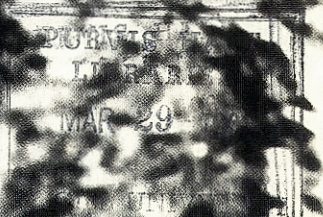


BROWN COMPANY REPORT TO SHAREHOLDERS 1967



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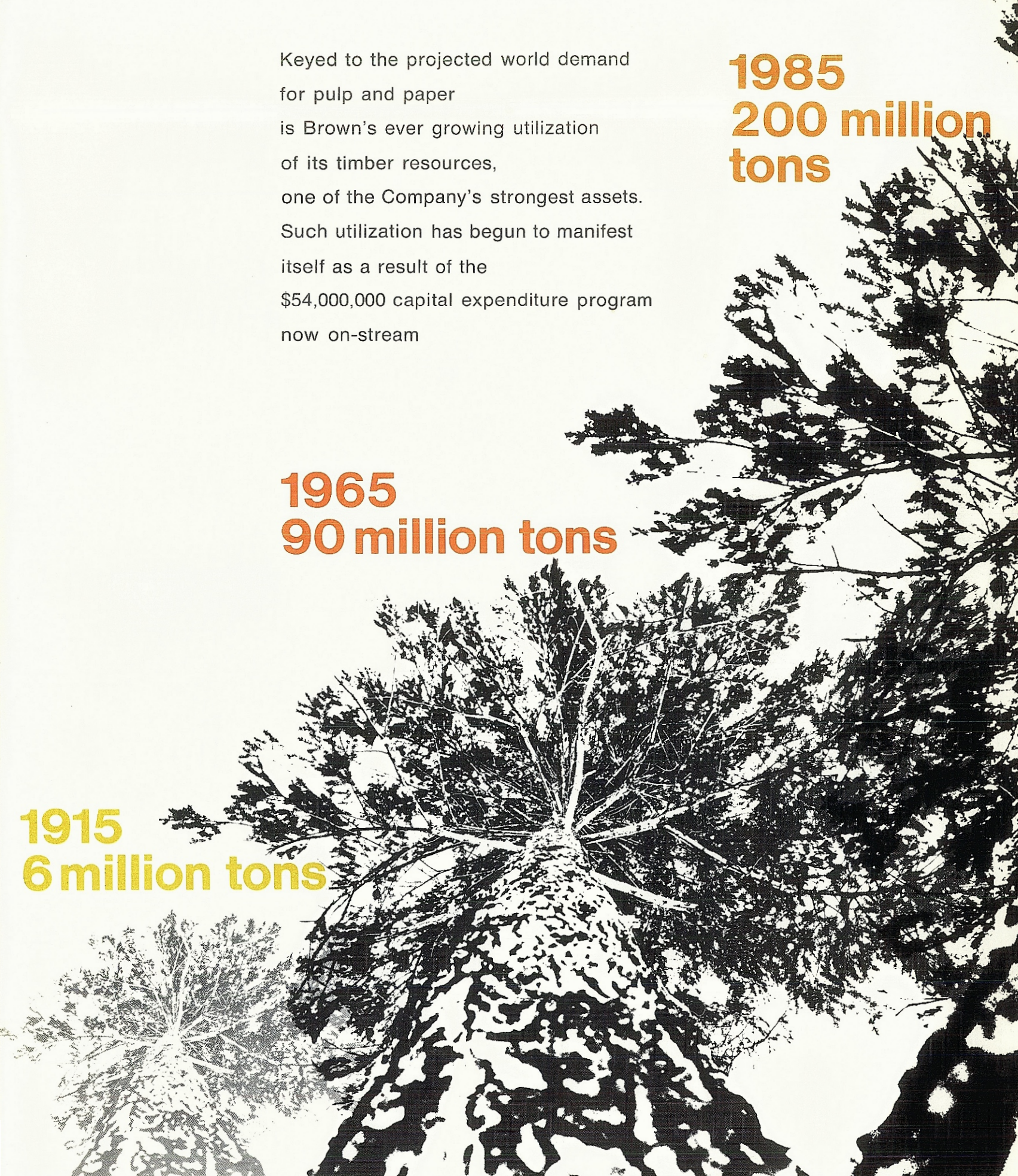
MCGILL UNIVERSITY

Keyed to the projected world demand for pulp and paper is Brown's ever growing utilization of its timber resources, one of the Company's strongest assets. Such utilization has begun to manifest itself as a result of the \$54,000,000 capital expenditure program now on-stream

**1985**  
**200 million**  
**tons**

**1965**  
**90 million tons**

**1915**  
**6 million tons**





# BROWN COMPANY HIGHLIGHTS OF THE REPORT

Year ended November 30

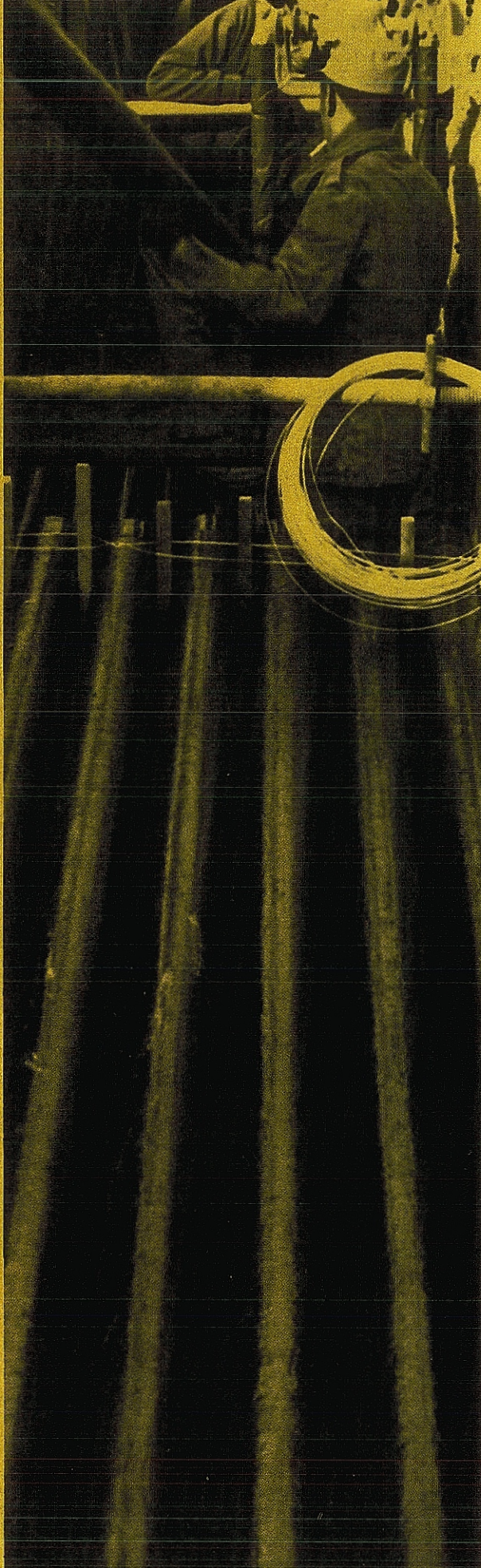
	1967	1966
<b>For the Year</b>		
Net Sales . . . . .	\$215,180,000	\$212,695,000
Operating Income . . . . .	5,266,000	8,970,000
Interest on Funded Debt . . . . .	4,760,000	3,163,000
Net Income—North America . . . . .	1,275,000	3,834,000
Net Income . . . . .	800,000	3,834,000
Preferred Dividends . . . . .	1,650,000	1,238,000
Net Income (Loss) Applicable to Common Stock . . . . .	(850,000)	2,596,000
Net Income (Loss) Per Share of Common Stock . . . . .	(.33)	1.02
Common Dividends Declared—\$.60 Per Share . . . . .	1,577,000	1,526,000
Depreciation and Depletion . . . . .	8,579,000	7,944,000
Cash Flow from operations . . . . .	9,329,000	10,410,000
Cash Flow Per Share of Common Stock . . . . .	3.47	4.03
Capital Expenditures . . . . .	12,048,000	26,808,000
<b>End of Year</b>		
Working Capital . . . . .	\$ 51,978,000	\$ 50,801,000
Total Assets . . . . .	196,102,000	191,066,000
Funded Debt . . . . .	71,250,000	65,781,000
Stockholders' Equity . . . . .	87,602,000	88,680,000
Book Value Per Common Share . . . . .	19.08	20.26
Common Shares Outstanding . . . . .	2,689,595	2,585,363
Preferred Shares Outstanding . . . . .	1,099,633	1,100,040
Number of Common Stockholders . . . . .	7,918	6,228
Number of Preferred Stockholders . . . . .	6,694	6,896
Total Number of Employees . . . . .	10,717	11,110



## PRESIDENT'S MESSAGE TO SHAREHOLDERS:


Your Management's report to you this year is a paradox of disappointing fiscal results coupled with tremendous progress in the Company's program for profitability and growth. **Summarizing the Highlights of the Past Year:** 1965 was our year of planning and reorganization—1966 was a year of implementation, marked by external growth and internal rehabilitation—1967, the year of bringing into operation \$54,000,000 worth of new equipment and expanded facilities.

- Our 1966 Annual Report indicated the prospects for earnings in fiscal 1967 should take into account the negative effects of modernizing plants and installing new equipment. It was pointed out that such penalties would be felt particularly in the first half of the year.
- These penalties did manifest themselves as anticipated, and your Company absorbed approximately \$5,500,000 in start-up costs and interest expenses. The impact had to be borne by our established businesses.
- After absorbing these expenses, our net after-tax earnings in North America were \$1,275,000. Based on the Interim Quarterly Reports you have received, you will note that the greatest part of these earnings has been generated in the Fourth Quarter. The Company earned \$113,000 in the first three quarters—the balance, or approximately \$1,162,000 in the Fourth Quarter.



BUILDING MATERIALS DIVISION

Manufactures prefinished plywood panels, door skins, veneers and bituminous fiber pipe for residential and industrial use.

- 
- Not one penny of interest or start-up expense was deferred or capitalized. There are no unabsorbed costs to penalize future earnings.
  - Expansion and start-up problems in 1967 have not been peculiar to, or unique with your Company. The paper industry as a whole experienced difficulties with expansion programs. Defective materials, poor workmanship and late deliveries were the rule, rather than the exception. This is attributed to the magnitude of expansion in the industry in the last three years which has overtaxed the capabilities of suppliers.
  - Specifically, our program was disrupted by delays in delivery of major equipment, and a myriad of mechanical problems to get it installed and in operation. We dealt with reputable suppliers and contractors but we had an unusual number of disappointments, even so.
  - Our expanded plants were scheduled to be fully on stream by April of 1967. Actually, we did not get everything fully installed, shaken down and operating satisfactorily until August. We now believe our major problems are behind us.
  - To cite but one example of our monetary losses, our chemical losses in the corrugating medium operation amounted to approximately \$2,000 per day from November, 1966 through July, 1967 due to the late delivery of the recovery boiler and subsequent start-up problems.
  - Turning our attention again to the Fourth Quarter results, note the Company's produc-

A large roll of paper and a stack of paper products, including a roll of paper with a circular logo on its end, are shown in a dark, blue-tinted setting. The roll of paper is the central focus, with other rolls and stacks of paper visible in the background and foreground.

PULP, PAPER AND BOARD DIVISION

Highly diversified line of products include market pulp, paperboard, corrugating medium, converting, office, business, typewriter, printing and industrial/technical papers, finely divided cellulose and innersoles.

A person is shown reading a book in a library. The person is wearing a dark jacket and is looking down at the book. The library shelves are filled with books, and the lighting is dim, creating a quiet and focused atmosphere.

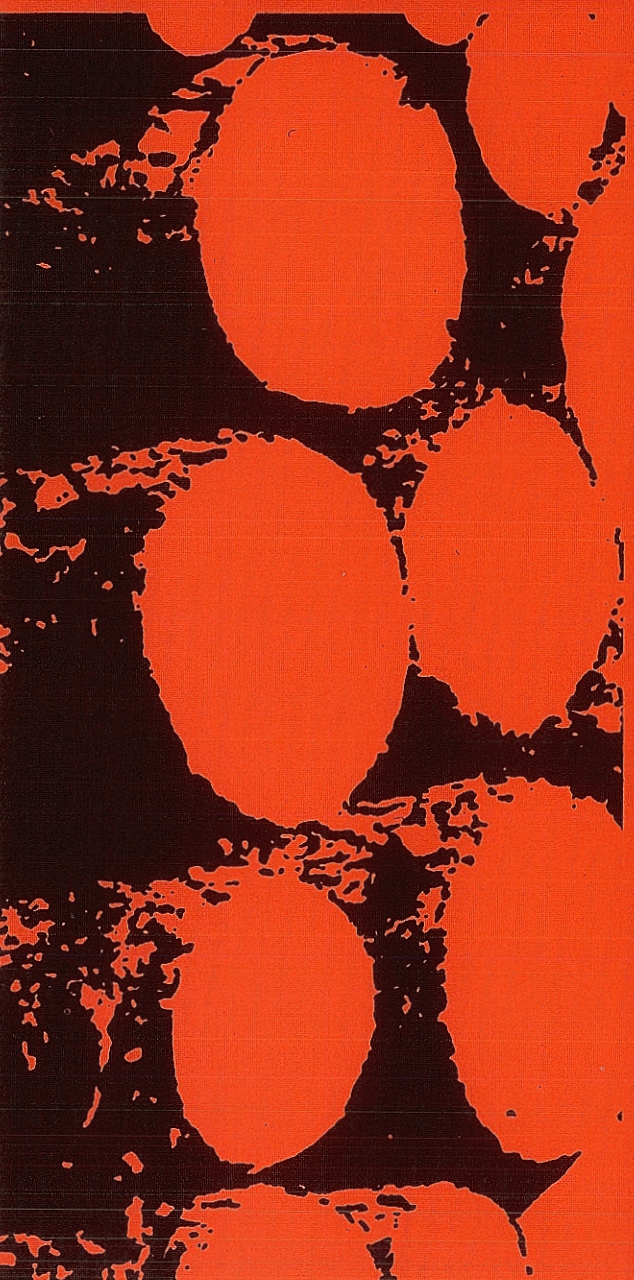
© 1988

tion curves illustrated on page 22. It is significant that our Fourth Quarter earnings start to reflect the elimination of problems and substantial increases in production. Some 90% of the total year's domestic earnings were generated in this period.

- It is also significant that those areas of the Company not intruded upon or interrupted by the expansion program showed no deterioration in profitability in 1967.
- It is gratifying that our problems this year were not marketing problems or troubles of a commercial nature. They were problems of production and production alone. We did not realize increments of new volume as quickly as we had expected. Had our problems been other than production, the outlook would indeed be dismal.

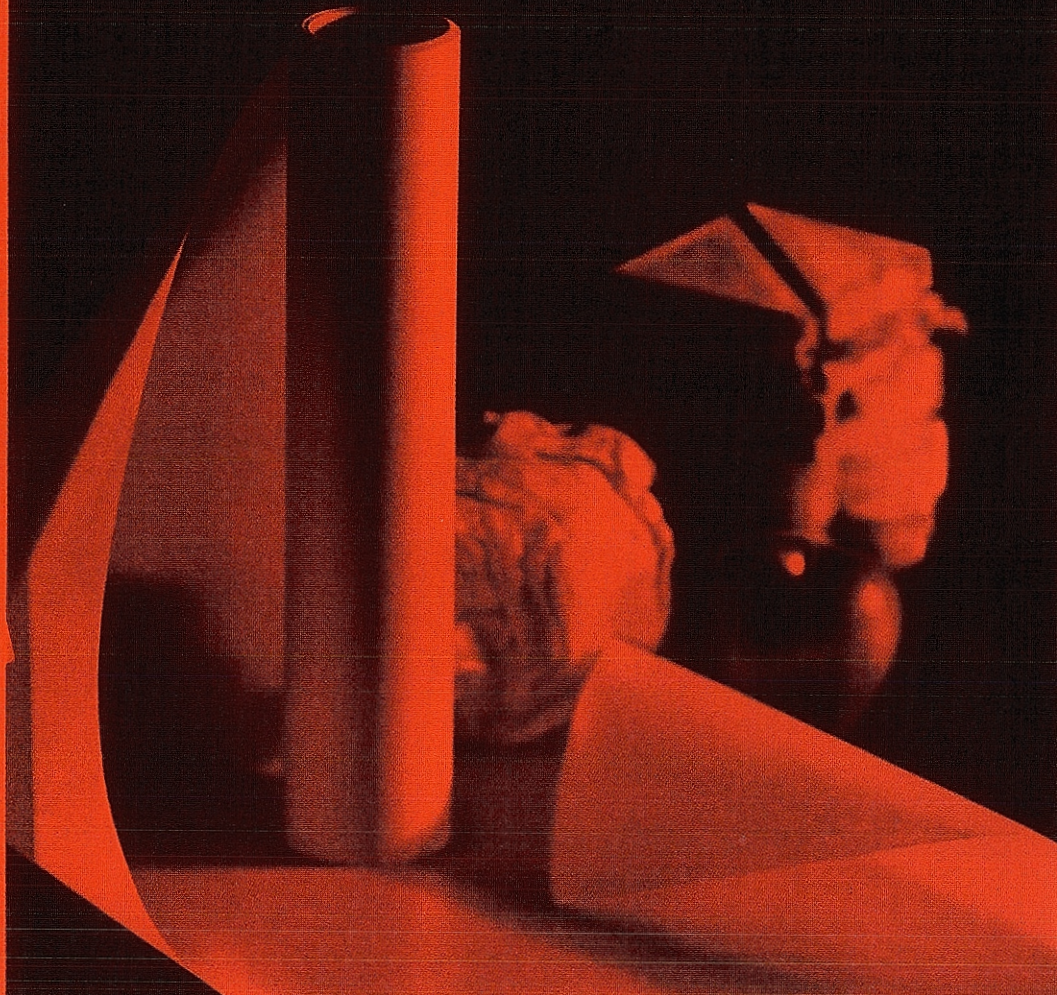
**Internal Strengthening:** While 1967 was a year in which your Company experienced more than its share of difficulties in bringing on stream the \$54,000,000 expansion and improvement program, it was a year of meaningful progress. The merger of Brown and KVP Sutherland was but nine months old at the time the 1966 Annual Report was published. Reorganization of the Company into divisional profit centers which was started in 1966 was completed in 1967.

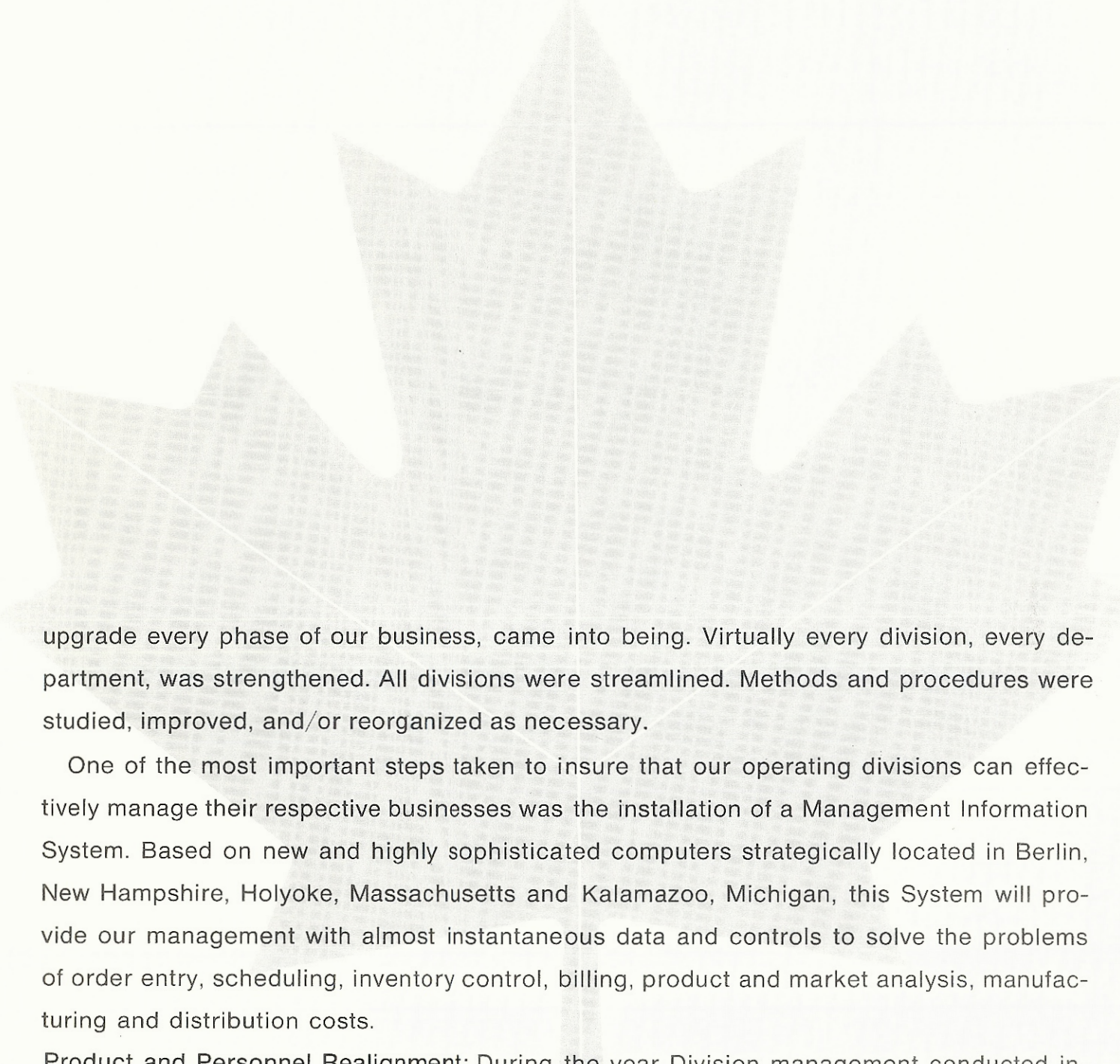
The year was marked by substantial progress in the further development and refinement of the profit center concept. A highly efficient task force, that can effectively analyze and



#### CANADIAN DIVISION

One of Canada's largest producers of pulp, paper, packaging and consumer products with plants in Espanola, and Hamilton, Ontario and in Montreal, Quebec. Designated Brown Forest Industries Limited, this operation is known throughout the provinces for its Appleford line of consumer and service products.



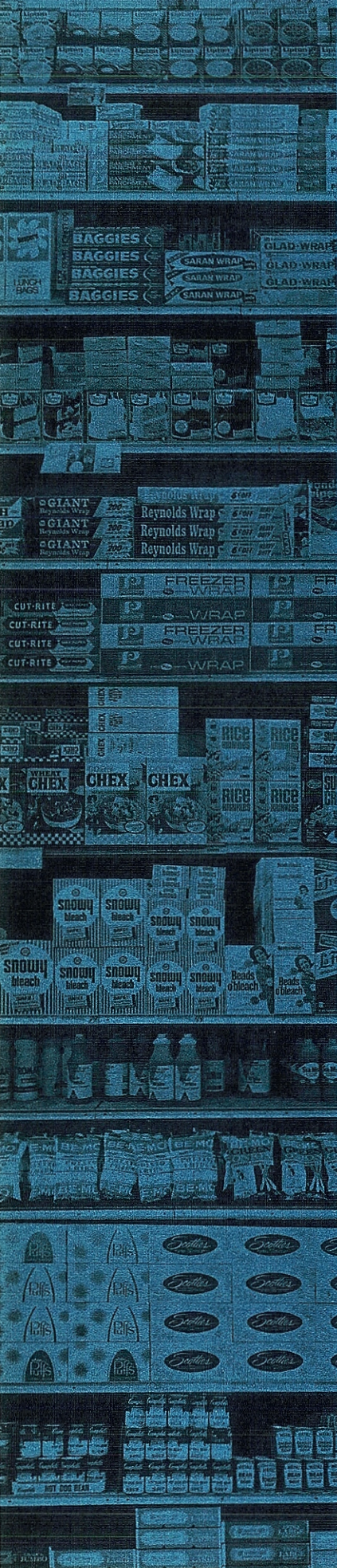


upgrade every phase of our business, came into being. Virtually every division, every department, was strengthened. All divisions were streamlined. Methods and procedures were studied, improved, and/or reorganized as necessary.

One of the most important steps taken to insure that our operating divisions can effectively manage their respective businesses was the installation of a Management Information System. Based on new and highly sophisticated computers strategically located in Berlin, New Hampshire, Holyoke, Massachusetts and Kalamazoo, Michigan, this System will provide our management with almost instantaneous data and controls to solve the problems of order entry, scheduling, inventory control, billing, product and market analysis, manufacturing and distribution costs.

**Product and Personnel Realignment:** During the year Division management conducted in-depth studies of our product mix and the potentials afforded by untapped markets. As a result, unprofitable products were eliminated and new products were added to upgrade and further diversify the line. Since many of our customers are prospects for a variety of our products, our sales efforts have been organized to assure maximum exposure.

Important personnel realignments were made by our marketing management. Eastern and Western Sales Managers were appointed by our Paper Marketing Group to intensify



**PACKAGING DIVISION**

Creates packaging and packaging systems for food and virtually every other type of packaged consumer goods. Produces plastic film which is combined with other materials, and is converted into flexible packaging.



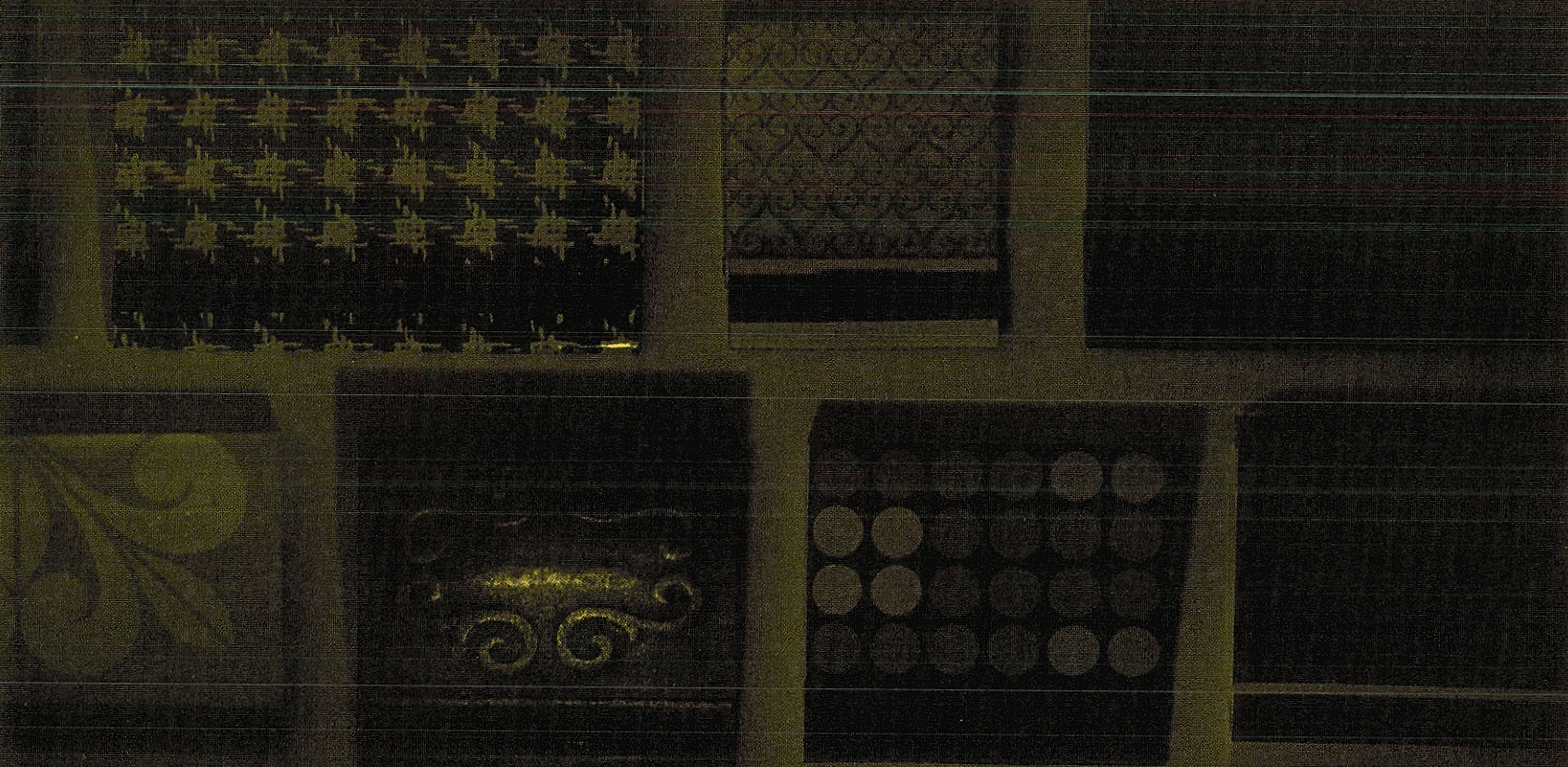
market coverage and customer contact.

The former president of Rising Paper Company, Richard G. Osborne, came to Brown as Vice President—Marketing, Pulp, Paper & Board Division, while Jack S. Ritter joined the marketing group as General Sales Manager—Pulp. The Service Products Division also strengthened its marketing group with the addition of Roger D. Browning as Director of Marketing.

Vice President Robert E. Hisey, formerly resident manager in Berlin, was appointed to the corporate staff as Vice-President—Manufacturing. Richard A. Reeves, a vice president of the Company since May 1966, was promoted to vice president and general manager of the Pulp, Paper and Board Division.

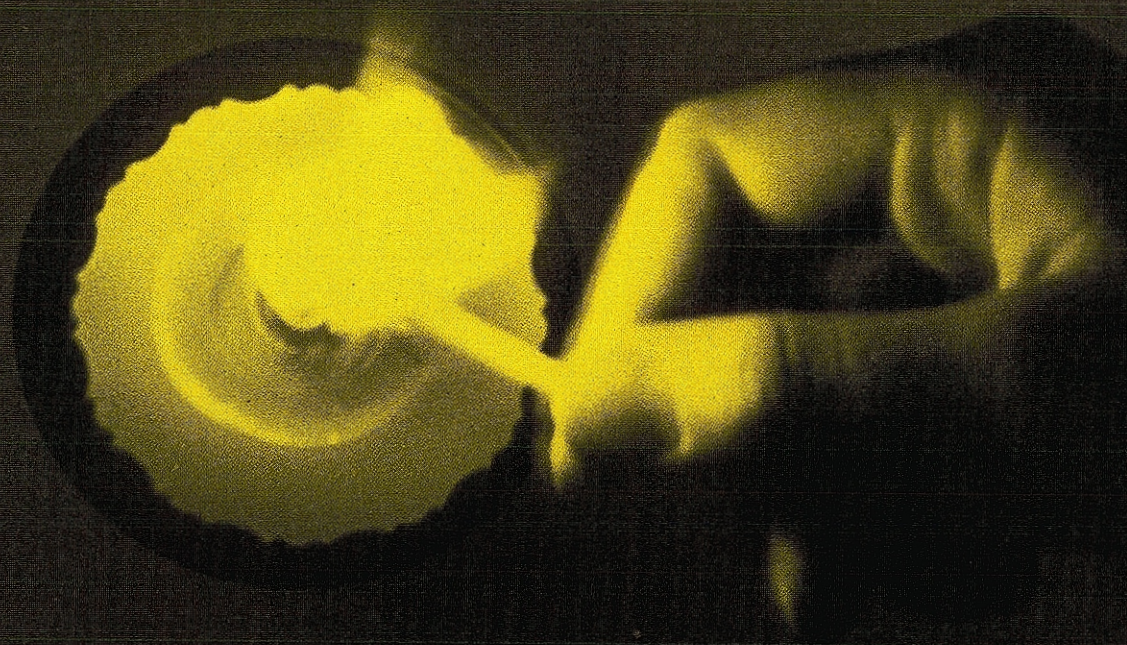
**The Quest for New Business:** The life blood of any corporation is the introduction of new products. Our Research and Development people embarked upon an ambitious program in 1967. Marketing oriented, they devoted their talents and energies to those products which have a good profit potential and future life.


Substantial progress has been made in development of new printing and converting papers, technical papers, flexible packaging, absorbent products, and building products. Some of these will reach the market in 1968 and more in 1969.



#### MATCH DIVISION

A leading producer of book matches for advertising use and for resale. Match covers printed on modern, high speed presses range from simple one color to highly imaginative four color designs, and are purchased by grocery chains, automobile manufacturers and hundreds of other concerns, large and small.





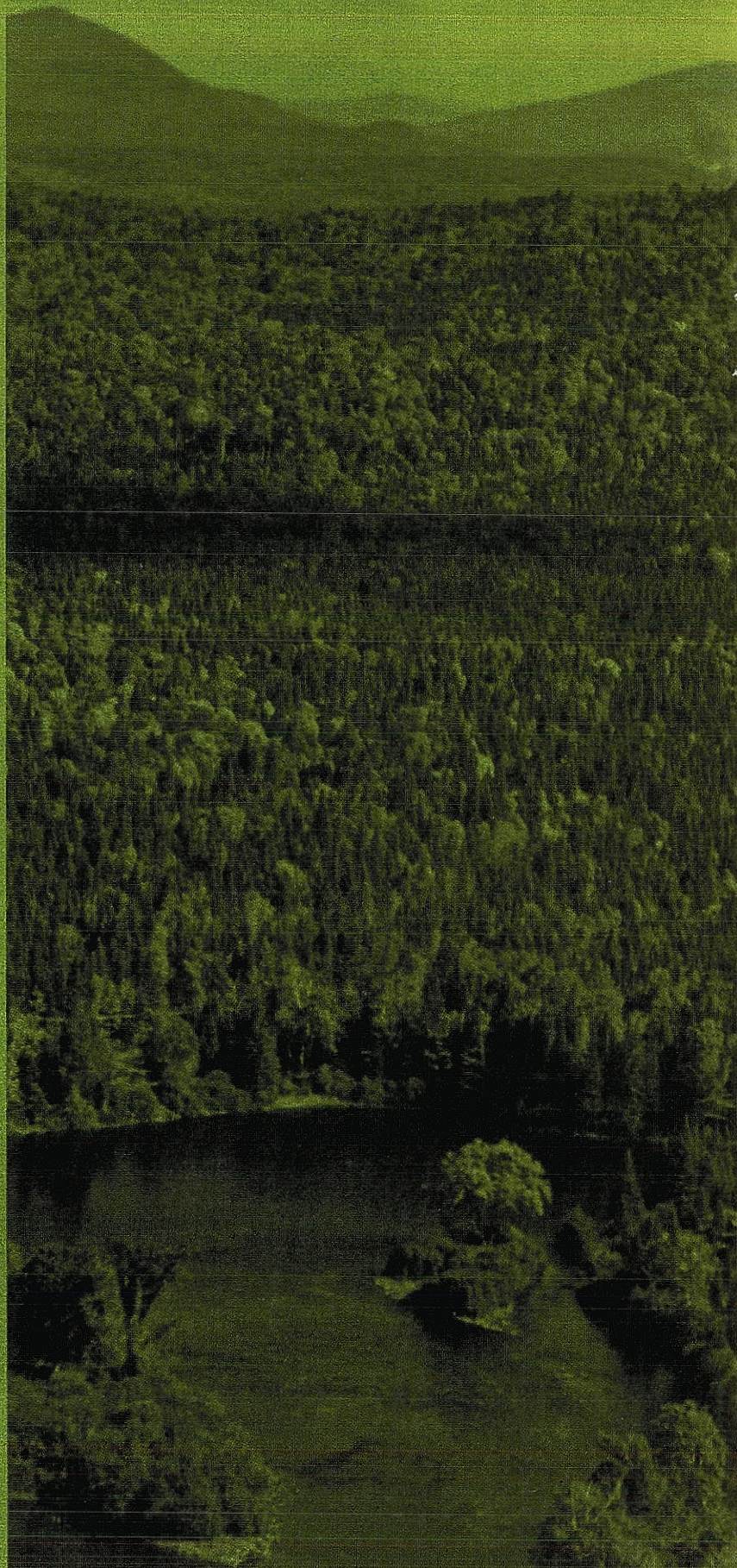
**Distribution:** Distribution is of prime importance to our success. Our channels of distribution are diverse and complex—from building material wholesalers to paper merchants, from food brokers to electrical supply houses, from janitorial supply firms to plumbing wholesalers.

The highly effective concept of distribution developed and put into effect by the Service Products Division, and described briefly in the 1966 Annual Report, was further refined. Selective distribution eliminated a multitude of small and unprofitable shipments, reduced inventory, and speeded up deliveries. Similarly, the Pulp, Paper & Board Division which sells its printing, typewriter and business papers through paper merchants, also studied its distribution pattern. Like its sister division, it will seek out those merchants who have the ability and desire to develop a strong marketing position with Brown Company. Geographical areas where merchant coverage is weak or non-existent have been earmarked for special attention in 1968.

Again, distribution is a highly important factor in the growth of the Building Materials Division. During 1967, a network of independent building material wholesalers were appointed to handle Stratford prefinished paneling. Assisted by our sales force, wholesalers in turn established dealer outlets. Some 40% to 45% of these retailers' prefinished plywood sales are for home improvement and remodeling purposes, truly a healthy market. A substantial

## WOODLANDS DIVISION

Conserves, perpetuates and harvests on a sustained yield basis, timber from 4,500,000 acres of woodlands located in New England and Canada. Cuttings are converted into veneer, sawlog and pulpwood for our expanded pulp manufacturing facilities in Espanola, Ontario and Berlin, New Hampshire. This ever increasing utilization of natural resources is basic to the success of the Company.



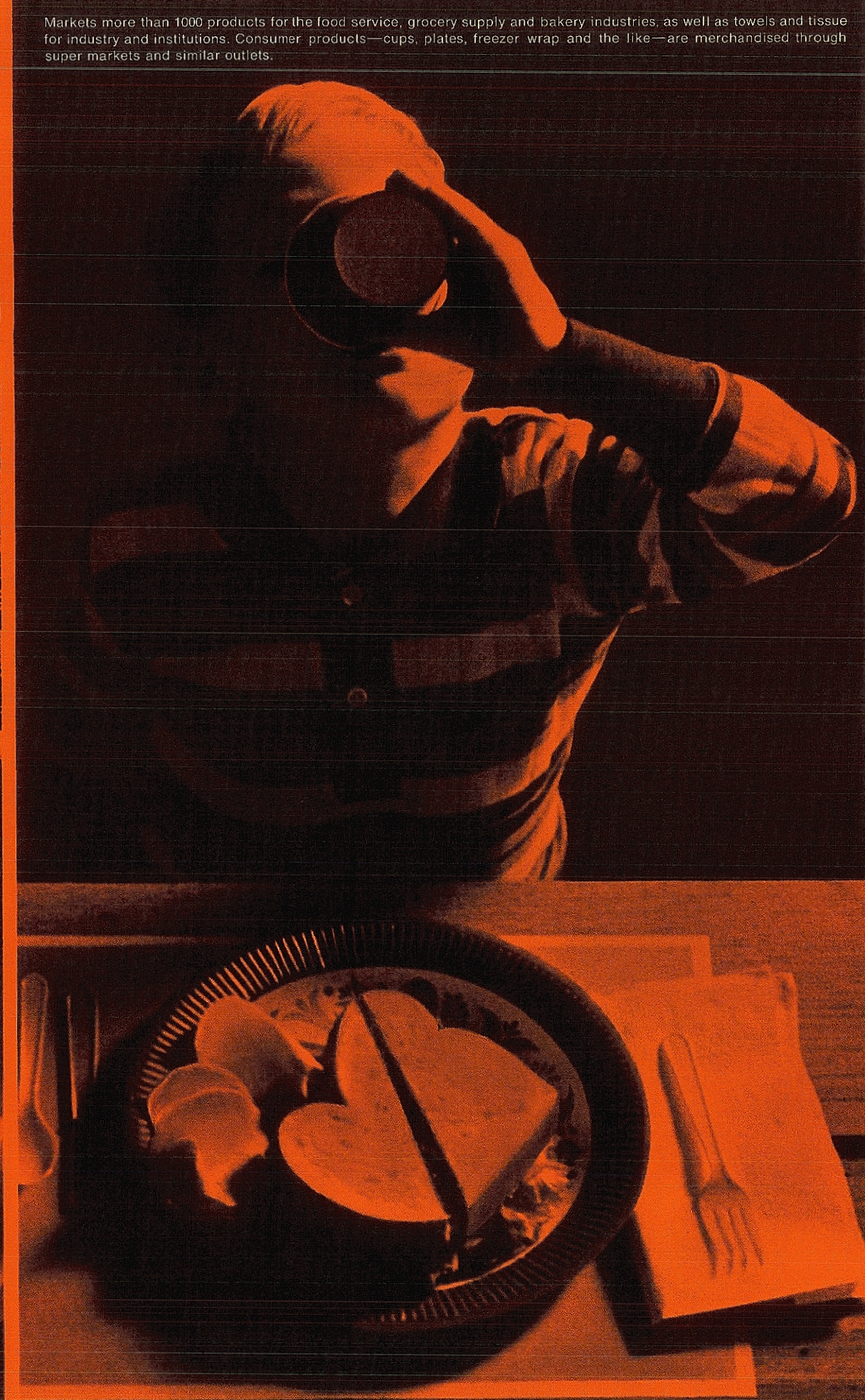
number of independent wholesalers will be added during 1968 and our prefinished panels sales are expected to increase substantially.


**Customer Service:** To support the work done by our divisions to improve their channels of distribution, a significant amount of progress was made in realigning the Company's Customer Service. Customer Service Centers have been established for each division to assure prompt attention to inquiries, efficient order processing and shipments on time.

**Honors and Awards:** Your management is pleased to report the Company won a number of awards during the year. At the 1967 National Folding Carton Competition, from a field of about 1,000 entries, Brown Company captured the grand award for overall superiority in marketing with a series of cartons for Burry Biscuit Company, a Division of the Quaker Oats Company. The same cartons, for Burry's International Flavored Party Crackers, also took a gold award for marketing and a merit award for design in the bakery goods category. The Company also won a gold award in marketing with cartons for Noma Lights Corporation, together with two merit awards for a series of ice cream cartons and the construction of a toy carton.

Our Paper Division won awards for a most unusual promotion illustrating the versatility of its Linweave line of creative papers. Art directors, creative printers and others concerned

Markets more than 1000 products for the food service, grocery supply and bakery industries, as well as towels and tissue for industry and institutions. Consumer products—cups, plates, freezer wrap and the like—are merchandised through super markets and similar outlets.





with graphic arts responded enthusiastically to our reproduction of ancient Tarot fortune-telling cards lithographed on the various textures and finishes in the Linweave line. We were flattered that a worthy competitor, Mead Corporation, displayed Brown's 42 Tarot cards in their "Library of Ideas," as an outstanding example of creativity on paper.

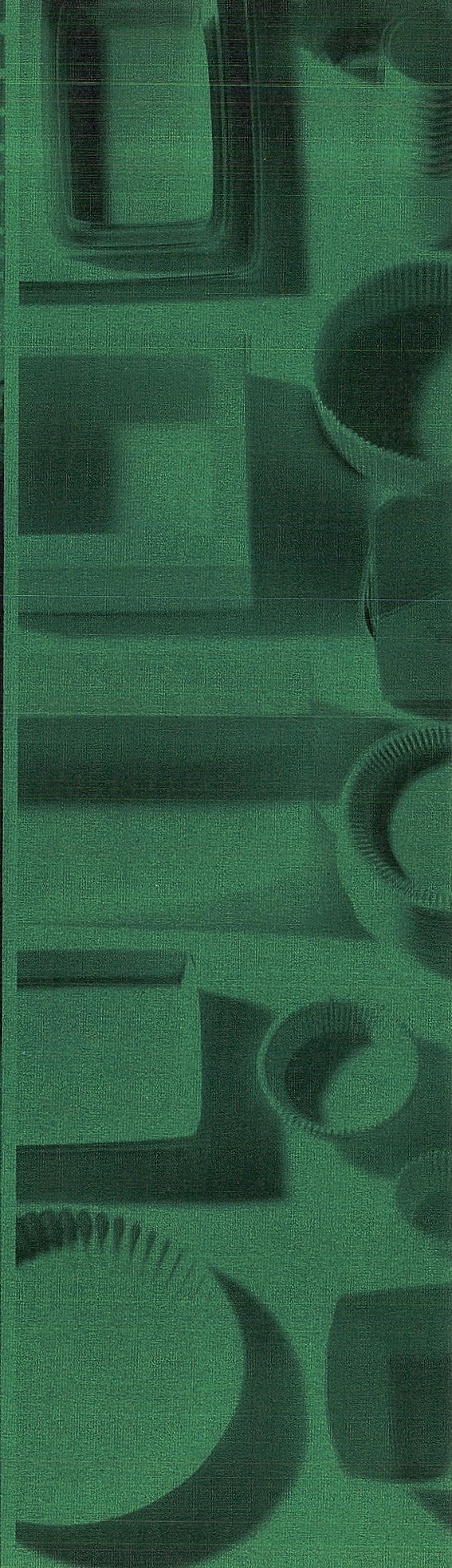
Tomorrow: We have every reason to believe your Company has turned the production corner—a corner that proved to be so difficult as to negate earnings for the first three quarters of the year.

Over the next decade and a half the world outlook for the pulp and paper industry is one of dynamic growth. Brown will assuredly have a major role in this growth. However, since it is an inescapable fact the industry has expanded tremendously during the past three years, 1968 could well turn out to be a highly competitive year, marked perhaps by continued weakness in prices on one hand, and substantial increases in cost on the other. As of this writing some economists are recommending Government price controls, and increased Federal taxation is a probability.

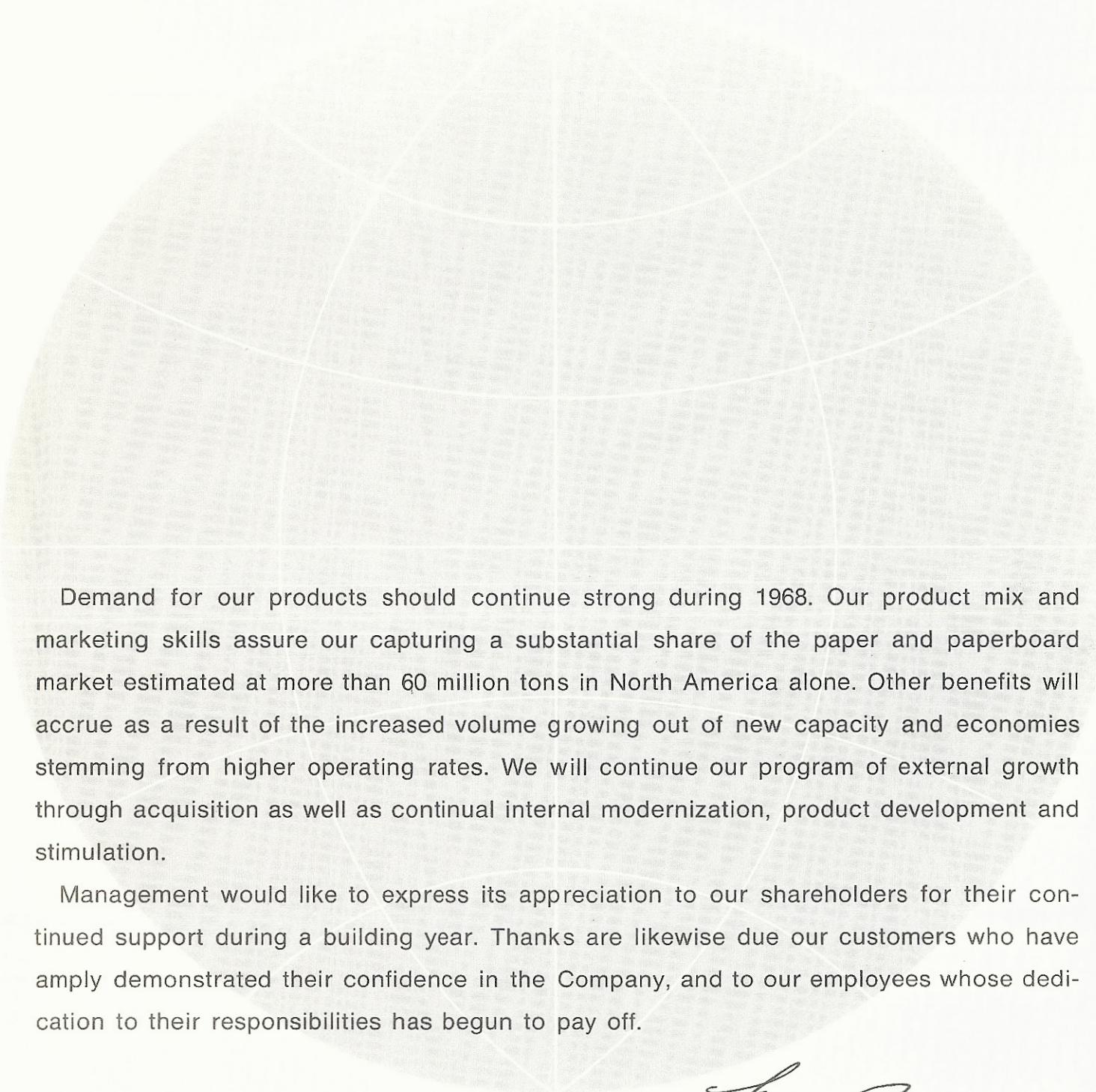
In 1968 your Company will negotiate some major labor contracts with a number of different unions. We have confidence in the ability of Management and the Unions to reach an accord that will prove to be in the best interests of all concerned.

INTERNATIONAL DIVISION

Includes a majority interest in a British converting firm which manufactures paper plates, food trays, waxed paper, bakery boxes and similar products. In Italy, a fiber board manufacturing and converting plant produces a special fiberboard for use in luggage, containers, automobile parts, transformers and electric motors.

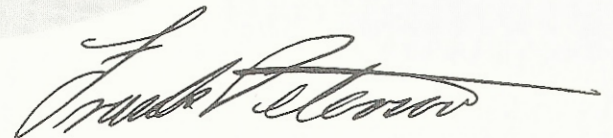






Demand for our products should continue strong during 1968. Our product mix and marketing skills assure our capturing a substantial share of the paper and paperboard market estimated at more than 60 million tons in North America alone. Other benefits will accrue as a result of the increased volume growing out of new capacity and economies stemming from higher operating rates. We will continue our program of external growth through acquisition as well as continual internal modernization, product development and stimulation.

Management would like to express its appreciation to our shareholders for their continued support during a building year. Thanks are likewise due our customers who have amply demonstrated their confidence in the Company, and to our employees whose dedication to their responsibilities has begun to pay off.



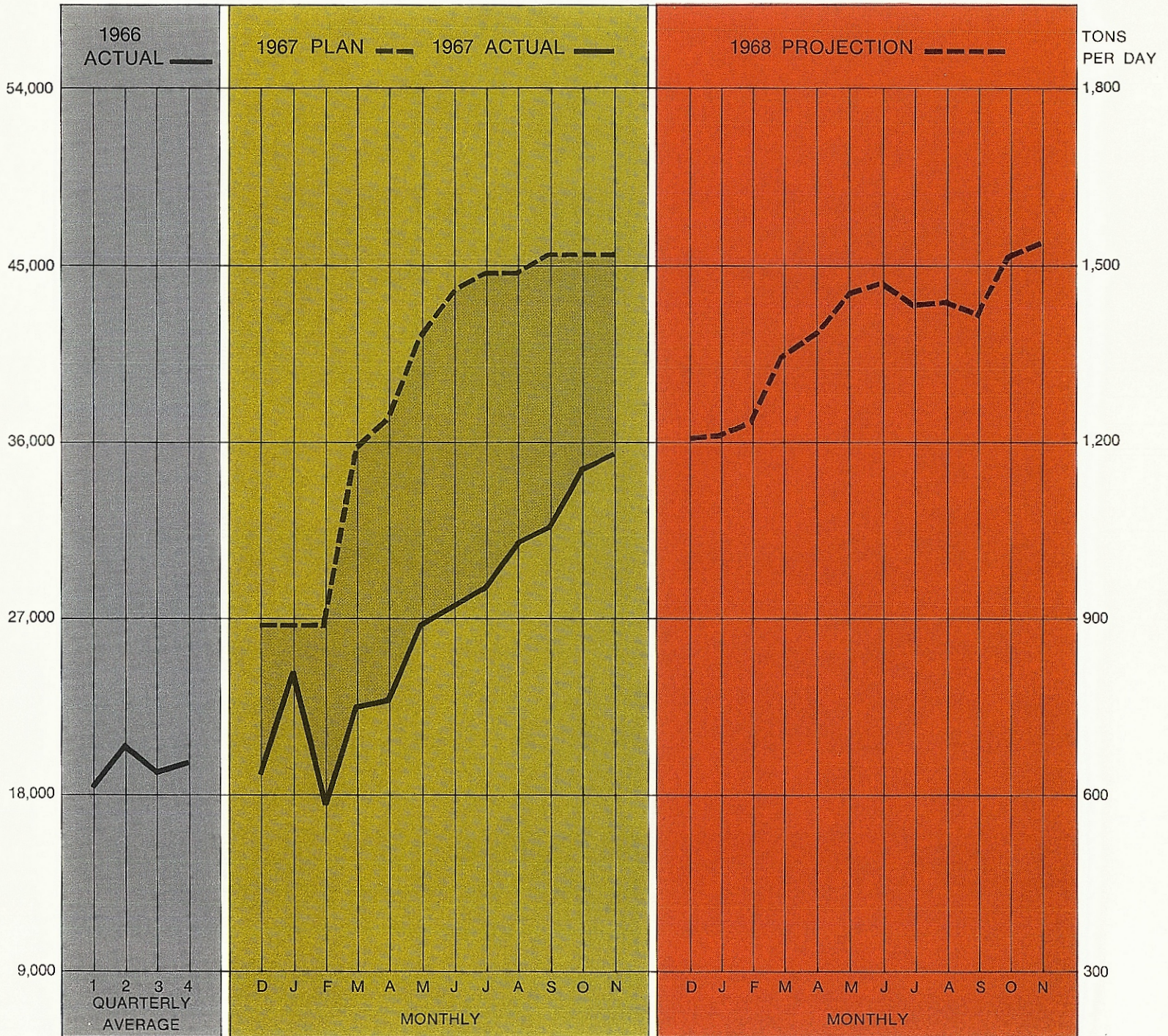
Frank Peterson

President and Chief Executive Officer

February 1, 1968

# TOTAL FIBER PRODUCTION

1967 PLAN VS. 1967 ACTUAL AND 1968 PROJECTION



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Year ended November 30

	1967	1966
Current assets:		
Cash . . . . .	\$ 7,109,000	\$ 8,692,000
Accounts receivable, less allowance for doubtful accounts (\$292,000 in 1967 and \$367,000 in 1966) . . . . .	25,057,000	22,646,000
Inventories (Note 2) . . . . .	43,167,000	41,647,000
Prepaid expenses . . . . .	2,213,000	2,031,000
Total current assets . . . . .	77,546,000	75,016,000
Less—Current liabilities:		
Accounts payable and accrued expenses . . . . .	20,425,000	22,598,000
Funded debt payable within one year . . . . .	4,327,000	817,000
Dividends payable . . . . .	816,000	800,000
Total current liabilities . . . . .	25,568,000	24,215,000
<b>Working capital</b> . . . . .	51,978,000	50,801,000
Property, plant and equipment, less accumulated depreciation and depletion (Note 3) . . . . .	114,368,000	110,899,000
Investments, at cost less reserve, and noncurrent receivables (Note 1) . . . . .	1,879,000	2,866,000
Deferred charges and other assets (Note 6) . . . . .	2,309,000	2,285,000
<b>Working capital and other assets</b> . . . . .	170,534,000	166,851,000
Deductions:		
Funded debt (Notes 4 and 6) . . . . .	71,250,000	65,781,000
Deferred United States and Canadian taxes on income (Note 5) . . . . .	8,632,000	9,118,000
Deferred credit arising from merger . . . . .	2,196,000	2,521,000
Other deferred credits and noncurrent liabilities . . . . .	854,000	751,000
<b>Excess of assets over liabilities</b> . . . . .	\$ 87,602,000	\$ 88,680,000
Stockholders' equity (Notes 4 and 6):		
Preferred stock, par value \$1 per share:		
\$1.50 cumulative convertible, at stated value of \$33 per share—authorized and issued 1,099,633 shares in 1967 and 1,100,040 shares in 1966 . . . . .	\$ 36,288,000	\$ 36,301,000
Undesignated series—authorized 1,400,377 shares, none issued		
Common stock, par value \$1 per share:		
Authorized—10,000,000 shares in 1967 and 5,000,000 shares in 1966		
Issued—2,700,247 shares in 1967 and 2,596,015 shares in 1966 . . . . .	2,700,000	2,596,000
Other capital . . . . .	11,584,000	10,326,000
Retained earnings . . . . .	37,186,000	39,613,000
	87,758,000	88,836,000
Less—Cost of common stock held in treasury (10,652 shares) . . . . .	156,000	156,000
Commitments and contingent liabilities (Notes 1 and 9) . . . . .		
<b>Total stockholders' equity</b> . . . . .	\$ 87,602,000	\$ 88,680,000

# CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended November 30

	1967	1966
<b>Net sales</b> . . . . .	<u>\$215,180,000</u>	<u>\$212,695,000</u>
Costs and operating expenses (Notes 3 and 7):		
Cost of goods sold . . . . .	187,511,000	182,205,000
Selling, general and administrative expenses . . . . .	<u>22,403,000</u>	<u>21,520,000</u>
	<u>209,914,000</u>	<u>203,725,000</u>
Operating income . . . . .	<u>5,266,000</u>	<u>8,970,000</u>
Other income (charges):		
Interest on funded debt . . . . .	(4,760,000)	(3,163,000)
Other interest (net) . . . . .	(23,000)	259,000
Provision for loss on international operations (Note 1) . . . . .	(475,000)	
Amortization of deferred credit arising from merger . . . . .	325,000	250,000
Miscellaneous . . . . .	<u>267,000</u>	<u>303,000</u>
	<u>(4,666,000)</u>	<u>(2,351,000)</u>
Income before provision for taxes on income and deduction of preacquisition earnings of KVP . . . . .	600,000	6,619,000
Provision for taxes on income and related charges (credits) (Note 5) . . . . .	<u>(200,000)</u>	<u>2,100,000</u>
	800,000	4,519,000
Income of KVP applicable to periods prior to acquisition . . . . .		<u>685,000</u>
<b>Net income</b> . . . . .	<u>800,000</u>	<u>3,834,000</u>
Retained earnings at beginning of year . . . . .	39,613,000	38,543,000
Cash dividends declared:		
Preferred stock—\$1.50 per share in 1967, \$1.125 per share in 1966 . . . . .	(1,650,000)	(1,238,000)
Common stock—\$.60 per share . . . . .	<u>(1,577,000)</u>	<u>(1,526,000)</u>
Retained earnings at end of year . . . . .	<u>\$ 37,186,000</u>	<u>\$ 39,613,000</u>
Net income (loss) per share of common stock (Note 8) . . . . .	\$ (.33)	\$ 1.02

# STATEMENT OF SOURCE AND APPLICATION OF FUNDS

Year ended November 30

	1967	1966
<b>Source of Funds:</b>		
Provided from operations.		
Net income . . . . .	\$ 800,000	\$ 3,834,000
Depreciation and depletion (less \$2,617,000 provided in 1966 by KVP prior to merger) . . . . .	8,579,000	5,327,000
Deferred United States and Canadian taxes on income (less \$523,000 provided in 1966 by KVP prior to merger) (Note 5) . . . . .	(200,000)	1,357,000
Other items not requiring the use of working capital . . . . .	150,000	(108,000)
	9,329,000	10,410,000
Proceeds from the sale of notes . . . . .	9,796,000	65,204,000
Series A \$1.50 cumulative convertible preferred stock issued to former shareholders of KVP		36,302,000
Proceeds from sale of investments and collection of a long-term receivable . . . . .	1,660,000	
Proceeds from stock options exercised, less loans in 1967 of \$263,000 to optionees (Note 6)	213,000	66,000
Proceeds from issuance of common stock . . . . .	770,000	
	21,768,000	111,982,000
<b>Application of Funds:</b>		
Net assets (except working capital of \$28,595,000) acquired from KVP . . . . .		46,541,000
Additions to plant assets . . . . .	12,048,000	26,808,000
Current maturity of long-term debt . . . . .	4,327,000	577,000
Investment in foreign operations . . . . .	906,000	157,000
Retirement of 4½% debentures . . . . .		3,174,000
Dividends declared:		
Preferred stock . . . . .	1,650,000	1,238,000
Common stock . . . . .	1,577,000	1,526,000
Other (net) . . . . .	83,000	80,000
	20,591,000	80,101,000
Increase in working capital . . . . .	\$ 1,177,000	\$ 31,881,000

## NOTES TO FINANCIAL STATEMENTS

**Note 1—Basis of Consolidation** The accompanying financial statements include the accounts of Brown Company and its wholly-owned subsidiaries operating in the United States and Canada. The accounts of the Canadian subsidiaries have been converted at appropriate rates of exchange.

Accounts of subsidiaries operating in Europe have not been consolidated. These unconsolidated subsidiaries include one domestic subsidiary, \$5,000,000 of whose borrowings have been guaranteed by the Company in connection with such subsidiary's acquisition in November, 1966 of a company in Italy. A \$475,000 provision for losses of international operations was charged to income in 1967.

**Note 2—Inventories** Inventories are stated on the basis of cost or market, whichever lower, cost representing current average or current standard cost, except for inventories of pulpwood amounting to about \$860,000 at November 30, 1967 and \$978,000 at November 30, 1966 which are stated at cost determined by the last-in, first-out method of valuation. The inventories comprise:

	November 30	
	1967	1966
Pulpwood, logs and logging operations in progress . . . . .	\$ 4,982,000	\$ 5,685,000
Other material and supplies . . . . .	14,847,000	14,919,000
Paper and other manufactured products . . . . .	23,338,000	21,043,000
	\$43,167,000	\$41,647,000

**Note 3—Property, Plant and Equipment** Properties, carried at cost less depreciation and depletion provided, are as follows:

	November 30	
	1967	1966
Land and land improvements . . . . .	\$ 2,379,000	\$ 2,373,000
Roads, buildings, machinery and equipment . . . . .	242,717,000	206,180,000
Construction in progress . . . . .	2,677,000	28,187,000
	247,773,000	236,740,000
Less—Depreciation . . . . .	135,530,000	128,040,000
	112,243,000	108,700,000
Timberlands . . . . .	8,650,000	8,635,000
Less—Depletion . . . . .	6,525,000	6,436,000
	2,125,000	2,199,000
	\$114,368,000	\$110,899,000

Costs and operating expenses include charges for depreciation and depletion of \$8,579,000 in 1967 and \$7,944,000 in 1966.

**Note 4—Funded Debt** Funded debt at November 30, 1967 is as follows:

6¼% Senior Notes due in 1972 (annual pre-payments of \$3,750,000 required to 1972) . . . . .	\$18,750,000
6½% Senior Notes due in 1986 (annual pre-payments of \$3,750,000 required from 1973 to 1986) (note 6) . . . . .	56,250,000
Other . . . . .	577,000
	75,577,000
Less—Amount payable within one year . . . . .	4,327,000
	\$71,250,000

Among other provisions in the senior note agreements, as amended, there are restrictions relating to the payment of dividends on the Company's common stock. Under these restrictions cash dividends on common stock of the Company (except for dividends not to exceed \$510,000) are effectively limited to 75% of consolidated net income subsequent to November 30, 1967 reduced by the sum of (a) approximately \$2,500,000 plus any portion of the \$510,000 referred to above which is distributed, (b) dividends paid on the Series A preferred stock and (c) other distributions, if any, with respect to its capital stock (other than dividends payable in common stock.)

**Note 5—Provision for Taxes on Income and Related Charges (Credits)** Provisions for taxes on income and related charges (credits) for the years ended November 30, 1966 and 1967 are as follows:

	1967	1966
United States taxes on income:		
Current (less investment tax credit of \$230,000) . . . . .		\$ 590,000
Deferred (less investment tax credit of \$200,000 in 1967 and \$175,000 in 1966) . . . . .	\$200,000	825,000
Canadian taxes on income Deferred	<u>(400,000)</u>	<u>685,000</u>
	<u>(\$200,000)</u>	<u>\$2,100,000</u>

Except for taxes payable on the income of KVP prior to merger in 1966 no taxes were payable on income in 1966 or 1967 because of the availability of a net operating loss carry-over for United States tax purposes (attributable principally to the use of accelerated depreciation for tax purposes) and because of the use

of accelerated depreciation for tax purposes in 1966 and an operating loss in 1967 in Canada. The provisions for deferred United States taxes have been reduced by the amount of investment tax credit which the Company would have been able to use if no differences existed between book and tax depreciation since it is expected that investment tax credit carry-overs aggregating approximately \$3,000,000 will be utilized to reduce taxes otherwise payable in future years. The Canadian tax laws effectively permit the reduction of the accumulated excess of tax depreciation over book depreciation (upon which deferred taxes have been provided in prior years) to offset the Canadian net operating loss in 1967. The \$400,000 tax effect of this reduction has been credited to the provision for deferred Canadian taxes on income.

**Note 6—Capital Stock** At November 30, 1967 unissued shares of common stock, par value \$1 per share, were reserved for the following purposes:

	Number of shares
Conversion of Series A \$1.50 cumulative convertible preferred stock at the conversion rate of approximately 1.179 shares of common stock for each share of preferred stock . . . . .	1,295,997
Issuance upon exercise of Stock Purchase Warrants issued to the holders of the 6½% Senior Notes (Note 4) . . . . .	56,250
Issuance upon exercise of stock options . . . . .	116,510
Issuance under the Executive Stock Incentive Plan . . . . .	<u>43,000</u>
	<u>1,511,757</u>

The Stock Purchase Warrants may be exercised at a price of \$28 per share to January 1972 and at a price of \$33 per share through January 1977.

At November 30, 1967 options were held by certain officers and employees to purchase 26,510 shares of the Company's common stock at prices ranging from \$11.48 to \$22.50 per share, an aggregate of \$434,703. Options were then exercisable for 16,510 shares at prices ranging from \$11.48 to \$14.38 per share, an aggregate of \$233,453. The remaining options become exercisable in 1968 and 1969. Under the Company's present option plans, options for an additional 90,000 shares may be granted prior to April 19, 1975 at not less than the fair market value of the shares on the date the options are granted. Outstanding loans to optionees under the Loan Program For Optionees approved by the stockholders in 1966 aggregated \$263,000 at November 30, 1967. Loans may be granted in amounts up to the exercise price of the shares purchased less a down payment of not less than the par value of such shares, are to be repaid within five years and are to bear interest at a rate not less than 4% per year.

Under the terms of the Executive Stock Incentive Plan approved by the stockholders in 1966, the Company may issue to key executives up to 100,000 shares of the Company's common stock as deferred bonuses to be earned on the basis of continued employment and corporate earnings improvement during a five-year period. Such shares are to be held in escrow until earned and any unearned shares are to be sold to the Company at a nominal price. There were 57,000 shares outstanding at November 30, 1967 to be earned under the terms of this plan during five-year periods ending November 30, 1970 to 1972. The

\$1,042,000 excess of the market value of these shares at the time of issue over the proceeds received has been charged to deferred compensation and will be charged to income (net of related income taxes) as the shares are earned.

Other capital has been increased \$1,258,000 during the year for (a) the excess of the proceeds over the par value of 59,233 shares of common stock issued (\$711,000) (b) the excess of the proceeds over the par value of 38,320 shares of common stock issued to fulfill stock options (\$438,000) (c) the excess of the market value at the date of issue over the par value of shares issued under the Executive Stock Incentive Program (\$97,000) and (d) the excess of the stated value of preferred stock converted over the par value of common stock issued therefor (\$12,000).

**Note 7—Retirement Plans for Employees** The Company and its subsidiaries have retirement plans covering substantially all employees. Charges to income for expenses relating to these plans amounted to \$1,835,000 in 1967 and \$1,600,000 in 1966. The companies' policy is to fund pension cost accrued. Increased pension costs during the year of \$550,000 resulting principally from plan amendments increasing certain pension benefits were reduced \$315,000 as a result of changes in interest assumptions used in pension computations. The actuarially computed value of vested benefits under these plans exceeded the total of pension fund assets and amounts accrued by the companies by approximately \$7,200,000 at November 30, 1967 and \$2,400,000 at November 30, 1966. Vested benefits increased approximately \$5,700,000 as a result of amendments to plans which became effective in 1967.



**Note 8—Net Income Per Share of Common Stock** Per share data are based on the average number of common share outstanding each year, after recognition of the dividend requirements on the \$1.50 cumulative convertible preferred stock.

**Note 9—Lease Commitments** Annual rental commitments under various leases, the unexpired terms of which are in excess of three years, aggregated \$850,000 at November 30, 1967.

#### REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of  
Brown Company

In our opinion, the accompanying statement of financial position, statement of income and retained earnings and statement of source and application of funds present fairly the consolidated financial position of Brown Company and consolidated subsidiaries at November 30, 1967 and the results of their operations and the supplementary information on funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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.

PRICE WATERHOUSE & CO.

Boston, Massachusetts  
January 12, 1968

# BROWN COMPANY TEN-YEAR FINANCIAL REVIEW

Years ending November 30

FOR THE YEAR (000 omitted)	1967	1966(a)	1965
Net Sales . . . . .	\$ 215,180	\$ 212,695	\$ 67,418
Operating Income . . . . .	5,266	8,970	1,548
Income Before Taxes . . . . .	600	6,619(b)	1,758
Income Taxes . . . . .	(200)	2,100	
Net Income . . . . .	800	3,834	1,758
Depreciation and Depletion . . . . .	8,579	7,944	3,131
Cash Flow from operations . . . . .	9,329	10,410	5,226
Capital Expenditures . . . . .	12,048	26,808	4,320
<b>End of Year (000 omitted)</b>			
Working Capital . . . . .	\$ 51,978	\$ 50,801	\$ 18,920
Property, Plant and Equipment, net . . . . .	114,368	110,899	34,328
Total Assets . . . . .	196,102	191,066	61,923
Funded Debt . . . . .	71,250	65,781	3,174
Common Stockholders' Equity . . . . .	51,314	52,379	50,323
Preferred Stock . . . . .	36,288	36,301	
<b>Common Stock</b>			
Common Shares Outstanding-end of year . . . . .	2,689,595	2,585,363	2,533,961
Number of Stockholders . . . . .	7,918	6,228	6,069
Per Share: Net Income . . . . .	\$(.33)	\$1.02	\$ .70(c)
Dividends Declared . . . . .	.60	.60	.60
Cash Flow . . . . .	3.47	4.03	2.06
Book Value . . . . .	19.08	20.26	19.86

	1964	1963	1962	1961	1960	1959	1958
\$	68,134	\$ 67,888	\$ 57,455	\$ 56,272	\$ 59,173	\$ 58,888	\$ 55,408
	2,388	2,309	996	2,215	2,604	1,328	1,776
	2,246	2,372	731	2,291	2,287	944	1,390
				820	940	230	94
	2,246	2,372	731	1,471	1,347	714	1,296
	3,050	3,550	3,851	3,892	3,699	3,460	3,185
	5,570	5,959	4,827	5,363	5,046	4,174	4,481
	2,191	3,209	5,012	2,660	2,565	3,600	2,302
\$	20,060	\$ 19,319	\$ 17,291	\$ 18,811	\$ 16,890	\$ 14,696	\$ 14,918
	33,211	35,260	36,014	43,714	45,065	46,354	46,157
	60,354	63,186	61,480	69,350	68,877	70,070	69,259
	3,305	3,612	3,822	4,028	4,229	4,377	4,677
	49,358	51,211	50,128	58,020	57,632	56,546	56,644
	2,471,400	2,469,400	2,481,000	2,562,681	2,621,981	2,638,981	2,588,651
	6,350	7,001	7,895	7,929	8,593	8,173	7,622
	\$ .91(c)	\$ .96(c)	\$ .29	\$ .57	\$ .51	\$ .27	\$ .50
	.60	.47½	.40			.30(d)	.55
	2.25	2.41	1.95	2.08	1.91	1.59	1.73
	19.97	20.74	20.20	22.64	21.98	21.43	21.88

(a) Includes results of KVP from date of acquisition in 1966. (b) Also before deduction of pre-acquisition earnings of KVP in the amount of \$685,000. (c) If loss carryovers had not been available, earnings per share would have been \$.44 in 1965, \$.70 in 1964, and \$.60 in 1963. (d) In addition, a stock dividend of 2% was paid on March 1, 1959.

## DIRECTORS

SHERWIN C. BADGER, New York, N.Y.  
Vice President

DAVID BELLOWS, New York, N.Y.  
Partner, H. Hentz & Company

MAURICE J. DAY  
Consulting Engineer, Pittsburgh, Pa.

LUCIANO FRANCOLINI, Milan, Italy  
Vice Chairman, Banca Privata Finanziaria

AMEDEO GATTI, Montreal, Quebec  
President, Techniquebec Ltee.

GEORGE D. KENNEDY, New York, N.Y.  
Executive Vice President

JAMES C. LESLIE, New York, N.Y.  
Vice President

FRANK MANHEIM, New York, N.Y.  
Partner, Lehman Bros.

HAROLD MEITUS, Chicago, Illinois  
President, Match Division

FRANK T. PETERSON\*, New York, N.Y.  
President and Chief Executive Officer

DANIEL A. PORCO\*, Pittsburgh, Pa.  
Chairman of the Board

MICHELE SINDONA, Milan, Italy  
Investments

JOHN L. SULLIVAN, Manchester, N. H.  
Partner, Sullivan & Wynot  
and Sullivan, Shea & Kenney

JOHN W. THORNTON\*, Pittsburgh, Pa.  
Vice President, Corporate & Product Planning  
Blaw-Knox Company

GENE TUNNEY, New York, N.Y.  
Chairman, The McCandless Corporation

\*Member of Executive Committee

## OFFICERS

DANIEL A. PORCO  
Chairman of the Board

FRANK T. PETERSON  
President and Chief Executive Officer

GEORGE D. KENNEDY  
Executive Vice President

STEWART S. GEELHOOD  
Vice President and Treasurer

JOHN W. V. O'BRIEN  
Vice President and Controller

JAMES J. BAECHLE  
Vice President, Secretary  
and General Counsel

### Vice Presidents

S. C. BADGER  
R. G. BREVIK  
R. D. CAINE  
GORDON DILNO  
G. S. GILLIGAN  
E. O. HANSON  
C. S. HERR  
R. W. HISEY  
M. A. HOFFMANN  
C. L. KIRKPATRICK  
J. C. LESLIE  
E. R. LOEWY  
J. J. McDONALD  
D. I. MacCALMAN  
PAUL MEITUS  
M. T. MURRAY  
W. C. NASH  
H. R. O'DONNELL  
R. G. OSBORNE  
R. A. REEVES

### Division Presidents

D. P. BEST  
HAROLD MEITUS

### Assistant Treasurers

J. E. CHERRIX  
J. N. ROZEK

### Assistant Controller

L. E. HICKEY

### Assistant Secretaries

J. A. BARBOSA  
J. W. JORDAN

## DIVERSIFIED FOREST PRODUCTS

Astra Converting Papers

Linweave® Creative Papers

Eagle-A Business Papers & Stationery

Bermico® Bituminous Fiber Pipe

Stratford Hardwood Plywood—Door Skins—Veneers

Solka-Floc®

Flexible Packaging

Folding Cartons

Packaging Systems

Industrial Technical Papers

Superior® & Monarch® Book Matches

Paper Maid® Paper Plates & Cups

Paper Maid Freezer Wrap

Nibroc® Towels, Tissues, & Wipers

Food Service Products

Grocery Supply Products

Bakery Products

Corrugating Medium

Market Pulps

Herculean Board

Adamas Fiber

Fiberboard

Electrical Insulation Board & Paper

Gasket Stock

Appleford® Products

## SALES OFFICES AND PLANTS

### UNITED STATES

Atlanta, Georgia  
Berlin-Gorham, New Hampshire  
Birmingham, Alabama  
Boston, Massachusetts  
Castleton-on-Hudson, New York  
Chicago, Illinois  
Cincinnati, Ohio  
Cleveland, Ohio  
Corvallis, Oregon  
Des Plaines, Illinois  
Detroit, Michigan  
Frankfort, Illinois  
Glendale, California  
Griffin, Georgia  
Holyoke, Massachusetts  
Kalamazoo, Michigan  
Louisville, Kentucky  
Minneapolis, Minnesota  
Mount Holly, New Jersey  
Narbeth, Pennsylvania  
Needham, Massachusetts  
New York, New York  
North Stratford, New Hampshire  
Parchment, Michigan  
Portage, Michigan  
St. Louis, Missouri  
Santa Clara, California  
San Jose, California  
Sturgis, Michigan

### CANADA

Brown Forest Industries Limited  
Espanola, Ontario  
Hamilton, Ontario  
Montreal, Quebec  
Toronto, Ontario

### EUROPE

Cheverton & Laidler Ltd.  
Princes Risborough  
Buckinghamshire, England  
Hengoed, Glamorgan, Wales

### SAIFECs

Piazza Conciliazone, 1  
Milano, Italy  
San Giovanni Lupatoto  
Italy

### EXECUTIVE OFFICE

277 Park Avenue, New York, New York 10017

### Independent Accountants

Price Waterhouse & Co.

### Transfer Agent

The Corporation Trust Company  
New York and Jersey City, N. J.  
277 Park Avenue, New York, N.Y. 10017

### Registrar

Registrar and Transfer Company  
New York, N.Y.

### Annual Meeting

April 15, 1968, 10 a.m., E.S.T.  
Room 315 (3rd floor) 277 Park Avenue  
New York, N.Y.





**BROWN COMPANY**