



1973 Annual Report / Brown Company



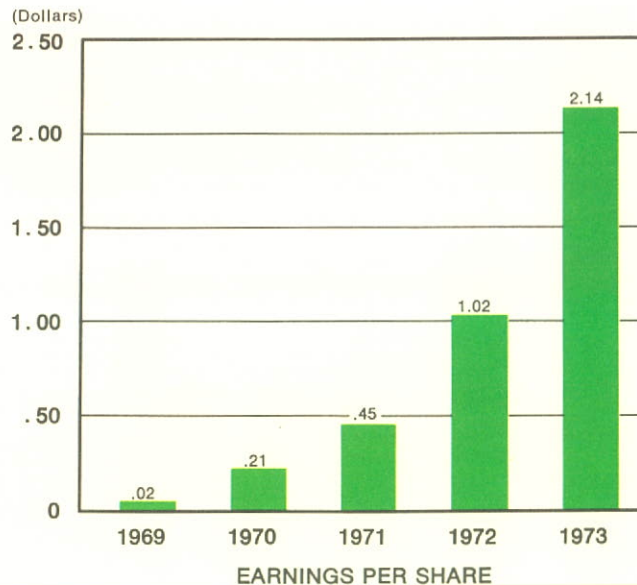
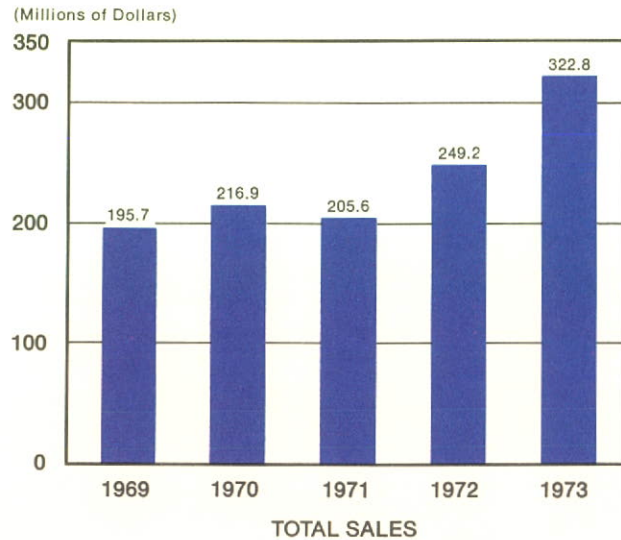
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# Financial Highlights

|                                       | 1973          | 1972          |
|---------------------------------------|---------------|---------------|
| Net Sales                             | \$322,802,000 | \$249,225,000 |
| Earnings Before Income Taxes          | \$ 12,338,000 | \$ 4,289,000  |
| Income Tax Provision                  | \$ 2,875,000  | \$ 1,022,000  |
| Net Earnings                          | \$ 9,463,000  | \$ 3,267,000  |
| Net Earnings Per Share                | \$ 2.14       | \$ 1.02       |
| Shareholders' Equity Per Share        | \$ 16.74      | \$ 15.65      |
| Common Shares Outstanding End of Year | 4,403,000     | 3,626,000     |
| Number of Shareholders                | 6,500         | 6,000         |
| Number of Employees                   | 9,700         | 8,300         |

## To Our Shareholders



It is a pleasure to report that fiscal 1973 was a record year in both sales and earnings for Brown Company. Sales totaled \$323 million compared with \$249 million in the previous year. Net earnings reached \$9.5 million compared with \$3.3 million in 1972. Earnings per share for 1973 rose to \$2.14 from \$1.02 in the prior year, when there were fewer shares outstanding. This marked the fifth consecutive year of dramatic gains in earnings per share.

Throughout 1973 demand for paper products continued strong, and we attained new levels of efficiency in the Paper Group as a result of our capital improvements program. There was also strong demand for building products. These factors, along with the inclusion of acquired businesses, were the primary reasons for your company's substantial improvement in sales and earnings.

Other highlights of 1973:

- ▶ Projects were approved to increase pulp and paper production at Berlin-Gorham, New Hampshire, and to expand the capacity of three specialty paper machines at Parchment, Michigan, and two recycled paperboard machines at Kalamazoo, Michigan. A new six-color press was installed at our folding carton plant in Kalamazoo.
- ▶ Construction began on a new manufacturing facility and warehouse for the Absorbent Products Division at Berlin-Gorham.

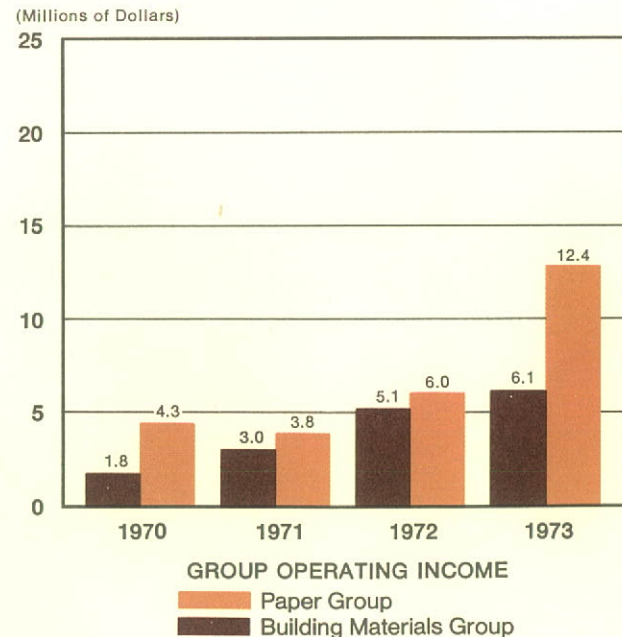
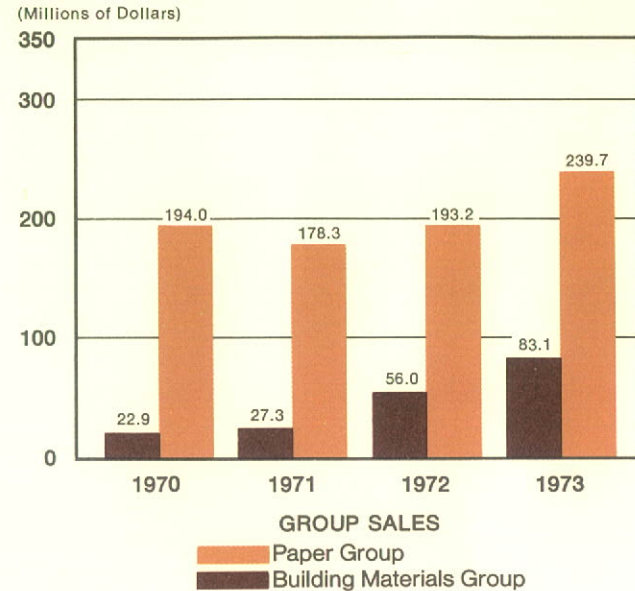
- ▶ The first \$10 million of pollution control revenue bonds were sold to finance work on the \$23 million pollution control project at the Berlin-Gorham pulp and paper mill.
- ▶ As part of an accelerated expansion program, to be accomplished over the next few years, Symons Corporation opened a new branch in Memphis, Tennessee.
- ▶ Brown completed the acquisition of the remaining 52 percent of Shattuck Denn Mining Corporation.
- ▶ Brown acquired Sterling Pulp & Paper Company of Eau Claire, Wisconsin, which represented a major expansion and diversification of our Absorbent Products Division.

As we enter 1974, one of our foremost concerns is the energy crisis. Raw materials are in short supply. Nevertheless, barring a severe recession, we believe that demand for paper and building materials will continue strong. We expect to show substantial gains in sales and earnings in 1974.



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

January 7, 1974





## Paper Group

Near-capacity operations, continued modernization of equipment, and diversification through acquisitions were the main thrusts of Brown Company's Paper Group during 1973. All nine of the group's divisions were profitable, and eight of the nine showed improved results over the prior year.

The group's utilization of capacity averaged more than 95 percent, in line with the industry as a whole. Although limited by controls, pricing of paper products remained firm, backed by strong demand.

The group made more progress in its long-range program of expanding and renovating facilities. Ground was broken for a \$2 million manufacturing plant and warehouse at the Absorbent Products Division in Berlin, New Hampshire, which will greatly increase efficiencies in 1974.

A \$4 million improvement program completed at the Berlin-Gorham Division helped its pulp mill attain record production rates during the last half of 1973. An additional \$6 million program currently under way will further increase productivity at the mill when completed in 1975.

*From forests and machines: Brown's more than 600,000 acres of New England timberlands are a tremendous asset, as are the company's technological resources — for example, this giant paperboard machine in Kalamazoo.*

Brown continued its paper machine rebuilding program, initiating work on three machines at the Specialty Papers Division. Renovations previously carried out contributed to a record production rate achieved by this unit in 1973.

At the Recycled Paperboard Division, work began on the modernization of two cylinder board machines. Capacity will be increased by one-third when the project is completed in 1974. This division also stepped up its program to utilize lower grade waste paper.

The Folding Carton Division added a new six-color press and began the rebuilding of an existing press. Work is well along on a specialized carton plant in Shamokin, Pennsylvania, where the company will test a new concept utilizing high-speed, roll-fed offset printing equipment designed to produce cartons individually tailored to particular products.

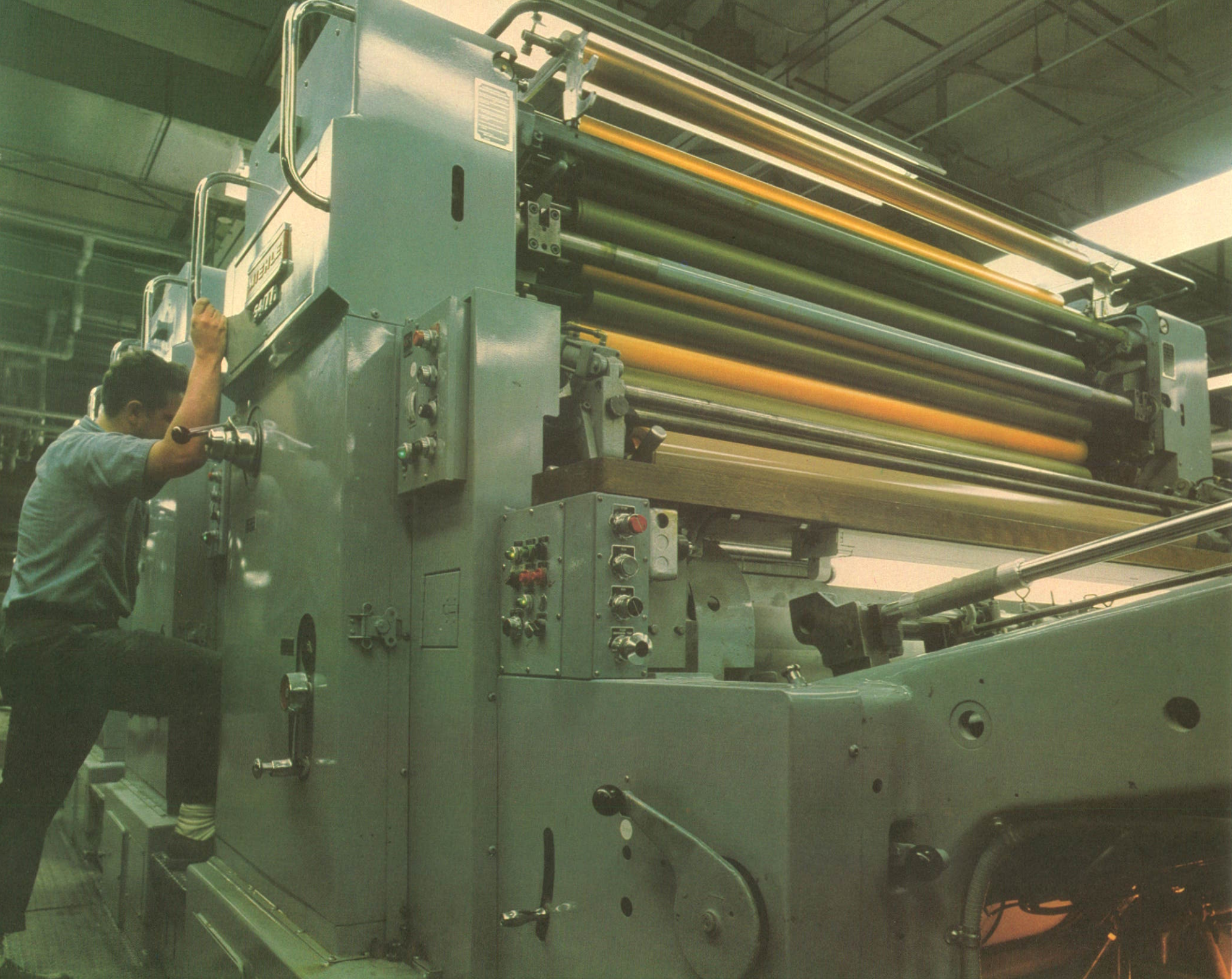
Record results were achieved in 1973 by our Service Products Division, which markets converted paper for food service and food packaging, and by Brown's United Kingdom subsidiary, Cheverton & Laidler, Ltd. The Eagle-A/Linweave Division and Superior and Monarch Match Companies continued to perform well.

Sterling Pulp & Paper Company, which Brown acquired during fiscal 1973, had 1973 sales of



*Color pigments used for producing a broad palette of subtly colored papers. An equal facility of color variety is made possible by multicolor lithographic press at Folding Carton Division in Kalamazoo. The division, which operates the largest installation of its kind in the folding carton industry, has twelve presses, one of which is capable of printing seven colors.*





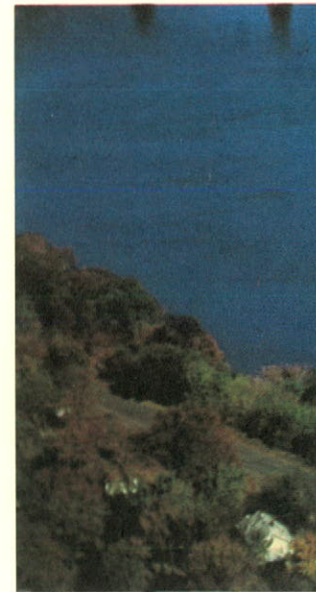


*Paper products manufactured by Brown Company for consumers, business, and industry. Fine papers produced by the Eagle-A/Linweave Division, industrial and institutional products made by the Service Products Division, food service disposables produced by Cheverton & Laidler, consumer products created by the Service Products Division.*

\$26 million. In acquiring Sterling, a well-managed company with a quality product line, Brown expanded its line of absorbent products and extended its market coverage for them nationwide. This also gives Brown a broadened base for future growth in the important consumer area.

Although the paper industry is affected by fuel and raw materials shortages, we are confident that its future remains bright. The steps we have taken to strengthen the Paper Group should continue to contribute to steady earnings growth for Brown Company.

*Nibroc® brands made by the Absorbent Products Division and consumer products manufactured by Brown's newly acquired facility (aerial photo), Sterling Pulp & Paper Company.*










## Building Materials Group

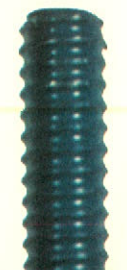
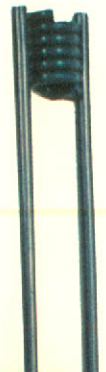
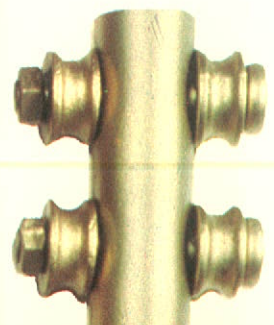
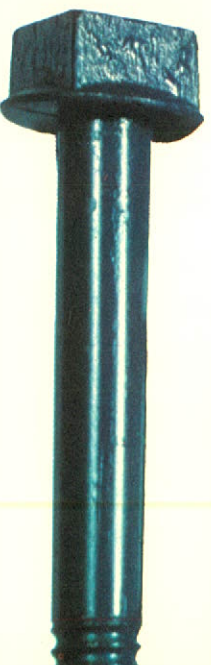
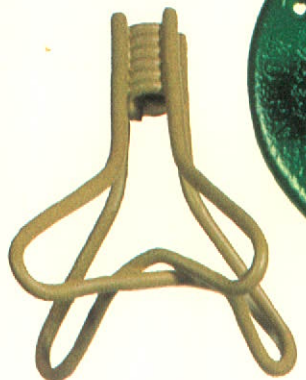
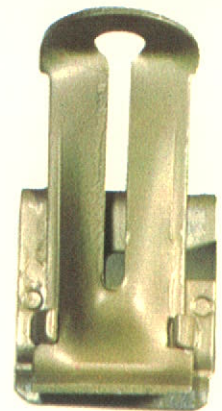
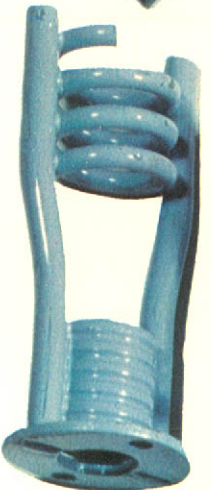
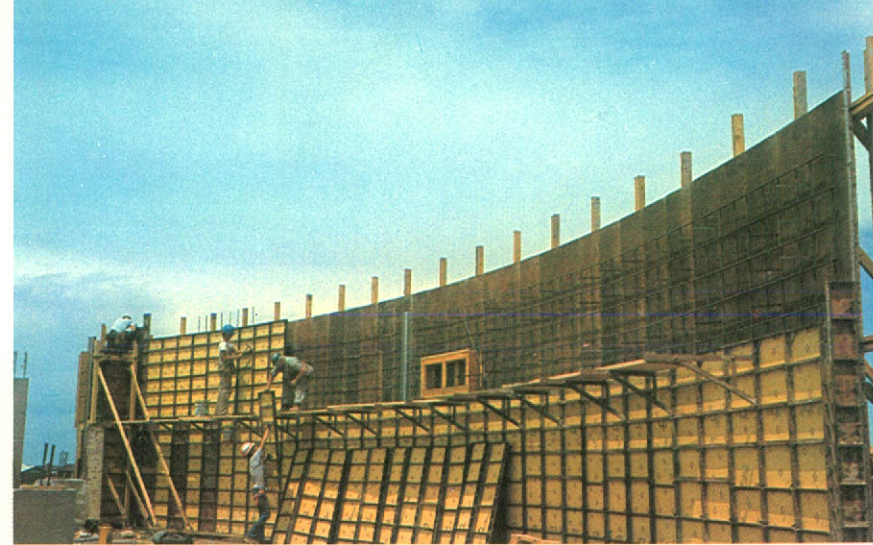
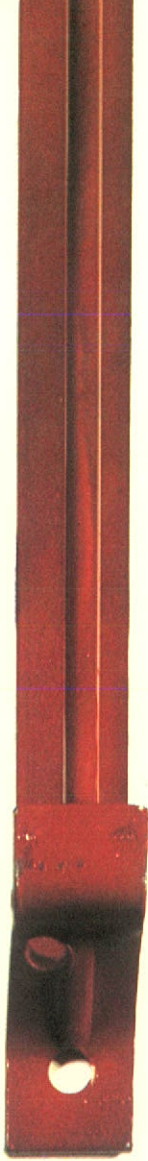
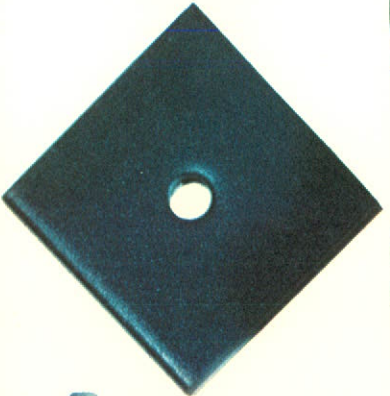
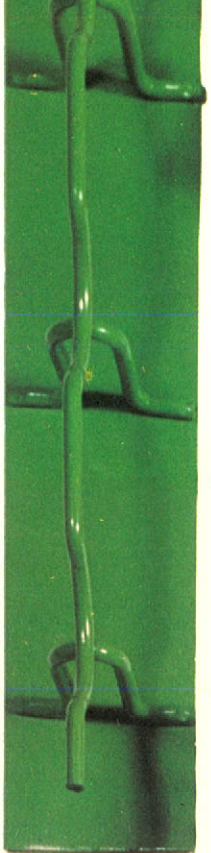
During fiscal 1973, Brown Company's Building Materials Group concentrated on consolidating and reorganizing recently acquired units, while streamlining its operations through the elimination of unprofitable lines of activity.

Symons Corporation, acquired in 1972, achieved a substantial increase in operating income, even after absorbing losses incurred by Symons Services, Inc., a subsidiary involved in on-site construction. The Mulkey Company, a Symons division, operated at a small loss. Symons Services is being dissolved, and Mulkey will be sold or shut down in 1974. Brown anticipates no additional charges to income from these operations.

Symons had an extremely successful year in the sale and lease of forms used in concrete construction, which represent the mainstay of this subsidiary's business. Symons intends to concentrate its future efforts in the construction form field which, in the absence of a major economic downturn, should show rapid growth.



*At Livingston-Graham sand and gravel processing plant in El Monte, California, an ever-growing operation services the expanding California building industry.*





*The Richmond Screw Anchor Company produces accessories used in concrete construction. Symons Steel-Ply® forms are employed to build concrete structures such as curved wall, designed for a new school in Aurora, Colorado.*

During fiscal 1973, Symons opened a new branch in Memphis, Tennessee, and another branch is scheduled to be opened in Tampa, Florida, in 1974, bringing the total of Symons' branch operations to 23. Plans call for opening two to three additional branches per year during the next several years.

In May, 1973, Brown Company acquired the remaining 52 percent of stock of Shattuck Denn Mining Corporation, which manufactures and distributes construction accessories and materials. Brown had acquired 48 percent of Shattuck Denn in 1972. Both of Shattuck Denn's businesses, Richmond Screw Anchor Company and Fireproof Products Company, attained impressive operating results for the year. Richmond Screw Anchor Company is carrying out an expansion program in the Los Angeles area, designed to facilitate the production there of a major portion of the Richmond line for distribution in the Western states.

The Livingston-Graham Division, which produces commercial rock, gravel, and ready-mixed concrete in Southern California, had a substantial increase in operating results, in spite of the fact that severe weather conditions adversely affected construction during the early part of the year.

The outlook for the construction industry during Brown Company's 1974 fiscal year is dependent on many factors, among them the overall course of the economy. Nevertheless, judging by current indicators, it should be another year of sales and profit growth for the Building Materials Group. Construction forecasts for 1974 indicate that total work put in place will be slightly ahead of 1973. Although housing starts are expected to be down sharply, this should be offset by an increase in industrial, commercial, and heavy construction. Since less than 15 percent of Brown's building materials business is related to residential construction, the company expects its total sales in this sector to increase next year.

The long-term outlook for construction remains favorable. The Building Materials Group should continue to grow with this trend, and achieve increasing profitability.

*From a Chicago office building to a church in Parma, Ohio, Symons forms are used in a wide range of construction.*







PARKING  
MONDAY TO  
FRIDAY  
10:00 AM - 5:00 PM

**Brown Company and Subsidiaries**  
**FIVE-YEAR FINANCIAL STATISTICS**  
**Years Ended November 30**



|                                      |   | 1973(a)   | 1972(b)   | 1971      | 1970(c)   | 1969      |
|--------------------------------------|---|-----------|-----------|-----------|-----------|-----------|
| <b>FOR THE YEAR</b><br><b>(000*)</b> | Net sales . . . . .                             | \$322,802 | \$249,225 | \$205,558 | \$216,828 | \$195,675 |
|                                      | Operating income . . . . .                      | 18,462    | 11,138    | 6,826     | 6,090     | 5,494     |
|                                      | Net earnings . . . . .                          | 9,463     | 3,267     | 1,249     | 1,381     | 1,693     |
|                                      | Net earnings per share . . . . .                | 2.14      | 1.02      | .45       | .21       | .02       |
|                                      | Depreciation and depletion . . . . .            | 8,734     | 8,382     | 7,666     | 7,512     | 6,872     |
|                                      | Plant additions . . . . .                       | 12,398    | 9,935     | 11,556    | 7,335     | 4,408     |
| <b>END OF YEAR</b><br><b>(000*)</b>  | Working capital . . . . .                       | \$ 64,888 | \$ 54,734 | \$ 40,981 | \$ 43,968 | \$ 42,788 |
|                                      | Net properties . . . . .                        | 100,928   | 92,612    | 84,454    | 83,390    | 73,847    |
|                                      | Total assets . . . . .                          | 234,914   | 189,806   | 159,712   | 166,727   | 153,157   |
|                                      | Long-term debt . . . . .                        | 97,689    | 90,119    | 79,764    | 82,464    | 54,881    |
|                                      | Common shareholders' equity . . . . .           | 73,688    | 56,737    | 47,606    | 44,317    | 27,219    |
|                                      | Shareholders' equity per common share . . . . . | 16.74     | 15.65     | 16.52     | 16.73     | 9.30      |

\*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.

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



|                               |   | 1973                | 1972                |
|-------------------------------|---|---------------------|---------------------|
| <b>REVENUES</b>               | Net sales .....   | \$322,802,000       | \$249,225,000       |
|                               | Other .....   | 82,000              | 71,000              |
|                               |   | <u>322,884,000</u>  | <u>249,296,000</u>  |
| <b>OPERATING COSTS</b>        | Cost of sales .....   | 269,075,000         | 209,952,000         |
|                               | Selling, administrative and general expenses .....  | 35,347,000          | 28,206,000          |
|                               |   | <u>304,422,000</u>  | <u>238,158,000</u>  |
| <b>OPERATING INCOME</b>       |   | <u>18,462,000</u>   | <u>11,138,000</u>   |
| <b>OTHER COSTS</b>            | Interest expense (net of interest income of<br>\$1,304,000 in 1973 and \$466,000 in 1972) ..... | 6,124,000           | 6,589,000           |
|                               | Minority interest .....   | —                   | 260,000             |
|                               | Income tax provision .....  | 2,875,000           | 1,022,000           |
|                               |   | <u>8,999,000</u>    | <u>7,871,000</u>    |
| <b>NET EARNINGS</b>           |   | <u>\$ 9,463,000</u> | <u>\$ 3,267,000</u> |
| <b>NET EARNINGS PER SHARE</b> |   | <u>\$ 2.14</u>      | <u>\$ 1.02</u>      |

See financial review on pages 22 through 25.

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



| <b>ASSETS</b>                                  |  | <b>1973</b>                 | <b>1972</b>                 |
|--|--|-----------------------------|-----------------------------|
| <b>CURRENT ASSETS</b>                          | Cash including short-term investments of \$21,218,000 in 1973 and \$12,932,000 in 1972 ..... | \$ 26,669,000               | \$ 16,207,000               |
|  | Accounts receivable (less allowances of \$998,000 in 1973 and \$671,000 in 1972) .....       | 44,719,000                  | 32,799,000                  |
|  | Inventories .....  | 47,703,000                  | 39,175,000                  |
|  | Prepaid expenses .....   | 1,228,000                   | 2,422,000                   |
|  |  | <u>120,319,000</u>          | <u>90,603,000</u>           |
| <b>PROPERTIES</b>                              | Land and improvements .....  | 9,865,000                   | 8,553,000                   |
|  | Timberlands and quarries .....   | 9,308,000                   | 9,204,000                   |
|  | Buildings, machinery and equipment .....   | 225,266,000                 | 216,368,000                 |
|  | Accumulated depreciation and depletion .....   | (143,511,000)               | (141,513,000)               |
|  |  | <u>100,928,000</u>          | <u>92,612,000</u>           |
| <b>INVESTMENTS AND NON-CURRENT RECEIVABLES</b> |  | 1,381,000                   | 4,380,000                   |
| <b>OTHER ASSETS</b>                            | Funds restricted for pollution control facilities .....                                      | 8,656,000                   | —                           |
|  | Other .....  | 3,630,000                   | 2,211,000                   |
|  |  | <u>12,286,000</u>           | <u>2,211,000</u>            |
|  |  | <u><u>\$234,914,000</u></u> | <u><u>\$189,806,000</u></u> |

See financial review on pages 22 through 25.

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|                                 |   | 1973                 | 1972                 |
|---------------------------------|---|----------------------|----------------------|
| <b>CURRENT<br/>LIABILITIES</b>  | Notes payable .....                     | \$ 5,205,000         | \$ 2,200,000         |
|                                 | Current long-term debt maturities ..... | 7,491,000            | 4,950,000            |
|                                 | Accounts payable .....                  | 15,387,000           | 9,844,000            |
|                                 | Accrued expenses .....                  | 24,571,000           | 18,276,000           |
|                                 | Income taxes payable .....              | 2,777,000            | 599,000              |
|                                 |   | <u>55,431,000</u>    | <u>35,869,000</u>    |
| <b>OTHER<br/>LIABILITIES</b>    | Senior long-term debt .....             | 71,367,000           | 63,797,000           |
|                                 | Subordinated debentures .....           | 26,322,000           | 26,322,000           |
|                                 | Deferred income taxes .....             | 3,344,000            | 4,119,000            |
|                                 | Other .....                             | 4,762,000            | 2,962,000            |
|                                 |   | <u>105,795,000</u>   | <u>97,200,000</u>    |
| <b>SHAREHOLDERS'<br/>EQUITY</b> | Common stock .....                      | 4,413,000            | 3,637,000            |
|                                 | Treasury stock .....                    | (156,000)            | (156,000)            |
|                                 | Other capital .....                     | 40,268,000           | 33,556,000           |
|                                 | Retained earnings .....                 | 29,163,000           | 19,700,000           |
|                                 |   | <u>73,688,000</u>    | <u>56,737,000</u>    |
|                                 |   | <u>\$234,914,000</u> | <u>\$189,806,000</u> |

See financial review on pages 22 through 25.


**CONSOLIDATED STATEMENT OF CHANGE IN FINANCIAL POSITION**

Years Ended November 30

|  |  | 1973                | 1972                |
|--|--|---------------------|---------------------|
| <b>FUNDS PROVIDED FROM OPERATIONS</b>        | Net earnings .....                                       | \$ 9,463,000        | \$ 3,267,000        |
|  | Depreciation and depletion .....                         | 8,734,000           | 8,382,000           |
|  | Deferred income taxes .....                              | 98,000              | 394,000             |
|  | Debenture interest paid in common stock .....            | 1,164,000           | 2,369,000           |
|  | Minority interest .....                                  | —                   | 260,000             |
|  |  | <u>19,459,000</u>   | <u>14,672,000</u>   |
| <b>OTHER FUNDS PROVIDED</b>                  | Asset dispositions .....                                 | 2,582,000           | 6,272,000           |
|  | Debt issued .....  | 18,904,000          | 9,551,000           |
|  | Stock and warrants issued .....                          | 5,494,000           | 3,753,000           |
|  | Other .....  | 954,000             | 898,000             |
|  |  | <u>27,934,000</u>   | <u>20,474,000</u>   |
| <b>TOTAL FUNDS PROVIDED</b>                  |  | <u>47,393,000</u>   | <u>35,146,000</u>   |
| <b>FUNDS USED</b>                            | Plant additions .....                                    | 12,398,000          | 9,935,000           |
|  | Long-term debt reduction .....                           | 16,571,000          | 5,887,000           |
|  | Companies purchased, less working capital acquired ..... | (386,000)           | 5,571,000           |
|  | Funds reserved for pollution control facilities .....    | 8,656,000           | —                   |
|  |  | <u>37,239,000</u>   | <u>21,393,000</u>   |
| <b>INCREASE IN WORKING CAPITAL</b>           |  | <u>\$10,154,000</u> | <u>\$13,753,000</u> |
| <b>ELEMENTS OF CHANGE IN WORKING CAPITAL</b> | Cash and short-term investments .....                    | \$10,462,000        | \$ 5,649,000        |
|  | Accounts receivable .....                                | 11,920,000          | 9,333,000           |
|  | Inventories .....  | 8,528,000           | 9,557,000           |
|  | Prepaid expenses .....                                   | (1,194,000)         | 388,000             |
|  | Notes payable .....                                      | (3,005,000)         | (2,200,000)         |
|  | Current long-term debt maturities .....                  | (2,541,000)         | (2,265,000)         |
|  | Accounts payable .....                                   | (5,543,000)         | (2,839,000)         |
|  | Accrued expenses .....                                   | (6,295,000)         | (3,731,000)         |
|  | Income taxes payable .....                               | (2,178,000)         | ( 139,000)          |
|  | Increase in working capital .....                        | <u>\$10,154,000</u> | <u>\$13,753,000</u> |


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

Years Ended November 30

|  |   | 1973                | 1972                |
|--|---|---------------------|---------------------|
| <b>CHANGE IN<br/>RETAINED EARNINGS</b>                     | Beginning balance .....   | \$19,700,000        | \$16,433,000        |
|  | Net earnings .....  | 9,463,000           | 3,267,000           |
|  | Ending balance .....  | <u>\$29,163,000</u> | <u>\$19,700,000</u> |
| <b>CHANGE IN<br/>COMMON STOCK</b>                          | Beginning balance .....   | \$ 3,637,000        | \$ 2,893,000        |
|  | Common stock issued to pay debenture interest .....   | 231,000             | 211,000             |
|  | Common stock issued for companies acquired .....  | 545,000             | 533,000             |
|  | Ending balance .....  | <u>\$ 4,413,000</u> | <u>\$ 3,637,000</u> |
| <b>CHANGE IN<br/>OTHER CAPITAL</b>                         | Beginning balance .....   | \$33,556,000        | \$28,436,000        |
|  | Common stock issued to pay debenture interest .....   | 2,118,000           | 2,089,000           |
|  | Common stock and warrants issued for companies acquired .....   | 4,949,000           | 3,195,000           |
|  | Other .....   | (355,000)           | (164,000)           |
|  | Ending balance .....  | <u>\$40,268,000</u> | <u>\$33,556,000</u> |
| <b>SHARES OF COMMON<br/>STOCK RESERVED<br/>AT YEAR END</b> | Warrants exercisable to May, 1980, at \$16.50 a share .....   | 2,012,000           | 1,670,000           |
|  | Warrants exercisable to January, 1977<br>(at \$13.04 a share in 1973 and \$13.71 in 1972) .....                   | 295,000             | 280,000             |
|  | Employee stock options outstanding (total exercise price<br>of \$1,675,000 in 1973 and \$1,276,000 in 1972) ..... | 157,000             | 116,000             |
|  | Employee stock options available for grant .....  | 41,000              | 69,000              |
|  | Total shares reserved .....   | <u>2,505,000</u>    | <u>2,135,000</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.

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.

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.

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 \$5,210,000 in 1973 and \$3,453,000 in 1972. A change during 1973 in an actuarial assumption and in the amortization period for past service costs from 40 to 30 years had the effect of reducing net earnings by \$377,000 (seven cents per share).

The actuarially computed value of vested benefits under the pension plans exceeded pension trust assets and balance sheet accruals by approximately \$15,000,000 at the January 1, 1973, valuation date.



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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 \$2,338,000 in 1973 and \$405,000 in 1972. At November 30, 1973, investment tax credits of approximately \$2,000,000 were available for future reductions of income tax provisions and payments.

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**NET EARNINGS**

Earnings per share for 1973 are based on weighted average common shares and common share equivalents (warrants and options) outstanding during the year 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. There was no dilutive effect on 1972 per-share earnings because of shares issuable for outstanding warrants and options. Average common and common equivalent shares outstanding were 5,417,000 in 1973 and 3,210,000 in 1972.

The remaining 52% interest in Shattuck Denn Mining Corporation and 100% of Sterling Pulp & Paper Company, Inc., were acquired by purchase during 1973. Had the Company owned Shattuck and Sterling for all of 1973 and 1972, pro forma revenues, net earnings and net earnings per share would have been as follows:

|                              | <u>1973</u>   | <u>1972</u>   |
|------------------------------|---------------|---------------|
| Revenues .....               | \$345,167,000 | \$291,117,000 |
| Net earnings .....           | 9,936,000     | 4,015,000     |
| Net earnings per share ..... | 2.16          | 1.07          |



**LONG-TERM DEBT**

|  |                     |
|--|---------------------|
| Senior long-term debt at November 30, 1973:  |                     |
| 6½ % Senior Notes payable in annual installments 1974 to 1985 .....                                | \$44,885,000        |
| 9% Note payable to an institutional investor 1974 to 1983 .....                                    | 5,450,000           |
| Notes payable to banks 1974 to 1979 at 1% above the<br>prevailing prime commercial loan rate ..... | 11,344,000          |
| 7½ % Pollution Control Revenue Bonds payable 1986 to 1998 .....                                    | 10,000,000          |
| Other notes (5% to 9%) payable in installments 1974 to 1987 .....                                  | 7,179,000           |
|  | <u>78,858,000</u>   |
| Current maturities .....   | (7,491,000)         |
| Senior long-term debt .....  | <u>71,367,000</u>   |
| 9% Subordinated debentures payable in 1995 .....   | 26,322,000          |
| Total .....  | <u>\$97,689,000</u> |

The following long-term debt payments are required during the five years ending November 30, 1978:

|            |              |
|------------|--------------|
| 1974 ..... | \$ 7,491,000 |
| 1975 ..... | 7,237,000    |
| 1976 ..... | 6,302,000    |
| 1977 ..... | 6,014,000    |
| 1978 ..... | 6,382,000    |

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.

Requirements under note agreements applicable to the 6½ % Senior Notes and certain bank notes include the mortgage or pledge of substantially all properties and investments of Brown Company, restrictions that effectively preclude the payment of cash dividends on the common stock without consent of the noteholders and restrictions that preclude the payment of interest on the 9% subordinated debentures in cash until consolidated net earnings (excluding certain subsidiaries) for the preceding year equal or exceed \$4,200,000. Earnings, as defined, for 1973 exceeded \$4,200,000.

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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, 1973, 4,402,813 shares of common stock were outstanding excluding 10,652 treasury shares. Each share is entitled to one vote. No preferred stock is outstanding.

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. Options to buy 46,962 shares at a total purchase price of \$465,950 were granted during 1973. Options for 157,145 shares were outstanding at year end, of which options for 106,443 shares were exercisable. No options were exercised during 1973.

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**COMMITMENTS**

Operating costs include rental expense of \$3,560,000 in 1973 and \$2,686,000 in 1972. Future rental commitments as of November 30, 1973, for noncancelable leases are as follows:

|                 |                     |
|-----------------|---------------------|
| 1974 .....      | \$ 2,093,000        |
| 1975 .....      | 1,750,000           |
| 1976 .....      | 1,470,000           |
| 1977 .....      | 1,274,000           |
| 1978 .....      | 1,152,000           |
| 1979-1983 ..... | 3,126,000           |
| Total .....     | <u>\$10,865,000</u> |

Construction of pollution control facilities under way at Berlin-Gorham, New Hampshire, is expected to cost approximately \$23 million. The first \$10 million 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.



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TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF BROWN COMPANY

We have examined the consolidated financial statements of Brown Company and consolidated subsidiaries for the year ended November 30, 1973. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously made a similar examination of the consolidated financial statements for the preceding year.

In our opinion, the accompanying balance sheet and statements of earnings, change in shareholders' equity and change in financial position present fairly the consolidated financial position of Brown Company and consolidated subsidiaries at November 30, 1973, and the consolidated results of their operations, changes in shareholders' equity, and changes in financial position for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, New York  
December 28, 1973

**DIRECTORS**

**\*Roy T. Abbott, Jr.**  
Senior Vice President  
Gulf+Western Industries, Inc.

**Sherwood C. Chillingworth**  
President  
Adorada Corporation

**\*David D. Davis**  
Group Vice President

**Joel Dolkart**  
Senior Partner  
Simpson Thacher & Bartlett

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

\*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**  
President  
Amcord, Inc.

**Herbert J. Seakwood**  
Management Consultant  
and Attorney

**COMMON  
STOCK  
TRANSFER  
AGENTS**

**Bank of America**  
111 West Seventh Street  
Los Angeles, California 90014

**First National City Bank**  
111 Wall Street  
New York, New York 10015

**COMMON  
STOCK  
REGISTRARS**

**Bank of America**  
111 West Seventh Street  
Los Angeles, California 90014

**Registrar and Transfer  
Company**  
140 Cedar Street  
New York, New York 10006

**DEBENTURE  
TRUSTEE  
AND  
WARRANT  
AGENT**

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

**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

**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

**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**

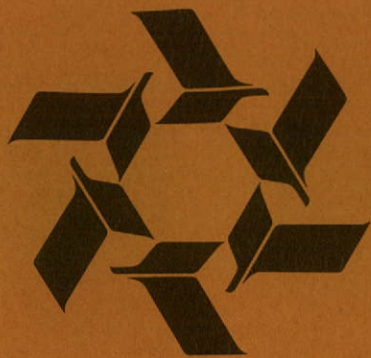
Sand, gravel, and transit-mixed concrete.

**Richmond Screw Anchor Company**

Accessories used in building forms for concrete construction.

**Symons Corporation**

Concrete forming systems, scaffolding, shoring, and accessories.



*Brown is committed to recycling.  
In 1973 Brown recycled more than 175,000 tons of  
paper, and plans are under way to increase these  
activities even more in coming years.*



**BROWN COMPANY**  
**A GULF+WESTERN COMPANY**

COVER - Linweave Spectra Cocoaberry, sub 80 - cover weight  
TEXT - Linweave Velvetsheen Bright White Satin, sub 80 - text weight  
FINANCIAL SECTION - Linweave Text Gray, sub 70 - text weight