



To the Holders of Our Common Shares

This is more than just an Annual Report of the performance of your Company reciting the events of the fiscal year 1965, the net result of which was an uneventful seventy cents per share.

I consider the essence of this document a report of the future.

We want to tell you about the "new" Brown; its plans, its problems, its program and progress, and its people.

While brevity precludes the concise detailing of your management's program for your Company's future, I hope some indication of our basic aims will become apparent.

In short, your management intends to build on the inherent strengths of the Company—our vast timberland base—the established lines of quality products—the people that make the Company run. Our program for carrying our present and new products from the forest through the mills to the merchant to the ultimate benefit of our stockholders, our employees, our customers, and the communities which we serve.

Above all else, our one basic philosophy is to effect the maximum return on your equity.

Sincerely yours,

A handwritten signature in cursive script, reading "Paul Peterson". The signature is written in dark ink and is positioned above the printed name of the signatory.

President and Chief Executive Officer

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BROWN COMPANY Highlights of the Report

Year Ended November 30

	1965	1964
Net Sales	\$67,417,479	\$68,133,770
Net Income Before Taxes	1,758,119	2,245,657
Net Income	1,758,119	2,245,657
Dividends Paid	1,500,202	1,478,940
Net Working Capital at End of Year	18,603,156	20,060,291
Ratio of Current Assets to Current Liabilities	3.6 to 1	4.2 to 1
Depreciation and Depletion Charges	\$ 3,131,436	\$ 3,049,683
Cash Flow from Operations	4,925,854	5,569,788
Total Assets, Year End	61,922,833	60,354,417
Total Fixed Assets, Net, Year End	34,327,691	33,210,844
Expenditures for Plant and Equipment	4,320,213	2,191,233
Long-Term Indebtedness	3,174,300	3,304,900
Stockholders' Equity at End of Year	50,322,973	49,357,506
Per Share of Common Stock:		
*Earnings	\$.70	\$.91
Dividends Paid60	.60
Stockholders' Equity	19.86	19.97
Cash Flow	1.93	2.15
Total Shares Common Stock Outstanding, Year End.	2,533,961	2,471,400
Number of Stockholders	6,069	6,350
Acres of Timberlands Owned at End of Year	614,391	614,695
Average Number of Employees	3,568	3,631
Payroll and Employee Benefits	\$22,912,013	\$22,825,356



The stylized "soaring eagle" design, selected as the new corporate symbol, will be seen on all future Company advertising, promotional materials, stationery, business forms, cartons, signs and wherever a trade mark would normally appear.

Our new design fills the need for a clearly recognizable symbol to identify the Company as a whole and one which can be adapted to all Company communications.

The "soaring eagle" typifies the new management, new people, new facilities and new determination, all combined, working to move Brown Company into new areas of growth and strength.

President's Message to Stockholders



President Frank T. Peterson sees proper product mix as key to future growth.

1965 General

As this report is written, both Brown Company and the pulp and paper industry look forward to an unprecedented demand for their products. Your new management, which assumed responsibility in April 1965, has taken important steps to place the Company in the mainstream of this demand through corporate investment, a strengthening of its marketing, production, and technical organization, and expansion of existing facilities.

Although we are on the threshold of a new era, I must report that the financial results for 1965 were unsatisfactory. When your present management undertook its stewardship last April, almost half of the fiscal year had passed. As the year ended net sales amounted to \$67,417,479, down from \$68,133,770 for the preceding year, due principally to the decision to close down our unprofitable electrochemical operations; loss of productivity due to elimination of certain unprofitable grades in our product mix; a wildcat strike in our Gorham paper mill; and the national downswing of building starts in the first quarter of 1965. Net income for 1965 was \$1,758,119, down from \$2,245,657 in 1964. Net earnings per share came to 70¢ compared to 91¢ for 1964.

Your attention is invited to the Statement of Income on page 17. Due to write-offs against surplus of idle plant, resulting primarily from discontinuing the Company's sulphite pulp producing facilities, no provision for federal income tax was charged in 1964 or 1965.

Had such tax deductible carry-overs not been available, net earnings would have been \$1,108,000 in 1965 and \$1,721,000 in 1964. At November 30, \$200,000 of such tax deductible carry-overs remained available; future earnings in excess of that amount will be charged with a provision for Federal income taxes.

What Was Wrong

By the third quarter a candid examination of all Company functions had revealed the need for action in nine basic areas:

1. Elimination of unprofitable product lines and the institution of a product enrichment program;
2. Correction of the woefully inadequate production rates at the Berlin-Gorham Division to reduce unit costs of overhead and fixed charges to a competitive level;
3. Construction of new facilities to increase pulp and paper production so as to obtain maximum utilization of our timberlands and plant facilities operating below normal capacity;
4. Strengthening and rebuilding our management and marketing structure;
5. Expansion of the Company in other geographic areas through acquisition and new facility development, and the creation of a comprehensive corporate planning group to effect the program;
6. Reinforcing of technical and production capabilities by the addition of industry qualified personnel to supplement our existing loyal staff;
7. Strengthening, overhauling and stimulating our distribution set-up to bring it into line with the most modern and experienced merchandising techniques available;
8. Development of a strong, cohesive and cooperative working relationship with our labor unions to create a vigorous labor-management team;
9. Realignment and re-emphasis of market planning and new product development.

Some of these steps, it was realized, would result in a temporary loss of productivity and earnings. It was the considered judgment of your management, however, that all steps were necessary to the building of a more profitable overall operation. Accordingly, much has been accomplished and much is in progress.

1966 — And Beyond

Now, what of the future? Where do we go from here? What do we have to work with, what are we going to do with it? What, in short, is our blueprint for the years ahead?

One of the first moves your new management undertook, in line with the decisions above, was the inauguration and development of a team for corporate planning. The responsibility of this team of specialists is to program the Company's future in an orderly manner.

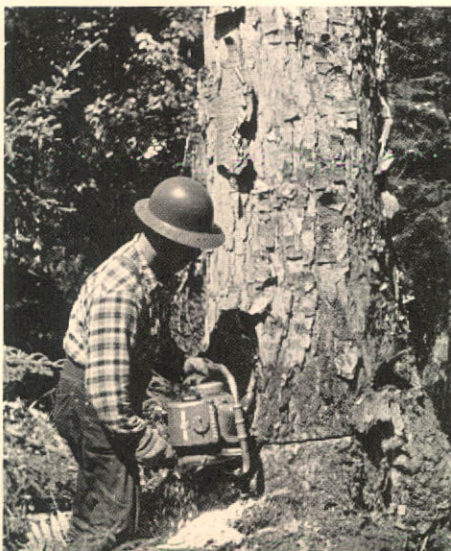
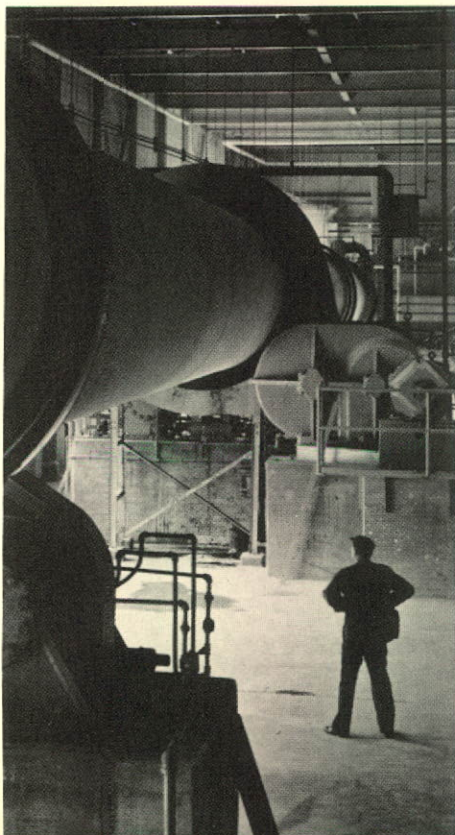
As this report goes to press, I am pleased to inform you that significant developments have resulted from our actions. By these actions, the Company should be well on its way to resuming its place in the vanguard of our industry. We are planning not only for the present, but also for the years beyond.

\$20 Million Expansion

In addition to modernizing certain existing plant facilities to increase productive capacity while reducing unit costs, a major expansion program was started last August at our Berlin-Gorham Division with a capital investment for new buildings and machinery of over \$20,000,000. A part of the new installations is scheduled to go on stream in September 1966, the remainder by early 1967.

Expansion of the Berlin-Gorham Division will increase its pulp production from some 100,000 to 300,000 tons per year and also will provide a significant increase in the volume of paper produced. This should give us a sales increment of some \$20,000,000 annually. Equally important, it reduces the unit cost of overhead charges by about one-third. Also, we expect to obtain a \$1.00 sales return for approximately \$1.00 of capital investment, which is considered a very good return for this type of investment in the pulp and paper industry. Our ability to attain this favorable ratio is predicated on maximum utilization of existing production facilities, including steam and power plants, woodroom facilities, buildings, equipment and machinery, as well as the new installations.

Parenthetically, it may be noted that of the fibre produced by our expanded Berlin-Gorham Division, approximately 85% will be transformed into paper in our own operations. The bulk of the remaining 15% will be sold as market pulp, although some of it may be used by our expansion programming in other areas.



Entry Into Corrugating

A noteworthy aspect of our Berlin-Gorham growth program is the Company's entry into the field of corrugating medium used in making shipping containers. This segment of our expansion will yield about \$8,000,000 in annual sales. We believe the investment has additional merit, because it integrates so efficiently into our other operations, enabling us to attain an almost 100% end-use of raw materials and by-products, and to further utilize our timberlands.

In our Eagle-A Division at Holyoke, efforts were concentrated on improved efficiency, including some increase in productivity through machine changes, and even further improvement of what always has been regarded as a high quality line of paper products.

During the year, the final phase of a long range program for revision of the production lines was concluded at our hardwood plywood mill at North Stratford. New equipment installed included drum sanders and multiple saws for trimming plywood sheets to correct dimensions. This plant is the largest of its type in the United States.

A new fittings plant was placed into full operation by our Bermico Division at Mount Holly, N.J., supplementing production of fittings at Corvallis, Ore. In these two plants, bituminous fibre elbows, bends, couplings and similar fittings are made for use with sewer pipe and conduit. The two plants replace equipment formerly at Berlin, N.H., and provide an improved quality product as well as facilitating distribution throughout the United States and abroad.

KVP-Sutherland

To implement one of the considered recommendations of the corporate planning team, the Company in December, 1965 took steps which led to the purchase of a majority interest in the KVP-Sutherland Paper Company, of Kalamazoo, Mich., at an investment of approximately \$38,000,000.

Combined sales of Brown Company and KVP-Sutherland total \$200,000,000. Combined net worth of the two companies is \$130,000,000. Combined timber resources total some 4,200,000 acres of woodland in the United States and Canada.

KVP-Sutherland is an old established company. Our investment in it offers possibilities for exciting and profitable developments in the future. KVP has an excellent position in the folding box and flexible packaging markets, as well as in other markets for paper and related products offering future growth.

Prior to the end of this fiscal year, our corporate planning team began an intensive investigation of a number of possible acquisitions and expansions in the paper producing,

As indicated by this photo, KVP Sutherland makes many paper products not now produced by Brown. KVP's product list includes printing and converting papers, vegetable parchment, packaging papers, waxed and specially treated papers, paper board, folding cartons, and book matches.



converting and merchandising fields and, at the same time, started a survey of prospects for building new plants in various locations. You will be interested to know that we also have initiated a study of moves toward further diversification within the forest products industry.

Marketing

We are establishing Holyoke as a major distribution point for printing papers made at our Berlin-Gorham and Eagle-A Divisions. By locating substantial inventories at Holyoke, we have placed both divisions of the Company on an overnight delivery basis to the largest paper markets in the eastern United States. The move gives our marketing and sales staff a definite advantage when dealing with customers who do not, or cannot, stock the broad variety of printing papers in our line.

Supervision of Bermico Division sales on a regional basis was adopted during the year in order to provide better service to customers and more efficient coordination of production and sales in each of the market areas served by the plants, which are located on the west coast at Corvallis, Ore., in the south at Birmingham, Ala., and on the east coast at Mount Holly, N.J.

Our entire marketing organization has been consolidated into one central group and has been strengthened by the addition of proven, experienced specialists in various areas, for the purpose of obtaining for the Company a larger percentage of the market than ever before. At the same time, seasoned and capable new men have been attracted to our production, engineering and technical staffs. The results of this personnel realignment and selective bolstering of staff strength are showing their impact on our productivity.

Research and Development

Obviously our ambitious plans for the future cannot be realized without a sound program of Research and Development. Your management is pleased to report that recent steps have been taken, and will be continued, to enlarge the staff of its research laboratories with emphasis on professional and technical abilities and skills.

Last year our Research and Development staff made substantial contributions toward helping us lower production costs, worked closely with our manufacturing operations to raise standards and improve quality controls, and engaged in continuing product research. This latter activity is being enlarged to develop a full product line, utilize the maximum capability of all machines in our mills, and attain full utilization of all forest resources.

Our laboratories also conduct some contract research, for both the federal government and private industry.

Brown Company research laboratories since 1915 have pioneered many of the profitable advances in our industry; your management intends to restore the research and development function to its proper place in our growth program to aid the Company in regaining its leadership position.

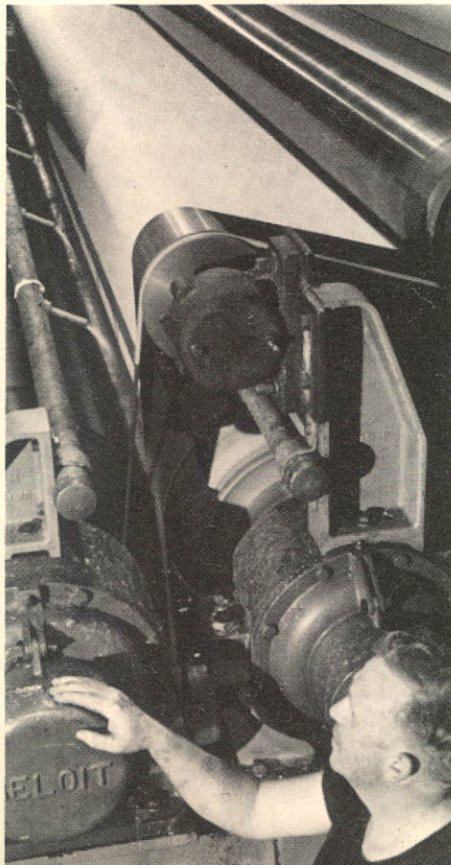


Employee Relations

The Company's various plant operations are all unionized with a good working relationship between employees and management.

A wildcat strike precipitated by a small group of papermakers affected production of the Berlin-Gorham Division for eight days last September.

Three-year labor contracts were signed in 1965 covering operations of the Berlin-Gorham Division as a prerequisite to labor stability during the period of capital expansion in the New Hampshire area. Contracts for other plant operations are for one or two years duration; all are due for renewal in 1966. Contract agreements in general have followed industry patterns.



Liberal fringe benefits include contributory retirement programs for wage and salary employees in all operations, life insurance with temporary disability benefits covering illness and non-industrial accidents, and hospitalization and surgical insurance. Vacation benefits provide up to four weeks of paid leave for employees, depending on length of service.

Foreign Markets

As the year ended, we were well into a survey of advantages to be gained by expanding the Company's operations in foreign markets. While the Company has sold abroad for many years, and our corporate name is highly regarded in the Western European pulp and paper industry, there are vast growth possibilities overseas which we have not exploited. We are studying closely all opportunities for Brown Company in these burgeoning sales areas.

People

Our Company could have the best plants and the most abundant natural resources in the world, but without the important ingredient of superior personnel we would be committed to mediocrity. Steps have been taken therefore to reorganize our present staff and bolster our strength by adding new and carefully selected people up and down the line.

Prime responsibility for the marketing effort has been assigned to our new Executive Vice President, George D. Kennedy. He comes to us from Champion Papers Inc., where he was president of its distribution subsidiary, Nationwide Papers, selling approximately \$200,000,000 yearly. Mr. Kennedy's distinguished background in the paper business dates from 1947, and his hard hitting sales accomplishments are well known throughout the industry.

Leading the marketing program with Mr. Kennedy are Mr. Richard Reeves and Mr. Ralph Brevik.

Mr. Reeves came to us from the position of Sales Manager for Hammermill Paper Company, where he had broad experience in field sales and marketing management.

Mr. Brevik, a marketing and distribution specialist, worked in many capacities for Champion Papers Inc. and its subsidiaries. He was president of Dwight Brothers Paper Company in Chicago prior to joining Brown Company last fall. He now directs the marketing of the Company's absorbent products.

We are also fortunate in having Dr. Robert Hisey join us from S. D. Warren Company. Dr. Hisey, eminently qualified, is a graduate of the Institute of Paper Chemistry with a Ph.D. and has the dual responsibility of Vice President and Technical Director and Manager of our Berlin-Gorham Division.

Mr. Robert Crossley joined us from the post of Manager of Engineering and Research which he held at Great Northern Paper Company. He was previously with Riegel Paper Corporation, and is now our Vice President in charge of Engineering.

Dr. Dan Manson joins us from Oxford Paper Company and holds the very responsible position of directing the rebuilding of our paper machines — Mr. Thomas Barry, a seasoned veteran of many years with such companies as Scott, Fraser and Great Northern has joined us as Manager of Manufacturing of our Berlin-Gorham Division — Mr. Lawrence Ketchum as Assistant Manager of Manufacturing comes to us with broad production experience from Domtar of Canada.

These are but a few of the new people who are with our existing loyal group of production, technical, engineering and sales personnel striving, in as short a time as possible, to fulfill our massive programs.

I'm sorry that space does not permit a detailed presentation of all of our capable staff.

Summary

In short, your management is committed to achieving Company growth with maximum returns on stockholders' investment. We feel any objective evaluation of Brown Company today will reveal it as a healthy, viable enterprise. We are one of the largest suppliers of typewriter paper in the United States, one of the largest manufacturers of door skins for flush type doors, the largest producer of plywood in New England, and one of the largest producers of industrial towels. We pledge every effort to expand our penetration of these as well as additional markets.

In planning Brown Company's moves toward expansion of production, sales and profits, your management has maintained a close, continuing study of the industry as a whole. It is interesting to note that in 1965, world production and consumption of pulp and paper exceeded 90,000,000 tons. Every conservative projection indicates that by 1985, demand will double to at least 180,000,000 tons annually, possibly reaching even 200,000,000 tons.



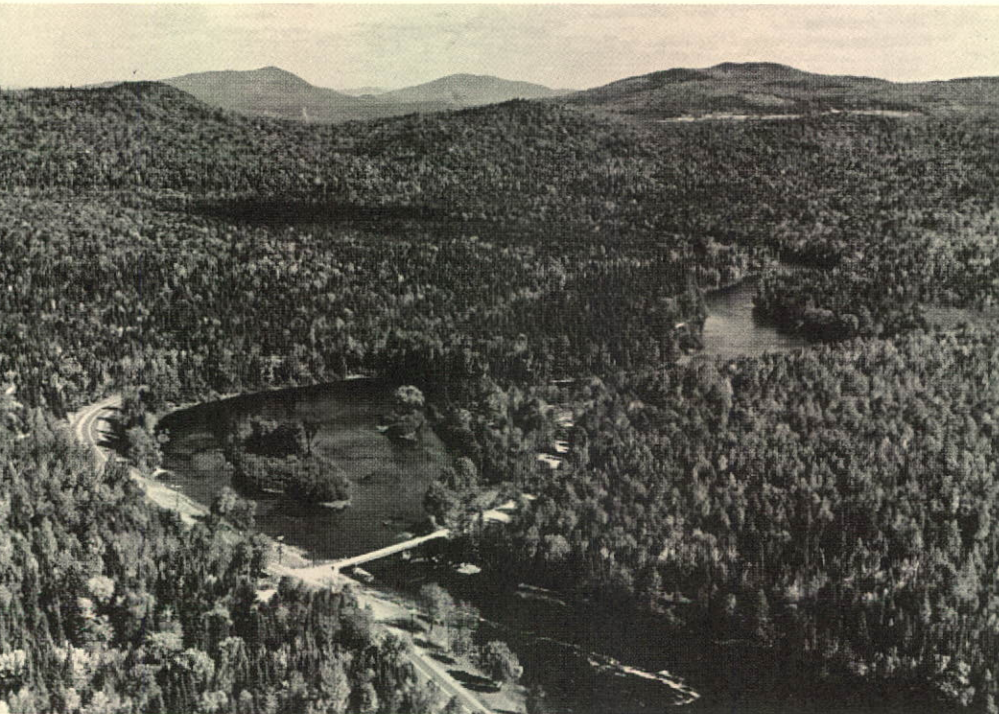
Through its vast timber resources, together with the building of a market-oriented, profit-motivated management group, the Company has renewed its dedication to the principle of growth. Much of that growth will be within the basic framework of the pulp and paper industry, and will cover a wide range, encompassing the fields of office supply papers, white and printing papers, high grade technical specialties, flexible packaging, specialized wood chemical components, building materials, stationery and business papers, and other end uses of papers including photo reproductions, educational materials and a lengthy list of other products.

I am confident that the moves we have made in this past fiscal year have placed the company in a stronger position for greater sales and profitability.

We have been unusually fortunate in attracting to our ranks a highly qualified and proven group of top management people to supplement our present experienced and valued staff. The accomplishments of the year past could not have been attained without the hard work and close cooperation of all our employees at every level. On behalf of the stockholders and management, I wish to thank our workers for their loyalty during this difficult period of reorientation.

President and Chief Executive Officer
February 15, 1966

Timber Resources



In partnership with Nature, one of Brown's strongest assets is its timber resources: 800,000 acres of wholly or jointly owned forest reserves in New England and cutting rights on another 3,400,000 acres in Canada in association with KVP-Sutherland Paper Company, provide a profound factor in the continuing development of the company as a base producer of pulp and paper.

It has been wisely said that timber is only as good as the ability of its owners to exploit and gain maximum cut and utilization from it. Management is dedicated to this principle.

By 1967 the target of the Brown-KVP timber harvest and utilization program approximates 425,000 annual tons of fiber production, increasing to over 510,000 tons in 1968-69, in addition to continual development of plywood, lumber and other forest products.

In a world of shrinking timber availability, our timber resources become more important and more valuable.



**People...the most important ingredient
in the composition of success**

These are some of the men who manage your Company. With a broad knowledge of the industry and its markets, and a record of success in their specialized areas, these men daily exercise their judgment on behalf of the Company and its shareholders to maintain and improve product quality, production, and sales.



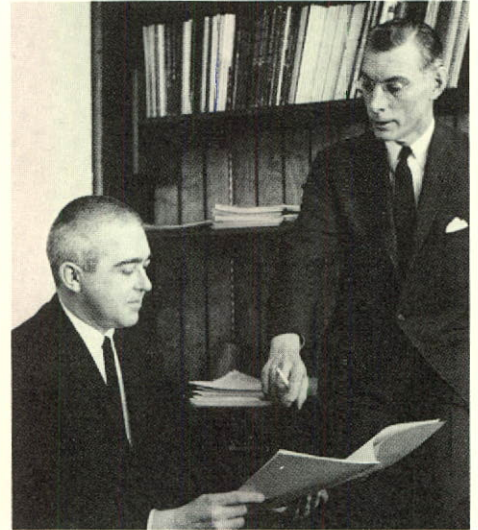
Corporate direction as well as planning for the future are responsibilities of Executive Vice President George D. Kennedy (left) and President Frank T. Peterson (right). Gerald S. Gilligan, standing, heads up corporate planning and development as assistant to the President.



Vice President Leonard A. Pierce (left) serves as assistant to the President on special assignments, while C. S. Herr, Vice President—Woodlands, is responsible for management of timberlands and harvesting of wood needed by company pulp mills and veneer operations.



Direct responsibility for pulp and paper manufacturing at Berlin-Gorham Division rests on these four men (left to right): Thomas J. Stiles, general superintendent, paper; Thomas M. Barry, manager of manufacturing; Lawrence D. Ketchum, assistant manager of manufacturing, and Fred L. Riley, general superintendent, Kraft pulp mill and bleachery.



Vice President and Treasurer Hugh D. Jordan (right) and Assistant Treasurer Leonard E. Hickey discuss financial statements of the Company.



Duncan MacCalman (seated left) is Director of Industrial and Personnel Relations. At right is John W. Jordan, Vice President, Secretary and General Counsel. Standing is Edward J. Reichert, Assistant Secretary of the Company.



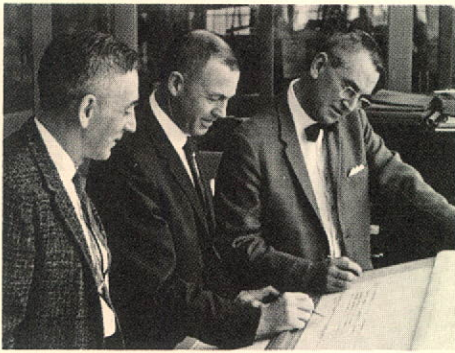
Dr. R. W. Hisey (left), Vice President and Technical Director, is also general manager, Berlin-Gorham Division. Standing, Assistant Treasurer J. N. Rozek. M. E. Hyman, assistant manager of Berlin-Gorham Division, and Eben M. Whitcomb (right), Manager of Customer Services, complete the group.



Sales of paper products are handled through this marketing group, headed by Richard A. Reeves (seated left), who is also responsible for sales of printing papers. N. M. Smiley (center) handles technical papers and Robert E. Bringman (right) is in charge of stationery and office products. Standing is Eugene O. Hanson (left), market manager for converting papers, and Harold E. Moley, special assistant to the executive vice president and a long-time member of the Sales Department.



Dr. Dan W. Manson, Manager of Process Engineering in Technical Dept. (left) examines experimental sheet of paper with Research Dept.'s Dr. C. E. Ahlm (center) and General Manager E. E. Morse. Manson and Ahlm hold graduate degrees from Institute of Paper Chemistry and Dr. Morse received Ph.D. at University of California at Berkeley.



Robert E. Crossley, Vice President—Engineering (center), studies plan for construction of new pulp mill at Berlin with Chief Engineer Willard Baker (left) and Administrative Assistant William E. McKenzie.



John W. Noble (left) is responsible for market analysis, J. G. Reynolds (seated) is advertising manager and Richard C. Frederick (standing right) is market manager for industrial absorbent products. Ralph G. Brevik (left background) is Director of Marketing, Absorbent Products Division.



The Plywood Division is headed by Victor Bruno (left), general manager. In center is J. J. McDonald, Vice President—Specialty Products. Seated is Malcolm T. Murray, Vice President—Bermico Division.



Production Manager Ed McQuillan and Vice President C. L. Kirkpatrick (right), both of Eagle-A Paper Division, study a light-weight business paper for finish and quality as it is being rewound.

BROWN COMPANY... Where the Growth is

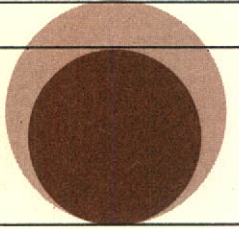
The product lines described below are of the Brown Company as presently constituted (1965), not taking into account ownership of KVP-Sutherland Paper Company or its position in the complementing fields of consumer paper products, or future expansion of Brown.

Printing Papers, Stationery and Office Products

1970—\$1.117.0

1965—\$875.0

Industry
Dollar
Value
(millions)



Enjoying a reputation for excellence, Eagle-A printing, stationery and business papers are produced in three classifications covering virtually every business use:

- Cotton content papers for quality letter-heads, forms, and business stationery;
- Wood fibre papers for office forms, office duplicating and copying, and business stationery;
- Printing papers for creative advertising brochures, annual reports, catalogues, direct mail pieces, and business publications.

Our cotton content papers are among the best in the industry. Our offset printing papers have excellent printing characteristics, appearance, and character.

The Company was able to provide last year most of the products required in the printing, business and office copy paper markets. Plans for 1966 call for an expansion of these product lines, and the introduction of new products including an uncoated offset paper with high opacity.

Concurrent with the development of our own marketing organization, we are building strong distribution through wholesale merchants who stock and promote our papers. Our distributors will be supported by imaginative advertising and promotion.

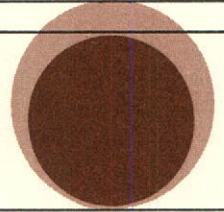
Eagle-A papers are sold in a market expected to expand 27% by 1970.

Converting Paper and Board

1970—\$696.2

1965—\$599.5

Industry
Dollar
Value
(millions)



Four broad categories form the base of our Nibroc converting paper and board line:

- Papers for flexible packaging, including such end uses as flour sacks, coffee bags, dog food bags, plant food and briquette bags;
- Papers for envelopes;
- Papers for gumming, laminating and saturating;
- Paper Board for boxes, match sticks and a variety of packaging requirements.

Technological changes and improvements require a continuous flow of new grades to meet demands of our customers. Close surveillance of demand is maintained to anticipate and meet these changes.

Increased volume can be reported in the white wove envelope field, and growing demand is evident in the packaging and saturating markets.

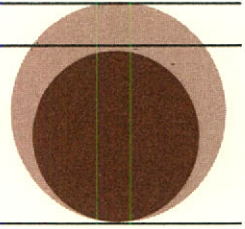
Currently, our board and paper production is at full capacity. Expanded demand for converting paper and board requires maximum production to gain full advantage of a market which is expected to grow 16% by 1970.

Technical Papers

1970—\$102.3

1965—\$83.3

Industry
Dollar
Value
(millions)



A broad line of technical papers is manufactured by the Company to meet the demands of a substantial market, expected to grow some 22% by 1970.

Included are negative papers for VanDyke prints, check papers for MICR printing, blue-print papers, drawing papers, translucent papers, chart and meter papers and a carbonizing base paper for Hectograph coating, among others.

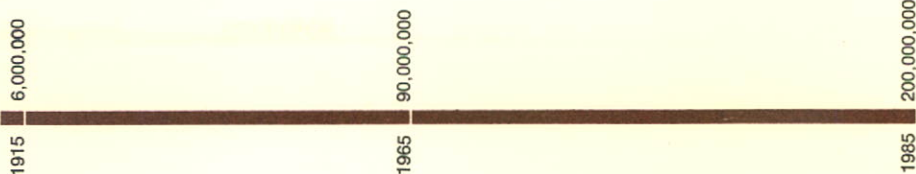
Other types of papers are being developed to meet specialized requirements of present and potential customers.

As of now, one of our most rapidly growing lines is paper for use in charts and meters, since complex recording instrumentation has mushroomed in recent years in nearly every industry. This demand continues to grow, not only in industry but in the scientific, research and educational fields as well.

Of interest also is the fact that our new direct process paper, made entirely from chemical wood pulp and coated with Diazo solution, is rapidly penetrating the growing market of whiteprint reproduction papers.

Our marketing of technical papers extends from coast to coast, and we expect our penetration of the market to increase significantly in the years ahead.

World demand for pulp and paper (annual tons)

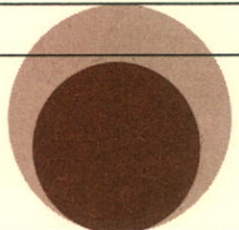


Absorbent Products

1970—\$189.1

1965—\$147.5

Industry
Dollar
Value
(millions)



With a long history of technological leadership in the paper industry, the Company has contributed much to the perfection of absorbent paper products, including development of the first wet strength towel. Today, our absorbent products include:

- Towels in assorted weights, produced both in natural tan and in white, embossed, and in multifold, singlefold, C-fold and roll form;
- Toilet tissue of facial grade, both single and two-ply, in natural tan or white;
- Industrial wipers, used in maintaining general cleanliness of machines in factories;
- Windshield wipers, used for cleaning headlights and automobile glass at service stations and garages;
- Kowtowls, for cleaning udders of dairy cows, for dairy hygiene and as an aid to prevention of mastitis.

The market for absorbent papers, already large, is growing, and will be an estimated 28% larger in 1970 than it is today. This offers an inviting prospect for increased sales which the Company intends to exploit to the maximum degree possible.

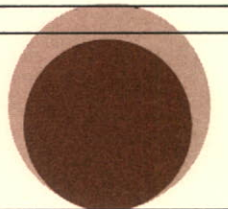
New types of absorbent products will be introduced by the Company in 1966 and heavier sales emphasis will be placed on specialized market areas such as hospitals, hotels, motels, and educational institutions.

Building Products

1970—\$348.0

1965—\$307.3

Industry
Dollar
Value
(millions)



Hardwood plywood is an important product line of the Company. Prefinished wall paneling for homes, offices and interiors of mobile homes is a major part of the line. Door skins for flush doors, and veneers for kitchen cabinets and counter fronts make up the balance.

Face veneer of yellow birch and maple is cut from premium logs, principally from Company timberlands. Other veneers include oak, walnut, cherry, elm, pecan, teak and rosewood. Stratford paneling is distributed widely throughout the country.

Bituminous fibre pipe, used for sewer laterals, septic tank disposal fields, land and highway drainage systems, and for underground electrical and communications conduit, represents the second major building product made by the Company.

Bermico is made from cellulose fibers, impregnated with coal tar pitch, in 8' and 10' lengths. Lightweight, corrosion and rootproof, it provides an easily installed permanent system for disposal of domestic and industrial wastes. As conduit, it may be buried directly or encased in concrete.

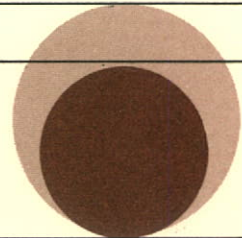
The market for building materials now manufactured by the Company is expected to increase by at least 13% within the next 5 years. We are geared to participate in this growth.

Specialty Products

1970—\$14.1

1965—\$10.8

Industry
Dollar
Value
(millions)



Solka Floc, a highly purified, finely-divided wood cellulose, with many industrial applications, is sold in every country in the free world. Employed in coated welding rods, plastics, floor tile, adhesives, rubber products, sueded and decorative novelties, in the filtration of chemicals, beverages, oils and water purification, it finds a wide variety of constantly changing uses as technological advances produce new or improved end products. A derivative of Solka Floc called Selectacel has played an important part in cancer research.

Other company specialty products are *Onco* and *Wultex*, used for insoles in the manufacture of women's shoes. Both also are used widely in the body construction of handbags and for other end uses in the imitation leather field.

During the past year, our Research and Development Department produced an asbestos base for vinyl floor tile, and a felt-type base for the same use. For the latter, we expect to find additional applications.

Chemicals produced at Gorham, N.H. are two urea formaldehyde resins, one an adhesive for the plywood and furniture industries, the other for use in absorbent paper products. Both are principally for our own use although limited quantities are sold to others.

An estimated growth of 30% by 1970 is predicted in the market for specialty products manufactured by the Company.

BROWN COMPANY Consolidated Balance Sheet**Assets**

As of November 30

Current Assets:	1965	1964
Cash	\$ 2,191,981	\$ 2,114,471
Short-term marketable securities, at cost (approximate market)	4,437,003	5,489,852
Accounts receivable, less allowance of \$115,000 for doubtful balances	7,297,932	7,234,447
Inventories (Note 2)	10,642,288	10,764,876
Prepaid expenses	1,099,512	788,656
Total current assets	<u>25,668,716</u>	<u>26,392,302</u>
 Fixed Assets (Note 3):		
Land, roads and buildings	18,635,272	18,615,260
Machinery and equipment	51,747,327	49,801,053
Construction in progress	1,644,022	1,033,569
	<u>72,026,621</u>	<u>69,449,882</u>
Less—Depreciation	39,972,246	38,583,732
	<u>32,054,375</u>	<u>30,866,150</u>
Timberlands	8,611,869	8,610,453
Less—Depletion	6,338,553	6,265,759
	<u>2,273,316</u>	<u>2,344,694</u>
Total fixed assets	<u>34,327,691</u>	<u>33,210,844</u>
 Other Assets:		
Investment in stock of another company, at cost (Note 4)	909,375	—
4½% note receivable, due December 15, 1967 (Note 6)	464,977	—
Other assets and deferred charges	552,074	751,271
	<u>1,926,426</u>	<u>751,271</u>
	<u>\$61,922,833</u>	<u>\$60,354,417</u>

Liabilities and Capital

	1965	1964
Current Liabilities:		
Accounts payable	\$ 5,364,918	\$ 4,732,079
Accrued expenses	1,319,809	1,229,222
Dividend payable	380,833	370,710
Total current liabilities	7,065,560	6,332,011
 Funded Debt (Note 10):		
4½% Debentures maturing June 15, 1975, less \$224,300 at November 30, 1965, purchased in anticipation of \$213,000 annual sinking fund requirement	3,174,300	3,304,900
 Deferred Income Taxes	1,360,000	1,360,000
 Capital and Retained Earnings (Notes 6 and 7):		
Common stock, par value \$1 per share:		
Authorized—3,500,000 shares. Issued—2,539,661 shares at November 30, 1965; 2,509,050 shares at November 30, 1964	2,539,661	2,509,050
Other capital, in excess of par value of common stock	9,318,779	9,194,437
Retained earnings	38,543,168	38,295,374
	50,401,608	49,998,861
Less—Cost of common stock held in treasury: 5,700 shares in 1965 and 37,650 in 1964	(78,635)	(641,355)
Total capital and retained earnings	50,322,973	49,357,506
 Commitments (Notes 9 and 10)		
	\$61,922,833	\$60,354,417

BROWN COMPANY Consolidated Statement of Source and Application of Funds

Year Ended November 30

Source of Funds:	1965	1964
Operations:		
Net income for the year	\$1,758,119	\$2,245,657
Provision for depreciation and depletion	3,131,436	3,049,683
Other non-cash items	36,299	274,448
Total from operations	4,925,854	5,569,788
Proceeds from sales of fixed assets	134,264	205,648
Proceeds from stock options exercised	266,337	127,060
Proceeds from sale of 40,767 shares of common stock sold under provisions of stock purchase agreement, less portion of proceeds represented by 4½% note receivable in the amount of \$464,977 due Decem- ber 15, 1967	64,994	—
Other (net)	569,055	491,301
	<u>5,960,504</u>	<u>6,393,797</u>
 Application of Funds:		
Additions to fixed assets	4,320,213	2,191,233
Dividends paid	1,500,202	1,478,940
Purchase of common stock of another company	909,375	—
Purchase of Brown Company common stock: 5,700 shares in 1965, 10,000 shares in 1964	78,635	134,172
Purchase of Brown Company 4½% debentures	127,418	483,788
Loss on extraordinary abandonments, less related non-cash adjustments of \$1,902,302	—	1,010,698
	<u>6,935,843</u>	<u>5,298,831</u>
Excess, representing (decrease) increase in cash and marketable securities	<u>\$ (975,339)</u>	<u>\$1,094,966</u>

BROWN COMPANY Consolidated Statement of Income and Retained Earnings

Year Ended November 30

	1965	1964
Sales , less discounts, returns and allowances	\$67,417,479	\$68,133,770
Costs and Operating Expenses (Note 8):		
Materials, services and other manufacturing costs, research and development expenses, etc.	60,962,450	61,601,818
Selling, general and administrative expenses	4,907,493	4,143,968
	<u>65,869,943</u>	<u>65,745,786</u>
Operating income	<u>1,547,536</u>	<u>2,387,984</u>
Other income (charges):		
Portion of loss on extraordinary abandonments (Note 5)	—	(300,000)
Net gains on disposal of other plant and timberland properties	39,877	88,117
Net gains on sale of securities	90,045	—
Interest on funded debt	(147,269)	(153,751)
Other interest—net	171,522	149,224
Miscellaneous—net	56,408	74,083
	<u>210,583</u>	<u>(142,327)</u>
Net income (Note 5)	1,758,119	2,245,657
Loss (except portion charged to income) on extraordinary abandonments (Note 5)	—	2,613,000
Net income and loss on extraordinary abandonments	1,758,119	(367,343)
Retained earnings at beginning of year	38,295,374	40,141,957
Dividends declared—60 cents per share	(1,510,325)	(1,479,240)
Retained earnings at end of year	<u>\$38,543,168</u>	<u>\$38,295,374</u>

Costs and operating expenses shown above include \$3,131,436 in 1965 and \$3,049,683 in 1964 for depreciation and depletion.

Notes to Financial Statements

Note 1 — Reorganization and Basis of Consolidation: As authorized by the stockholders on April 20, 1965, Brown Company was incorporated in Delaware as successor to the company of the same name which was a Maine corporation. At the same time Brown's facilities for the production of electricity, which are subject to control by regulatory authorities, were transferred to a wholly-owned subsidiary. In the accompanying financial statements the accounts of this subsidiary have been consolidated with those of Brown.

Note 2 — Inventories: With the exception of pulpwood, inventories are stated on the basis of cost or market, whichever lower, cost representing current average or current standard cost. Inventories of pulpwood, amounting to about \$175,000 at November 30, 1965 are stated at cost determined by the last-in, first-out method of valuation. The inventories comprise:

	November 30	
	1965	1964
Pulpwood, logs and logging operations in progress	\$ 819,858	\$ 1,534,813
Other material and supplies	4,326,047	4,214,840
Paper and other manufactured products	5,496,383	5,015,223
	<u>\$10,642,288</u>	<u>\$10,764,876</u>

Note 3 — Fixed Assets: Land, roads, buildings, machinery and equipment are carried at cost, less depreciation provided. Timberlands are carried at appraisal value determined in 1904, plus subsequent acquisitions at cost, less depletion based on timber cut.

Note 4 — Investment in Stock of Another Company: At November 30, 1965 the company held an investment in the common stock of another company at a cost of \$909,375. The approximate market value of this investment, based on market quotations at November 30, 1965, was \$620,000. Company officials do not believe that the value of this investment is permanently impaired and accordingly the investment is included in the accompanying balance sheet at cost.

Note 5 — Federal Income Taxes: As a result of the carry-over of abandonment losses from 1962 and 1964, no provision is required for federal income taxes for the year ended November 30, 1965. If the loss carry-overs relating to these abandonments had not been available there would have been charges to income for federal income taxes currently payable and for deferred income taxes which would have reduced the reported net income by \$650,000 in 1965 and \$525,000 in 1964. As of November 30, 1965 the aggregate of available loss carry-overs is such that approximately \$200,000 of reportable future earnings will be free of charges for federal income taxes either currently payable or deferred.

Most of the 1964 loss from abandonments was charged to retained earnings in that year. The portion charged to 1964 income (\$300,000) is equivalent to the amount of federal income taxes which, except for the loss, would have been charged against income for that year.

Note 6 — Stock Options, Stock Purchase Agreement and Executive Incentive Program: At November 30, 1964 options to purchase 54,578 shares of the company's common stock were held by certain officers and employees under the company's stock option plans. During the year ended November 30, 1965 options for 25,000 shares were granted at a price of \$14.38 per share, options for 2,800 shares were exercised at a price of \$11.69 per share and options for 15,398 shares expired. In December 1965, 510 shares were issued as a result of an option exercised at \$12.30 per share prior to November 30, 1965. At November 30, 1965 options were outstanding for 60,870 shares at prices ranging from \$10.43 to \$17.72 per share, an aggregate of \$787,332. Options were then exercisable for 35,870 shares at prices ranging from \$10.43 to \$17.72 per share, an aggregate of \$427,832. The remaining options become exercisable in installments on various dates through 1971. Under the company's stock option plans, options for 100,000 additional 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.

During the year the company agreed to sell 100,000 shares of its common stock at a price of \$13 per share to an investment company controlled by a Brown Company officer. As of November 30, 1965, Brown had issued 40,767 shares (of which 37,650 shares were formerly held in the treasury) for \$64,994 in cash and a 4½% note of the investment company for \$464,977 due December 15, 1967. As provided in the agreement the remaining 59,233 shares will be issued prior to December 15 1967 to the extent of cash payments received therefor from the investment company; except that, subject to the authorization of the shareholders, the directors approved, subsequent to November 30, 1965, the transfer from time to time of additional shares from the treasury upon receipt of the investment company's 4½% notes due December 15, 1967 in payment therefor. All of the shares issued under the provisions of the agreement are to be held by the company as security for the payment of the notes.

Report of Independent Accountants

In December 1965 the Directors adopted an Executive Incentive Program, subject to the approval of the shareholders, providing for the issuance to key executives of up to 75,000 shares of the company's common stock as deferred bonuses to be earned on the basis of corporate earnings improvement during the five-year period following issuance. Such shares are to be held in trust until earned and any unearned shares are to be sold to the company at a nominal price.

Other capital has been increased during the year by:

The excess of the amount received over the par value of 27,494 shares of common stock issued to fulfill stock options (24,694 of such shares were issued in December 1964 to fulfill an option exercised prior to November 30, 1964) and 3,117 previously unissued shares of common stock sold under the provisions of the stock purchase agreement	\$276,247
Less: The excess of cost over the selling price of 37,650 treasury shares sold under the provisions of the stock purchase agreement	<u>151,905</u>
	<u>\$124,342</u>

Note 7—Dividend and Other Restrictions:

In the indenture covering the company's 4½% debentures there are restrictions on the payment of cash dividends on the company's common stock and on the application of any property or assets to the purchase or retirement of its common stock. As of November 30, 1965 such payments and applications were restricted to approximately \$5,200,000.

Note 8—Retirement Plans for Employees:

During the year the company charged to income \$670,000 for expenses relating to retirement plans. The currently estimated amount required to complete the funding of past service cost under Brown Company's retirement plans for employees is approximately \$3,800,000.

Note 9—Commitments: In connection with the company's extensive expansion plans, firm purchase contracts have been executed for approximately \$10,000,000. Also an agreement for the leasing of certain equipment for a fifteen-year period was entered into during the year. Annual rental commitments under this lease amount to \$200,000. Rental payments will commence when the equipment becomes operative in 1966.

Note 10—Purchase of Stock of KVP Sutherland Paper Company: On January 25, 1966 the company purchased 1,108,930 shares of the common stock, \$5 par value, of KVP Sutherland Paper Company (KVP) at a price of \$33 per share in accordance with the terms of an offer made to the shareholders of KVP on December 21, 1965. This purchase has been financed through the issuance of Brown Company's 6% notes payable July 25, 1968 in the amount of \$37,703,620 to a group of lending institutions. The outstanding 4½% debentures of Brown Company maturing June 15, 1975 have been called for redemption in connection with this financing.

To the Board of Directors and Stockholders of Brown Company

In our opinion, the accompanying balance sheet, statement of income and retained earnings, and statement of source and application of funds present fairly the consolidated financial position of Brown Company and subsidiary companies at November 30, 1965 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
December 23, 1965, except for
the matter contained in Note 10
for which the date is January 25, 1966.

BROWN COMPANY Ten-Year Financial Review

Years Ending November 30
(\$000 omitted)

	1965
Operating Data	
Net Sales	\$ 67,417
Operating Income	1,548
Income Before Taxes	1,758
Income Taxes	—
Net Income	1,758
Depreciation and Depletion	3,131
Cash Flow (income plus depreciation and depletion)	4,889
Capital Expenditures	4,320
Balance Sheet Data	
Working Capital	\$ 18,603
Current Ratio	3.6
Plant and Equipment, net	\$ 32,065
Timberlands, net	2,273
Total Fixed Assets, net	34,328
Total Assets	61,923
Long-Term Debt (due after one year)	3,174
Stockholders' Equity	50,323
Common Stock	
Common Shares Outstanding—end of year	2,533,961
Number of Stockholders	6,069
Per Share: Earnings	\$.70 (b)
Dividends Paid60
Book Value (equity)	19.86
Cash Flow	1.93

1964	1963	1962	1961	1960	1959	1958	1957	1956
\$68,134	\$67,888	\$57,455	\$56,272	\$59,173	\$58,888	\$55,408	\$61,158	\$59,683
2,388	2,309	996	2,215	2,604	1,328	1,776	3,504	4,611
2,246	2,372	731	2,291	2,287	944	1,390	3,180	4,572
—	—	—	820	940	230	94	1,100	1,960
2,246	2,372	731	1,471	1,347	714	1,296	2,080	2,612
3,050	3,550	3,851	3,892	3,699	3,460	3,185	2,856	2,433
5,295	5,922	4,581	5,363	5,046	4,174	4,481	4,936	5,045
2,191	3,209	5,012	2,660	2,565	3,600	2,302	8,059	10,827
\$20,060	\$19,319	\$17,291	\$18,811	\$16,890	\$14,696	\$14,918	\$13,350	\$19,126
4.2	3.8	3.9	4.3	4.1	2.9	3.2	2.4	3.1
\$30,866	\$32,825	\$33,483	\$41,080	\$42,322	\$43,542	\$43,243	\$44,065	\$38,813
2,345	2,435	2,531	2,634	2,743	2,812	2,914	2,909	3,053
33,211	35,260	36,014	43,714	45,065	46,354	46,157	46,974	41,866
60,354	63,186	61,480	69,350	68,877	70,070	69,259	71,390	71,867
3,305	3,612	3,822	4,028	4,229	4,377	4,677	4,863	5,059
49,358	51,211	50,128	58,020	57,632	56,546	56,644	56,012	56,587
2,471,400	2,469,400	2,481,000	2,562,681	2,621,981	2,638,981	2,588,651	2,588,651	2,592,451
6,350	7,001	7,895	7,929	8,593	8,173	7,622	7,648	7,114
\$.91(b)	\$.96(b)	\$.29	\$.57	\$.51	\$.27	\$.50	\$.80	\$ 1.01
.60	.42½	.40	—	—	.30(a)	.55	1.00	1.00
19.97	20.74	20.20	22.64	21.98	21.43	21.88	21.64	21.83
2.15	2.40	1.81	2.08	1.91	1.59	1.73	1.91	1.95

Note: Amounts for 1963, 1964 and 1965 include the operations of the American Writing Paper Division which was acquired on December 31, 1962.

(a) In addition, a stock dividend of 2% was paid on March 1, 1959.

(b) If loss carryovers (See Note 5—Financial Statements) had not been available, earnings per share would have been \$.44 in 1965, \$.70 in 1964, and \$.60 in 1963.

Directors

DR. LUCIANO FRANCOLINI *Milan, Italy*
Vice-Chairman,
Banca Privata Finanziaria

AMEDEO GATTI *Montreal, Quebec*
Vice President and Treasurer,
South Nelson Forest Products Corporation

IRA GULDEN *New York, N.Y.*
President,
Baldwin Securities Corporation

HUGH D. JORDAN *New York, N.Y.*
Vice President and Treasurer

FRANK T. PETERSON* *New York, N.Y.*
President

LEONARD A. PIERCE *Berlin, N.H.*
Vice President

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

PHILIP A. ROTH* *New York, N.Y.*
Vice President, Treasurer and Chairman of
Executive Committee, Baldwin Securities
Corporation

JOHN L. SULLIVAN *Manchester, N.H.*
Partner—Sullivan & Wynot (Manchester, N.H.)
Sullivan, Shea & Kenney (Washington, D.C.)

JOHN W. THORNTON* *Pittsburgh, Pa.*
Manager of Product Planning,
Blaw-Knox Company

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

*Member of the Executive Committee

Officers

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Chairman of the Board

FRANK T. PETERSON
President and Chief Executive Officer

GEORGE D. KENNEDY
Executive Vice President

ROBERT E. CROSSLEY
Vice President—Engineering

CLARENCE S. HERR
Vice President—Woodlands

DR. ROBERT W. HISEY
Vice President and Technical Director

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Vice President and Treasurer

JOHN W. JORDAN
Vice President and Secretary

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Vice President—Eagle-A Division

JOHN J. McDONALD
Vice President—Specialty Products Division

MALCOLM T. MURRAY
Vice President—Bermico Division

LEONARD A. PIERCE
Vice President

LEONARD E. HICKEY
Assistant Treasurer

JOSEPH N. ROZEK
Assistant Treasurer

EDWARD J. REICHERT
Assistant Secretary

Executive Offices

277 Park Avenue, New York, N.Y. 10017

Sales Offices

New York—277 Park Avenue

Boston—150 Causeway Street

Chicago—O'Hare Office Center, Des Plaines,
Illinois

Plants

Berlin, Gorham and
North Stratford, New Hampshire

Holyoke, Massachusetts
Mount Holly, New Jersey
Birmingham, Alabama
Corvallis, Oregon

Transfer Agent

The Corporation Trust Company
New York and Jersey City, N.J.

Registrar

Registrar and Transfer Company
New York

Auditors

Price Waterhouse & Co., Boston

Perspective on Profits

PRICING STRUCTURES WHICH REDUCE SATISFACTORY PROFIT OPPORTUNITIES ARE ONE OF THE MOST BASIC AND PERPLEXING PROBLEMS OF THE AMERICAN PULP AND PAPER INDUSTRY.

The unfortunate propensity of the industry to take the course of price reduction in periods of overcapacity is usually governed by fear of risking volume loss with the attendant unfavorable cost absorption ratios. Results of these policies have their ultimate reflection on equity earnings. Although present trends are toward more favorable pricing structures, your management cannot rest securely by dependence on these trends alone for future profitability.

CORRECTION OF DESCENDING RATES OF PROFIT CANNOT BE ACHIEVED BY CONVENTIONAL COST CONTROL MEASURES ALONE.

In view of this, your management has adopted certain philosophies to foster continued profitability:

1. A growth program consisting of expansion and acquisition with minimum dilution of stockholder equity and maximum earnings based on a percentage of equity.
2. Expansion will be fostered on continual development of as favorable a debt to equity ratio as can be maintained.
3. In growth, volume is necessary, but growth will not be fostered for the purpose of bigness or volume alone. If growth expansion does not show sound reflections in shareholder equity in any particular case, your management will look in other directions for growth.
4. We live in an age of survival due to modern productive units and modern market orientation. We will concentrate on these two principles by employment of the most efficient productive and distribution machinery available.
5. We will exploit massive natural timber resources to their maximum practical utilization.

We are a component part of a great industry that is committed to growth. In 1965 the world produced and consumed in excess of 90 million tons of our type product. By every conservative prediction, the world will produce and consume around 200 million tons in 1985. We will participate in this growth on the basis of these philosophies.

Products of Brown

Eagle-A Papers

Cotton content papers
Boxed typewriter papers
Creative papers
Sulphite cover papers
Index Bristols
Sulphite thin papers
Translucent papers
Sulphite unwatermarked papers
Unwatermarked writing papers
Uncoated book papers

Nibroc Papers

Printing papers
Flexible packaging papers
Envelope papers
Creped papers
Masking tape papers
Abrasive backing papers
Communications papers
Creping papers
Gumming papers
Asphalting papers
Wet strength papers
Battery separators

Cylinder Board Products For

Match sticks
Set up boxes
Folding boxes
Weatherproof overseas boxes

Hardwood Plywood

For home and office paneling
Door skins
Counter fronts
Kitchen cabinets
Mobile home interiors

Bermico Fiber Pipe

Sewer laterals
Septic tank disposal fields
Foundation drainage systems
Land and highway underdrains
Underground electrical conduit

Solka Flocc

For coating welding rods
Paper coating
Filtration of chemicals and beverages
For plastic compounds
In pharmaceuticals and foods
Compounding with rubber and floor tile
Sueded novelties
In medical research

Onco

For insoles
Hats and handbags

Brown Company papers
used in this report are:

Cover, Eagle-A Velvetsheen. Cover weight.
Bright White Satin. 320 M (Sub. 80)

Inside Flap, Eagle-A L'Aiglon. Text Weight.
Tangerine. 160 M (Sub. 80)

Text, Eagle-A Velvetsheen. Text Weight.
Bright White Satin. 200 M (Sub. 100)

