

BROWN COMPANY REPORT TO SHAREHOLDERS 1971

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# HIGHLIGHTS

Year Ended November 30

	1971		1970	
<b>NET SALES</b>				
Timber, pulp, paper and paperboard .....	\$102,061,000	50%	\$105,701,000	48%
Folding cartons .....	33,131,000	16	35,769,000	16
Towels, tissues and food service disposables .....	35,163,000	17	42,471,000	20
Matches and other .....	7,946,000	4	10,023,000	5
Paper operations .....	<u>178,301,000</u>	<u>87</u>	<u>193,964,000</u>	<u>89</u>
Building materials* .....	27,257,000	13	22,864,000	11
Total net sales .....	<u>\$205,558,000</u>	<u>100%</u>	<u>\$216,828,000</u>	<u>100%</u>
<b>OPERATING INCOME**</b>				
Paper operations .....	\$ 3,753,000		\$ 4,318,000	
Building materials* .....	3,073,000		1,772,000	
Total operating income .....	<u>\$ 6,826,000</u>		<u>\$ 6,090,000</u>	
NET EARNINGS .....	<u>\$ 1,249,000</u>		<u>\$ 1,381,000</u>	
Net earnings after preferred dividend requirement .....	<u>\$ 1,249,000</u>		<u>\$ 557,000</u>	
NET EARNINGS PER COMMON SHARE .....	<u>\$ .45</u>		<u>\$ .21</u>	

\*Includes Livingston Rock and Gravel Co., Inc. from April 1, 1970.

\*\*Excludes interest income and expense, minority interest and income taxes.

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# TO OUR SHAREHOLDERS

Notwithstanding a weak economy in 1971, especially in the paper industry, Brown Company made a good improvement in per-share earnings for the third consecutive year. Per-share income rose to 45 cents from 21 cents in 1970. Gains in our building materials business more than offset the decline in operating income from our paper operations. Net earnings for the year ended November 30, 1971 amounted to \$1,249,000 compared with \$1,381,000 in fiscal 1970, before deducting \$824,000 in preferred dividend requirements. There was no preferred dividend requirement in 1971.

Perhaps even more important than improved earnings per share were the steps taken to further our modernization program. The previously announced plan to dispose of marginal operations was essentially completed when we sold our paperboard cup and plate plant in February, 1971. The proceeds of this sale, together with funds from prior sales, made it possible for us to undertake major capital projects in addition to normal capital expenditures.

During fiscal 1971 we:

- completed the first phase of the \$8-million paper machine rebuilding program in our Specialty Papers Division at Parchment, Michigan.
- authorized a \$4.5-million modernization of our pulp and paper mill complex in Berlin-Gorham, New Hampshire.
- acquired a new \$800,000 six-color offset printing press for our Folding Carton Division at Kalamazoo, Michigan.
- authorized the purchase of a \$250,000 cutting press for our folding carton plant at Castleton-on-Hudson, New York.

We are convinced that these steps will lead to improved earnings.

Our 1971 results were adversely affected during our fourth quarter by the price freeze, startup expenses on a rebuilt paper machine, and a fire at our Service Products Division plant in Kalamazoo, Michigan. With the possible exception of the price freeze, we do not expect these events to affect significantly our 1972 profitability.

During 1971 we established short-term bank credit lines totaling \$6 million. This is one more step toward a sound financial posture for the Company.

Environmental control efforts moved ahead in several areas during the year. At our Berlin-Gorham pulp mill we began installation of a \$500,000 scrubber system that will go far toward solving the air pollution problem, and satisfactory progress is being made on water pollution abatement plans, which are scheduled for completion in 1975. At our Castleton-on-Hudson plant we received preliminary approval of water pollution control facilities. Final plans are being drawn for completion of these facilities in 1973.

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In November 1971 we acquired an additional 9 per cent of Livingston Rock & Gravel Co., Inc., raising our ownership to 91 per cent. We issued \$1,000,000 face amount of 9 per cent subordinated debentures in payment for the additional Livingston shares.

During the year we concluded labor negotiations on nine new contracts without any significant work stoppages. The size of our labor force is now stabilized, and we believe there is a growing spirit of cooperation among all of our employees, both salaried and hourly. Our work force is one of our best assets.

Although corporate profits as a whole improved slightly in 1971, the paper industry, which represents 87 per cent of our sales, continued in a severe decline. It appears that overall paper industry profits for the year will be 20 to 25 per cent below 1970. Nevertheless, we believe that the low point is past, and improved volume is expected for 1972. Although the price freeze may exert a negative influence, we expect that on balance 1972 will be a much better year for the industry than 1971 has been, and we confidently expect to continue our progress at Brown Company.



M. L. Nash  
Chairman of the Board and President  
January 10, 1972

# OPERATING DIVISIONS

Brown's operating divisions manufacture and sell a variety of forest products and building materials. Major steps have been taken to insure that each division is properly structured, operates efficiently and has capable and experienced management.

## DIVISIONS

### NINE DIVISIONS MAKE PAPER PRODUCTS (1971 sales were \$178,301,000)

### PRODUCT CATEGORIES

Berlin-Gorham .....	Timber, pulp, paper and paperboard
Specialty Papers .....	Paper
Eagle-A/Linweave .....	Paper
Combination Paperboard .....	Paperboard
Folding Carton .....	Folding Cartons
Absorbent Products .....	Towels and tissues
Service Products .....	Food service disposables
Superior and Monarch Match Companies .....	Matches
Cheverton & Laidler Ltd. ....	Food service disposables and folding cartons

### ONE DIVISION MAKES BUILDING MATERIALS (1971 sales were \$27,257,000)

Livingston Rock and Gravel Co., Inc. ....	Building materials
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# BERLIN-GORHAM DIVISION

## MAJOR PRODUCTS AND USES

**TIMBER/pulp** and materials for the construction and furniture industries.

**PULP/paper, paperboard** and other paper products.

**CORRUGATING MEDIUM/fluting** material for corrugated boxes.

**REGISTER BOND/business forms** and computer paper.

**ENVELOPE PAPERS/envelopes.**

**INDUSTRIAL PAPERS/base papers** for masking tape and sandpaper for the automotive and construction industries.

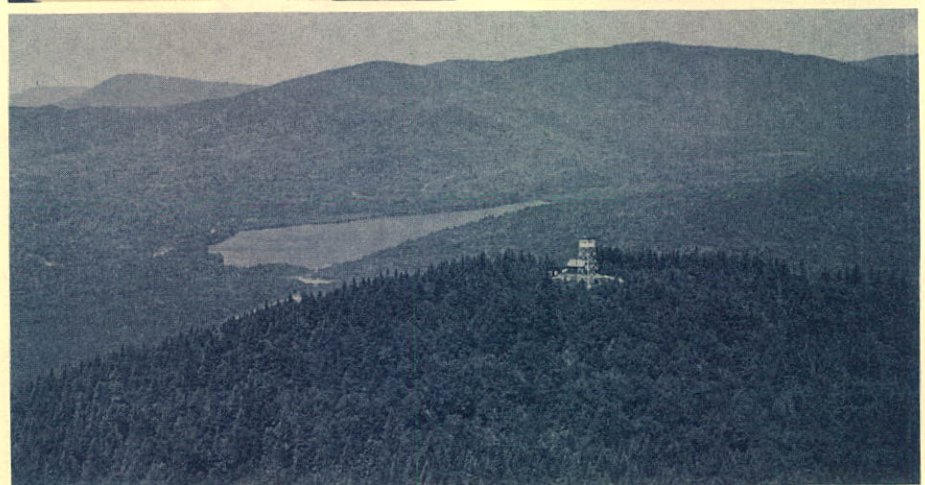
**PACKAGING PAPERS/bags** for products such as dog food and flour.

**FLOC/a specialty pulp product** used in adhesives, cosmetics, batteries, food, plastics, paint, rubber, textiles and pharmaceuticals.

Robert E. Bringman  
Vice President Marketing



Edgar T. Dean  
Vice President Operations



# SPECIALTY PAPERS DIVISION

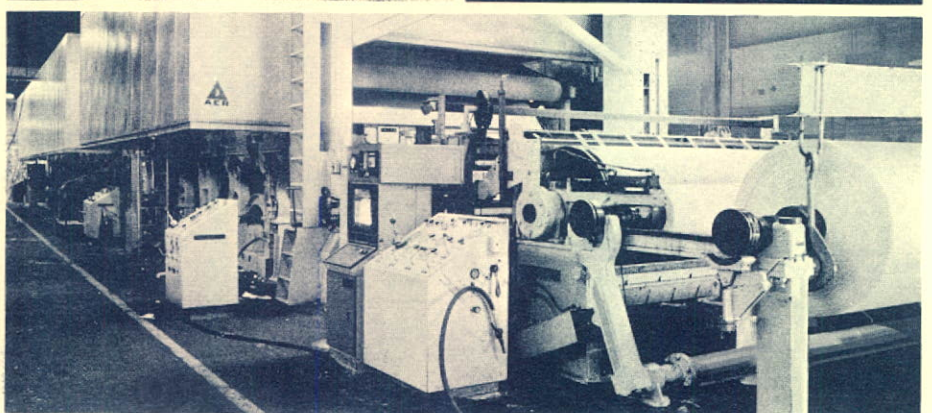
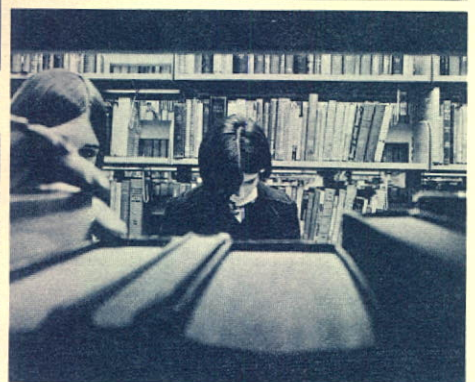
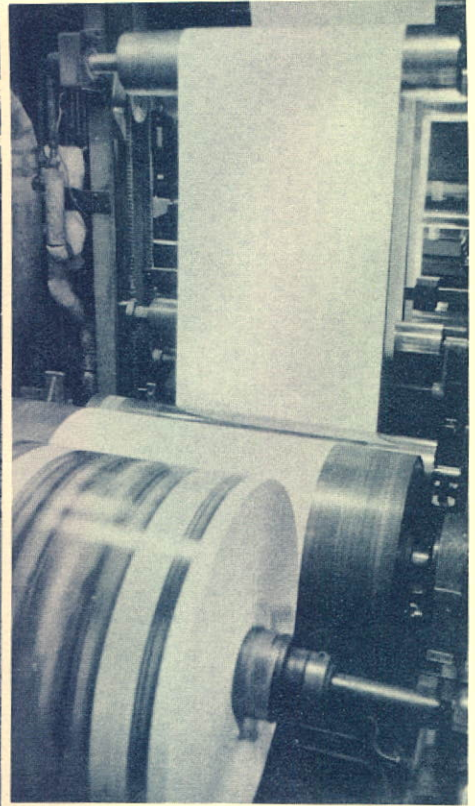
## MAJOR PRODUCTS AND USES

Duncan I. MacCalman  
Vice President and General Manager

**PRINTING PAPERS** / manufacture of books, directories, greeting cards and business forms.

**PACKAGING PAPERS** / packages for snack foods, candy, gum, frozen foods, meats, dairy products and pet foods.

**INDUSTRIAL TECHNICAL PAPERS**/roofing and floor covering for the building material industry and for use by the decorative laminate and textile industries.





# EAGLE-A/LINWEAVE DIVISION

## MAJOR PRODUCTS AND USES

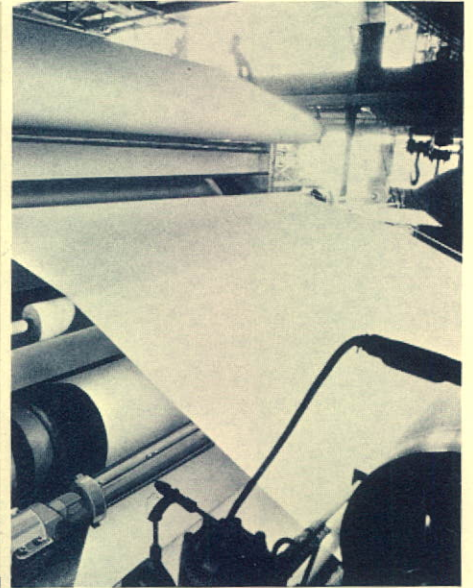
Charles S. Sweitzer  
Vice President and General Manager

**TEXT AND COVER PAPERS/** advertising brochures, annual reports, direct mail advertising, catalogues, envelopes, announcements, calling cards and greeting cards.

**COTTON CONTENT PAPERS/** letterheads, envelopes, permanent business records, accounting forms, legal forms and documents, insurance forms, blue-printing, tracing and drawing.

**BOXED BUSINESS STATIONERY/** a complete line of typewriter papers for businesses and schools.

Text and cover papers are sold under the LINWEAVE® trademark and cotton content papers and boxed business stationery are sold under the EAGLE-A® trademark.



# COMBINATION PAPERBOARD DIVISION

## MAJOR PRODUCTS AND USES

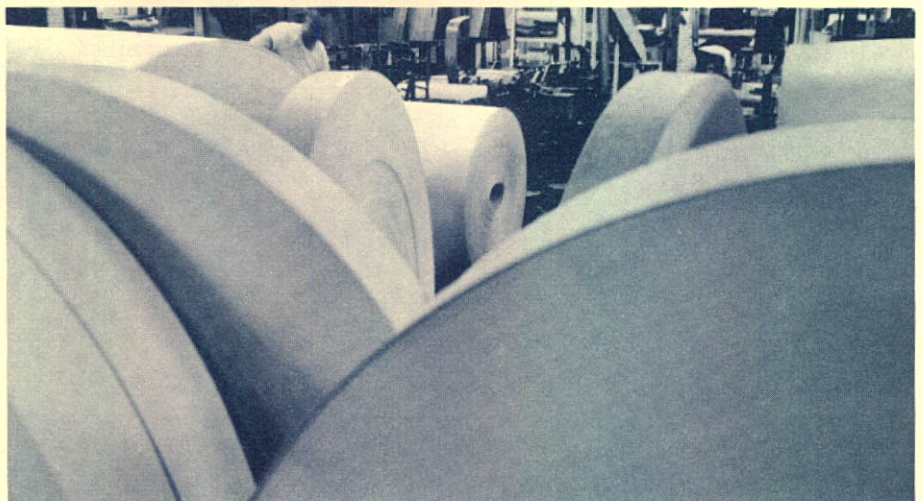
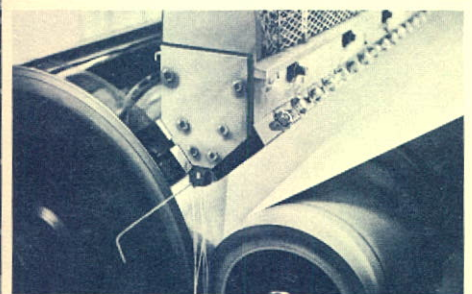
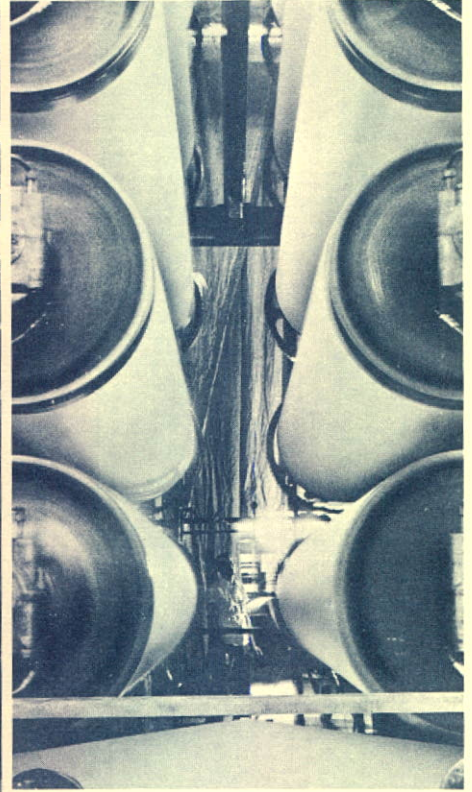
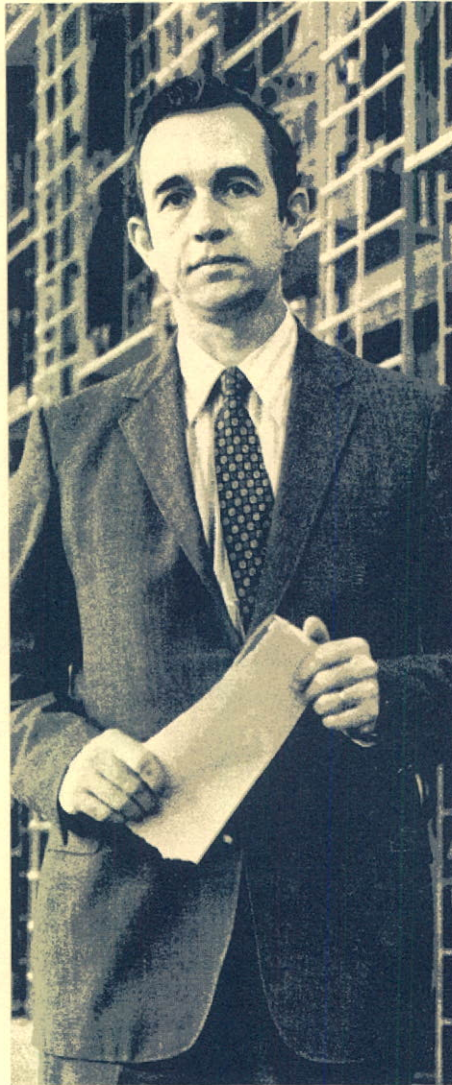
Leslie M. Spurgeon  
General Manager

COMBINATION BOXBOARD / folding cartons for packaging foods, cosmetics, toys and other consumer products.

PAPER MATCH BOARD/paper match stems and match covers.

MOBILE HOME BOARD/mobile home construction.

PLASTIC LAMINATIONS WITH COMBINATION BOXBOARD / folding cartons that require a moisture or grease barrier, such as packaging for detergents and certain pet foods.



# FOLDING CARTON DIVISION

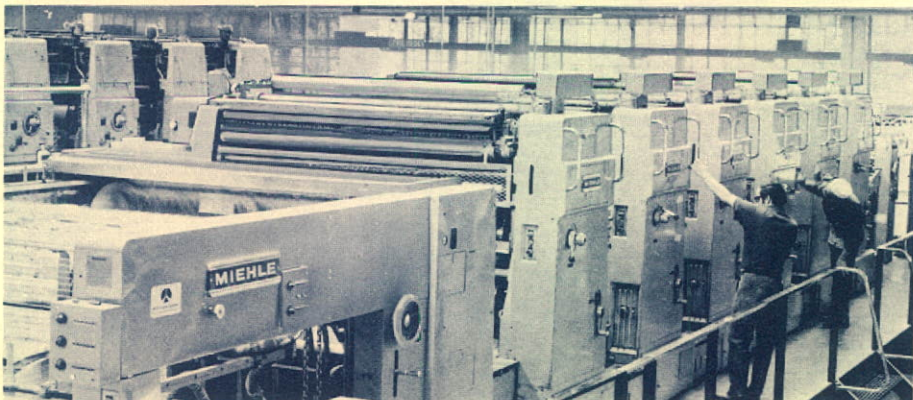
## MAJOR PRODUCTS AND USES

Richard Longnecker  
Vice President and General Manager

FOLDING CARTONS AND RELATED PRINTING AND GRAPHICS/packaging for ice cream, meats, frozen foods, bakery items, toys, sporting goods and other consumer products.

MECHANICAL PACKAGING SYSTEMS/to set up and fill folding cartons.

PACKAGING DESIGN / marketing research, carton development, photography and graphic design for folding cartons.



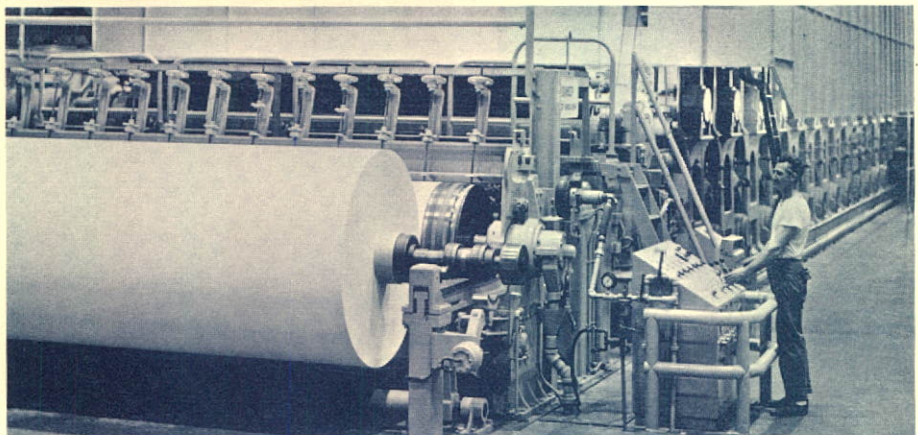
# ABSORBENT PRODUCTS DIVISION

## MAJOR PRODUCTS AND USES

R. James Alexy  
Vice President and General Manager

PAPER TOWELS AND TISSUES /  
washroom towels and tissue  
for hospitals, office buildings,  
schools, hotels, motels, industri-  
al plants and gasoline stations.  
WINDSHIELD TOWELS / gaso-  
line stations.

The Absorbent Products Division  
markets most of its products un-  
der the NIBROC® trademark.



# SERVICE PRODUCTS DIVISION

## MAJOR PRODUCTS AND USES

Harold L. Ellsworth  
Vice President and General Manager

PAPER LINERS/lining for bakery roll pans, cupcake cups, muffin tins and cake pans.

PRINTED SANDWICH WRAPS AND PAPERBOARD FOOD DISHES/wrapping for hamburgers and other sandwiches, and containers for french fries in fast-food carryout restaurants.

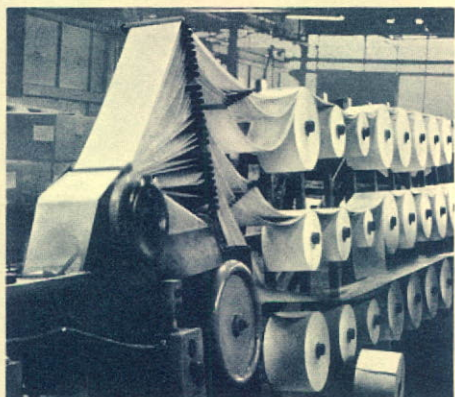
MEAT AND PATTY PAPERS/for interleaving meats and meat patties by meat processors, grocery stores and locker provisioners.

DELICATESSEN PAPERS/delicatessens and meat shops.

FREEZER WRAP AND BAKING CUPS/for wrapping food products and for baking by consumers.

PAPER AND FOAM CUPS AND PAPER PLATES/for consumers.

Freezer wrap, baking cups and paper plates are sold under the PAPER MAID® trademark.



# SUPERIOR AND MONARCH MATCH COMPANIES

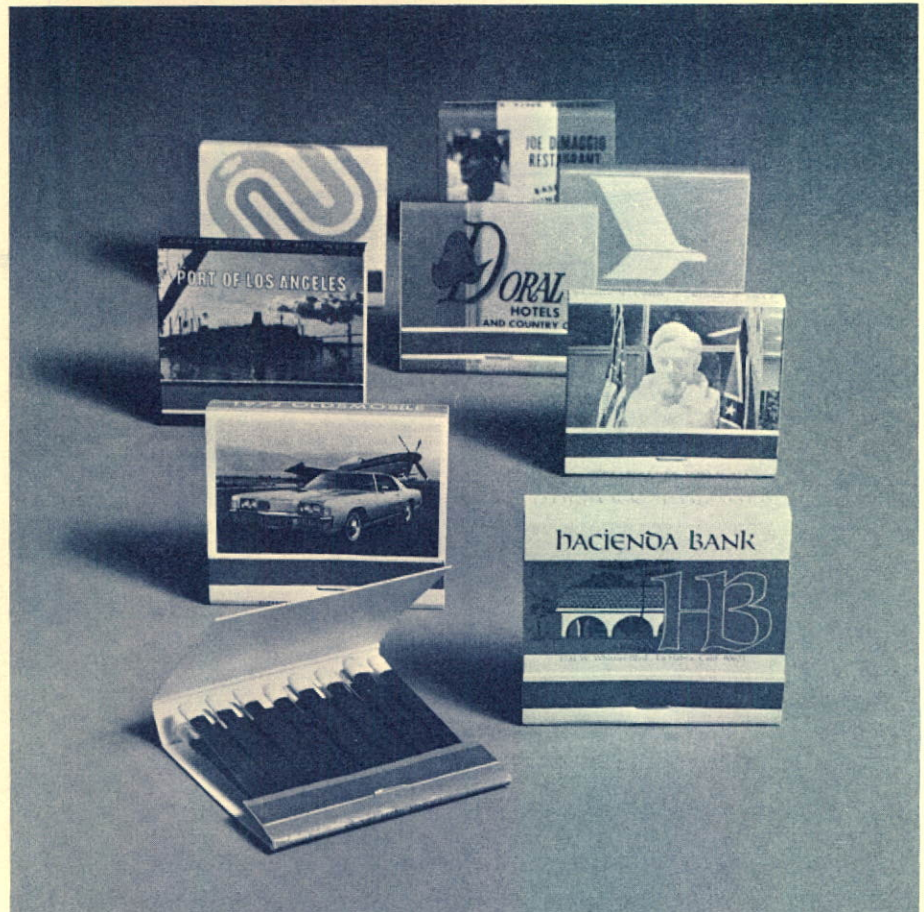
## MAJOR PRODUCTS AND USES

BOOK MATCHES FOR ADVERTISING/display matches to advertise hotels, restaurants, clubs, business organizations and political campaigns.

Harold Meitus  
President



Paul Meitus  
Vice President of  
Sales and Marketing



# CHEVERTON & LAIDLER LTD.

## MAJOR PRODUCTS AND USES

H. G. Broderick  
Director and General Manager

FOLDING CARTONS/packaging for bakery items, meat products, and other consumer products.

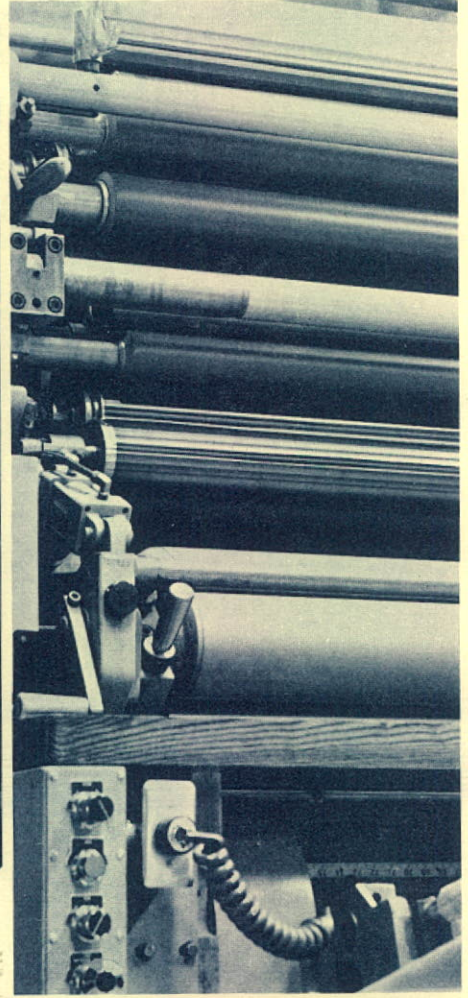
PAPER AND PLASTIC CONTAINERS/containers for pastries and other bakery products.

PAPER LINERS / lining for bakery roll pans, cupcake cups, muffin tins and cake pans.

DELICATESSEN PAPER/meat wrapping.

CELLULOSE AND POLYETHYLENE FILM/overwraps for cakes and meats.

WAXED PAPER ROLLS/consumer food wrap.



# LIVINGSTON ROCK AND GRAVEL CO., INC.

## MAJOR PRODUCTS AND USES

David D. Davis  
President

ROCK, SAND AND GRAVEL/  
asphalt paving, road beds, con-  
crete block and other concrete  
products.

TRANSIT MIXED CONCRETE/  
construction of residential, office  
and industrial buildings, bridges,  
roads, flood control channels  
and tunnels.





# FINANCIAL REVIEW

## EARNINGS

Net earnings per common share increased to 45 cents for the year ended November 30, 1971 from 21 cents in 1970, computed as follows:

	<u>1971</u>	<u>1970</u>
Net earnings .....	\$ 1,249,000	\$ 1,381,000
Preferred dividend requirement .....	—	824,000*
Net earnings after preferred dividend requirement .....	<u>\$ 1,249,000</u>	<u>\$ 557,000</u>
Net earnings per common share .....	\$ .45	\$ .21*
Average number of shares outstanding .....	2,765,000	2,670,000

\*The preferred dividend requirement (calculated on an accrual basis) was eliminated effective with the June 1970 conversion of the Company's preferred stock into subordinated debentures and warrants. Had the preferred stock been converted into debentures and warrants at the beginning of 1970, net earnings per common share would have been 34 cents rather than 21 cents.

There was no dilutive effect on net earnings per share because of shares issuable for outstanding warrants or employee stock options.

Changes in retained earnings during the years ended November 30 are shown below:

	<u>1971</u>	<u>1970</u>
Beginning balance .....	\$15,184,000	\$13,803,000
Net earnings .....	1,249,000	1,381,000
Ending balance .....	<u>\$16,433,000</u>	<u>\$15,184,000</u>

## SPECIAL RESERVE

In 1968 the Company began a program to dispose of certain unprofitable or marginal operations and provided a reserve for estimated net losses anticipated from this program. In 1971 the Company increased the reserve by the \$1,900,000 excess of sales price over cost arising from the sale of a paperboard cup and plate operation in Portage, Michigan. In addition, the reserve was decreased in 1971 by losses incurred in excess of amounts previously provided. The balance remaining in the reserve at November 30, 1971 was \$1,272,000.

## INCOME TAX

There was no income tax provision in fiscal 1971 due mainly to permanent differences between income subject to tax and net earnings for financial reporting purposes.

At November 30, 1971 net operating loss carryovers of approximately \$3,400,000 and investment credit carryovers of approximately \$3,000,000 were available as follows for future reductions of tax payments:

Year Carryovers Expire	Net Operating Loss	Investment Credit
1973 .....	\$ 700,000	\$ —
1974 .....	700,000	—
1975 .....	2,000,000	200,000
1976 .....	—	800,000
1977 .....	—	1,300,000
1978 .....	—	500,000
1979 .....	—	200,000
Total .....	<u>\$ 3,400,000</u>	<u>\$ 3,000,000</u>

# FINANCIAL REVIEW

The investment credit carryovers are available for future reductions of tax provisions for financial reporting purposes.

## RETIREMENT PLANS

The Company has pension plans covering substantially all employees. The charge to income for pension expense was \$2,802,000 in fiscal 1971 and \$2,695,000 in fiscal 1970. Pension expense includes the amortization of past service cost over 40 years or less and it is Company policy to fund pension expense accrued. At November 30, 1971 the actuarially computed value of vested benefits under the pension plans exceeded pension trust assets and balance sheet accruals by approximately \$15,000,000.

## CAPITAL EMPLOYED — DEBT AND EQUITY

	November 30	
	1971	1970
Long-term debt		
6½ % Senior Notes payable in annual installments 1973 to 1986 . . . . .	\$ 48,635,000	\$ 54,818,000
Other notes (5% to 9%) payable in installments 1972 to 1987 . . . . .	7,492,000	8,458,000
	<u>56,127,000</u>	<u>63,276,000</u>
Current maturities . . . . .	2,685,000	6,135,000
	<u>53,442,000</u>	<u>57,141,000</u>
9% subordinated debentures payable in 1995 . . . . .	26,322,000	25,323,000
Common stock (less treasury stock) . . . . .	2,737,000	2,503,000
Other capital . . . . .	28,436,000	26,630,000
Retained earnings . . . . .	16,433,000	15,184,000
Total capital employed . . . . .	<u>\$127,370,000</u>	<u>\$126,781,000</u>

At November 30, 1971 unused short-term lines of credit with commercial banks totaled \$6,000,000.

## LONG-TERM DEBT

Long-term debt maturities during the five years ending November 30, 1972 to November 30, 1976 (in excess of funds reserved for note payments under loan agreements) are listed below:

1972 . . . . .	\$ 1,985,000
1973 . . . . .	4,019,000
1974 . . . . .	4,012,000
1975 . . . . .	4,402,000
1976 . . . . .	4,024,000

Requirements under Senior Note Agreements applicable to the \$48,635,000 of 6½ % Senior Notes include the mortgage or pledge of substantially all properties and investments of Brown Company; a restriction on the use of proceeds from substantially all sales of fixed assets or investments, subject to attainment of specific earnings levels; restrictions that preclude the payment of interest on the 9% subordinated debentures in cash until consolidated net earnings for the preceding year equals or exceeds \$4,200,000; and restrictions that effectively preclude the payment of cash dividends on the common stock without consent of the noteholders.

The \$26,322,000 of 9% debentures were issued in the June, 1970 conversion of preferred stock (\$20,822,000) and the purchase of Livingston Rock and Gravel Co., Inc. (\$5,500,000). They are subordinated to the Senior Notes. Debenture interest which is payable annually on June 1 is payable at the Company's option in cash or common stock of the Company. The interest due on June 1, 1972 will be

paid in stock. The value of the stock and the resulting number of shares to be issued will be based on the average market values on the New York Stock Exchange during the twenty consecutive business days beginning on April 3, 1972. The face amount of the debentures may be applied to pay the \$16.50 exercise price of the warrants which were also issued in the preferred stock conversion and Livingston acquisition.

### CAPITAL STOCK

On June 9, 1970, pursuant to a plan approved by over two-thirds of the preferred and common shareholders, the Company's \$1.50 cumulative convertible preferred stock was converted into 9% subordinated debentures due June 1, 1995 and separate warrants expiring May 15, 1980 to purchase common stock of the Company at an exercise price of \$16.50 a share. Accordingly, from June 9, 1970 no preferred stock was outstanding and 2,500,000 shares were authorized but unissued.

There are 10,000,000 shares of \$1 par value common stock authorized. Each share is entitled to one vote. The 2,882,076 shares issued and outstanding at November 30, 1971, excludes 10,652 shares held in treasury. At November 30 unissued shares of common stock were reserved for the following purposes:

	Common Shares Reserved	
	<u>1971</u>	<u>1970</u>
Warrants exercisable to May 15, 1980 at \$16.50 a share .....	1,669,913	1,669,913
Warrants exercisable to January, 1977 (at \$14.57 a share in 1971 and \$15 in 1970) .....	263,812	256,250
Employee stock options outstanding (Total exercise price of \$1,190,810 in 1971 and \$1,684,270 in 1970) .....	107,500	137,500
Employee stock options available for grant .....	77,125	83,000
Total .....	<u>2,118,350</u>	<u>2,146,663</u>

In addition, shares will be required to pay interest on the 9% debentures on June 1, 1972 and 233,237 shares were issued to pay such interest on June 1, 1971.

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 12,000 shares at a total purchase price of \$105,040 were granted during fiscal 1971. Options for 107,500 shares were outstanding at year end, of which options for 51,750 shares were exercisable. No options were exercised during fiscal 1971.

The changes in other capital during 1971 and 1970 are shown below:

	<u>1971</u>	<u>1970</u>
Beginning balance .....	\$26,630,000	\$10,871,000
Stock purchase warrants (1,369,913 issued in the conversion of preferred stock; 300,000 issued in the acquisition of Livingston and 207,562 issued to lending institutions) .....	11,000	1,970,000
Conversion of preferred stock in 1970 and related costs .....	(229,000)	13,783,000
Excess of 9% debenture interest over \$1 par value of common stock issued to pay such interest (233,237 shares issued) .....	2,024,000	—
Other .....	—	6,000
Ending balance .....	<u>\$28,436,000</u>	<u>\$26,630,000</u>

# FINANCIAL REVIEW

## LITIGATION

The Company is a defendant in class action suits filed by former preferred shareholders relating to the June 1970 conversion of preferred stock into debentures and warrants. The relief sought in the suits includes substantial damages. It is the opinion of special counsel that the Company has substantial meritorious defenses to these litigations and should prevail.

## WORKING CAPITAL CHANGES

Details of the increases (decreases) in the elements of working capital are as follows:

	<u>1971</u>	<u>1970</u>
Current Assets		
Cash and short-term investments .....	\$(4,945,000)	\$ (817,000)
Accounts receivable .....	(2,406,000)	4,286,000
Inventories .....	(1,844,000)	110,000
Prepaid expenses .....	(427,000)	611,000
	<u>(9,622,000)</u>	<u>4,190,000</u>
Current Liabilities		
Notes payable .....	(1,200,000)	(600,000)
Accounts payable and accrued expenses .....	(1,985,000)	4,425,000
Current long-term debt maturities .....	(3,450,000)	(815,000)
	<u>(6,635,000)</u>	<u>3,010,000</u>
Change in working capital .....	<u>\$(2,987,000)</u>	<u>\$ 1,180,000</u>

## SUMMARY OF ACCOUNTING PRACTICES

Principles of consolidation — The financial statements include the accounts of the Company and its majority owned subsidiaries.

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

Properties — Properties are stated at cost. Depreciation of buildings, machinery and equipment having a total cost of \$203,149,000 at the end of fiscal 1971 is, in general, computed under the straight-line method over an average life of 40 years for buildings and 17 years for machinery and equipment. Depreciation expense was \$7,570,000 for fiscal 1971 and \$7,409,000 for fiscal 1970.

Lease obligations — Obligations of the Company to make payments under lease contracts are not included in the financial statements. At November 30, 1971 rental payments under various leases, the unexpired terms of which were in excess of three years, totaled \$6,483,000. Payments required under such leases during the fiscal years 1972 through 1976 are as follows:

1972 .....	\$ 886,000
1973 .....	886,000
1974 .....	867,000
1975 .....	802,000
1976 .....	<u>665,000</u>
Total .....	<u>\$4,106,000</u>

# BROWN COMPANY AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF EARNINGS

Year Ended November 30	1971	1970
Net sales .....	\$205,558,000	\$216,828,000
Other .....	43,000	158,000
	<u>205,601,000</u>	<u>216,986,000</u>
Cost of goods sold .....	178,815,000	188,766,000
Selling, administrative and general expense .....	19,960,000	22,130,000
	<u>198,775,000</u>	<u>210,896,000</u>
Operating income .....	6,826,000	6,090,000
Interest expense, net of interest income of \$820,000 in 1971 and \$973,000 in 1970 .....	5,441,000	4,369,000
Minority interest .....	136,000	200,000
Income tax provision .....	—	140,000
Net earnings .....	<u>\$ 1,249,000</u>	<u>\$ 1,381,000</u>
Net earnings per common share .....	<u>\$ .45</u>	<u>\$ .21</u>

See the financial review on pages 15 through 18.

# BROWN COMPANY AND SUBSIDIARIES

## CONSOLIDATED STATEMENT OF CHANGES

### IN FINANCIAL POSITION

Year Ended November 30	1971	1970
<b>FUNDS PROVIDED</b>		
From operations		
Net earnings .....	\$ 1,249,000	\$ 1,381,000
Depreciation and depletion .....	7,666,000	7,512,000
Deferred income taxes .....	(211,000)	(160,000)
Debenture interest payable in common stock .....	2,288,000	1,130,000
Minority interest .....	136,000	200,000
Working capital from operations .....	<u>11,128,000</u>	<u>10,063,000</u>
Debtures and warrants issued .....	1,011,000	27,293,000
Note issued .....	—	3,500,000
Assets sold .....	2,543,000	2,374,000
Working capital purchased .....	—	2,572,000
Other .....	<u>428,000</u>	<u>531,000</u>
	<u>15,110,000</u>	<u>46,333,000</u>
<b>FUNDS APPLIED</b>		
Plant additions .....	11,556,000	7,335,000
Long-term debt reduction .....	3,699,000	5,323,000
Acquisition of Livingston Rock and Gravel Co., Inc. ....	715,000	9,900,000
Conversion of preferred stock and related costs .....	229,000	22,452,000
Investments .....	<u>1,898,000</u>	<u>143,000</u>
	<u>18,097,000</u>	<u>45,153,000</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL .....</b>	<u><u>\$ (2,987,000)</u></u>	<u><u>\$ 1,180,000</u></u>

See the financial review on pages 15 through 18.

# BROWN COMPANY AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

At November 30	1971	1970
<b>ASSETS</b>		
Currents assets		
Cash and short-term investments .....	\$ 10,558,000	\$ 15,503,000
Accounts receivable (less allowances of \$484,000 in 1971 and \$483,000 in 1970) .....	23,466,000	25,872,000
Inventories .....	29,618,000	31,462,000
Prepaid expenses .....	2,034,000	2,461,000
Total current assets .....	<u>65,676,000</u>	<u>75,298,000</u>
Properties		
Land and improvements .....	5,521,000	5,402,000
Timberlands and quarries .....	9,205,000	9,209,000
Buildings, machinery and equipment .....	203,149,000	202,291,000
Accumulated depreciation and depletion .....	<u>(133,421,000)</u>	<u>(133,512,000)</u>
Total properties .....	84,454,000	83,390,000
Investments and noncurrent receivables .....	7,127,000	5,726,000
Deferred charges and other assets .....	2,455,000	2,313,000
	<u>\$159,712,000</u>	<u>\$166,727,000</u>
<b>LIABILITIES</b>		
Current liabilities		
Notes payable .....	\$ —	\$ 1,200,000
Accounts payable and accrued expenses .....	22,010,000	23,995,000
Current long-term debt maturities .....	2,685,000	6,135,000
Total current liabilities .....	<u>24,695,000</u>	<u>31,330,000</u>
Long-term debt .....	53,442,000	57,141,000
Debentures payable in 1995 .....	26,322,000	25,323,000
Deferred income taxes .....	4,047,000	4,699,000
Other liabilities .....	2,827,000	2,565,000
Minority interest .....	773,000	1,352,000
Total liabilities .....	<u>112,106,000</u>	<u>122,410,000</u>
<b>SHAREHOLDERS' EQUITY</b>		
Common stock .....	2,893,000	2,659,000
Treasury stock .....	(156,000)	(156,000)
Other capital .....	28,436,000	26,630,000
Retained earnings .....	16,433,000	15,184,000
Total shareholders' equity .....	<u>47,606,000</u>	<u>44,317,000</u>
	<u>\$159,712,000</u>	<u>\$166,727,000</u>

See the financial review on pages 15 through 18.

# REPORT OF INDEPENDENT ACCOUNTANTS

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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, 1971. 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.

In our opinion, the accompanying balance sheet and statements of earnings and changes in financial position present fairly the consolidated financial position of Brown Company and consolidated subsidiaries at November 30, 1971, 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 23, 1971



# BROWN COMPANY AND SUBSIDIARIES

## FIVE YEAR SUMMARY

Year Ended November 30	1971	1970(a)	1969	1968	1967
<b>FOR THE YEAR (\$000)</b>					
Net sales .....	\$205,558	\$216,828	\$195,675(b)	\$197,526(b)	\$189,484(b)
Net earnings (loss) .....	1,249	1,381	1,693	(23,436)(c)	800
Depreciation and depletion .....	7,666	7,512	6,872	9,826	8,579
Capital expenditures .....	11,556	7,335	4,408	4,971	12,048
<b>END OF YEAR (\$000)</b>					
Working capital .....	40,981	43,968	42,788	42,701	51,978
Properties .....	84,454	83,390	73,847	106,000	114,368
Total assets .....	159,712	166,727	153,157	186,693	196,102
Long-term debt .....	53,442	57,141	54,881	67,500	71,250
Debentures payable 1995 .....	26,322	25,323	—	—	—
Common shareholders' equity .....	47,606	44,317	27,219	25,435	51,314
Preferred stock .....	\$ —	\$ —	\$ 36,260	\$ 36,267	\$ 36,288
Ratio of current assets to current liabilities ...	2.7 to 1	2.4 to 1	2.5 to 1	2.2 to 1	3.0 to 1
<b>COMMON STOCK</b>					
Common shares outstanding end of year (000)	2,882	2,649	2,691	2,702	2,690
Number of shareholders .....	6,100	4,400	4,200	4,300	7,900
Net earnings (loss) per share .....	\$ .45	\$ .21	\$ .02	\$ (9.30) (c)	\$ (.33)
Book value per share .....	\$ 16.52	\$ 16.73	\$ 9.30	\$ 9.28	\$ 19.08
Number of employees .....	7,200	8,000	7,600	9,500	10,700

(a) Includes Livingston Rock & Gravel Co., Inc. from April 1, 1970 and the conversion of preferred stock into debentures and warrants.

(b) Excludes sales of operations sold.

(c) Includes extraordinary charge of \$20,368,000 (\$7.55 per share).

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## BOARD OF DIRECTORS

\*ROY T. ABBOTT, JR.  
Senior Vice President  
Gulf & Western Industries, Inc.

DAVID D. DAVIS  
President  
Livingston-Graham, Inc.

JOEL DOLKART  
Senior Partner  
Simpson Thacher & Bartlett  
Attorneys

\*DON F. GASTON  
Executive Vice President  
Gulf & Western Industries, Inc.

\*DAVID N. JUDELSON  
President  
Gulf & Western Industries, Inc.

\*CHARLES S. LOCKE  
Vice President-Finance  
Brown Company

JAMES R. MAURER  
Vice President, Secretary and  
General Counsel  
Brown Company

\*MERRILL L. NASH  
Chairman of the Board  
and President  
Brown Company

WILLIAM T. PASCOE, III  
President  
American Cement Corporation

JOHN L. SULLIVAN  
Partner  
Sullivan & Wynot and Sullivan  
Beauregard, Meyers & Clarkson  
Attorneys

GENE TUNNEY  
Chairman of the Board  
The McCandless Corporation

\*Executive Committee

## OFFICERS

MERRILL L. NASH  
Chairman of the Board  
and President

CHARLES S. LOCKE  
Vice President-Finance

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

## 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

United California Bank  
600 South Spring 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

## STOCK EXCHANGE LISTINGS

Common Stock — New York Stock  
Exchange and Pacific Coast  
Stock Exchange

\$16.50 Warrants — American  
Stock Exchange and  
Pacific Coast Stock  
Exchange

Debentures payable in 1995 —  
Pacific Coast Stock Exchange

## EXECUTIVE OFFICES

251 South Lake Avenue  
Pasadena, California 91101

## INDEPENDENT ACCOUNTANTS

Ernst & Ernst



