

1975 ANNUAL REPORT / BROWN COMPANY

**Paper Products
Building Materials**

HOWARD ROSS LIBRARY
OF MANAGEMENT
MAR 8 1976
MCGILL UNIVERSITY

A GULF + WESTERN COMPANY

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1776 / The United States of America
1851 / Brown Company

SUPPLEMENTAL INFORMATION

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

Highlights

| | 1975 | 1974 |
|------------------------------------|----------------------|---------------|
| Net Sales | \$400,310,000 | \$434,545,000 |
| Earnings Before Income Taxes | \$ 26,942,000 | \$ 40,522,000 |
| Income Tax Provision | \$ 10,238,000 | \$ 16,613,000 |
| Net Earnings | \$ 16,704,000 | \$ 23,909,000 |
| Net Earnings Per Share (a) | \$ 2.41 | \$ 3.46 |
| Shareholders' Equity Per Share (a) | \$ 19.22 | \$ 16.79 |
| Shares Outstanding End of Year (a) | 6,723,000 | 6,688,000 |
| Total Assets | \$288,947,000 | \$269,873,000 |
| Long-term Debt | \$ 90,049,000 | \$ 76,245,000 |
| Shareholders' Equity | \$129,180,000 | \$112,310,000 |
| Number of Shareholders | 5,600 | 5,800 |
| Number of Employees | 8,700 | 9,300 |

(a) Shares outstanding and per share amounts have been adjusted to give effect to the 5 for 4 stock split described in the Financial Review on page 26.

Report to Shareholders

Fiscal 1975 was not a record year, but it was Brown Company's second best year, exceeded only by the exceptionally strong performance of fiscal 1974.

Sales declined to \$400.3 million in 1975 from \$434.5 million in the prior year reflecting a substantial reduction in demand for most paper products and lower operating rates in the paper industry. Net earnings fell to \$16.7 million in 1975 from \$23.9 million in 1974, and net earnings per share dropped to \$2.41 in 1975 from \$3.46 in 1974.

The Paper Group operated at rates substantially below capacity during the year. However, demand for paper products increased in the final quarter and this trend continued into early fiscal 1976. Operating income of the Building Materials Group reached a new high in 1975 in spite of a downturn in the level of construction. Results of operations of the group benefited from an improvement in selling prices in relation to raw material and other costs.

Significant projects were completed during the year to increase productivity and efficiency, reduce costs, maintain adequate supplies of raw materials and obtain needed financing including:

- ▶ Improvements to our pulp mill at Berlin, New Hampshire to increase efficiency and capacity;
- ▶ A new warehouse and converting facility for absorbent paper products at Gorham, New Hampshire to reduce labor and material costs and provide space for increased production;
- ▶ A recycled pulp mill in Kalamazoo, Michigan using waste materials to manufacture a substantial part of the fibre requirements for the Kalamazoo paper operations;
- ▶ An expansion of facilities to use secondary fibre as raw material for the absorbent paper products mill in Eau Claire, Wisconsin eliminating the use of all virgin pulp in the manufacture of products at this location;

- ▶ Completion of the final phase of the paper machine rebuilding and modernization program at the Specialty Papers Division in Kalamazoo;

- ▶ The negotiation of long-term purchase contracts to insure an adequate supply of pulp and solid bleached board, the basic raw materials needed in the manufacture of paper products at our facilities in Kalamazoo and Parchment, Michigan; and

- ▶ The sale of \$18 million pollution control revenue bonds to complete the financing of the major air and water pollution control projects at Berlin and Gorham, New Hampshire.

During the year progress continued on our program to control pollution at the various Paper Group operations. Construction of pollution control facilities at Berlin-Gorham is proceeding ahead of schedule, and substantially all projects required to meet existing standards have been completed or are under design or construction.

Although sales of paper products have suffered due to the recession, it is expected that as we approach 1980, demand for paper products may catch up with and perhaps exceed supply. This is because of the high capital needs for the construction of new mills, large expenditures necessary for nonproductive projects such as pollution control, and a scarcity of both mill sites and timberlands. The projects completed in 1975 will help Brown improve its profitability and remain in a strong competitive position as the demand for paper products improves.

Tight money and rising costs are expected to continue as formidable challenges, and Brown Company will take positive steps to meet these challenges. Additional capital improvement programs to increase production and reduce costs are being planned. Plans are also underway to restructure the Company's long-term debt to provide additional funds for new facilities.

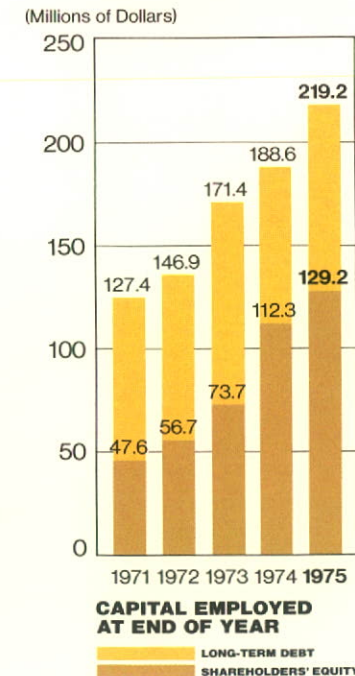
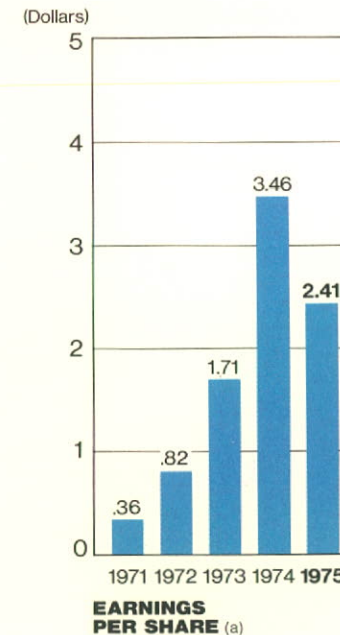
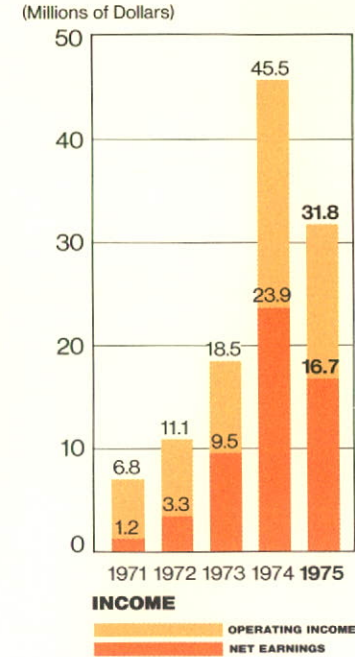
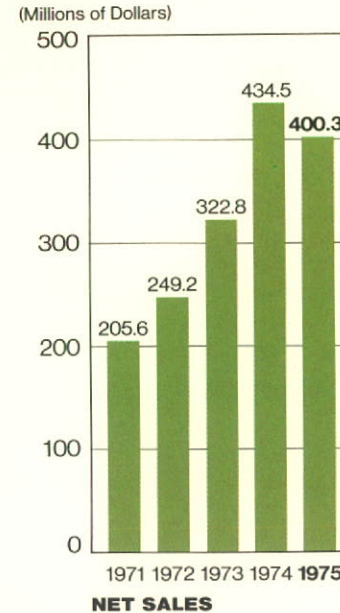
I am pleased to report that on January 28, 1976 the board of directors of Brown Company declared a 5 for 4 stock split and a 7½ cent quarterly cash dividend on the new shares. This dividend action reflects management's confidence in the future, and the belief that Brown's shareholders should participate in the Company's progress.

I want to thank all of our employees for their help in making 1975 a successful year in a difficult economic environment. As we enter 1976, business conditions are improving, and we are confident that Brown Company will have another good year.



Merrill L. Nash
Chairman of the Board and President

January 28, 1976



(a) Per share amounts have been adjusted to give effect to the 5 for 4 stock split described in the Financial Review on page 26.

Paper Group

In fiscal 1975 sales of the Paper Group declined to \$318.6 million from \$345.1 million in the prior year reflecting a drop in demand for most paper products and lower operating rates in the paper industry. Operating income was \$24.7 million in 1975 versus \$39.9 million in 1974. Although operating income of the Paper Group was below the record amount recorded in 1974, it was substantially above any year prior to 1974.

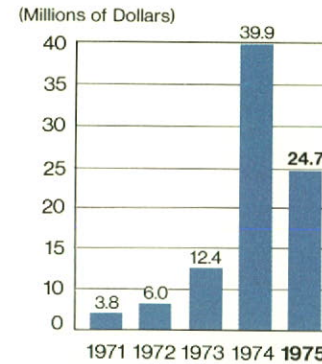
Operations of the Paper Group include timber operations and the manufacture and sale of pulp, a variety of papers, paperboard and paperboard products, packaging materials, book matches and miscellaneous products.

Timber

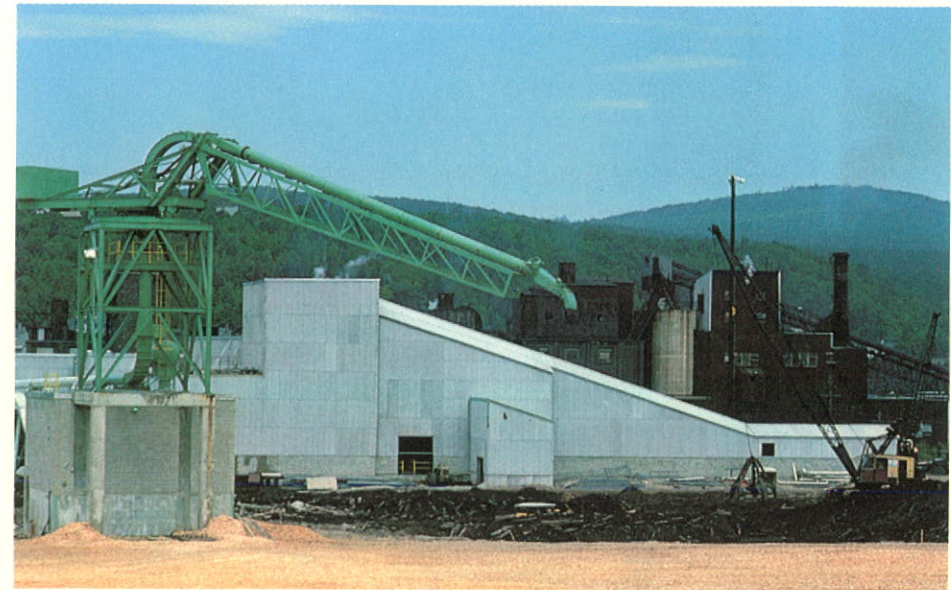
Pulpwood, one of the principal raw materials used to make paper products, is obtained in part from 520,000 acres of timberland owned and 275,000 acres of timberland jointly owned by Brown in Maine, New Hampshire and Vermont.

| | Millions of Dollars | | | | |
|---|---------------------|----------------|----------------|----------------|-----------------------|
| | 1971 | 1972 | 1973 | 1974 | 1975 |
| GROUP SALES | | | | | |
| Timber and pulp | \$ 11.6 | \$ 14.0 | \$ 16.0 | \$ 22.6 | \$ 29.4 |
| Paper and paperboard | 90.5 | 97.8 | 121.2 | 179.8 | 137.1 |
| Folding cartons | 33.1 | 36.6 | 42.8 | 48.5 | 51.7 |
| Absorbent paper products and food service disposables | 35.2 | 36.3 | 51.4 | 85.2 | 91.5 |
| Matches and other | 7.9 | 8.5 | 8.3 | 9.0 | 8.9 |
| | <u>\$178.3</u> | <u>\$193.2</u> | <u>\$239.7</u> | <u>\$345.1</u> | <u>\$318.6</u> |

OPERATING INCOME

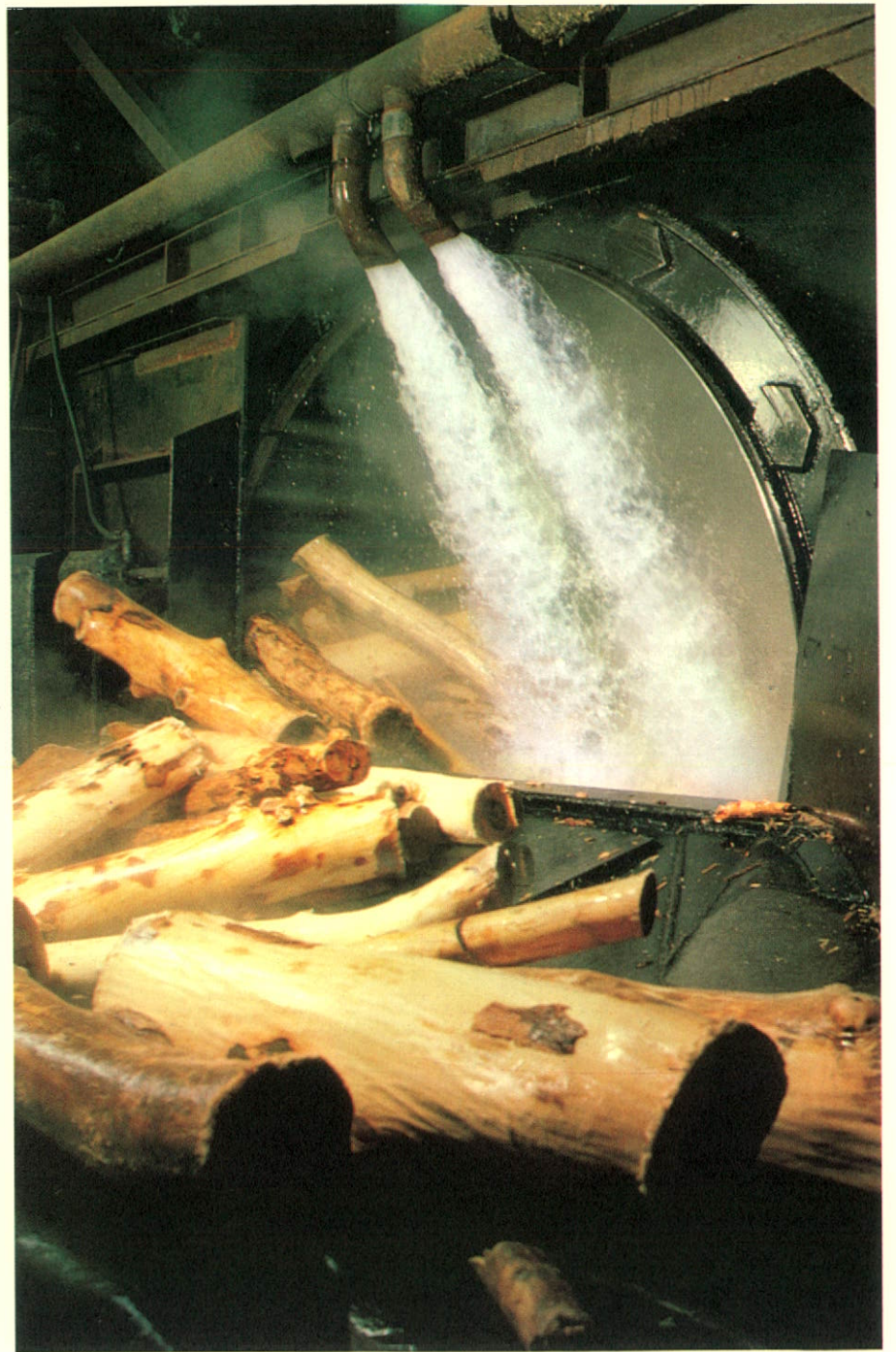


Merrill L. Nash, Chairman of the Board of Brown Company (left), and William T. Creson, Senior Vice President in charge of Paper Group operations.



Improvements in 1975 to the pulp mill at Berlin, New Hampshire to increase efficiency and capacity, included a modernization of the wood yard shown above for receiving, storing and converting logs into wood chips used to make pulp.

The 800,000 acres of timberland (right) owned or controlled by Brown that supply wood to the Berlin mill are cut on a rotating basis to retain and enhance their many scenic qualities. Drum blades and high pressure water (far right) debark and wash logs before they are cut into chips for use in making pulp.

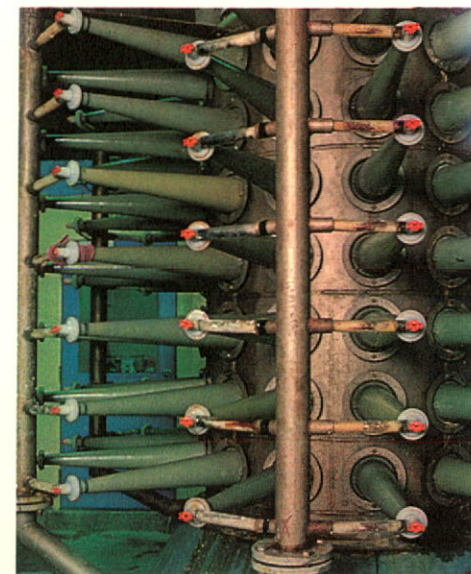


Pulp

At its Berlin-Gorham Division in Berlin, New Hampshire, Brown produces Kraft pulp for its own use and for sale to others. During fiscal 1975, 204,000 tons were produced compared with 237,000 tons in fiscal 1974.

A major pulp mill project was completed in 1975 to improve efficiency and increase capacity. It consists of an overhaul of wood storage and handling facilities, a new round wood chipper and chip screens, and major additions for outdoor chip storage. New equipment has been added and improvements have been made to the mill's bleaching and chemical recovery system.

The new secondary fibre pulp mill that began operations at Kalamazoo, Michigan in 1975 will supply a large portion of the pulp requirements for the Kalamazoo paper operations. This mill



At the new secondary fibre pulp mill in Kalamazoo, Michigan, wastepaper (upper left) is used to make pulp. Celeco cleaners remove fine dirt and other impurities during one stage of the pulp-making process (upper right). Finished pulp in the form of wetlap sheets (left) is ready for delivery to the Specialty Papers Division for use in making a variety of paper products.



Screw extractors (above) remove ink from wastepaper at the secondary fibre pulp mill.



Wastewater clarifier tanks under construction at Brown's pulp and paper mill (right) are a key part of the major pollution control project at this New Hampshire facility.

uses wastepaper to manufacture a high quality substitute for virgin pulp, resulting in both cost and ecological benefits. During 1975 this facility produced 15,000 tons of pulp, and production will increase substantially in 1976.

An expansion of the secondary fibre system in Eau Claire, Wisconsin resulted in the elimination of virgin pulp in the manufacture of absorbent paper products at this location.

Paper

Brown papers are found in products used daily in homes and businesses for packaging food and other items, stationery and reprographic use, printing and advertising and many other applications.

Manufacturing plants are located at the Specialty Papers Division in Parchment, Michigan, the Eagle-A Linweave Division at Holyoke, Massachusetts and the Berlin-Gorham Division paper operations at Gorham, New Hampshire. The Company produced 343,000 tons of papers in 1975 compared with 434,000 tons in 1974, reflecting the substantial drop in demand for paper products in 1975.

The final phase of a program to rebuild the paper machines at the Specialty Papers Division in Parchment was completed in 1975, substantially increasing the capacity and efficiency of this facility.

Paperboard

Recycled paperboard is made in Kalamazoo, Michigan and Castleton-on-Hudson, New York and is in part sold and in part used by Brown to make folding cartons and other packaging material and food service disposables. The Company's three paperboard machines were recently rebuilt to increase the capacity of these units. Paperboard production totaled 123,000 tons in 1975 and 122,000 tons in 1974.

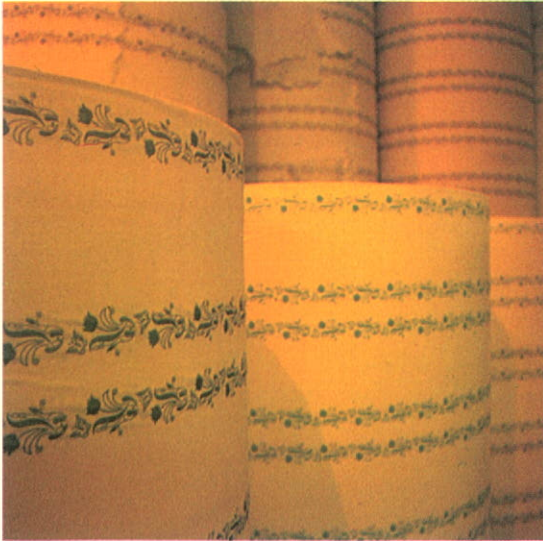
Folding Cartons

Probably the most widely recognized paper products manufactured by Brown Company are the folding cartons made by the Folding Carton Division in Kalamazoo, Michigan and





Interfolded absorbent paper towels (left) are among the many products made at the new manufacturing and storage facility (above) at Berlin, New Hampshire.



At the absorbent paper products plant in Eau Claire, Wisconsin, machines make rolls of towel paper that are run over printing presses (right) to make decorative towels (above) for consumer use.



Castleton-on-Hudson, New York, and used for cereal boxes, ice cream containers, frozen foods and other consumer applications.

Absorbent Paper Products and Food Service Disposables

Absorbent paper products and food service disposables are manufactured by the Absorbent Products Division at Gorham, New Hampshire and Eau Claire, Wisconsin and by the Service Products Division at Kalamazoo, Michigan. Products of these divisions are used in factories, homes and retail establishments, and include towels, tissues, napkins, disposable diapers and a complete line of food service products used by some of the nation's leading fast-food chains.

Matches

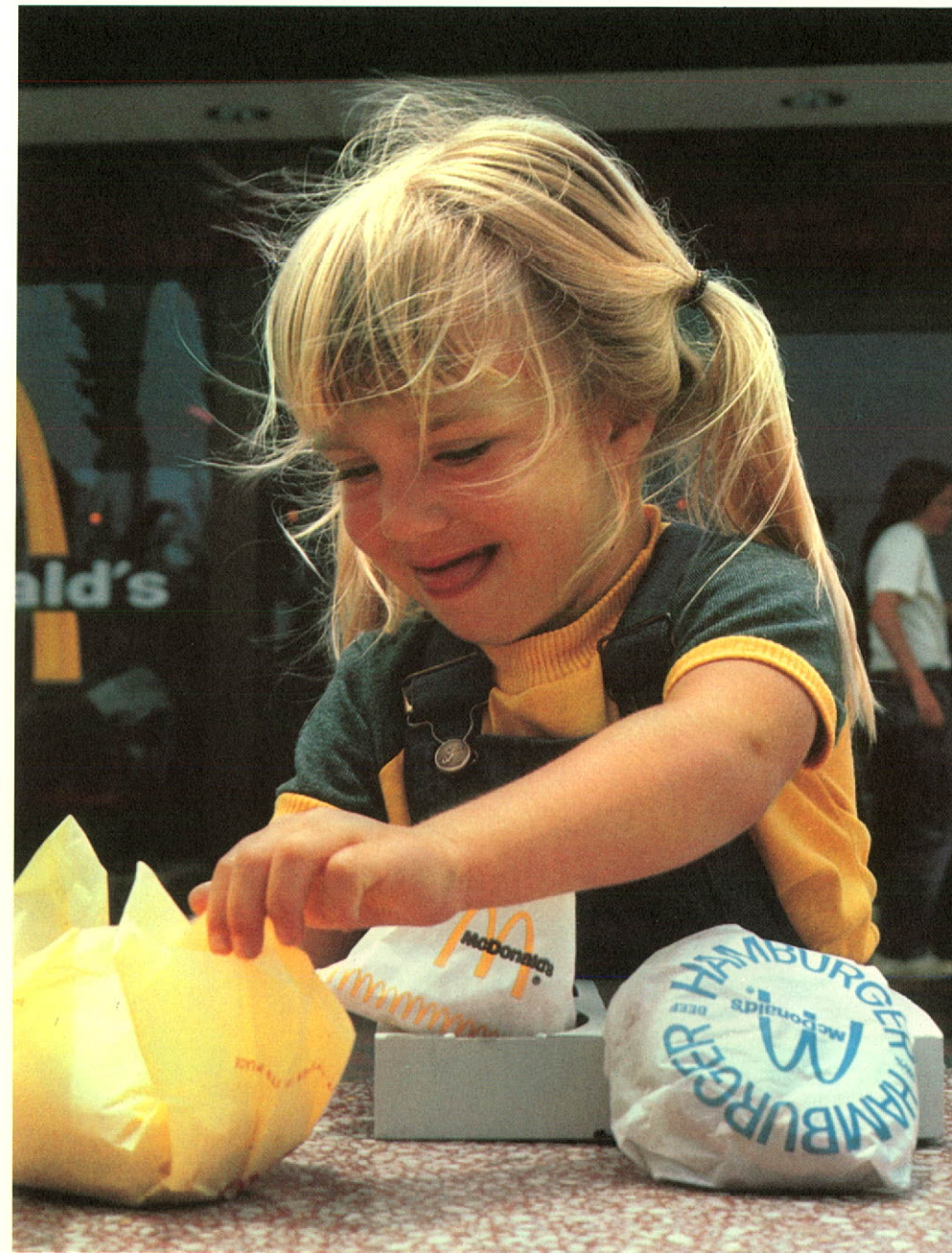
Book matches are made by the Superior and Monarch Match Companies in Chicago, Illinois and San Jose, California under the "Superior" and "Monarch" brand names and are sold to restaurants, hotels and others for use as advertising aids.

Overview

Raw materials, particularly pulp and solid bleached board were in short supply in 1974. During 1975, long-term contracts were negotiated to insure an adequate supply of these materials in the future.

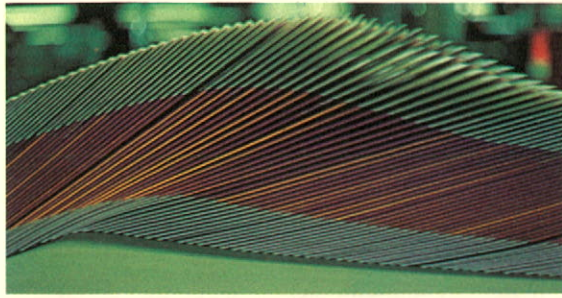
Steps have been taken to comply with existing federal and state pollution control requirements at the various paper operations, and substantially all ecological projects have been completed or are under design or construction.

During 1975 significant projects were completed to increase capacity, reduce costs and improve efficiency. Additional projects are under study and the Paper Group will continue its program to improve its facilities. The group also plans to increase its participation in consumer markets. A new line of coffee filters was introduced in fiscal 1975 and the introduction of additional products is being considered.

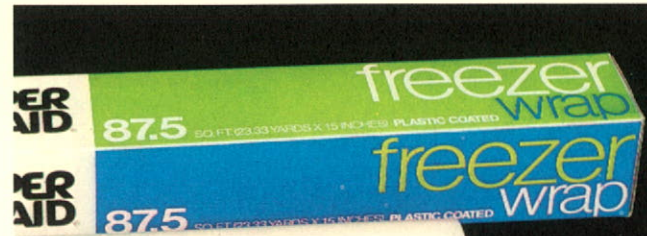


A variety of papers used by fast-food chains such as hamburger wraps are made by the Service Products Division in Kalamazoo.

Folding cartons (right) have been printed and glued and are ready to be boxed and shipped to customers.



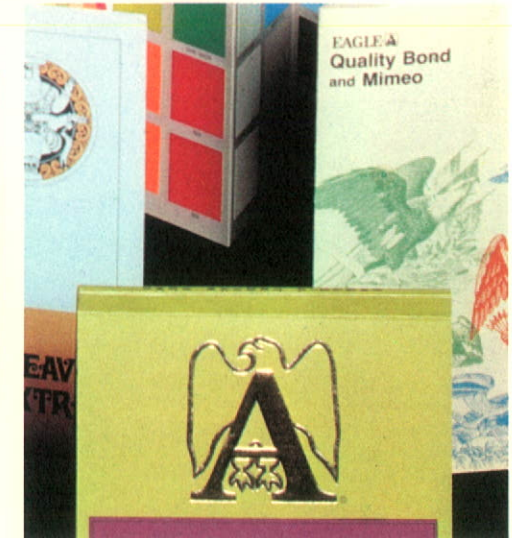
Brown Company cartons and papers (below) are used to package a wide variety of familiar consumer products, some of which are shown here.



Brown Company consumer products (left) such as freezer wrap, coffee filters and baking cups are sold under the Paper Maid® trademark.



Book matches are produced at Brown Company plants in Chicago, Illinois and San Jose, California.



Creative papers produced in Holyoke, Massachusetts by the Eagle-A Linweave Division.

Building Materials Group

Sales of the Building Materials Group were \$81.7 million in fiscal 1975 compared with \$89.4 million in fiscal 1974. However, in spite of a reduction in construction activity operating income reached record levels, rising to \$7.1 million in 1975 from \$5.6 million in 1974, reflecting an improvement in the price of products in relation to raw material and other costs.

Operations of the Building Materials Group are all related to concrete construction and include the mining and processing of rock, sand and gravel, and the manufacture of reusable forms and accessory items used in concrete construction.

Rock, Sand, Gravel and Transit-Mixed Concrete

The Livingston-Graham Division mines and processes rock, sand and gravel into aggregate, and manufactures and distributes transit-mixed concrete in southern California. Aggregate is a component in asphalt paving and concrete which are used to build homes, buildings, road beds, freeways, dams and harbor improvements.

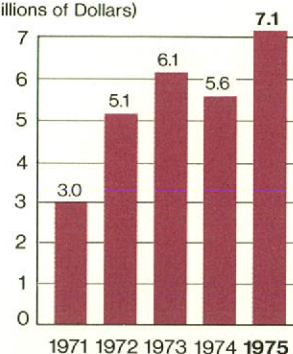
Livingston mined 5,800,000 tons of aggregate from six locations in 1975 compared with 6,470,000 tons in 1974. Concrete is delivered to customers by mixer trucks from 19 batch plants serving the greater Los Angeles area.

Concrete Forming Equipment and Related Services

Most of the group's concrete forming equipment is manufactured and sold by Symons Corporation, a subsidiary of Brown Company, with manufacturing plants in Chicago, Illinois and New Braunfels, Texas and distribution centers located throughout the United States. Symons manufactures and sells reusable forms for pouring

OPERATING INCOME

(Millions of Dollars)

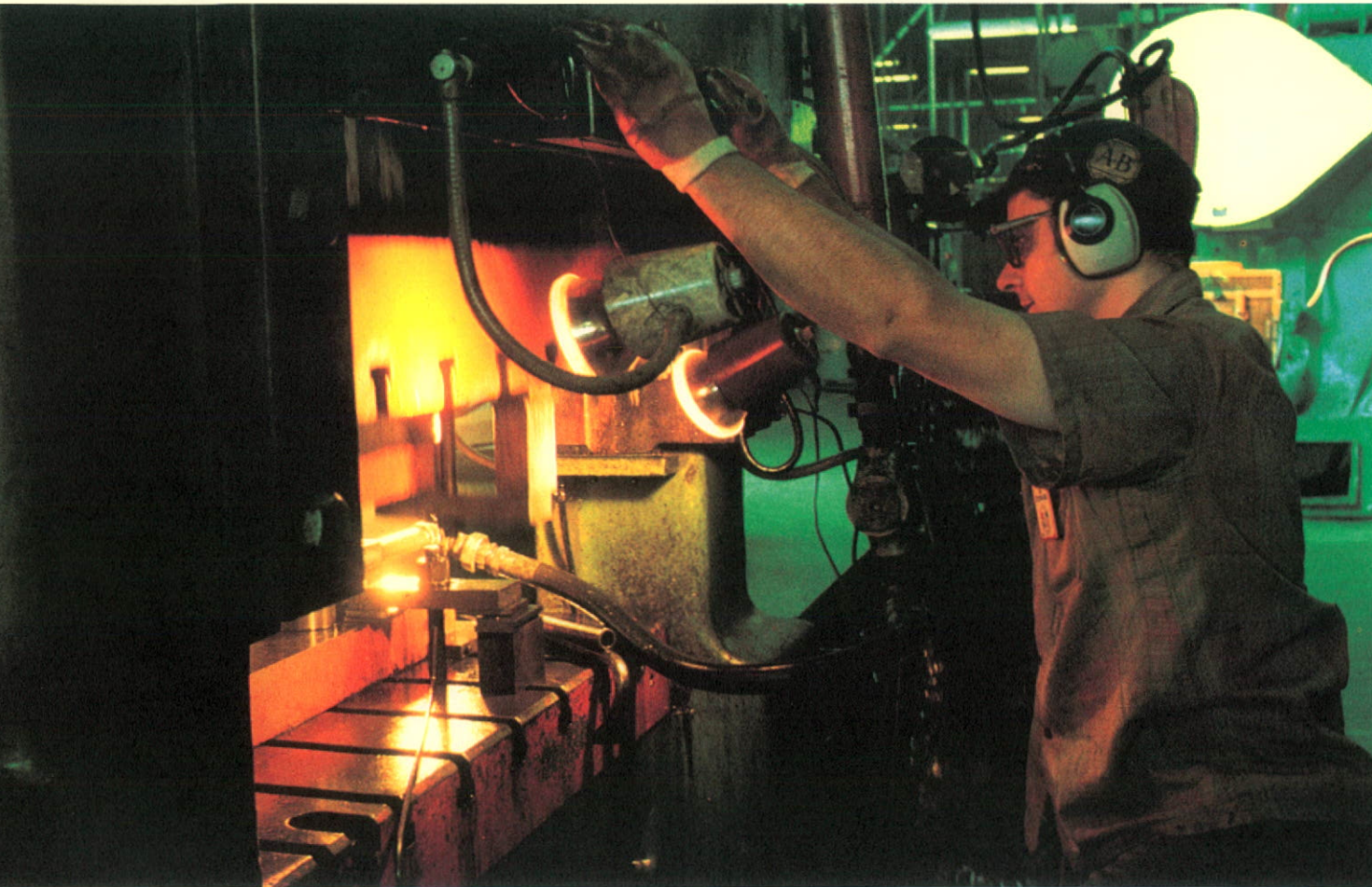


David D. Davis, Senior Vice President of Brown Company in charge of Building Materials Group operations (left) and Earnest O. Gibson, Executive Vice President of Symons Corporation.

| | Millions of Dollars | | | | |
|---|---------------------|---------------|---------------|---------------|---------------|
| GROUP SALES | 1971 | 1972 | 1973 | 1974 | 1975 |
| Rock, sand, gravel and transit mixed concrete | \$27.3 | \$30.4 | \$31.9 | \$29.8 | \$31.7 |
| Concrete forming equipment and related services | — | 25.6 | 51.2 | 59.6 | 50.0 |
| | <u>\$27.3</u> | <u>\$56.0</u> | <u>\$83.1</u> | <u>\$89.4</u> | <u>\$81.7</u> |



Symons Corporation Steel-Ply® forms and accessories used to form concrete walls are manufactured at Symons' plant in Des Plaines, Illinois. The manufacturing process includes drilling (opposite page), welding (right), press operations (below), the painting of Steel-Ply® frames (upper right) and the attachment of plywood to the frames to make the completed form (lower right).



concrete and related supplies and accessories used in the construction of buildings, bridges, atomic power plants, pollution control facilities and other structures. Symons' forms often give unusual texture and design to office buildings, hotels, large garages and transportation terminals.

Familiar projects using Symons' forms in the United States included the new Water Tower Hyatt House in Chicago and the Peachtree Center Hotel in Atlanta.

Accessory items for concrete construction are also manufactured and sold by Brown's subsidiary, Richmond Screw Anchor Company, whose major facilities are located in Fort Worth, Texas and Tremont, Pennsylvania.



Livingston-Graham's rock, sand and gravel operations at El Monte, California.



Overview

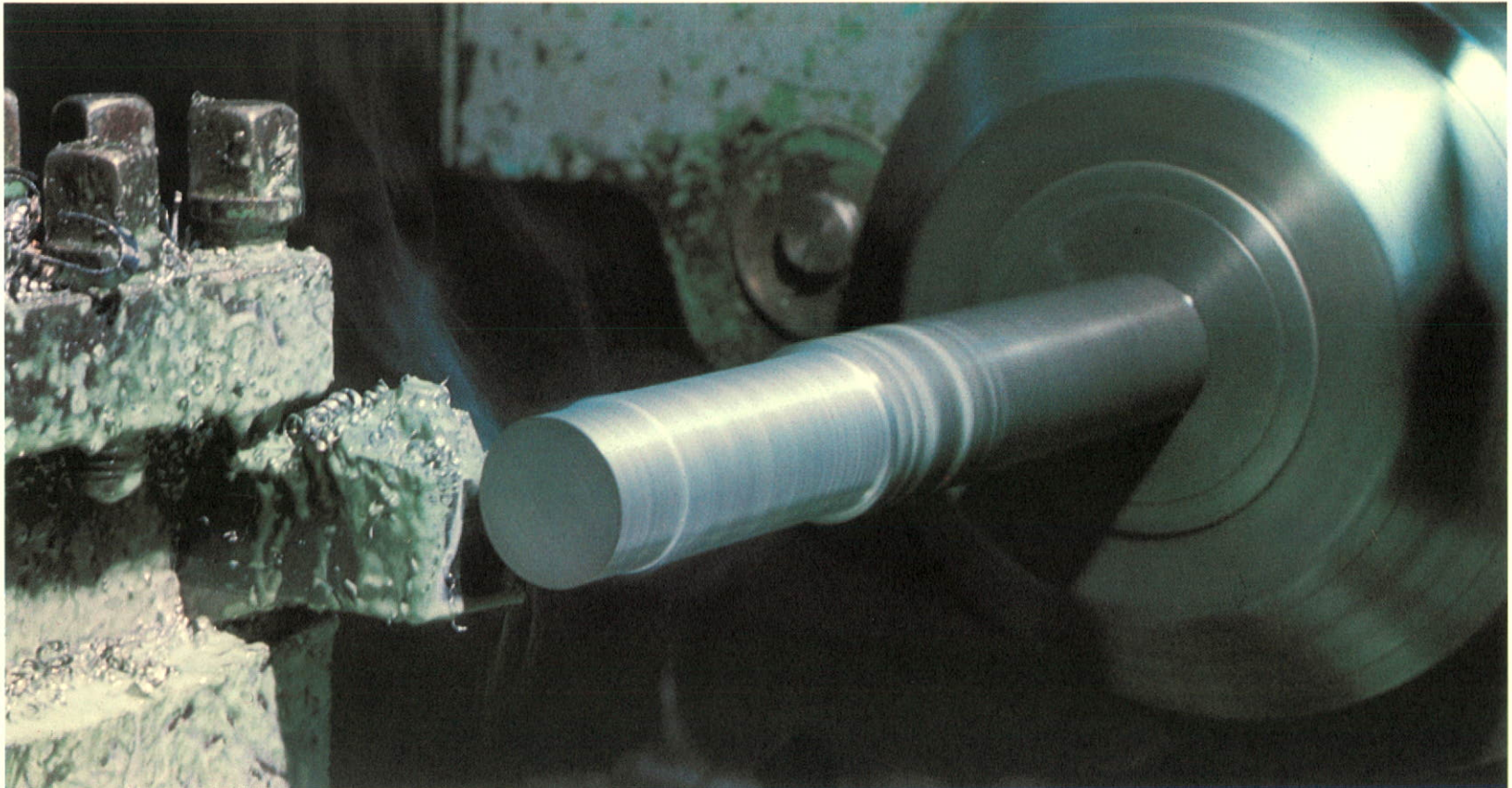
It is not expected that there will be a significant improvement in overall construction in 1976. However, certain of Brown's building material businesses have the potential for substantial expansion in the future. The forms made by Symons Corporation have cost advantages over the on-site construction of forms for pouring concrete. As construction costs continue to escalate, the number of structures built with reusable forms should rise faster than any increase in construction activity.

Symons is taking steps to expand its markets and open additional distribution centers, and has added a new line of reusable fibreglass forms for use in building concrete floors and decks.



Loop ties are being welded at the Symons plant. These ties are used to hold Steel-Ply® forms together to make walls into which concrete is poured for forming concrete.

The Peachtree Center Hotel (left), one of Atlanta's newest landmarks, was constructed with Symons' concrete forming equipment.



This turret lathe (right) is used in the manufacture of concrete forming accessories at the Richmond Screw Anchor Company plant in Tremont, Pennsylvania.



| | | 1975 | 1974 | 1973 (a) | 1972 (b) | 1971 |
|--|--|------------------|-----------|--|------------|-----------|
| FOR THE YEAR (000*) | Sales and other revenues | \$400,351 | \$434,615 | \$322,884 | \$249,296 | \$205,601 |
| | Operating costs | 368,505 | 389,155 | 304,422 | 238,158 | 198,775 |
| | Operating income | 31,846 | 45,460 | 18,462 | 11,138 | 6,826 |
| | Interest expense (d) | 5,686 | 6,935 | 7,428 | 7,315 | 6,397 |
| | Interest income | 782 | 1,997 | 1,304 | 466 | 820 |
| | Income tax provision | 10,238 | 16,613 | 2,875 | 1,022 | — |
| | Net earnings | 16,704 | 23,909 | 9,463 | 3,267 | 1,249 |
| | Net earnings per share (e) | 2.41 | 3.46 | 1.71 | .82 | .36 |
| | Depreciation and depletion | 10,420 | 9,509 | 8,734 | 8,382 | 7,666 |
| | Plant additions | 36,373 | 28,068 | 12,398 | 9,935 | 11,556 |
| END OF YEAR (000*) | Working capital | \$ 71,101 | \$ 72,075 | \$ 64,888 | \$ 54,734 | \$ 40,981 |
| | Net properties | 143,155 | 118,642 | 100,928 | 92,612 | 84,454 |
| | Total assets | 288,947 | 269,873 | 234,914 | 189,806 | 159,712 |
| | Long-term debt | 90,049 | 76,245 | 97,689 | 90,119 | 79,764 |
| | Shareholders' equity | 129,180 | 112,310 | 73,688 | 56,737 | 47,606 |
| | Shareholders' equity per share (e) | 19.22 | 16.79 | 13.39 | 12.52 | 13.22 |
| QUARTERLY PER SHARE MARKET PRICES (c) | Year Ended November 30, 1975: | | | Sales Price Per Share of Common Stock | | |
| | | | | High | Low | |
| | First quarter | | | \$ 9-1/8 | \$ 7-1/2 | |
| | Second quarter | | | 9-3/8 | 7-5/8 | |
| | Third quarter | | | 8-7/8 | 7-3/4 | |
| | Fourth quarter | | | 7-7/8 | 6-3/4 | |
| | Year Ended November 30, 1974: | | | | | |
| | First quarter | | | 11-1/8 | 7-3/4 | |
| | Second quarter | | | 10-3/4 | 7-3/4 | |
| | Third quarter | | | 9-3/4 | 8 | |
| Fourth quarter | | | 9-7/8 | 8-1/8 | | |

*Except per-share amounts. (a) Includes all of Shattuck Denn Mining Corporation from May, 1973, and all of Sterling Pulp & Paper Company, Inc., from June, 1973. (b) Includes Symons Corporation from March, 1972, and 48 percent of Shattuck Denn Mining Corporation from June, 1972. (c) Stock prices from trading on the New York Stock Exchange, adjusted for the five-for-four stock split declared January 28, 1976. (d) Includes minority interest of \$260,000 in 1972, and \$136,000 in 1971. (e) Per share amounts have been adjusted to give effect to the five-for-four stock split described in the Financial Review on Page 26.

**MANAGEMENT
DISCUSSION AND
ANALYSIS OF
CHANGE IN EARNINGS**

CHANGES FROM FISCAL 1974 TO FISCAL 1975

The decrease in revenues was due mainly to a drop in demand for most paper products and operations at rates substantially below capacity starting in early 1975. Paper product prices in general did not change significantly.

Lower operating rates resulted in reduced operating costs. However, operating margins declined from the high level achieved in 1974. Results of operations of the Building Materials Group improved due mainly to price increases in excess of increases in raw material and other costs. However, this was more than offset by continuing fixed costs at lower operating rates and cost increases caused by inflation in the Paper Group.

Interest expense decreased because of the redemption of \$15 million face amount of 9% subordinated debentures in late 1974 and reductions in the prime rate of interest.

Interest income declined because of a reduction in interest rates and in the funds temporarily available for investment.

The income tax provision as a percent of pre-tax earnings decreased from 41% to 38% due mainly to lower pre-tax earnings in relation to available investment tax credits, capital gain from timber cutting, depletion allowances and differences in the tax and financial reporting basis of certain assets.

CHANGES FROM FISCAL 1973 TO FISCAL 1974

The rise in revenues reflects the acquisition of other companies, but resulted mostly from improved supply/demand balance in the paper industry, and a firming price trend for paper products combined with increased operating efficiencies and capacities as a result of capital improvement programs.

Operating costs increased mainly because of higher production and higher costs for raw materials and supplies such as pulp and fuel. However, the increase in revenues caused mainly by strong demand for paper products was more than sufficient to offset operating cost increases, resulting in improved operating margins.

The change in interest expense was not material. Interest income increased due to an increase in funds available for temporary investment and increases in short-term interest rates.

The income tax provision as a percent of pre-tax earnings increased from 23% to 41% due mainly to the increase in the amount of pre-tax earnings in relation to available investment credits, capital gain from timber cutting, depletion allowances and differences in the tax and financial reporting basis of certain assets.

BROWN COMPANY AND SUBSIDIARIES
Consolidated Statement of Earnings
 Years Ended November 30



| | | 1975 | 1974 |
|-------------------------------|--|----------------------|---------------|
| REVENUES | Net sales | \$400,310,000 | \$434,545,000 |
| | Other | 41,000 | 70,000 |
| | | 400,351,000 | 434,615,000 |
| OPERATING COSTS | Cost of sales | 326,809,000 | 345,984,000 |
| | Selling, administrative and general expenses | 41,696,000 | 43,171,000 |
| | | 368,505,000 | 389,155,000 |
| OPERATING INCOME | | 31,846,000 | 45,460,000 |
| OTHER COSTS | Interest expense (net of interest income of \$782,000 in 1975 and \$1,997,000 in 1974) | 4,904,000 | 4,938,000 |
| | Income tax provision | 10,238,000 | 16,613,000 |
| | | 15,142,000 | 21,551,000 |
| NET EARNINGS | | \$ 16,704,000 | \$ 23,909,000 |
| NET EARNINGS PER SHARE | | \$ 2.41 | \$ 3.46 |

See financial review on pages 23 through 26.

BROWN COMPANY AND SUBSIDIARIES 

Consolidated Statement of Changes in Financial Position
Years Ended November 30

| | | 1975 | 1974 |
|--|--|-----------------------|---------------------|
| FUNDS PROVIDED FROM OPERATIONS | Net earnings | \$ 16,704,000 | \$23,909,000 |
| | Depreciation and depletion | 10,420,000 | 9,509,000 |
| | Deferred income taxes | 3,821,000 | 4,431,000 |
| | | 30,945,000 | 37,849,000 |
| OTHER FUNDS PROVIDED | Asset dispositions | 1,440,000 | 845,000 |
| | Debt issued | 21,576,000 | 1,400,000 |
| | Stock issued | 178,000 | 15,204,000 |
| | Other | — | 442,000 |
| | | 23,194,000 | 17,891,000 |
| TOTAL FUNDS PROVIDED | | 54,139,000 | 55,740,000 |
| FUNDS USED | Plant additions | 36,373,000 | 28,068,000 |
| | Reduction of long-term debt and other liabilities | 8,387,000 | 26,545,000 |
| | Funds reserved (expended) for pollution control facilities | 8,440,000 | (6,060,000) |
| | Other | 1,913,000 | — |
| | | 55,113,000 | 48,553,000 |
| CHANGE IN WORKING CAPITAL | | \$ (974,000) | \$ 7,187,000 |
| ELEMENTS OF CHANGE IN WORKING CAPITAL | Cash and short-term investments | \$(11,365,000) | \$(3,319,000) |
| | Accounts receivable | (51,000) | 6,202,000 |
| | Inventories | (4,171,000) | 20,818,000 |
| | Prepaid expenses | 40,000 | (160,000) |
| | Notes payable | 2,804,000 | (1,099,000) |
| | Current long-term debt maturities | (166,000) | 1,267,000 |
| | Accounts payable | 4,016,000 | (5,109,000) |
| | Accrued expenses | 1,451,000 | (4,298,000) |
| | Income taxes payable | 6,468,000 | (7,115,000) |
| | Change in working capital | \$ (974,000) | \$ 7,187,000 |

See financial review on pages 23 through 26.

ASSETS

| | 1975 | 1974 |
|---|----------------------|---------------|
| CURRENT ASSETS | | |
| Cash including short-term investments of \$7,801,000 in 1975 and \$19,111,000 in 1974 | \$ 11,985,000 | \$ 23,350,000 |
| Accounts receivable (less allowance of \$1,946,000 in 1975 and \$998,000 in 1974) | 50,870,000 | 50,921,000 |
| Inventories | 64,350,000 | 68,521,000 |
| Prepaid expenses | 1,108,000 | 1,068,000 |
| | 128,313,000 | 143,860,000 |
| PROPERTIES | | |
| Land and improvements | 9,656,000 | 9,790,000 |
| Timberlands and quarries | 9,914,000 | 9,268,000 |
| Buildings, machinery and equipment | 279,450,000 | 248,057,000 |
| Accumulated depreciation and depletion | (155,865,000) | (148,473,000) |
| | 143,155,000 | 118,642,000 |
| OTHER ASSETS | | |
| Funds restricted for pollution control facilities | 11,036,000 | 2,596,000 |
| Investments and non-current receivables | 1,714,000 | 1,466,000 |
| Other | 4,729,000 | 3,309,000 |
| | 17,479,000 | 7,371,000 |
| | \$288,947,000 | \$269,873,000 |

See financial review on pages 23 through 26.

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | 1975 | 1974 |
|---------------------------------|---|----------------------|----------------------|
| CURRENT LIABILITIES | Notes payable | \$ 3,500,000 | \$ 6,304,000 |
| | Current long-term debt maturities | 6,390,000 | 6,224,000 |
| | Accounts payable | 16,480,000 | 20,496,000 |
| | Accrued expenses | 27,418,000 | 28,869,000 |
| | Income taxes payable | 3,424,000 | 9,892,000 |
| | | <u>57,212,000</u> | <u>71,785,000</u> |
| OTHER LIABILITIES | Senior long-term debt | 80,085,000 | 65,203,000 |
| | Subordinated debentures | 9,964,000 | 11,042,000 |
| | Deferred income taxes | 12,060,000 | 8,472,000 |
| | Other | 446,000 | 1,061,000 |
| | | <u>102,555,000</u> | <u>85,778,000</u> |
| SHAREHOLDERS' EQUITY | Common stock | 6,736,000 | 6,702,000 |
| | Treasury stock | (156,000) | (156,000) |
| | Other capital | 52,824,000 | 52,692,000 |
| | Retained earnings | 69,776,000 | 53,072,000 |
| | | <u>129,180,000</u> | <u>112,310,000</u> |
| | | <u>\$288,947,000</u> | <u>\$269,873,000</u> |

See financial review on pages 23 through 26.

BROWN COMPANY AND SUBSIDIARIES 

Consolidated Statement of Changes in Shareholders' Equity

Years Ended November 30

| | | 1975 | 1974 |
|--|--|---------------------|--------------|
| RETAINED EARNINGS | Beginning balance | \$53,072,000 | \$29,163,000 |
| | Net earnings | 16,704,000 | 23,909,000 |
| | Ending balance | \$69,776,000 | \$53,072,000 |
| COMMON STOCK | Beginning balance, as previously reported | \$ 5,361,000 | \$ 4,413,000 |
| | Adjustment for five-for-four stock split | 1,341,000 | 1,104,000 |
| | Beginning balance, adjusted | 6,702,000 | 5,517,000 |
| | Warrants exercised | — | 1,158,000 |
| | Stock options exercised | 34,000 | 27,000 |
| | Ending balance | \$ 6,736,000 | \$ 6,702,000 |
| OTHER CAPITAL | Beginning balance, as previously reported | \$54,033,000 | \$40,268,000 |
| | Adjustment for five-for-four stock split | (1,341,000) | (1,104,000) |
| | Beginning balance, adjusted | 52,692,000 | 39,164,000 |
| | Warrants exercised | — | 13,868,000 |
| | Stock options exercised | 144,000 | 151,000 |
| | Other | (12,000) | (491,000) |
| Ending balance | \$52,824,000 | \$52,692,000 | |
| SHARES OF COMMON STOCK RESERVED AT YEAR END | Warrants exercisable to May, 1980 at \$13.20 a share | 1,357,000 | 1,358,000 |
| | Warrants exercisable to January, 1977 at \$10.43 a share | 368,000 | 368,000 |
| | Employee stock options | 276,000 | 156,000 |
| | Total shares reserved | 2,001,000 | 1,882,000 |

See financial review on pages 23 through 26.

**SIGNIFICANT
ACCOUNTING
POLICIES**

The financial statements include the accounts of the Company and its majority-owned subsidiaries. At November 30, 1975, Gulf+Western Industries, Inc. owned 80.2% of the Company's common stock.

Short-term investments (certificates of deposit and commercial paper) are stated at cost which approximates market value. At November 30, 1974 such investments included \$7,000,000 of Gulf+Western Industries, Inc. commercial paper.

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

Properties are stated at cost. Depreciation of buildings, machinery and equipment is, in general, computed using the straight-line method over an average life of 40 years for buildings and 17 years for machinery and equipment. Expenditures for maintenance and repairs are charged to income. Betterments and renewals are charged to the appropriate property account. Gains or losses on disposition of assets are reflected in income in the year of disposal.

The Company capitalizes net interest cost during construction on bonds issued to finance pollution control facilities. Net interest capitalized in 1975 was \$1,046,000 and such amount was not material in 1974.

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 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.

PENSION EXPENSE

Substantially all employees are covered by pension plans. Pension expense increased to \$9,048,000 in 1975 from \$6,427,000 in 1974, because of increased pension benefits and recognition of a decline in the market value of pension trust assets.

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 \$28,000,000 at the January 1, 1975 valuation date.

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



INCOME TAX PROVISION

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. Income tax provisions were reduced by investment tax credits of \$2,173,000 in 1975 and \$2,763,000 in 1974.

EARNINGS PER SHARE

Earnings per share 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 to first 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 1975 and 7,255,000 in 1974.

LONG-TERM DEBT

| | 1975 | 1974 |
|--|---------------------|--------------|
| Senior long-term debt at November 30: | | |
| 6½ % notes payable 1976 to 1985 | \$37,385,000 | \$41,135,000 |
| 9% note payable to an institutional investor 1976 to 1983 | 4,350,000 | 4,900,000 |
| Notes payable to banks 1976 to 1979 at 1% above the prevailing prime commercial loan rate | 9,956,000 | 8,156,000 |
| 7% to 9% pollution control revenue bonds payable 1986 to 1999 | 29,400,000 | 11,400,000 |
| Other notes (5% to 9%) payable 1976 to 1987 | 5,384,000 | 5,836,000 |
| | 86,475,000 | 71,427,000 |
| Current maturities | (6,390,000) | (6,224,000) |
| Senior long-term debt | 80,085,000 | 65,203,000 |
| 9% subordinated debentures payable in 1995 | 9,964,000 | 11,042,000 |
| Total | \$90,049,000 | \$76,245,000 |

**LONG-TERM DEBT
(CONTINUED)**

The following long-term debt payments are required during the five years ending November 30, 1980:

| | |
|------------|--------------|
| 1976 | \$ 6,390,000 |
| 1977 | 6,321,000 |
| 1978 | 7,005,000 |
| 1979 | 10,393,000 |
| 1980 | 4,814,000 |

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. Debenture interest is payable annually on June 1 at the Company's option in cash or common stock of the Company. Interest was paid in cash on June 1, 1975 and 1974.

Note agreements applicable to the 6½% notes and certain bank notes include the mortgage of most properties and the pledge of stock of certain subsidiaries.

Certain long-term loan agreements restrict the payment of cash dividends. Under the most restrictive of these agreements, retained earnings at November 30, 1975 of \$14,000,000 were not restricted.

The Company's financing arrangements with banks, for both short and long-term borrowings, require maintenance of compensating balances that are not material.

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 (6,688,379 at November 30, 1974) excluding 13,315 treasury shares. Each share is entitled to one vote. No preferred stock is outstanding.

During 1974, Gulf+Western Industries, Inc. exercised warrants to purchase 1,157,609 shares of common stock of the Company at a price of \$13.20 per share. The Company's 9% subordinated debentures in the face amount of \$15,280,000 were applied by Gulf+Western in payment of the exercise price.

STOCK OPTIONS

The Company's stock option incentive plan provides 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. Transactions involving stock options during the two years ended November 30, 1975 were:

| | Shares | Total Price |
|--|----------------|--------------------|
| Options outstanding December 1, 1973 | 196,431 | \$1,674,631 |
| Granted | 40,375 | 333,893 |
| Exercised | (27,264) | (177,843) |
| Terminated | (70,167) | (788,890) |
| Options outstanding November 30, 1974 | 139,375 | 1,041,791 |
| Granted | 7,500 | 64,500 |
| Exercised | (34,375) | (178,135) |
| Terminated | (11,250) | (95,544) |
| Options outstanding November 30, 1975 | <u>101,250</u> | <u>\$ 832,612</u> |
| Options exercisable at November 30, 1975 | <u>57,500</u> | |
| Shares reserved for future grants at November 30, 1975 ... | <u>174,375</u> | |

LEASES

Rental expense was \$4,834,000 in 1975 and \$4,092,000 in 1974. Future rental commitments at November 30, 1975 for non-cancelable leases were:

| | Land and Buildings | Machinery and Equipment | Total |
|-----------------|---------------------------|--------------------------------|---------------------|
| 1976 | \$ 467,000 | \$2,301,000 | \$ 2,768,000 |
| 1977 | 375,000 | 1,867,000 | 2,242,000 |
| 1978 | 305,000 | 1,362,000 | 1,667,000 |
| 1979 | 279,000 | 1,332,000 | 1,611,000 |
| 1980 | 126,000 | 1,291,000 | 1,417,000 |
| 1981-1985 | 157,000 | 1,543,000 | 1,700,000 |
| 1986-1990 | 88,000 | — | 88,000 |
| Total | <u>\$1,797,000</u> | <u>\$9,696,000</u> | <u>\$11,493,000</u> |

SUBSEQUENT STOCK SPLIT

On January 28, 1976, the Board of Directors declared a five-for-four stock split (which will result in the issuance of 1,344,551 additional shares of common stock) payable February 27, 1976 to shareholders of record as of February 9, 1976 and a seven and one-half cent cash dividend on the new shares. All data in the financial statements and related financial review have been adjusted to reflect the stock split as though it had occurred at the beginning of the periods presented.

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF BROWN COMPANY

We have examined the consolidated balance sheet of Brown Company and consolidated subsidiaries as of November 30, 1975 and 1974, and the related consolidated statements of earnings, changes in shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Brown Company and consolidated subsidiaries at November 30, 1975 and 1974, and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst + Ernst

New York, New York
December 29, 1975, except as to the
"Subsequent stock split" the date
of which is January 28, 1976.

DIRECTORS

Sherwood C. Chillingworth
President
Adorada Corporation

***William T. Creson**
Senior Vice President

***David D. Davis**
Senior Vice President

***Don F. Gaston**
Executive Vice President
Gulf+Western Industries, Inc.

Michael A. Hoffmann
Group Vice President

*Member of Executive Committee

***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.

Herbert J. Seakwood
Management Consultant
and Attorney

**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

OFFICERS

Merrill L. Nash
Chairman of the Board
and President

William T. Creson
Senior Vice President

David D. Davis
Senior Vice President

Michael A. Hoffmann
Group Vice President

James R. Maurer
Vice President, Secretary
and General Counsel

Robert J. Sherry
Vice President

Charles M. Williams
Vice President

John E. Cherrix
Treasurer

Leonard E. Hickey
Controller

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, April 14,
1976 at 10:00 A.M. at Bank of America
Tower, 555 South Flower Street,
Los Angeles, California.

PAPER GROUP

Absorbent Products Division

Towels, toilet tissue, facial tissue, windshield towels, towel and tissue dispensers, disposable diapers, napkins.

Berlin-Gorham Division

Pulp, corrugating medium, converting papers, Solka-Floc®.

Eagle-A/Linweave Division

Business and communication papers, creative papers, sulphite grades and translucent papers.

Folding Carton Division

Folding cartons.

Recycled Paperboard Division

Paperboard.

Superior and Monarch Match Companies

Paper matches.

Service Products Division

Converted papers for food service and food packaging.

Specialty Papers Division

Converting papers, publishing papers, industrial/technical papers and flexible packaging.

BUILDING MATERIALS GROUP

Livingston-Graham

Sand, gravel and transit-mixed concrete.

Richmond Screw Anchor Company

Accessories used in building forms for concrete construction.

Symons Corporation

Concrete forming systems, scaffolding, shoring and accessories.

COVER — Linweave Velvetsheen Bright White Satin, sub 80 — cover weight
TEXT — Linweave Velvetsheen Bright White Satin, sub 80 — text weight
FINANCIAL SECTION — Linweave Text Super White Laid, sub 70 — text weight