors of concrete forming equipment and accessories. Principal means of competition in Symons' market include price, product availability and quality, and technical assistance to customers in selecting and using forming systems.

Richmond has a number of competitors in all areas of the country in which it distributes its products. The principal means of competition in Richmond's market include technical assistance to customers, delivery time for products and price.

PROPERTIES

Brown owns 7 manufacturing plants and leases 2 other manufacturing facilities that are used in its paper and forest products operations. The principal paper and forest products manufacturing facilities are located in Berlin-Gorham, New Hampshire; Kalamazoo and Parchment, Michigan; Eau Claire and Ladysmith, Wisconsin; and Holyoke, Massachusetts. Other smaller plants are located in California, Illinois and New York. These facilities aggregate about 5,604,000 square feet (including approximately 87,000 square feet of leased space). Brown also owns a number of dams with hydroelectric generating stations which supply power to its Berlin-Gorham plants, and it owns a 17-mile railroad which services the Berlin-Gorham facilities.

Brown owns about 520,000 acres of timberlands (of which approximately 75,000 acres are mortgaged) and approximately 275,000 acres are owned jointly with other persons, all located in Maine, New Hampshire and Vermont.

Livingston owns 341 acres and leases 1,950 acres in Southern California. Included in this acreage are 5 quarries and aggregate and refining operations and 17 concrete batch plants (13 of which are currently operated by Livingston). Symons owns and operates 3 manufacturing plants aggregating 227,000 square feet in Illinois and Texas (including 36,500 square feet of leased space) and operates 25 regional distribution and warehouse facilities (of which 16 are leased).

Richmond owns and operates 5, and leases 2, production or distribution facilities aggregating about 233,000 square feet (including approximately 25,000 square feet of leased space) located in Pennsylvania, Ohio and 6 other states. Most of the properties owned by Richmond are subject to mortgages of varying amounts.

Despite the fact that most of its paper manufacturing facilities are more than 40 years old, Brown believes that, as a result of continuing maintenance and modernization programs, all of its facilities are well maintained and in good operating condition and are generally adequate for their present uses.

ENVIRONMENTAL PROTECTION

As a result of compliance efforts commencing in December 1971, Brown expects that all of its manufacturing facilities except its Holyoke, Massachusetts and Castleton-on-Hudson, New York facilities will be in compliance with existing Federal and state environmental air and water quality standards within approved timetables which presently require compliance not later than July 1, 1977.

In order to finance the costs of these compliance efforts (including construction costs, financing costs and interest during construction) Brown has guaranteed the issuance of pollution control revenue bonds totaling $36,800,000, which on the basis of current engineering studies should be sufficient to substantially cover the cost of compliance with existing environmental air and water quality standards at all plants. The revenue bonds consist of face amounts of: (i) $28,000,000 issued by the Industrial Development Authority of the State of New Hampshire for air and water pollution control facilities at Brown's facilities at Berlin-Gorham, New Hampshire; (ii) $5,200,000 issued by the City of Parchment, Michigan for water pollution control facilities at Brown's Parchment facilities, and (iii) $3,600,000 issued by the City of Eau Claire, Wisconsin for water pollution control facilities at Brown's Eau Claire, Wisconsin facilities.

During the period from December 1, 1971 through July 31, 1976 Brown's expenditures for pollution control, excluding financing costs and interest during construction ("pollution control expenditures"), amounted to approximately $22,000,000, including about $3,500,000 (primarily for Berlin-Gorham, New Hampshire) during the 8 months ended July 31, 1976. Total pollution control expenditures for fiscal years 1977 and 1978 are estimated to be approximately $10,000,000 and $2,000,000, respectively, most of which will be for pollution control facilities at Berlin-Gorham, Parchment and Eau Claire.

Under a joint court order with the Village of Castleton-on-Hudson, New York ("Village"), Brown is required to construct a primary wastewater treatment facility at its Castleton-on-Hudson plant and to be involved in the Village's financing of construction of a Village municipal sewerage treatment plant required under the order. Brown anticipates incurring expenditures for primary treatment facilities at this plant of approximately $950,000 and also expects to incur an obligation to repay a portion of the anticipated Federal financing of the municipal sewerage plant over 30 years without interest. This repayment obligation is currently estimated at $550,000. The schedule for the joint project is dependent upon the Village obtaining financing, including Federal and state funds which have not yet been granted. Since this financing has been delayed, the Castleton-on-Hudson plant will not be in compliance with Federal and state environmental water quality standards by July 1, 1977. However, Brown is in compliance with the terms of the present court order and is currently negotiating with state environmental authorities to obtain a permit which will either be consistent with the court order or result in a modification thereof. There is no assurance at this time that a permit acceptable to Brown can be obtained. Sales of the Castleton-on-Hudson plant during the 8-month fiscal period ended July 31, 1976 were approximately $7,000,000 and the facility was carried by Brown at a depreciated book value of $2,554,684 at July 31, 1976.

Brown has entered into an agreement with the City of Holyoke, Massachusetts providing for the participation by Brown, along with other industries in Holyoke, in a municipally owned wastewater treatment facility. Brown is required by its NPDES discharge permit to connect to this facility as soon as it is available and before November 30, 1977. Since it is estimated that the municipal facility will be completed significantly later than November 30, 1977, Brown will be required by the terms of its permit to request a permit schedule amendment when construction of the facility begins. Under the above agreement Brown would incur capital expenditures of approximately $200,000 for connections to the municipal collector sewerage system and would also be obligated to pay to the City, over a term presently estimated at 20 years, a portion of the cost of constructing the treatment plant. Brown's share of this cost is estimated not to exceed the sum of $350,000 plus interest over the 20-year period.

Brown has obtained discharge permits pursuant to the NPDES Permit Program administered by the Environmental Protection Agency ("EPA") for all of Brown's pulp and paper manufacturing plants except the Castleton-on-Hudson plant which is subject to the court order discussed above. Management believes that Brown will be able to obtain other permits necessary to operate its businesses. There are no pending or threatened legal or administrative actions against Brown, including violations of applicable state or Federal pollution control laws, except the court order applying to the Castleton-on-Hudson plant described above and certain enforcement proceedings commenced by the EPA in August 1976 involving Brown's air pollution testing program and the possible failure of one or more of the point source emissions (including 2 recovery boilers) at Berlin, New Hampshire to meet applicable state and Federal air pollution standards. Brown anticipates receiving an EPA enforcement order in the near future which will establish a compliance and testing schedule. Based on information presently available, Brown believes it can fully comply with the anticipated enforcement order without incurring significant additional expenditures.

Most of Livingston's operations are subject to zoning, land use and other environmental regulation including air, noise and water pollution control laws and regulations. While Livingston's management believes that Livingston is in substantial compliance with existing laws and regulations of this kind, because of the proximity of many of Livingston's plant sites to large population centers, there can be no assurance that environmental regulation, particularly in the areas of land use and air and noise pollution control, might not have a material adverse effect on Livingston's operations in the future.

It is possible that new laws and regulations could be adopted or other developments could take place which would result in an increase in Brown's anticipated expenditures for environmental protection. Brown cannot foresee at this time the effect such new laws and regulations may have on its operations, but does not expect that environmental control systems to be installed at its facilities will adversely affect production.

EMPLOYEES

Brown and its subsidiaries employ approximately 8,600 persons, of whom about 6,400 persons are hourly paid employees. Substantially all hourly paid employees are represented by unions, and in addition there are office unions covering salaried employees in some of Brown's offices. All employees have the customary fringe benefits, including group medical and insurance plans, retirement and other benefits. Two-year union contracts calling for significant wage and benefit increases covering substantially all of the union employees at its forest product operations were entered into with respect to Berlin, New Hampshire union employees in June of 1976 and Kalamazoo and Parchment, Michigan and Eau Claire, Wisconsin union employees in July of 1976.

LEGAL PROCEEDINGS

On February 18, 1976 a Federal Grand Jury returned an indictment in the Federal District Court in Chicago, Illinois naming Brown, along with 22 other companies engaged in the folding carton business and 50 individuals, one of whom is an employee of Brown and one of whom is a retired former officer of Brown, as defendants in an action under Section 1 of the Sherman Act alleging a conspiracy among the named companies to fix, raise, maintain and stabilize prices of folding cartons during a period beginning in 1960 and ending before December 1974. The United States Department of Justice on the same date filed a civil suit in the same Federal Court against Brown and all but one of the other named corporate defendants seeking an injunction to prevent Brown and the other defendants from engaging in the conduct which was alleged to exist in the criminal indictment referred to above. In July 1976 the court accepted pleas of *nolo contendere* to the criminal indictment by all but one of the named corporate defendants, including Brown. In September 1976 Brown along with 2 other defendants received a fine of $45,000 each; 9 of the defendants received the maximum fine of $50,000 and 10 defendants were fined from $25,000 to $40,000.

As of September 30, 1976 Brown had been served with 48 private treble damage actions under Section 4 of the Clayton Act seeking unspecified amounts of damages, filed against it and all or substantially all of the defendants in the United States Department of Justice civil suit. More than half of these actions were filed in the Federal District Court for the Northern District of Illinois.

In addition to the above described treble damage actions, in March of 1976 Brown was also served with an action entitled *Folding Cartons, Inc.* vs. *American Can Company et al.*, filed in the Federal District Court in the Northern District of Illinois, naming as defendants Brown and most of the other defendants in the treble damage actions described above. The complaint seeks unspecified treble damages and alleges that the defendants conspired to restrain interstate trade in the sale of "bending box board" and folding cartons and also to establish, fix and maintain prices for bending box board and to monopolize the manufacture and sale of folding cartons, in violation of Sections 1 and 2 of the Sherman Act.

Brown has also been named in a civil suit filed on April 30, 1976 by the United States of America as a purchaser and consumer of folding cartons seeking penalties and damages under the Clayton Act and False Claims Act based substantially on the allegations in the Justice Department civil suit.

Brown has instructed its counsel to file all appropriate defenses to all of the above described actions. Although the amount of liability, if any, in the damage actions described above is not presently determinable, Brown's management, after taking into consideration the advice of counsel, is of the opinion that their ultimate resolution will have no material effect on the consolidated financial statements of Brown and its subsidiaries.

Brown and its subsidiaries are defendants in various other lawsuits arising in the ordinary course of business. Most of the damages requested in such lawsuits are covered by liability insurance or involve amounts which would not have a material adverse effect on Brown's financial condition.

ITEM 2. SUMMARY OF OPERATIONS

The following is a summary of operations of Brown and consolidated subsidiaries for the periods indicated. This summary should be read in conjunction with the related financial statements and notes thereto included under Item 10(a).

(In thousands of dollars except per share amounts)

	Year Ended November 30					Eight Months Ended July 31
	1971	1972	1973	1974	1975	1976
Net sales(1)	$205,558	$249,225	$322,802	$434,545	$400,310	$281,433
Other revenues	43	71	82	70	41	91
Total revenues	205,601	249,296	322,884	434,615	400,351	281,524
Cost of sales	178,815	209,952	269,075	345,984	326,809	234,728
Selling, administrative and general expenses	19,960	28,206	35,347	43,171	41,696	31,200
	198,775	238,158	304,422	389,155	368,505	265,928
Operating income(2)	6,826	11,138	18,462	45,460	31,846	15,596
Interest cost (net)	5,441	6,589	6,124	4,938	4,904	3,386
Minority interest	136	260	—	—	—	—
Income tax provision	—	1,022	2,875	16,613	10,238	3,907
Net earnings	$ 1,249	$ 3,267	$ 9,463	$ 23,909	$ 16,704	$ 8,303
Net earnings per common and common equivalent share (a)	$ .36	$ .82	$ 1.71	$ 3.46	$ 2.41	$ 1.19
Cash dividends paid and accrued — per common share	$ —	$ —	$ —	$ —	$ —	$ .22½
(1) Forest and paper products	$178,301	$193,191	$239,666	$345,132	$318,568	$232,164
Building materials	27,257	56,034	83,136	89,413	81,742	49,269
	$205,558	$249,225	$322,802	$434,545	$400,310	$281,433
(2) Forest and paper products	$ 3,753	$ 6,056	$ 12,396	$ 39,916	$ 24,717	$ 14,079
Building materials	3,073	5,082	6,066	5,544	7,129	1,517
	$ 6,826	$ 11,138	$ 18,462	$ 45,460	$ 31,846	$ 15,596

(a) Net earnings per common and common equivalent share for the years ended November 30, 1973, 1974, 1975 and the eight months ended July 31, 1976 are based on weighted average common shares and common share equivalents (warrants and options) outstanding during the periods assuming that the warrants and options were exercised and the proceeds therefrom used first to buy 20% of the outstanding common shares for the treasury and the remainder to buy debt at market values. Common equivalent shares have not been included in earnings per share computations for 1971 and 1972 because the effect would be antidilutive. Average common and common equivalent shares outstanding, which have been retroactively adjusted for the five-for-four stock split described in Note A to the financial statements included elsewhere herein, were as follows: 1971 – 3,456,000, 1972 – 4,013,000, 1973 – 6,771,000, 1974 – 7,255,000, 1975 – 7,208,000 and 1976 – 7,257,000.

For additional information see "Sales and Products" (Item 1. "Business").

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE CONSOLIDATED SUMMARY OF OPERATIONS

For the Year Ended November 30, 1975 and Eight Months Ended July 31, 1976

Brown changed its fiscal year to a year ending July 31 effective July 31, 1976 to align its year with that of Gulf & Western Industries, Inc., the owner of approximately 80% of Brown's outstanding common stock. Results for the 8 months ended July 31, 1976 are not comparable with the prior 12-month period ended November 30, 1975. The following analysis as it relates to the 8-month period therefore discusses changes in trends and the level of activity.

Net Sales and Operating Income

During the 8 months ended July 31, 1976 sales were at a higher level than in the same period in 1975 reflecting a substantial improvement in paper industry operating rates. However, operating income was less than expected due mainly to problems caused by the start-up of a new secondary fiber pulp mill and also to other operating difficulties. Although the secondary fiber pulp mill is now running well and other operating problems are being corrected, operating results are being adversely affected by rising labor and material costs that are not being absorbed by selling prices.

Building materials sales and operating income were at a lower level during the 8 months ended July 31, 1976 than in the same period in 1975 due to reduced demand in some of the group's non-residential construction markets and to losses related to the distribution of concrete reinforcing materials in the New York City area. The New York City operation was sold in January 1976.

From January until June 1976 the capacity of Brown's pulp mill at Berlin, New Hampshire was reduced by about 30% as a result of a boiler explosion. Repairs to the boiler were completed in June 1976 and current pulp production is near capacity. The loss of income resulting from the explosion and the cost of repairing the boiler are covered by insurance, and therefore, results of operations were not adversely affected. Operating income for the 8 months ended July 31, 1976 includes, as a reduction of operating costs, an insurance settlement of approximately $5 million for loss of income and recovery of additional expenses incurred because of the explosion.

The decrease in forest and paper products sales and operating income during the year ended November 30, 1975 compared with the year ended November 30, 1974 was caused mainly by a drop in demand for most paper products resulting in operations at rates substantially below capacity starting in early 1975. The decrease in sales of building materials in 1975 compared with 1974 was due mainly to the decrease in revenues from the distribution of concrete reinforcing materials in the New York City area. However, operating income from building materials was higher during the 12 months ended November 30, 1975 than during the prior year primarily because of price increases in excess of increases in the cost of raw materials and other costs.

Interest Cost (Net)

Interest cost (net) is interest expense reduced by interest income. There was no significant change in the level of interest expense and interest income during the 8 months ended July 31, 1976.

Interest expense decreased from $6,935,000 in the year ended November 30, 1974 to $5,686,000 in the year ended November 30, 1975 because of reductions in the prime rate of interest and the redemption of $15,280,000 face amount of Brown's 9% subordinated debentures in late 1974. Interest income declined from $1,997,000 in 1974 to $782,000 in 1975 because of a reduction in interest rates and in the amount of funds temporarily available for investment.

Income Tax Provision

The income tax provision as a percent of pre-tax earnings was 32% for the 8 months ended July 31, 1976 and 38% and 41% for the years ended November 30, 1975 and 1974, respectively. Changes in the effective tax rate are due mainly to the amount of pre-tax earnings in relation to available investment tax credits, capital gains from timber cutting, depletion allowances and differences in the tax and the financial reporting basis of certain assets.

See the "Sales and Products" (Item 1. "Business") and the financial statements and notes thereto appearing elsewhere herein for additional information concerning the matters discussed above.

ITEM 3. PROPERTIES

The response to this item is incorporated under Item 1. "Business" above.

ITEM 4. PARENTS AND SUBSIDIARIES

PARENT OF BROWN

Gulf & Western Industries, Inc., a Delaware corporation ("G&W"), has advised Brown that as of September 30, 1976 it was the beneficial owner of 5,404,790 shares of Brown's Common Stock which is approximately 80% of such outstanding Common Stock and based on such stock ownership, G&W controls Brown and the composition of its Board of Directors. In September 1976 G&W acquired in a private transaction from three of the Company's institutional lenders all of the Company's warrants expiring January 26, 1977 which entitle the holder to purchase 368,529 shares of the Common Stock of the Company at $10.43 per share. Two of Brown's 10 directors and 2 of the 4 members of Brown's Executive Committee are directors and executive officers of G&W. Since February of 1975 Brown has been consolidated with G&W for tax purposes. G&W is a diversified company engaged in the areas of manufacturing, consumer and agricultural products, leisure time, natural resources, apparel products, paper and building materials, automotive replacement parts and financial services.

SUBSIDIARIES OF BROWN

Subsidiaries of Brown as of September 30, 1976 (all included in the consolidated financial statements except for Acrow-Richmond Limited) are:

Name	Jurisdiction of Incorporation	Percent of Voting Stock Owned by Brown (except Qualifying Shares)
Berlin Mills Railway, Inc. 650 Main Street Berlin, New Hampshire 03570	New Hampshire	100%
Brown-New Hampshire, Inc. 650 Main Street Berlin, New Hampshire 03570	New Hampshire	100
Symons Corporation 200 East Touhy Avenue Des Plaines, Illinois 60018	Delaware	100
Advance Construction Equipment, Inc. 1155 Churchill Drive New Braunfels, Texas 78130	Texas	100 (1)

Name	Jurisdiction of Incorporation	Percent of Voting Stock Owned by Brown (except Qualifying Shares)
Industrial Leaseholds, Inc. 251 South Lake Avenue Pasadena, California 91101	Delaware	100%
South Lake Development Corporation 251 South Lake Avenue Pasadena, California 91101	Delaware	100
Paterson Services Corporation 251 South Lake Avenue Pasadena, California 91101	Delaware	100 (2)
Richmond Screw Anchor Co., Inc. 7215 Burns Street Fort Worth, Texas 76118	Delaware	100
Shattuck Denn Mining Corporation 251 South Lake Avenue Pasadena, California 91101	Delaware	100
L-T Transport, Inc. 251 South Lake Avenue Pasadena, California 91101	California	100
Acrow-Richmond Limited 110 Belfield Road Rexdale 603, Ontario Canada	Canada	50 (3)

(1) A 100% owned subsidiary of Symons Corporation.

(2) A 100% owned subsidiary of South Lake Development Corporation.

(3) A 50% owned subsidiary of Richmond Screw Anchor Company, Inc.

In addition to subsidiaries referred to above, the names of certain subsidiaries, which if considered in the aggregate as a single subsidiary would not constitute a significant subsidiary, have been omitted.

ITEM 5. PENDING LEGAL PROCEEDINGS

The response to this item is incorporated under Item 1. "Business" above.

ITEM 6. INCREASES AND DECREASES IN OUTSTANDING EQUITY SECURITIES

(a)	Issued and outstanding Common Stock at November 30, 1975	6,722,754
	Common stock issued between January 30, 1976 and February 27, 1976 upon exercise of options granted pursuant to Brown's 1970 Qualified Stock Option Plan	16,250 (1)
	Cancelled as fractional shares in connection with 5-for-4 split-up	(1,670)
	Issued and outstanding Common Stock transferred to treasury shares	(100)(2)
	Common Stock issued July 9, 1976 upon exercise of May 15, 1980 Warrants	23 (3)
	Issued and outstanding Common Stock at July 31, 1976	6,737,257
(b)	Outstanding warrants to purchase Common Stock at November 30, 1975*	1,380,130
	Warrants exercised in 1976	(19)
	Outstanding warrants to purchase Common Stock at July 31, 1976	1,380,111

(1) Refer to Note E – Capital Stock in the Notes to Consolidated Financial Statements for the 8 months ended July 31, 1976 included in the financial section of this report for information on stock options pertaining to employees.

(2) Transfer of 100 shares from issued and outstanding to issued treasury shares as a result of closing out a balance certificate account for Brown-Symons merger.

(3) Warrants expiring May 15, 1980.

* This number consists of warrant agreements expiring January 26, 1977 ("1977 Warrant Agreements") allowing the holders to purchase 294,766 of Common Stock and 1,085,364 warrants expiring May 15, 1980 ("1980 Warrants") to purchase 1,085,364 shares of Common Stock. As a result of the 5-for-4 split-up of Common Stock effective February 9, 1976, each 1980 Warrant is entitled to purchase one and one-fourth shares of Common Stock and the holders of the 1977 Warrant Agreements are entitled to purchase 368,529 shares of Common Stock. See "Parent of Brown" (Item 4. "Parents and Subsidiaries").

ITEM 7. APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS AS OF JULY 31, 1976

Class of Securities	Number of Record Holders
Common Stock $1 par value	5,296
Common Stock Warrants expiring May 15, 1980	3,356
Common Stock Warrants expiring January 26, 1977	3

ITEM 8. EXECUTIVE OFFICERS OF THE REGISTRANT

Name	All positions and offices held with Brown	Age as of October 1 1976
*Merrill L. Nash	Chairman of the Board, President, Chief Executive Officer and a Director	52
*David D. Davis	Senior Vice President – Building Materials Group and a Director	54
R. James Alexy	Vice President	35
John E. Cherrix	Vice President, Treasurer and a Director	46
Edgar T. Dean	Vice President	50
Harold L. Ellsworth	Vice President	45
Leonard E. Hickey	Vice President, Controller and a Director	46
Richard S. Longnecker	Vice President	48
James R. Maurer	Vice President, Secretary, General Counsel and a Director	46
Robert J. Sherry	Vice President – Industrial Relations	50
Charles M. Williams	Vice President – Engineering	54

* Member of the Executive Committee.

All of the above officers have been officers in the employ of Brown for at least the past five years in their present capacity or in other key management positions. There is no family relationship between the above-mentioned officers. There are no arrangements or understandings between any officer and any other person pursuant to which he was selected as an officer. Mr. Cherrix and Mr. Hickey were elected Directors of Brown in July 1976. Messrs. Alexy, Dean, Ellsworth and Longnecker were elected Vice Presidents in October 1976.

The term of office of all officers and directors is until Brown's next annual meeting which is scheduled for December of each year.

ITEM 9. INDEMNIFICATION OF OFFICERS AND DIRECTORS

Reference is made to Item 9 of Brown's Annual Report on Form 10-K for its fiscal year ended November 30, 1975 which is incorporated herein by reference.

ITEM 10. FINANCIAL STATEMENTS AND EXHIBITS FILED

(a) Financial Statements:

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or the required information is set forth in the consolidated financial statements and related notes. Columns omitted from schedules filed have been omitted because information is not applicable. With respect to Schedule XIII, the information applicable to the consolidated subsidiaries has been omitted as they are wholly owned and the answers to Column G would be "none".

Individual financial statements of the registrant have been omitted as the registrant's total assets (exclusive of investments in and advances to its consolidated subsidiaries, as would be shown by its most recent year-end balance sheet if it were filed) constitute 75% or more of the total assets as shown by the most recent consolidated balance sheet, and the registrant's total sales and revenues (exclusive of interest and dividends from or its equity in the income of the consolidated subsidiaries as would be shown by its income statement, for the most recent fiscal period if it were filed) constitute 75% or more of the total sales and revenues shown by the most recent annual consolidated income statements. Financial statements of 50% or less owned persons for which the investments are accounted for by the equity method have been omitted because, in the aggregate, they do not represent a significant subsidiary.

(b) Exhibits:

(1) Brown Company 1976 Key Management Incentive Plan.

(2) Brown Company Deferred Incentive Compensation Plan and Trust Agreement.

(3) Amendments effective January 1, 1976 to Brown Company Retirement Plan.

(4) Loan Agreement between the City of Eau Claire, Wisconsin and Brown Company pertaining to issuance of $2,200,000 of pollution control revenue bonds.

(5) Amendments adopted July 28, 1976 to the Brown Company By-Laws relating to the fiscal year and annual shareholders meeting (incorporated in Form 8-K for the month of July, 1976).

(6) Note Agreements, Note Assumption Agreement, Note and Warrant Agreement Amendments, Mortgage and Deed of Trust and Consolidation Agreement between Brown Company, certain institutional lenders and a corporate trustee (incorporated in Form 8 Amendment to Form 8-K for the month of March, 1976, filed April 21, 1976), and the First Supplemental Agreement dated as of May 24, 1976 pertaining to the Note Agreements, Note Assumption Agreement and Note and Warrant Agreement Amendments.

(7) Earnings per share calculation.

Part II (Items 11 through 15 inclusive) has been omitted as Brown will have filed a definitive proxy statement pursuant to Regulation 14-A not later than 120 days after the close of Brown's 8 month fiscal period ended July 31, 1976.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

BROWN COMPANY

By /s/ JAMES R. MAURER

James R. Maurer
Vice President and Secretary

October 26, 1976

BROWN COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS

	Year Ended November 30 1975	Eight Months Ended July 31 1976
Revenues:		
Net sales	$400,310,000	$281,433,000
Other	41,000	91,000
	400,351,000	281,524,000
Operating costs:		
Cost of sales	326,809,000	234,728,000
Selling, administrative and general expenses	41,696,000	31,200,000
	368,505,000	265,928,000
Operating income	31,846,000	15,596,000
Interest cost:		
Interest expense – Note D	6,732,000	4,831,000
Interest income	(782,000)	(259,000)
Net interest cost capitalized – Notes A and H	(1,046,000)	(1,186,000)
	4,904,000	3,386,000
Earnings before income taxes	26,942,000	12,210,000
Income tax provision – Note I	10,238,000	3,907,000
Net earnings	$ 16,704,000	$ 8,303,000
Net earnings per common and common equivalent share – Notes A and J	$2.41	$1.19
Cash dividends paid and accrued – per common share	$ –	$ .22½

See notes to consolidated financial statements.

BROWN COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

ASSETS

	November 30 1975	July 31 1976
Current assets:		
Cash including short-term investments — Notes A and N	$ 11,985,000	$ 4,768,000
Accounts receivable (less allowance of $1,946,000 in 1975 and $1,013,000 in 1976)	50,870,000	55,316,000
Inventories — Notes A and B	64,350,000	67,497,000
Prepaid expenses	1,108,000	1,202,000
Total current assets	128,313,000	128,783,000
Properties — Notes A and D:		
Land and improvements	9,656,000	9,491,000
Timberlands and quarries	9,914,000	9,914,000
Buildings, machinery and equipment	279,450,000	292,448,000
Accumulated depreciation and depletion	(155,865,000)	(160,180,000)
	143,155,000	151,673,000
Other assets:		
Funds restricted for pollution control facilities	11,036,000	9,965,000
Investments and non-current receivables — Note N	1,714,000	1,712,000
Other	4,729,000	5,992,000
	17,479,000	17,669,000
	$288,947,000	$298,125,000

LIABILITIES AND SHAREHOLDERS' EQUITY

	November 30 1975	July 31 1976
Current liabilities:		
Notes payable — Note C	$ 3,500,000	$ 2,000,000
Current long-term debt maturities	6,390,000	5,135,000
Accounts payable	16,480,000	13,527,000
Accrued expenses — Note N	27,418,000	30,517,000
Income taxes payable	3,424,000	2,760,000
Total current liabilities	57,212,000	53,939,000
Other liabilities:		
Senior long-term debt — Note D	80,085,000	83,925,000
Subordinated debentures — Note D	9,964,000	9,964,000
Deferred income taxes	12,060,000	13,923,000
Other	446,000	311,000
	102,555,000	108,123,000
Shareholders' equity — Notes A, D and E:		
Common stock	6,736,000	6,750,000
Treasury stock	(156,000)	(156,000)
Other capital	52,824,000	52,908,000
Retained earnings	69,776,000	76,561,000
	129,180,000	136,063,000
Commitments and contingencies — Notes D, F, K and L		
	$288,947,000	$298,125,000

See notes to consolidated financial statements.

BROWN COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Year Ended November 30 1975	Eight Months Ended July 31 1976
Common stock:		
Beginning balance — Note A	$ 6,702,000	$ 6,736,000
Cash payment in lieu of fractional shares in connection with stock split	—	(2,000)
Common stock issued in exercise of stock options (34,375 shares in 1975 and 16,250 shares in 1976) — Note E	34,000	16,000
Ending balance	$ 6,736,000	$ 6,750,000
Other capital:		
Beginning balance — Note A	$52,692,000	$52,824,000
Excess of option price over par value of common stock issued in exercise of stock options — Note E	144,000	106,000
Other	(12,000)	(22,000)
Ending balance	$52,824,000	$52,908,000
Retained earnings:		
Beginning balance	$53,072,000	$69,776,000
Net earnings	16,704,000	8,303,000
Dividends	—	(1,518,000)
Ending balance	$69,776,000	$76,561,000

See notes to consolidated financial statements.

BROWN COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended November 30 1975	Eight Months Ended July 31 1976
Funds provided from operations:		
Net earnings	$ 16,704,000	$ 8,303,000
Items recognized in net earnings which did not affect working capital:		
Depreciation and depletion	10,420,000	7,894,000
Deferred income taxes	3,821,000	1,863,000
	30,945,000	18,060,000
Other funds provided:		
Asset dispositions	1,440,000	580,000
Debt issued	21,576,000	17,200,000
Stock and warrants issued	178,000	122,000
	23,194,000	17,902,000
Total funds provided	54,139,000	35,962,000
Funds used:		
Plant additions	36,373,000	16,992,000
Reduction in long-term debt and other liabilities	8,387,000	13,495,000
Funds reserved (expended) for pollution control facilities	8,440,000	(1,071,000)
Cash dividends	—	1,518,000
Other	1,913,000	1,285,000
Total funds used	55,113,000	32,219,000
Increase (decrease) in working capital	$ (974,000)	$ 3,743,000
Elements of change in working capital:		
Increase (decrease):		
Cash including short-term investments	$(11,365,000)	$ (7,217,000)
Accounts receivable	(51,000)	4,446,000
Inventories	(4,171,000)	3,147,000
Prepaid expenses	40,000	94,000
Notes payable	2,804,000	1,500,000
Current long-term debt maturities	(166,000)	1,255,000
Accounts payable	4,016,000	2,953,000
Accrued expenses	1,451,000	(3,099,000)
Income taxes payable	6,468,000	664,000
Increase (decrease) in working capital	$ (974,000)	$ 3,743,000

See notes to consolidated financial statements.

BROWN COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended November 30, 1975 and Eight Months ended July 31, 1976

Note A — Summary of Accounting Policies

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. Significant inter-company accounts, transactions, and profits have been eliminated. At July 31, 1976, Gulf & Western Industries, Inc. owned 80.2% of the Company's common stock and in September 1976 acquired warrants expiring January 26, 1977 to acquire 368,529 shares of common stock.

All data in the financial statements and related notes have been adjusted to reflect a 5-for-4 stock split effected in February 1976 as though it had occurred at the beginning of the periods presented.

Short-term investments (certificates of deposit and commercial paper) are stated at cost which approximates market value.

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

Properties are stated at cost. Expenditures for maintenance and repairs are charged to income. 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 or losses on disposition of assets are reflected in income in the year of disposal.

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 in years, on which depreciation rates have been computed, fall largely within the following ranges:

Buildings and other structures	10-50
Automotive equipment	3-10
Machinery, furniture and other equipment	2-25

The Company capitalizes the net interest cost during construction (interest expense less interest income received on the investment of funds restricted for pollution control facilities) 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 to be part of the cost of the pollution control facilities.

Provisions for income taxes reflect the recognition of investment tax credits in the year realized (flow-through method). Beginning in 1975, the operations of 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.

Note B — Inventories

Inventories at November 30, 1975 and July 31, 1976 were classified as follows:

	November 30 1975	July 31 1976
Raw materials, work in process and supplies	$29,292,000	$28,503,000
Paper and other manufactured products	35,058,000	38,994,000
Total	$64,350,000	$67,497,000

BROWN COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note B – Inventories (continued)

Inventories used in computing the cost of goods sold were as follows:

November 30, 1974	$68,521,000
November 30, 1975	64,350,000
July 31, 1976	67,497,000

Note C – Notes Payable

At November 30, 1975, short-term notes of $3,500,000 were payable to banks with an average interest rate of 7.6%. At July 31, 1976, short-term notes of $2,000,000 were payable to banks with an average interest rate of 7.0%.

Other information relating to short-term notes follows:

	Year Ended November 30 1975	Eight Months Ended July 31 1976
Maximum outstanding at any month-end	$ 8,000,000	$10,000,000
Average amount outstanding (total of months-end outstanding principal balances divided by 12 and 8 respectively)	5,458,000	3,250,000
Average interest rate (actual interest expense for the period divided by the average outstanding borrowings	8.5%	7.0%

The Company has line of credit arrangements with banks of which $19,000,000 were unused at July 31, 1976. These arrangements generally 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.

Note D – Long-Term Debt

Long-term debt at November 30, 1975 and July 31, 1976 was as follows:

	November 30 1975	July 31 1976
Senior long-term debt:		
7% to 9⅞% notes payable to institutional investors 1976 to 1986	$41,735,000	$37,452,000
11% notes payable to institutional investors 1980 to 1991	–	15,000,000
Notes payable to banks 1976 to 1979 at 1% above the prevailing commercial loan rate	9,956,000	–
6¾% to 9% pollution control revenue bonds payable 1986 to 2006	29,400,000	31,600,000
Other notes (5% to 9%) 1976 to 1987	5,384,000	5,008,000
	86,475,000	89,060,000
Current maturities	(6,390,000)	(5,135,000)
Total senior long-term debt	80,085,000	83,925,000
9% subordinated debentures due 1995	9,964,000	9,964,000
Total long-term debt	$90,049,000	$93,889,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note D — Long-Term Debt (continued)

The following long-term debt payments are required during the five years ending July 31, 1981:

1977	$5,135,000
1978	5,199,000
1979	5,015,000
1980	7,321,000
1981	7,381,000

The 9% debentures due in 1995 are subordinated to all notes payable and may be applied to pay the exercise price of the $13.20 warrants (see Note E). Debenture interest is payable annually on June 1 in cash or common stock of the Company at the Company's option. Interest was paid in cash on June 1, 1975 and June 1, 1976.

Note agreements applicable to the notes payable to institutional investors provide for the possible future mortgage (if certain conditions are not met) of the Company's New England timberlands and of the Company's properties in Berlin and Gorham, New Hampshire and Kalamazoo and Parchment, Michigan.

Certain long-term loan agreements restrict the payment of dividends. Under the most restrictive of the agreements, retained earnings at July 31, 1976 of $9,709,000 were not restricted.

The Company has agreed to sell to 3 institutional investors an additional $15,000,000 of its 11% Senior Notes in December 1976.

Interest expense is primarily attributable to long-term debt.

Note E — Capital Stock

There are 10,000,000 shares of $1 par value common stock and 2,500,000 shares of preferred stock authorized. At November 30, 1975, 6,722,754 shares of common stock were outstanding and at July 31, 1976, 6,737,257 shares were outstanding excluding 12,280 treasury shares. Each share is entitled to one vote. No preferred stock is outstanding.

At July 31, 1976, unissued shares of common stock were reserved for the following purposes:

Warrants exercisable to May 15, 1980 at $13.20 per share	1,356,682
Warrants exercisable to January 26, 1977 at $10.43 per share	368,529
Employee stock options outstanding	157,500
Employee stock options available for grant	101,875
Total	1,984,586

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 and are generally exercisable in varying installments through 1981.

Other information concerning stock options is summarized below:

	Number of Shares	Option Price	
		Per Share	Total
Options outstanding at November 30, 1975 by year of grant:			
Year ended November 30, 1971	14,375	$5.35–$7.80(a)	$101,475
Year ended November 30, 1972	5,000	8.45– 8.90(a)	43,360
Year ended November 30, 1973	35,500	8.35– 8.90(a)	301,756
Year ended November 30, 1974	38,875	8.25– 8.60(a)	321,521
Year ended November 30, 1975	7,500	8.20– 8.80(a)	64,500
Total	101,250		$832,612

BROWN COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note E — Capital Stock (continued)

	Number of Shares	Option Price Per Share	Option Price Total
Options outstanding at July 31, 1976 by period of grant:			
Year ended November 30, 1971	1,250	$5.70(a)	$ 7,130
Year ended November 30, 1972	2,500	8.45(a)	21,120
Year ended November 30, 1973	34,875	$8.35– 8.90(a)	296,191
Year ended November 30, 1974	38,875	8.25– 8.60(a)	321,521
Year ended November 30, 1975	5,000	8.80(a)	44,000
Eight months ended July 31, 1976	75,000	10.45(a)	783,600
Total	157,500		$1,473,562

	Number of Shares	Option Price Per Share	Option Price Total	Market Value Per Share	Market Value Total
Options which became exercisable:					
Year ended November 30, 1975	40,625	$5.35–$8.90(a)	$336,610	$ 7.40–$ 8.80(b)	$335,253
Eight months ended July 31, 1976	20,156	8.25– 8.90(a)	169,424	10.38– 13.00(b)	236,891
Options exercised:					
Year ended November 30, 1975	34,375	$4.15–$8.40(a)	$178,135	$ 7.10–$ 8.40(c)	$274,875
Eight months ended July 31, 1976	16,250	5.35– 8.90(a)	122,160	11.00– 12.30(c)	185,750

(a) Market prices on date options granted.

(b) Market prices on date options became exercisable.

(c) Market prices on date options were exercised.

At November 30, 1975 options for 57,500 shares were exercisable. At July 31, 1976 options for 61,406 shares were exercisable. Options for 174,375 shares were available for future grants at November 30, 1975, and 101,875 shares at July 31, 1976. No charges were made to income for options transactions in 1975 or 1976, and the excess of proceeds over par value of shares issued in fulfillment of stock options is credited to other capital.

Note F — Pension Plans

Substantially all employees are covered by pension plans. Pension expense aggregated $9,048,000 for the year ended November 30, 1975 and $6,518,000 for the eight months ended July 31, 1976. 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 $32,000,000 at the January 1, 1976 valuation date. The estimated unfunded past service liability under the plans approximated $72,000,000 at the January 1, 1976 valuation date.

In accordance with the provisions of the Employee Retirement Income Security Act of 1974, the Company is making amendments to its pension plans effective January 1, 1976. Management does not expect the effect of these changes on future pension costs and unfunded vested benefits to be significant.

Note G — Incentive Compensation Plans

The Company has incentive compensation plans for key management personnel under which at July 31, 1976 the amount payable to individual participants is limited to 25% of the participants' base salaries with an aggregate maximum payment under the plan limited to 10% of earnings before income taxes. The Company also has deferred incentive compensation plans based on the value of the Company's common stock and meeting certain return on shareholders' equity requirements. The charges to income for these plans were $1,288,000 for the year ended November 30, 1975 and $727,000 for the eight months ended July 31, 1976.

Note H — Capitalized Interest

Net interest cost capitalized increased net earnings $523,000 (seven cents per share) for the year ended November 30, 1975 and $593,000 (eight cents per share) for the eight months ended July 31, 1976.

Note I — Income Taxes

Provisions for taxes on income included in results of operations are as follows:

	Year Ended November 30 1975	Eight Months Ended July 31 1976
Current provision:		
Federal	$ 5,568,000	$ 1,433,000
State	784,000	611,000
Foreign	65,000	—
Deferred federal and state provision	3,821,000	1,863,000
Total	$10,238,000	$ 3,907,000

Income tax provisions were reduced by investment tax credits of $2,173,000 in the year ended November 30, 1975 and $1,667,000 in the eight months ended July 31, 1976.

Provisions for taxes on income are low in relation to earnings before taxes primarily because of investment tax credits, capital gain from timber cutting, depletion allowances and differences in the tax and financial reporting basis of certain assets. The income tax provisions for the 1975 and 1976 periods were 38% and 32%, respectively, of earnings before taxes which is less than the Federal statutory rate of 48% as explained below:

	% of Pre-Tax Earnings	
	Year Ended November 30 1975	Eight Months Ended July 31 1976
Statutory rate	48%	48%
Decrease arising from investment tax credits	(8)	(14)
Other items	(2)	(2)
Effective tax rate	38%	32%

BROWN COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note I — Income Taxes (continued)

Components of the deferred tax provisions resulting from reporting income and deductions at different times for financial reporting and income tax purposes were as follows:

	Year Ended November 30 1975	Eight Months Ended July 31 1976
Tax effect of:		
Excess depreciation for federal income tax purposes	$1,682,000	$1,468,000
Aggregate timing differences due to expense accruals deductible for income tax purposes in period when paid; recorded for financial reporting purposes when incurred	1,909,000	574,000
Other items — net	230,000	(179,000)
Total	$3,821,000	$1,863,000

Note J — Earnings Per Share

Net earnings per common and common equivalent share for the year ended November 30, 1975 and the eight months ended July 31, 1976 are based on weighted average common shares and common 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% of the outstanding common shares for the treasury and the remainder to retire debt at market values.

Average common and common equivalent shares outstanding were 7,208,000 in the 1975 period and 7,257,000 in the 1976 period.

Note K — Leases

Rental expense aggregated $4,834,000 for the year ended November 30, 1975 and $3,103,000 for the eight months ended July 31, 1976.

Future rental commitments at July 31, 1976 for non-cancelable leases were:

	Land and Buildings	Machinery and Equipment	Total
1977	$ 462,000	$2,191,000	$ 2,653,000
1978	394,000	1,663,000	2,057,000
1979	314,000	1,334,000	1,648,000
1980	206,000	1,318,000	1,524,000
1981	92,000	1,177,000	1,269,000
1982-1986	130,000	774,000	904,000
1987-1991	71,000	—	71,000
Total	$1,669,000	$8,457,000	$10,126,000

Note L — Contingencies

In February 1976, a Federal grand jury returned an indictment in the Federal District Court in Chicago, Illinois naming the Company and 22 other companies in the folding carton business as defendants in an action under the Sherman Act, alleging a conspiracy to fix, raise, maintain and stabilize

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note L — Contingencies (continued)

prices of folding cartons from 1960 to 1974. In July 1976, the Company pleaded nolo contendere to this charge and in September 1976 was fined $45,000. In relation to this matter, 48 private treble damage actions seeking unspecified amounts of damages have been filed against the Company and the other defendants. The amount of liability, if any, in these private actions is not presently determinable, but management, after taking into consideration the advice of counsel, is of the opinion that their ultimate resolution will have no material effect on the consolidated financial statements of the Company and its subsidiaries.

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

Note M — Supplementary Earnings Statement Information

	Year Ended November 30 1975	Eight Months Ended July 31 1976
Maintenance and repairs	$27,713,000	$22,107,000
Taxes other than income taxes:		
Local property taxes	$ 4,473,000	$ 3,110,000
Payroll taxes	6,151,000	5,595,000
Other taxes	811,000	492,000
Total	$11,435,000	$ 9,197,000

Royalties, advertising and depreciation and amortization of intangible assets, preoperating costs and similar deferrals did not exceed 1% of net revenues during either period and therefore have been omitted.

Note N — Supplementary Balance Sheet Information

	November 30 1975	July 31 1976
Cash including short-term investments:		
Cash	$ 4,184,000	$ 4,166,000
Commercial paper	4,000,000	—
Certificates of deposit and other	3,801,000	602,000
Total	$11,985,000	$ 4,768,000
Investments and non-current receivables:		
Amounts receivable from officers, directors and employees	$ 146,000	$ 228,000
Other	1,568,000	1,484,000
Total	$ 1,714,000	$ 1,712,000
Accrued expenses:		
Compensation and taxes thereon	$ 7,604,000	$ 7,406,000
Pensions	8,165,000	11,035,000
Dividends	—	506,000
Other	11,649,000	11,570,000
Total	$27,418,000	$30,517,000

REPORT OF ERNST & ERNST, INDEPENDENT AUDITORS

To the Board of Directors and
Shareholders of Brown Company

We have examined the consolidated balance sheet of Brown Company and subsidiaries as of July 31, 1976 and November 30, 1975, and the consolidated statements of earnings, changes in shareholders' equity and changes in financial position for the eight months ended July 31, 1976 and the year ended November 30, 1975, and the related schedules listed in the index to Item 10(a). 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 consolidated financial position of Brown Company and subsidiaries at July 31, 1976 and November 30, 1975, and the consolidated results of their operations and changes in their financial position for the aforementioned periods, in conformity with generally accepted accounting principles applied on a consistent basis. Further, it is our opinion that the schedules referred to above present fairly the information set forth therein in compliance with applicable accounting regulations of the Securities and Exchange Commission.

Ernst & Ernst

E&E

New York, New York
October 7, 1976

BROWN COMPANY AND SUBSIDIARIES

SCHEDULE II – AMOUNTS RECEIVABLE FROM UNDERWRITERS, PROMOTERS, DIRECTORS, OFFICERS, EMPLOYEES, AND PRINCIPAL HOLDERS (OTHER THAN AFFILIATES) OF EQUITY SECURITIES OF THE PERSON AND ITS AFFILIATES

Year Ended November 30, 1975 and Eight Months Ended July 31, 1976

COL. A	COL. B	COL. C	COL. D	COL. E	
				Balance at End of Period	
Name of Debtor	Balance at Beginning of Period	Additions	Amounts Collected	(1) Current	(2) Not Current
Year ended November 30, 1975:					
Notes receivable due June 5, 1980, with interest at one-half the prevailing prime commercial loan rate (but not less than 4%):					
David D. Davis, Senior Vice President and Director		$ 51,000			$ 51,000
Anton R. Dyck, Vice President – Administration, Livingston-Graham Division		25,000			25,000
Others, under $20,000		70,000			70,000
Total	$ –	$146,000	$ –	$ –	$146,000
Eight months ended July 31, 1976:					
Notes receivable due primarily 1980 to 1981 with interest at one-half the prevailing prime commercial loan rate (but not less than 4%):					
David D. Davis, Senior Vice President and Director	$ 51,000				$ 51,000
Anton R. Dyck, Vice President – Administration, Livingston-Graham Division	25,000				25,000
Richard S. Longnecker, Vice President		$ 53,000			53,000
Others, under $20,000	70,000	31,000	$ 1,000	$ 1,000	99,000
Total	$146,000	$ 84,000	$ 1,000	$ 1,000	$228,000

BROWN COMPANY AND SUBSIDIARIES

SCHEDULE V – PROPERTY, PLANT AND EQUIPMENT

Year Ended November 30, 1975 and Eight Months Ended July 31, 1976

COL. A	COL. B	COL. C	COL. D	COL. E
Classification	Balance at Beginning of Period	Additions at Cost	Retirements	Balance at End of Period
Year ended November 30, 1975:				
Land and improvements	$ 9,790,000	$ 247,000	$ 381,000	$ 9,656,000
Timberlands and quarries	9,268,000	646,000	–	9,914,000
Buildings, machinery and equipment	227,807,000	30,401,000	4,087,000	254,121,000
Construction in progress	20,250,000	5,079,000	–	25,329,000
Total	$267,115,000	$36,373,000	$4,468,000	$299,020,000
Eight months ended July 31, 1976:				
Land and improvements	$ 9,656,000	$ 124,000	$ 289,000	$ 9,491,000
Timberlands and quarries	9,914,000	–	–	9,914,000
Buildings, machinery and equipment	254,121,000	19,886,000	3,848,000	270,159,000
Construction in progress	25,329,000	(3,018,000)	22,000	22,289,000
Total	$299,020,000	$16,992,000	$4,159,000	$311,853,000

BROWN COMPANY AND SUBSIDIARIES

SCHEDULE VI – ACCUMULATED DEPRECIATION, DEPLETION AND AMORTIZATION OF PROPERTY, PLANT AND EQUIPMENT

Year Ended November 30, 1975 and Eight Months Ended July 31, 1976

COL. A	COL. B	COL. C	COL. D	COL. E
Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Retirements	Balance at End of Period
Year ended November 30, 1975:				
Depreciation of roads, buildings, machinery and equipment	$141,426,000	$10,343,000	$ 3,028,000	$148,741,000
Depletion of timberlands and quarries	7,047,000	77,000	—	7,124,000
Total	$148,473,000	$10,420,000	$ 3,028,000	$155,865,000
Eight months ended July 31, 1976:				
Depreciation of roads, buildings, machinery and equipment	$148,741,000	$ 7,828,000	$ 3,579,000	$152,990,000
Depletion of timberlands and quarries	7,124,000	66,000	—	7,190,000
Total	$155,865,000	$ 7,894,000	$ 3,579,000	$160,180,000

BROWN COMPANY AND SUBSIDIARIES

SCHEDULE XII – VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Year Ended November 30, 1975 and Eight Months Ended July 31, 1976

COL. A	COL. B	COL. C		COL. D	COL. E
		ADDITIONS			
		(1)	(2)		
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts — Describe	Deductions — Describe	Balance at End of Period
Allowance for doubtful accounts:					
Year ended November 30, 1975	$ 998,000	$1,404,000	$51,000(A)	$ 507,000(B)	$1,946,000
Eight months ended July 31, 1976:	$1,946,000	$ 349,000	$38,000(A)	$1,320,000(B)	$1,013,000

The amounts in Columns C(2) and D are described as follows:

(A) Recoveries on accounts previously charged off.

(B) Uncollectible accounts charged off.

COVER – Linweave Early American Plymouth Gold, sub 80 – cover weight