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1974 Annual Report / Brown Company

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## SUPPLEMENTAL INFORMATION

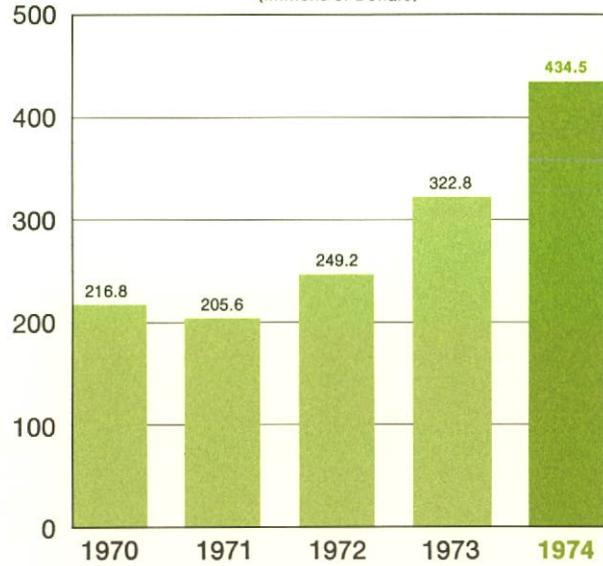
A copy of the Company's current annual report filed with the Securities and Exchange Commission on Form 10-K may be obtained by writing to the Treasurer, Brown Company, 251 South Lake Avenue, Pasadena, California 91101.



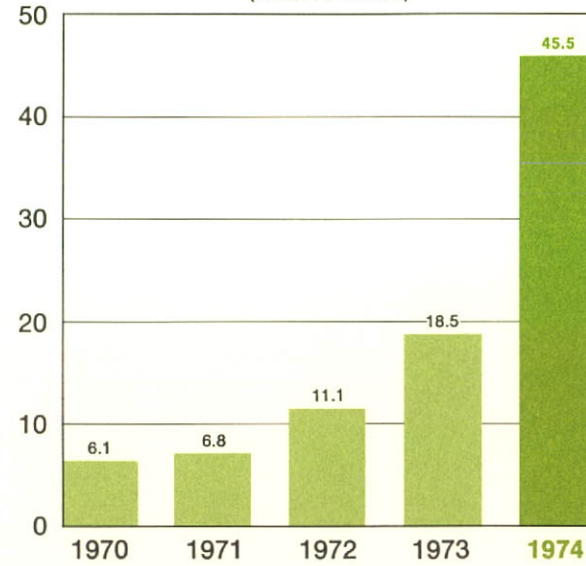
## Highlights

	1974	1973
Net Sales	\$434,545,000	\$322,802,000
Earnings Before Income Taxes	\$ 40,522,000	\$ 12,338,000
Income Tax Provision	\$ 16,613,000	\$ 2,875,000
Net Earnings	\$ 23,909,000	\$ 9,463,000
Net Earnings Per Share	\$ 4.32	\$ 2.14
Shareholders' Equity Per Share	\$ 20.99	\$ 16.74
Shares Outstanding End of Year	5,351,000	4,403,000
Total Assets	\$269,873,000	\$234,914,000
Long-term Debt	\$ 76,245,000	\$ 97,689,000
Shareholders' Equity	\$112,310,000	\$ 73,688,000
Number of Shareholders	5,800	6,500
Number of Employees	9,300	9,700

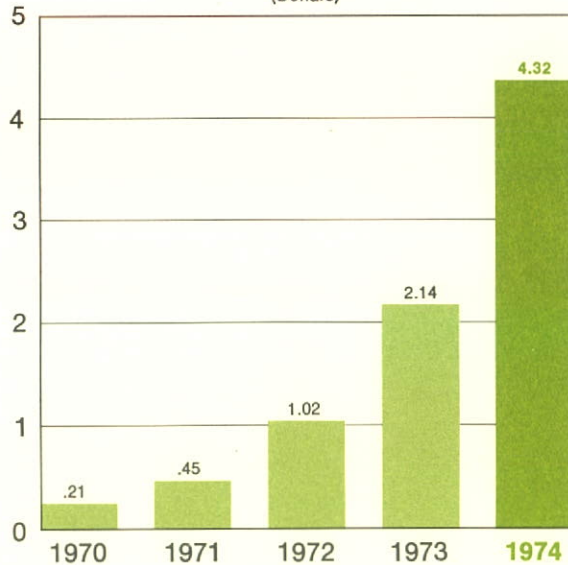
**NET SALES**  
(Millions of Dollars)



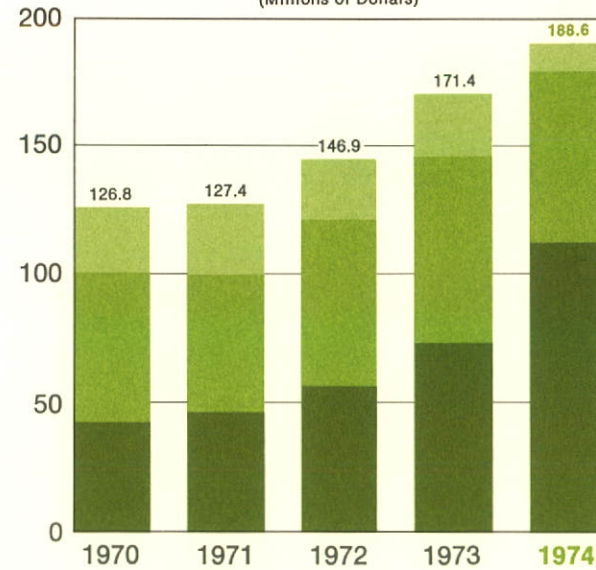
**OPERATING INCOME**  
(Millions of Dollars)



**EARNINGS PER SHARE**  
(Dollars)



**CAPITAL EMPLOYED AT END OF YEAR**  
(Millions of Dollars)



Shareholders' equity  
 Senior long-term debt  
 Subordinated debentures



# To Our Shareholders

Fiscal 1974 was a year of record sales and earnings for Brown, and the sixth consecutive year of progress under present management.

Sales for 1974 totaled \$434.5 million compared with 1973 sales of \$322.8 million. Net earnings rose to \$23.9 million from \$9.5 million in 1973. Net earnings per share climbed to \$4.32 from \$2.14 in the prior year, marking the sixth straight year that per-share earnings more than doubled. The sharp rise in 1974 sales and earnings was due to the outstanding performance of our Paper Group. Demand for paper products was very strong and Paper Group income from operations more than tripled. Operating income of the Building Materials Group declined about 10 percent due mainly to depressed conditions in the construction industry during most of the year.

Since 1969 we have made substantial progress toward improving Brown's profitability and financial condition. Three building materials companies engaged in businesses related to concrete construction were acquired and now account for about 20 percent of total sales. One paper company was acquired and a number of unprofitable operations were sold or shut down. Capital spending projects have increased pulp, paper and paperboard production since 1969. Additional projects in progress will further increase production in 1975 and 1976.

The above changes, and strong paper demand, have

resulted in rates of return on sales, capital employed and shareholders' equity that compare favorably with other companies in our industries. In addition, the Company's financial condition is greatly improved as evidenced by the reduction of our long-term debt to equity ratio from 2 to 1 in 1969 to 0.68 to 1 in 1974.

In December 1974 an additional \$18 million of pollution control revenue bonds were sold to finance work on the pollution control project at our pulp and paper mill in Berlin and Gorham, New Hampshire. This brings the total debt issued for this project to \$28 million and completes substantially all of our long-term financing requirements.

Although record results were achieved in fiscal 1974, currently depressed economic conditions and energy shortages are cause for uncertainty. Nevertheless, your Company expects a good year in fiscal 1975.

The achievements of 1974 would not have been possible without the cooperation and support of our 9,300 employees. We count on their continued loyalty in 1975.



Merrill L. Nash  
*Chairman of the Board and President*

January 7, 1975





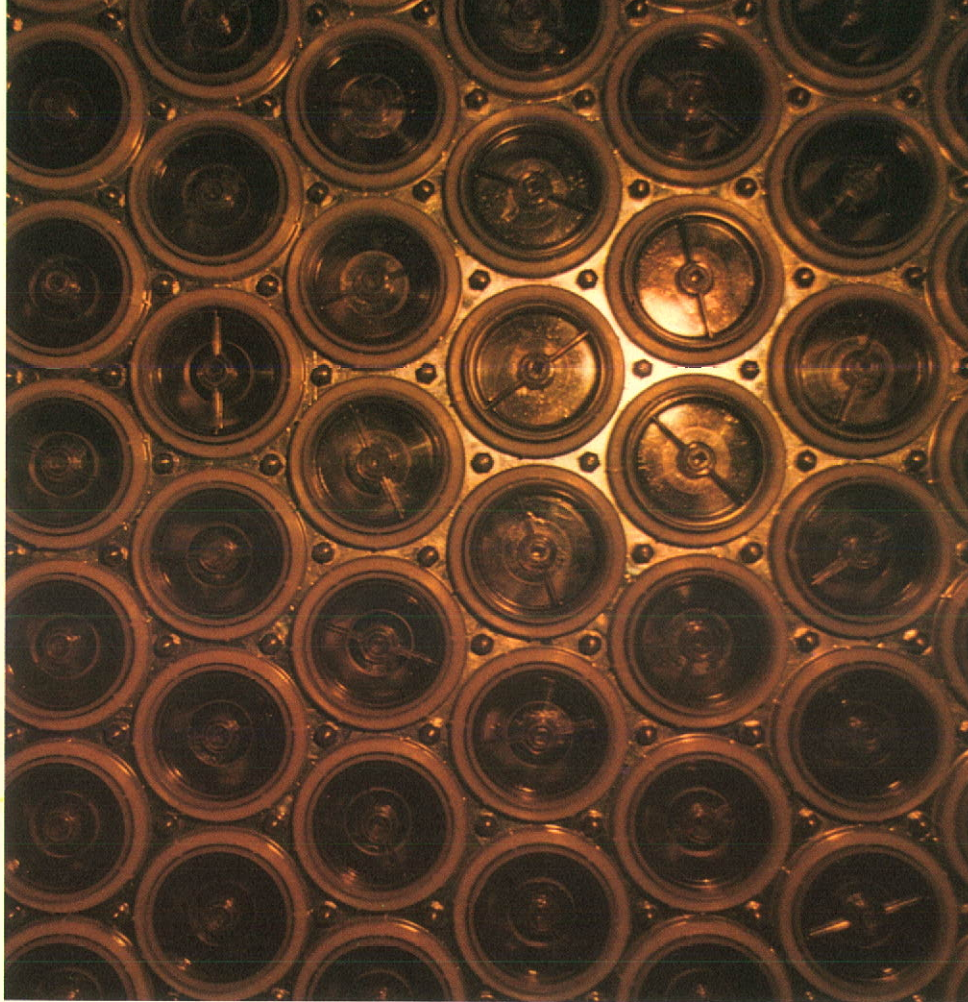


## Paper Group

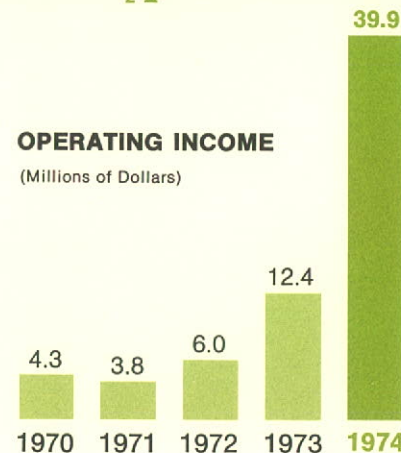
In fiscal 1974 Brown's Paper Group had record sales of \$345.1 million compared with \$239.7 million last year for a 44 percent increase. Operating income was also a record \$39.9 million against last year's \$12.4 million, for a 222 percent increase.

The improved performance of the Paper Group is largely the result of strong demand for its products and increased productivity.

Paper Group operations are located in seven states and the United Kingdom. Manufacturing facilities include a pulp and paper mill in Berlin and Gorham, New Hampshire which is partially supplied with raw materials from 800,000 acres of timberland in northern New England. This mill makes pulp and corrugating medium. Part of the pulp is sold and the balance used by Brown to make paper, towels, tissues and other



◀ 1  
Timberlands (1) owned by Brown Company in New Hampshire, Maine and Vermont provide logs to make pulp at the mill in Berlin, New Hampshire. A new pulp cleaner (2) is part of Brown's program to improve pulp and paper production and quality.



GROUP SALES	1970	1971	1972	1973	1974
Timber and pulp	\$ 14.2	\$ 11.6	\$ 14.0	\$ 16.0	\$ 22.6
Paper and paperboard	91.5	90.5	97.8	121.2	179.8
Folding cartons	35.8	33.1	36.6	42.8	48.5
Absorbent paper products and food service disposables	42.5	35.2	36.3	51.4	85.2
Matches and other	10.0	7.9	8.5	8.3	9.0
	<u>\$194.0</u>	<u>\$178.3</u>	<u>\$193.2</u>	<u>\$239.7</u>	<u>\$345.1</u>



products. The corrugating medium is sold to other companies for use in making boxes and other products. A large facility in Kalamazoo and Parchment, Michigan makes lightweight papers and recycled paperboard. Brown sells some paper and paperboard, but converts much of its production into a variety of paper products including folding cartons for consumer packaging, and food service disposables used by restaurants, supermarkets, meat processors and commercial bakers.

Other operations in California, Illinois, Massachusetts, New York, Wisconsin and the United Kingdom produce such diversified paper products as diapers, folding cartons, writing and printing papers, towels, tissues and book matches.

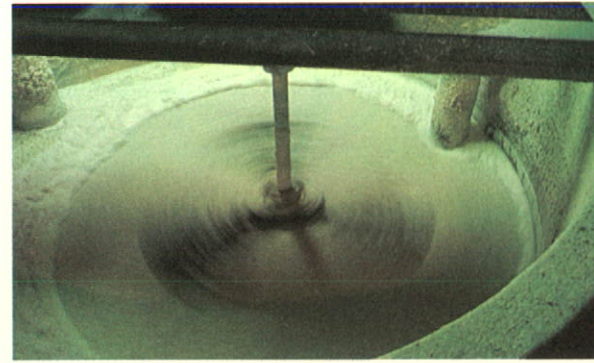
During fiscal 1974 Brown produced approximately 434,000 tons of paper, 237,000 tons of pulp, 122,000 tons of recycled paperboard and 93,000 tons of corrugating medium. This total of 886,000 tons was an increase over the 871,000 tons produced in 1973.

Capital spending projects completed recently or now under way will improve efficiency and increase capacity to make pulp, paper and paperboard by about 110,000 tons annually. The projects



1 ▲

*Post-consumer wastepaper is received at the Kalamazoo, Michigan recycling center (3) and converted in repulpers (1 and 2) to pulp substitutes for use in making paperboard. This clarifier (4) is part of the pollution control facility completed in 1974 at the Eau Claire, Wisconsin mill to remove daily about 40 tons of clay and wood fibre that were previously discharged into the Chippewa River.*



2 ▲

3 ▼

4 ▶





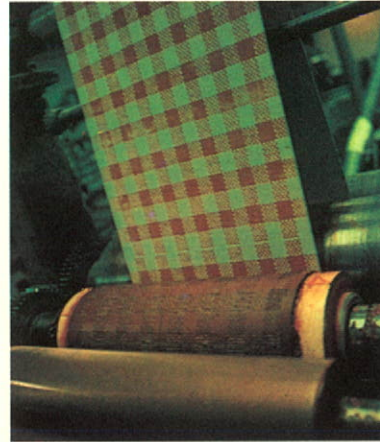




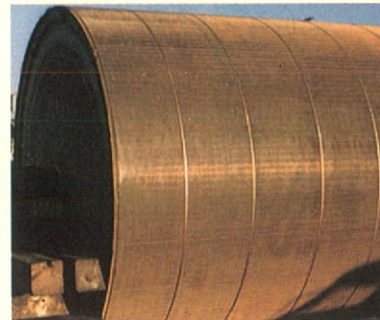
include improvements to increase pulp mill capacity, the rebuilding of paper and paperboard machines, and facilities to increase the use of wastepaper in the manufacture of towels, tissues and other absorbent products. A new recycling facility in Kalamazoo will utilize wastepaper to make pulp.

The paper industry and Brown's Paper Group are being adversely affected by the current recession. However, Brown has significantly improved its position in the industry over the past five years. Although signs indicate that 1975 will be a difficult year, Brown expects the Paper Group to perform well in relation to the industry and the economy.

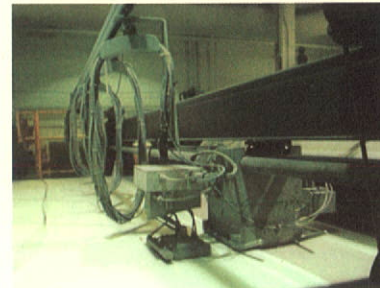
*High speed printing presses (1) are used in Kalamazoo, Michigan to produce folding cartons, flexible packaging and food service disposables. A paper stock thickener (2) is waiting to be installed at the new mill in Kalamazoo that will make high quality pulp from wastepaper. Improvements completed or in progress in Kalamazoo include the installation of computer controlled measuring devices (3) and the rebuilding of five paper machines (4) and two recycled paperboard machines (5) parts of which are pictured.*



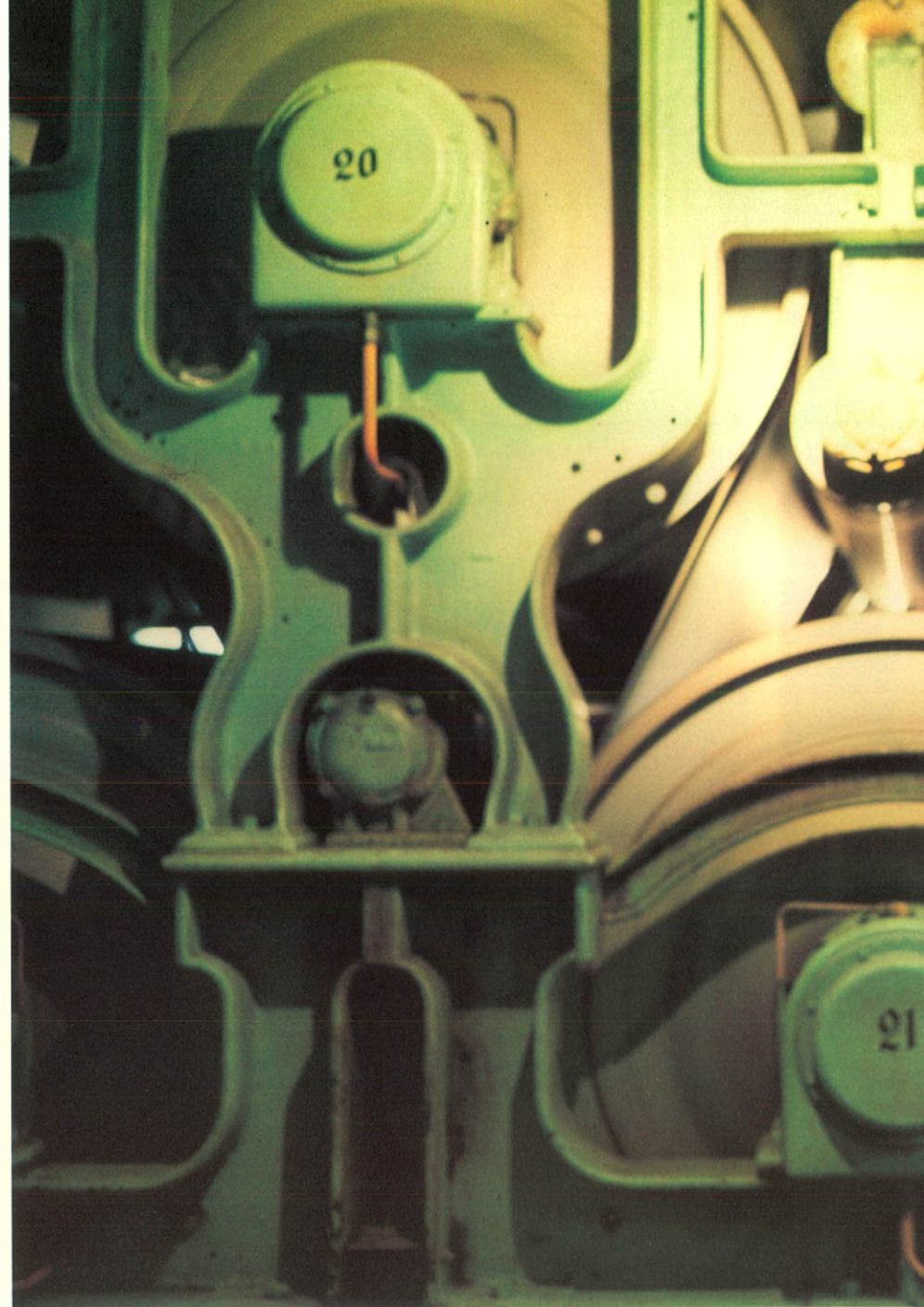
1 ▲



2 ▲

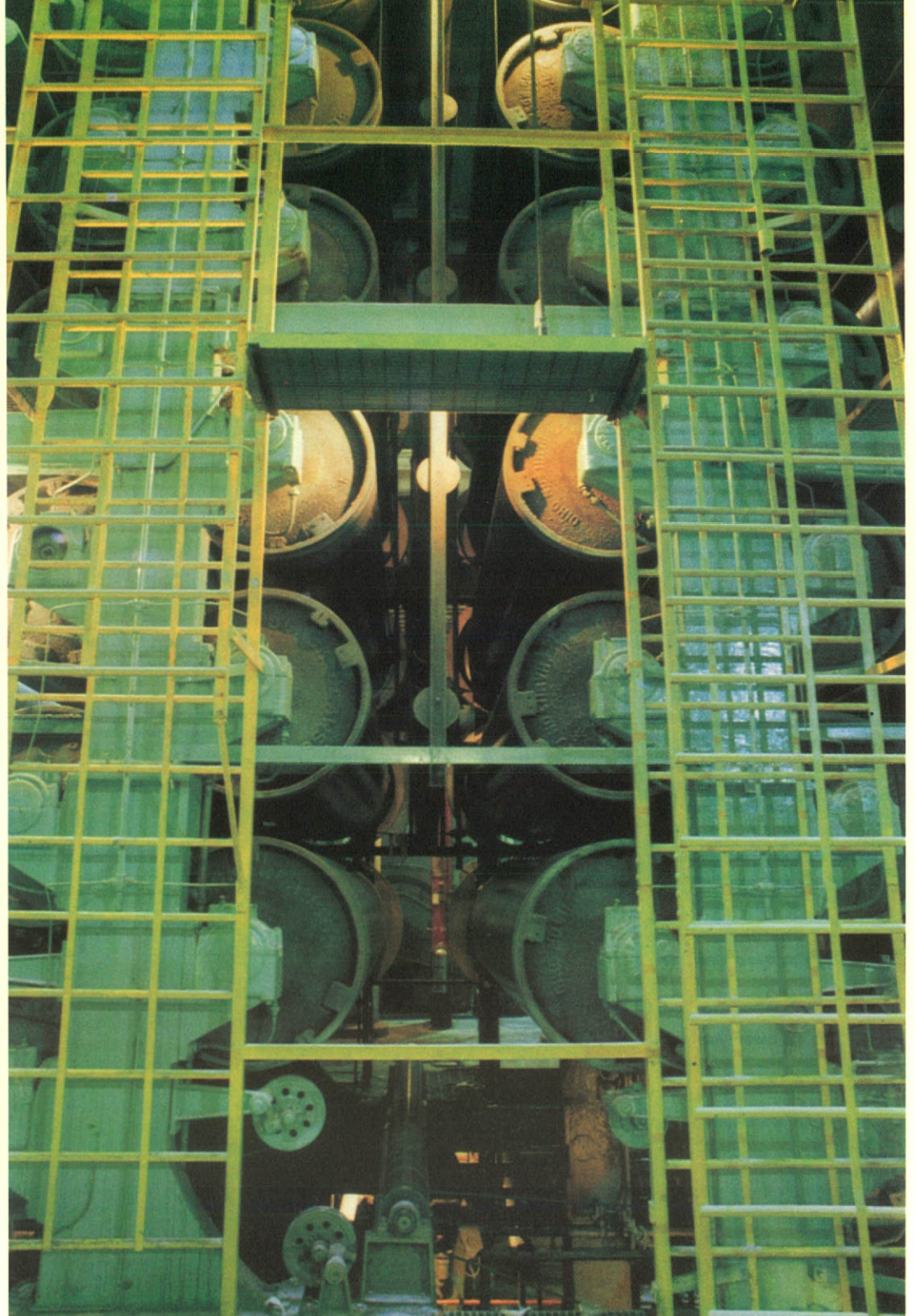
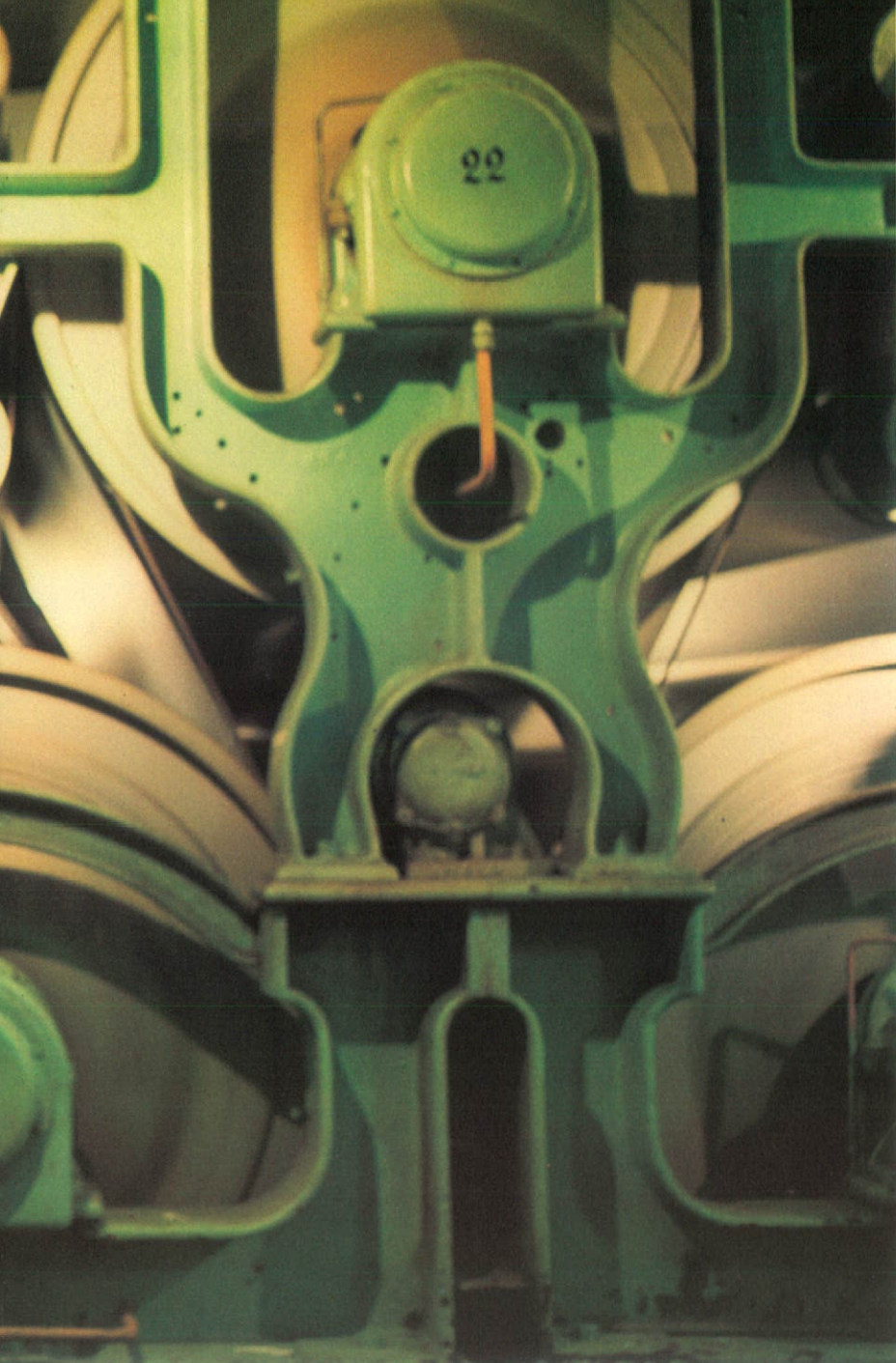


3 ▲



4 ▲







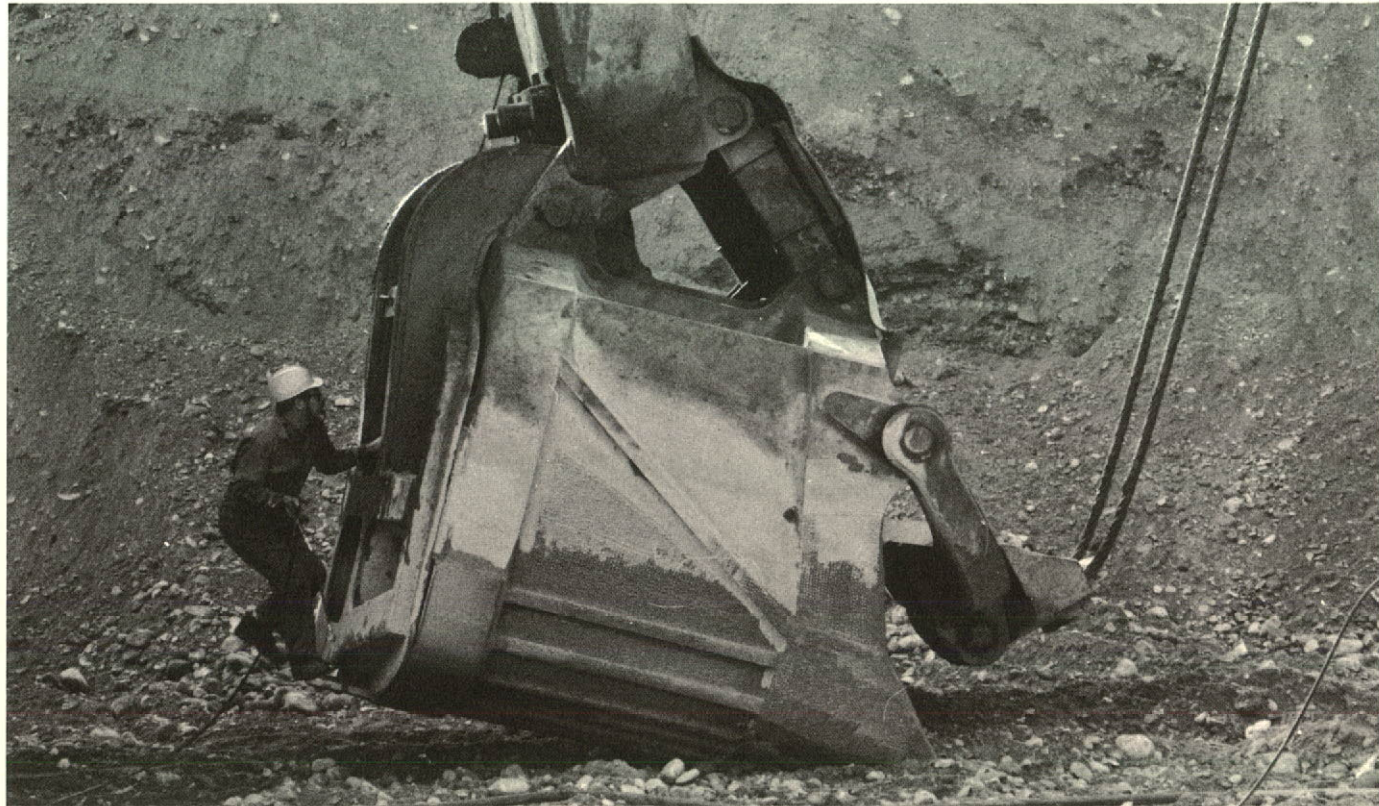


# Building Materials Group

Total sales for the Building Materials Group were \$89.4 million in fiscal 1974 compared with \$83.1 million last year. Operating income was \$5.6 million, down from \$6.1 million in fiscal 1973.

Fiscal 1974 was difficult for construction, and residential building was affected with special severity. However, our building materials sales are not significantly related to the residential market. In addition, certain unprofitable contracting activities were eliminated, and therefore, fiscal 1974 operating income of the Building Materials Group was held to about 90 percent of the 1973 level.

All of our building materials businesses are involved in concrete construction. The Livingston-Graham division mines and processes rock, sand and gravel in southern California. Materials are both sold to others and used by Livingston to



1 ▲

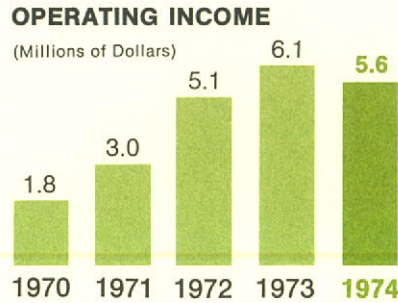
At Livingston-Graham this shovel bucket (1) loads thirty tons from the pit into this haul unit (2) that can carry 90 tons to the processing plant. Computers like this (3) at a computerized weigh station automatically weigh delivery trucks and schedule deliveries of rock, sand and gravel.

2 ▼



3 ▶

GROUP SALES	1970	1971	1972	1973	1974
Rock, sand, gravel and transit mixed concrete	\$22.8	\$27.3	\$30.4	\$31.9	\$29.8
Concrete forming equipment and related services	—	—	25.6	51.2	59.6
	<u>\$22.8</u>	<u>\$27.3</u>	<u>\$56.0</u>	<u>\$83.1</u>	<u>\$89.4</u>





Burroughs



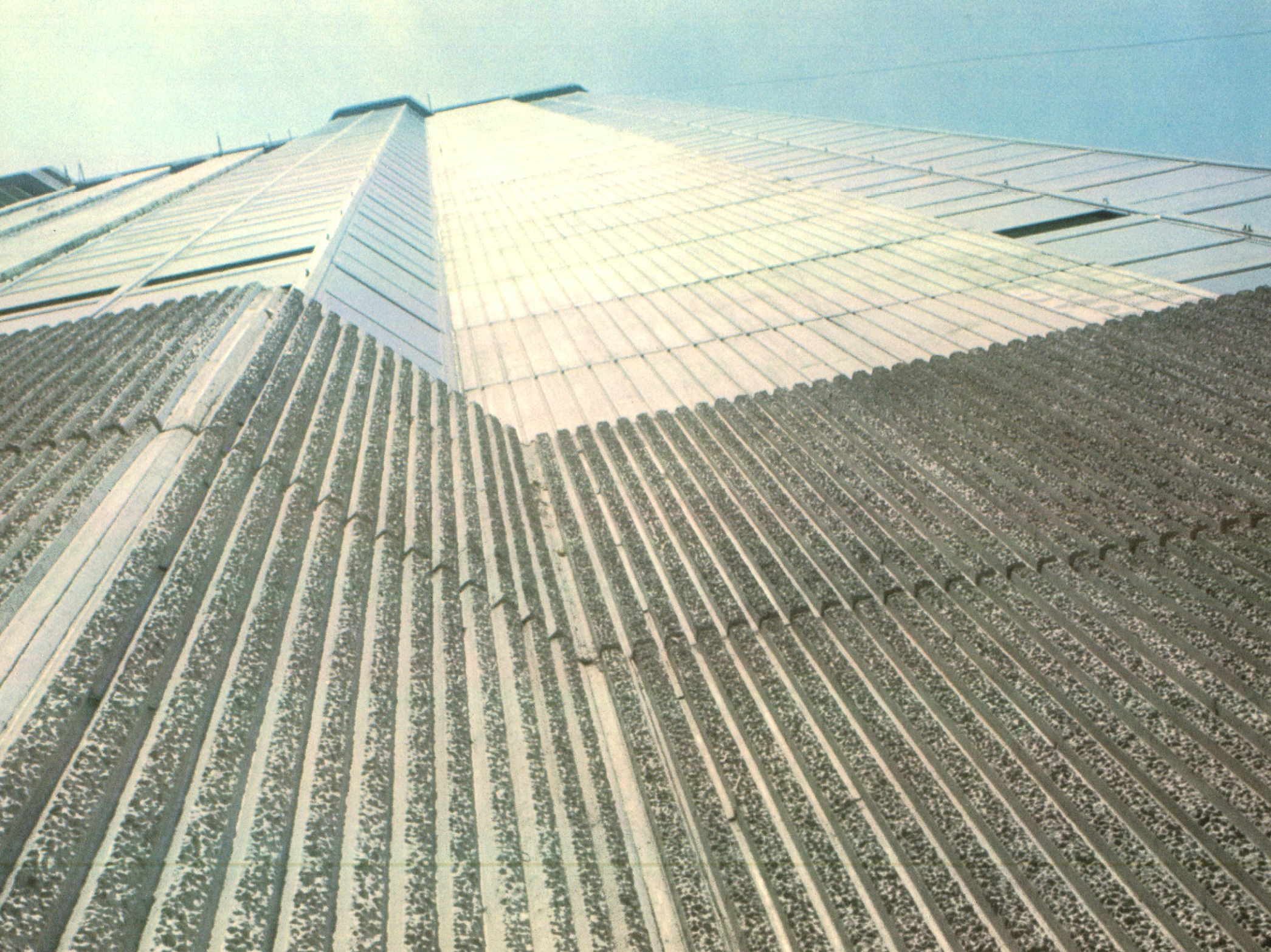
Control panel of a Burroughs computer system featuring various buttons and switches:

- Top Row:** POWER ON (green), CONSOLE PRINTER, SENSE SWITCH 6
- Second Row:** DISK FILE DATA COMM, SENSE SWITCH 5
- Third Row:** POWER OFF, TAPE, SENSE SWITCH 4
- Fourth Row:** PRINTER, SENSE SWITCH 3
- Fifth Row:** LOAD, PUNCH, SENSE SWITCH 2
- Sixth Row:** READER 2 SORTER, SENSE SWITCH 1
- Seventh Row:** READER 1
- Eighth Row:** EMERGENCY OFF (red), BIT RESET, SINGLE INST, READ MEMORY, INCREASE ADDRESS READ MEM, WRITE MEMORY
- Ninth Row:** CLEAR
- Tenth Row:** HALT
- Eleventh Row:** CONTINUE (green)

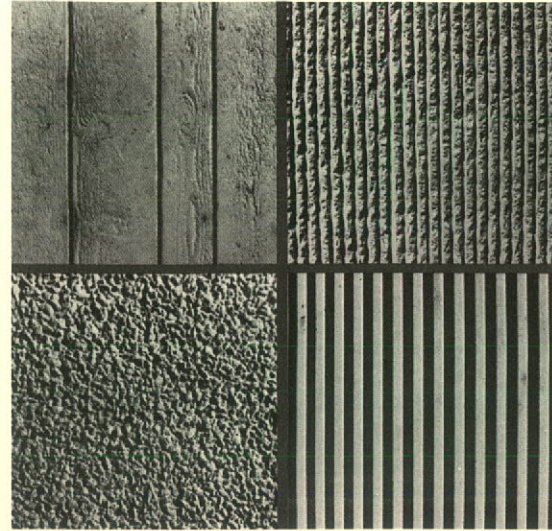
Additional controls and indicators include:

- Left Section:** A grid of indicator lights labeled with letters A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T, U, V, W, X, Y, Z.
- Right Section:** Four columns of indicator lights labeled INSTRUCTION, MEMORY DISPLAY, MEMORY ADDRESS, and INSTRUCTION ADDRESS.
- Bottom Left Section:** A series of switches and knobs labeled with terms like TAP 1, TAP 2, TAP 3, TAP 4, TAP 5, TAP 6, TAP 7, TAP 8, TAP 9, TAP 10, TAP 11, TAP 12, TAP 13, TAP 14, TAP 15, TAP 16, TAP 17, TAP 18, TAP 19, TAP 20, TAP 21, TAP 22, TAP 23, TAP 24, TAP 25, TAP 26, TAP 27, TAP 28, TAP 29, TAP 30, TAP 31, TAP 32, TAP 33, TAP 34, TAP 35, TAP 36, TAP 37, TAP 38, TAP 39, TAP 40, TAP 41, TAP 42, TAP 43, TAP 44, TAP 45, TAP 46, TAP 47, TAP 48, TAP 49, TAP 50, TAP 51, TAP 52, TAP 53, TAP 54, TAP 55, TAP 56, TAP 57, TAP 58, TAP 59, TAP 60, TAP 61, TAP 62, TAP 63, TAP 64, TAP 65, TAP 66, TAP 67, TAP 68, TAP 69, TAP 70, TAP 71, TAP 72, TAP 73, TAP 74, TAP 75, TAP 76, TAP 77, TAP 78, TAP 79, TAP 80, TAP 81, TAP 82, TAP 83, TAP 84, TAP 85, TAP 86, TAP 87, TAP 88, TAP 89, TAP 90, TAP 91, TAP 92, TAP 93, TAP 94, TAP 95, TAP 96, TAP 97, TAP 98, TAP 99, TAP 100.

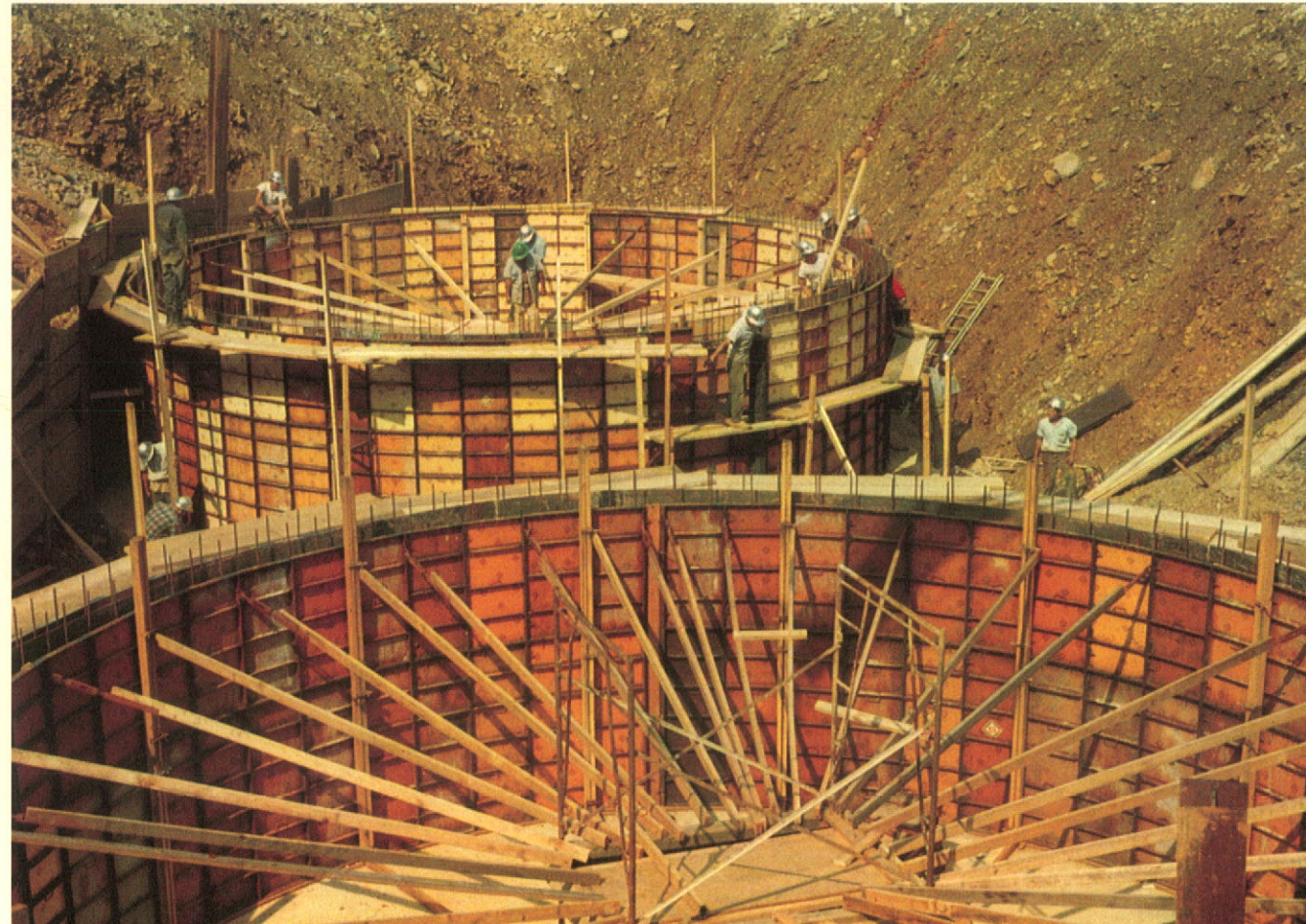








*Symons forms produce a variety of textures and designs for concrete surfaces such as the grooved design on this apartment building in Chicago, Illinois (1) and certain wood grain and other textures (2). Circular concrete clarifier tanks (3) are being made with Symons Steel-Ply® forms at a sewage treatment plant in Council Bluffs, Iowa.*



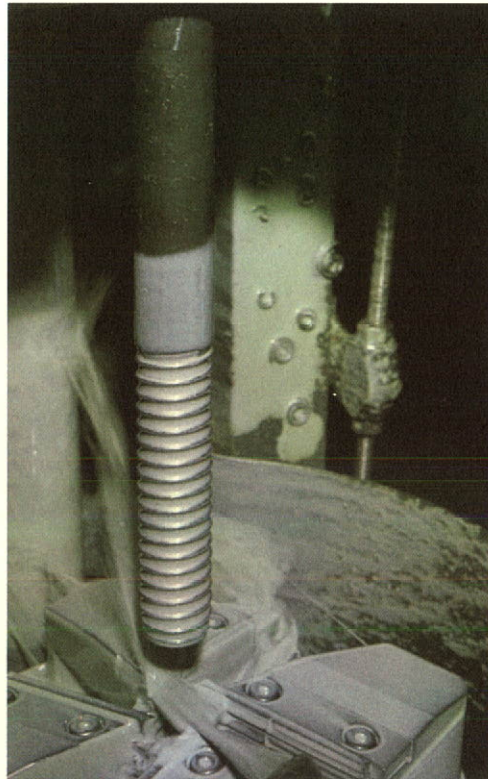
make transit-mixed concrete. Livingston-Graham production totaled about 6.5 million tons in 1974 compared with 6.8 million tons in 1973. Reduced demand caused by the decline in construction activity was responsible for the decrease.

The group's Symons Corporation manufactures and distributes forming equipment and accessories used in the on-site placement of concrete. Its products are manufactured in Chicago, Illinois and New Braunfels, Texas and distributed throughout the United States. Symons' main products are steel-framed plywood panel forms. These forms are joined together to make walls into which concrete is poured to build major structures such as bridges, tunnels, industrial and office buildings, power generating plants and pollution control facilities. Most forms are reusable and offer cost and design advantages over on-site construction.



Richmond Screw Anchor Company and The Fireproof Products Company are also part of the Building Materials Group. Richmond produces and sells throughout the United States concrete forming accessories such as steel tie bolts, tie rods and screw anchors. Fireproof engages mainly in the fabrication and sale of reinforcing steel bars for concrete construction in the metropolitan New York area.

We expect construction to be one of the first beneficiaries of an improved economy. Therefore, this group's operating results should quickly reflect any favorable changes in fiscal 1975.



1 ▲ 2 ▼ 3 ▶

*Threaded bolts made by Richmond Screw Anchor Company (1) are used to hold concrete forms together. Contour threaded coils (2) are used by Richmond to make a variety of accessory items used in concrete construction. Many Symons forms are custom-made such as these all-steel forms being used in the construction of a nuclear power plant near Sacramento, California (3).*









**Brown Company and Subsidiaries**  
**FINANCIAL SUMMARY**  
**Years Ended November 30**



		1974	1973(a)	1972(b)	1971	1970(c)
<b>FOR THE YEAR</b> <b>(000*)</b>	Net sales .....	\$434,545	\$322,802	\$249,225	\$205,558	\$216,828
	Operating income .....	45,460	18,462	11,138	6,826	6,090
	Net earnings .....	23,909	9,463	3,267	1,249	1,381
	Net earnings per share .....	4.32	2.14	1.02	.45	.21
	Depreciation and depletion .....	9,509	8,734	8,382	7,666	7,512
	Plant additions .....	28,068	12,398	9,935	11,556	7,335
<b>END OF YEAR</b> <b>(000*)</b>	Working capital .....	\$ 72,075	\$ 64,888	\$ 54,734	\$ 40,981	\$ 43,968
	Net properties .....	118,642	100,928	92,612	84,454	83,390
	Total assets .....	269,873	234,914	189,806	159,712	166,727
	Long-term debt .....	76,245	97,689	90,119	79,764	82,464
	Shareholders' equity .....	112,310	73,688	56,737	47,606	44,317
	Shareholders' equity per share .....	20.99	16.74	15.65	16.52	16.73
	Market value per share (d) .....	10.50	10.50	10.75	6.38	5.00
<b>QUARTER ENDED</b> <b>NOVEMBER 30</b> <b>(000*)</b>	Net sales .....	\$119,463	\$ 92,771			
	Operating costs .....	106,696	87,435			
	Operating income .....	12,767	5,336			
	Interest expense (net) .....	586	1,433			
	Income tax provision .....	4,993	766			
	Net earnings .....	7,188	3,137			
	Net earnings per share .....	1.33	.63			

\*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) Includes Livingston Rock & Gravel Co., Inc., from April, 1970, and the conversion of preferred stock into debentures and warrants.
- (d) Closing price on New York Stock Exchange at end of the fiscal year.



**Brown Company and Subsidiaries**  
**CONSOLIDATED STATEMENT OF EARNINGS**  
 Years Ended November 30



		1974	1973
<b>REVENUES</b>	Net sales .....	\$434,545,000	\$322,802,000
	Other .....	70,000	82,000
		<u>434,615,000</u>	<u>322,884,000</u>
<b>OPERATING COSTS</b>	Cost of sales .....	345,984,000	269,075,000
	Selling, administrative and general expenses .....	43,171,000	35,347,000
		<u>389,155,000</u>	<u>304,422,000</u>
<b>OPERATING INCOME</b>		<u>45,460,000</u>	<u>18,462,000</u>
<b>OTHER COSTS</b>	Interest expense (net of interest income of \$1,997,000 in 1974 and \$1,304,000 in 1973) .....	4,938,000	6,124,000
	Income tax provision .....	16,613,000	2,875,000
		<u>21,551,000</u>	<u>8,999,000</u>
<b>NET EARNINGS</b>		<u>\$ 23,909,000</u>	<u>\$ 9,463,000</u>
<b>NET EARNINGS PER SHARE</b>		<u>\$ 4.32</u>	<u>\$ 2.14</u>

See financial review on pages 22 through 25.



**Brown Company and Subsidiaries**  
**CONSOLIDATED BALANCE SHEET**  
at November 30



<b>ASSETS</b>		<b>1974</b>	<b>1973</b>
<b>CURRENT ASSETS</b>	Cash including short-term investments of \$19,111,000 in 1974 and \$21,218,000 in 1973 .....	\$ 23,350,000	\$ 26,669,000
	Accounts receivable (less allowance of \$998,000) .....	50,921,000	44,719,000
	Inventories .....	68,521,000	47,703,000
	Prepaid expenses .....	1,068,000	1,228,000
		<u>143,860,000</u>	<u>120,319,000</u>
<b>PROPERTIES</b>	Land and improvements .....	9,790,000	9,865,000
	Timberlands and quarries .....	9,268,000	9,308,000
	Buildings, machinery and equipment .....	248,057,000	225,266,000
	Accumulated depreciation and depletion .....	(148,473,000)	(143,511,000)
		<u>118,642,000</u>	<u>100,928,000</u>
<b>OTHER ASSETS</b>	Funds restricted for pollution control facilities .....	2,596,000	8,656,000
	Investments and non-current receivables .....	1,466,000	1,381,000
	Other .....	3,309,000	3,630,000
		<u>7,371,000</u>	<u>13,667,000</u>
		<u>\$269,873,000</u>	<u>\$234,914,000</u>

See financial review on pages 22 through 25.



**LIABILITIES AND SHAREHOLDERS' EQUITY**

		<u>1974</u>	<u>1973</u>
<b>CURRENT LIABILITIES</b>	Notes payable . . . . .	\$ 6,304,000	\$ 5,205,000
	Current long-term debt maturities . . . . .	6,224,000	7,491,000
	Accounts payable . . . . .	20,496,000	15,387,000
	Accrued expenses . . . . .	28,869,000	24,571,000
	Income taxes payable . . . . .	9,892,000	2,777,000
		<u>71,785,000</u>	<u>55,431,000</u>
<b>OTHER LIABILITIES</b>	Senior long-term debt . . . . .	65,203,000	71,367,000
	Subordinated debentures . . . . .	11,042,000	26,322,000
	Deferred income taxes . . . . .	8,472,000	3,344,000
	Other . . . . .	1,061,000	4,762,000
		<u>85,778,000</u>	<u>105,795,000</u>
<b>SHAREHOLDERS' EQUITY</b>	Common stock . . . . .	5,361,000	4,413,000
	Treasury stock . . . . .	(156,000)	(156,000)
	Other capital . . . . .	54,033,000	40,268,000
	Retained earnings . . . . .	53,072,000	29,163,000
		<u>112,310,000</u>	<u>73,688,000</u>
		<u>\$269,873,000</u>	<u>\$234,914,000</u>

See financial review on pages 22 through 25.




**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

Years Ended November 30

		1974	1973
<b>FUNDS PROVIDED FROM OPERATIONS</b>	Net earnings . . . . .	\$23,909,000	\$ 9,463,000
	Depreciation and depletion . . . . .	9,509,000	8,734,000
	Deferred income taxes . . . . .	4,431,000	98,000
	Debenture interest paid in common stock . . . . .	—	1,164,000
		<u>37,849,000</u>	<u>19,459,000</u>
<b>OTHER FUNDS PROVIDED</b>	Asset dispositions . . . . .	845,000	2,582,000
	Debt issued . . . . .	1,400,000	18,904,000
	Stock and warrants issued . . . . .	15,204,000	5,494,000
	Other . . . . .	442,000	1,340,000
		<u>17,891,000</u>	<u>28,320,000</u>
<b>TOTAL FUNDS PROVIDED</b>		<u>55,740,000</u>	<u>47,779,000</u>
<b>FUNDS USED</b>	Plant additions . . . . .	28,068,000	12,398,000
	Reduction of long-term debt and other liabilities . . . . .	26,545,000	16,571,000
	Funds reserved (expended) for pollution control facilities . . . . .	(6,060,000)	8,656,000
		<u>48,553,000</u>	<u>37,625,000</u>
<b>INCREASE IN WORKING CAPITAL</b>		<u>\$ 7,187,000</u>	<u>\$10,154,000</u>
<b>ELEMENTS OF CHANGES IN WORKING CAPITAL</b>	Cash and short-term investments . . . . .	\$ (3,319,000)	\$10,462,000
	Accounts receivable . . . . .	6,202,000	11,920,000
	Inventories . . . . .	20,818,000	8,528,000
	Prepaid expenses . . . . .	(160,000)	(1,194,000)
	Notes payable . . . . .	(1,099,000)	(3,005,000)
	Current long-term debt maturities . . . . .	1,267,000	(2,541,000)
	Accounts payable . . . . .	(5,109,000)	(5,543,000)
	Accrued expenses . . . . .	(4,298,000)	(6,295,000)
	Income taxes payable . . . . .	(7,115,000)	(2,178,000)
	Increase in working capital . . . . .	<u>\$ 7,187,000</u>	<u>\$10,154,000</u>

See financial review on pages 22 through 25.




**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

Years Ended November 30

		1974	1973
<b>RETAINED EARNINGS</b>	Beginning balance . . . . .	\$29,163,000	\$19,700,000
	Net earnings . . . . .	23,909,000	9,463,000
	Ending balance . . . . .	<u>\$53,072,000</u>	<u>\$29,163,000</u>
<b>COMMON STOCK</b>	Beginning balance . . . . .	\$ 4,413,000	\$ 3,637,000
	Warrants exercised . . . . .	926,000	—
	Stock options exercised . . . . .	22,000	—
	Common stock issued to pay debenture interest . . . . .	—	231,000
	Common stock issued for companies acquired . . . . .	—	545,000
	Ending balance . . . . .	<u>\$ 5,361,000</u>	<u>\$ 4,413,000</u>
<b>OTHER CAPITAL</b>	Beginning balance . . . . .	\$40,268,000	\$33,556,000
	Warrants exercised . . . . .	14,100,000	—
	Stock options exercised . . . . .	156,000	—
	Common stock issued to pay debenture interest . . . . .	—	2,118,000
	Common stock and warrants issued for companies acquired . . . . .	—	4,949,000
	Other . . . . .	(491,000)	(355,000)
Ending balance . . . . .	<u>\$54,033,000</u>	<u>\$40,268,000</u>	
<b>SHARES OF COMMON STOCK RESERVED AT YEAR END</b>	Warrants exercisable to May, 1980, at \$16.50 a share . . . . .	1,086,000	2,012,000
	Warrants exercisable to January, 1977 at \$13.04 a share . . . . .	295,000	295,000
	Employee stock options . . . . .	125,000	198,000
	Total shares reserved . . . . .	<u>1,506,000</u>	<u>2,505,000</u>

See financial review on pages 22 through 25.





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**SIGNIFICANT  
ACCOUNTING  
POLICIES**

The financial statements include the accounts of the Company and its majority-owned subsidiaries. At November 30, 1974, Gulf + Western Industries, Inc. owned 78.5% of the Company's common stock.

The acquisitions during 1973 of the remaining 52% interest in Shattuck Denn Mining Corporation and all of Sterling Pulp & Paper Company, Inc., for a total of \$7,950,000 consisting of cash, notes, common stock and warrants were accounted for as purchases, and the financial statements reflect the consolidation of the acquired companies from dates of acquisition.

Short-term investments (certificates of deposit and commercial paper) are stated at cost which approximates market value, and include investments in Gulf + Western Industries, Inc. commercial paper of \$7,000,000 at November 30, 1974 and \$11,500,000 at November 30, 1973.

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 (not material in amount in 1974 and 1973) during construction on bonds issued to finance pollution control facilities. All other interest cost is expensed as incurred.

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

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.



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**PENSION EXPENSE**

Substantially all employees are covered by pension plans. Operating costs include pension expense of \$6,427,000 in 1974 and \$5,210,000 in 1973. The increase in pension expense in 1974 resulted principally from benefit increases.

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 \$15,000,000 at the January 1, 1974 valuation date. In addition, the market value of pension trust assets was approximately \$8,000,000 less than the actuarial value at January 1, 1974, and has declined further in the period to November 30, 1974.

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**INCOME TAX PROVISION**

Provisions for taxes on income are low in relation to earnings before taxes primarily because of investment tax credits, capital gain rates applicable to timber cutting, depletion allowances and differences in the basis for tax and financial reporting purposes of certain assets of acquired companies.

Income tax provisions have been reduced by investment tax credits of \$2,763,000 in 1974 and \$2,338,000 in 1973.

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**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 5,804,000 in 1974 and 5,417,000 in 1973.





<b>LONG-TERM DEBT</b>	<u>1974</u>	<u>1973</u>
Senior long-term debt at November 30:		
6½ % Senior Notes payable 1975 to 1985 .....	\$41,135,000	\$44,885,000
9% Note payable to an institutional investor 1975 to 1983 .....	4,900,000	5,450,000
Notes payable to banks 1975 to 1979 at 1% above the prevailing prime commercial loan rate .....	8,156,000	11,344,000
7% to 7½ % Pollution Control Revenue Bonds payable 1986 to 1999 .....	11,400,000	10,000,000
Other notes (5% to 9%) payable 1975 to 1987 .....	5,836,000	7,179,000
	<u>71,427,000</u>	<u>78,858,000</u>
Current maturities .....	(6,224,000)	(7,491,000)
Senior long-term debt .....	65,203,000	71,367,000
9% Subordinated debentures payable in 1995 .....	11,042,000	26,322,000
Total .....	<u>\$76,245,000</u>	<u>\$97,689,000</u>

The following long-term debt payments are required during the five years ending November 30, 1979:

1975 .....	\$6,224,000
1976 .....	6,114,000
1977 .....	5,962,000
1978 .....	6,497,000
1979 .....	8,611,000

The 9% debentures due in 1995 are subordinated to all notes payable and may be applied to pay the exercise price of the \$16.50 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 stock on June 1, 1973 and in cash on June 1, 1974.

Note agreements applicable to the 6½ % Senior 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, 1974 of \$5,283,000 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.



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**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, 1974, 5,350,703 shares of common stock were outstanding (4,402,813 at November 30, 1973) excluding 10,652 treasury shares. Each share is entitled to one vote. No preferred stock is outstanding.

During 1974, Gulf + Western Industries, Inc. exercised warrants to purchase 926,087 shares of common stock of the Company at a price of \$16.50 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.

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, 1974 were:

	<b>Number of Shares</b>	<b>Total Price</b>
Options outstanding December 1, 1972 .....	115,500	\$1,276,300
Granted .....	46,962	465,950
Terminated .....	(5,317)	(67,619)
Options outstanding November 30, 1973 .....	157,145	1,674,631
Granted .....	32,300	333,893
Exercised .....	(21,811)	(177,843)
Terminated .....	(56,134)	(788,890)
Options outstanding November 30, 1974 .....	<u>111,500</u>	<u>\$1,041,791</u>
Exercisable at November 30, 1974 .....	<u>48,000</u>	
Shares reserved for future grants at November 30, 1974 .....	<u>13,750</u>	

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**COMMITMENTS**

Rental expense and future rental commitments are not material.

Construction of pollution control facilities at Berlin and Gorham, New Hampshire is expected to cost approximately \$36,000,000, including \$7,300,000 for net interest during construction and expenses of issuing the bonds. The first \$10,000,000 of revenue bonds issued by The State of New Hampshire Industrial Development Authority to finance construction were sold in 1973 and have been recorded by the Company as long-term debt. In December 1974, an additional \$18,000,000 of 9% revenue bonds payable 1986 to 1999 were issued by the Authority and recorded by the Company as long-term debt.





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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, 1974 and 1973, 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, 1974 and 1973, and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

New York, New York  
December 27, 1974



**DIRECTORS**

**Sherwood C. Chillingworth**  
President  
Adorada Corporation

**William T. Creson**  
Group Vice President

**\*David D. Davis**  
Group 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  
**\$16.50 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

**David D. Davis**  
Group Vice President

**William T. Creson**  
Group 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





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**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®.

**Cheverton & Laidler, Ltd.**

Folding cartons, paper and plastic containers, paper liners, delicatessen paper, cellulose and polyethylene film, waxed paper rolls.

**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.

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**BUILDING MATERIALS GROUP**

**The Fireproof Products Company**

Fabrication of reinforcing steel and distribution of construction materials.

**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.









**BROWN COMPANY**  
A GULF+WESTERN COMPANY

COVER - Linweave Velvetsheen Bright White Satin, sub 80 - cover weight  
TEXT - Linweave Velvetsheen Bright White Satin, sub 80 - text weight  
FINANCIAL SECTION - Linweave Tarotext Green, sub 70 - text weight