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# BROWN Company



Berlin, NEW HAMPSHIRE

Berlin, New Hampshire  
March 15, 1955

*To the Stockholders of  
Brown Company:*

The Board of Directors of the Company believes that it should call for redemption as soon as possible all of the Company's 142,171 presently outstanding shares of \$5 Convertible Preference Stock. All of the Company's bonds and all of its \$3 Preference Stock have already been retired.

The \$5 Convertible Preference Stock represents the old \$6 Preferred issued in the 1941 Reorganization to former bondholders and creditors of the Company. Its holders have the right to elect six Directors and to participate in the election of another. It is entitled to the benefits of an annual sinking fund equal to one-third of the amount by which net income after taxes for the previous year exceeds the dividend requirements on the \$5 Convertible Preference Stock in such year. It is redeemable at \$100 per share plus accrued dividends, and each share is convertible, on or before the second business day preceding the date fixed for its redemption, into seven shares of Common Stock.

It is believed that many holders of the \$5 Convertible Preference Stock would, upon its call for redemption, unless some suitable alternative were offered to them, convert their shares into Common Stock rather than accept the \$100 redemption price. This would dilute the interest of the Common Stock, not only in the per share Common Stock equity of about \$23.45, but also in earnings, particularly at the level expected after completion of the plant addition and improvement program at Berlin, N. H.

The Board of Directors believes that it would be appropriate for it to call the \$5 Convertible Preference Stock and to offer the holders who do not convert, the opportunity of purchasing after the redemption date, for each \$100 received or receivable as part of the redemption price, a package consisting of a \$100 non-convertible Debenture and one share of Common Stock. While the terms of the Debentures have not yet been fixed, it is presently contemplated that they would bear interest at the rate of 4½% per year (but not exceeding 5%), would mature in 20 years, and would be entitled to a sinking fund designed to retire at least 65% of the issue by maturity, and would be callable at 100%. The Debenture holders would also be protected by more or less conventional provisions concerning total funded debt, mortgaging of assets and payment of dividends. Further details regarding these provisions are given in the attached Proxy Statement.

If the proposed offer were accepted by all holders of the \$5 Convertible Preference Stock, 142,171 additional shares of Common Stock and \$14,217,100 of Debentures would be issued in lieu of the 995,197 presently authorized shares of Common Stock which would be issued if all converted.

A stockholders' meeting has been called for April 6, 1955 to obtain the necessary authorizations to permit making such an offer. Attached is a notice of the meeting and a Proxy Statement outlining the matter in greater detail. This is not an offer of the Debentures or the Common Stock. If authorized by the stockholders, such offer will be made at a later date.

Very truly yours,

*L F Whittmore*  
President

If you cannot be present at the meeting, you are urged to sign and return the enclosed Proxy at your earliest convenience.

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#### NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

NOTICE IS HEREBY GIVEN that a Special Meeting of the Stockholders of Brown Company will be held at the office of the Company in the State of Maine, Room 903, 465 Congress Street, Portland, Maine, on Wednesday, April 6, 1955 at 2 o'clock in the afternoon, for the purpose of authorizing the issue of not exceeding 142,171 shares of Common Stock, \$1 par value, of the Company pursuant to the \$5 Convertible Preference Stock Reinvestment Offer described in the attached Proxy Statement, waiving the pre-emptive rights of the holders of the Common Stock to subscribe to said shares of Common Stock, and amending the By-Laws to reflect such authorization and waiver.

Stockholders of record at the close of business on March 11, 1955 will be entitled to vote at the meeting or any adjournment.

By Order of the President,

LEONARD A. PIERCE, Clerk

March 15, 1955

## PROXY STATEMENT

The enclosed proxy is solicited by the management of Brown Company for use at the Special Meeting of Stockholders to be held on Wednesday, April 6, 1955, or any adjourned session. The cost of solicitation will be borne by the Company. Shares represented by duly executed proxies will be voted, and where a choice is specified by the ballot contained in the proxy, will be voted in accordance with the specification made. However, the Board of Directors has authority to call the \$5 Convertible Preference Stock and if it should call such stock and deposit the redemption funds therefor before the meeting, the holders of the \$5 Convertible Preference Stock would not be entitled to vote at the meeting and proxies would not be voted in respect of shares of the \$5 Convertible Preference Stock. The Board of Directors intends to call the \$5 Convertible Preference Stock before the meeting if the required vote of the Common Stock is obtained but the required vote of the \$5 Convertible Preference Stock is not obtained. Proxies may be revoked at any time before they are exercised.

The meeting has been called to authorize the issue of not exceeding 142,171 shares of the Company's Common Stock pursuant to the \$5 Convertible Preference Stock Reinvestment Offer outlined below, to waive the preemptive rights of the holders of the Common Stock to subscribe to said shares, and to amend the By-Laws to reflect such authorization and waiver. The management knows of no other business to be brought before the meeting. If any other matter should be presented for action, the persons named in the proxy may take such action as in their judgment seems advisable.

All of the Company's outstanding \$3 Cumulative Second Preference Stock, without par value (\$40 stated value) was redeemed on February 1, 1955. Thus, holders of the Common Stock, \$1 par value, and of the \$5 Cumulative Convertible First Preference Stock, without par value (\$60 stated value), each of record at the close of business on March 11, 1955, will be the only stockholders entitled to vote at the meeting or any adjournment thereof. Adoption of the proposal regarding the \$5 Convertible Preference Stock Reinvestment Offer requires a favorable vote of the holders of not less than 60% of the outstanding shares of Common Stock, voting as a class, and a favorable vote of a majority of the outstanding shares of \$5 Convertible Preference Stock, voting as a separate class. However, as stated above, the Board of Directors has authority to call the \$5 Convertible Preference Stock and if it should call such stock and deposit the redemption funds therefor prior to the meeting, the holders of the \$5 Convertible Preference Stock will not be entitled to vote at the meeting. On March 11, 1955, there were 2,001,812 outstanding shares of Common Stock, the holders of which are entitled to one vote per share, and 142,171 shares of \$5 Convertible Preference Stock, the holders of which are entitled to two votes per share.

### \$5 CONVERTIBLE PREFERENCE STOCK REINVESTMENT OFFER

#### **The Proposed Offer.**

The Board of Directors proposes, soon after the meeting, to call by its own action the \$5 Convertible Preference Stock for redemption at its call price of \$100 per share plus dividends accrued to the redemption date except that as stated above, the Board of Directors reserves the right to call this stock before the meeting. Dividends on this stock have been paid to March 1, 1955.

The By-Laws provide that upon call for redemption, holders have the choice of either accepting the cash call price, or of converting the stock into Common Stock on the basis of seven shares of Common Stock for each one share of \$5 Convertible Preference Stock.

It is proposed that the Company offer the holders of the \$5 Convertible Preference Stock who do not exercise the conversion privilege, the opportunity of purchasing after the redemption date, for each \$100 received or receivable as part of the redemption price, a package consisting of a \$100 non-convertible Debenture and one share of Common Stock. The terms of the Debentures have not yet been fixed finally, but their proposed terms are outlined below under "Description of Proposed Debentures".

#### **Reasons for the Offer.**

It is believed that many holders of the \$5 Convertible Preference Stock would, upon its call for redemption, unless some suitable alternative were offered to them, convert their shares into Common Stock rather than accept the \$100 redemption price. This would dilute the interest of the Common

Stock, not only in the per share Common Stock book equity, but also in earnings, particularly at the level expected after completion of the plant addition and improvement program at Berlin, N. H. On November 30, 1954, the per share Common Stock book equity was \$23.45, adjusted to give effect to the sale of assets of Brown Corporation on December 1, 1954.

The Board of Directors believes that the proposed reinvestment offer is a reasonable method of reducing dilution on a voluntary basis.

If the holders of all of the \$5 Convertible Preference Stock accept the reinvestment offer, \$14,217,100 of Debentures and 142,171 shares of Common Stock will be issued in lieu of the issue of the 995,197 presently authorized shares of Common Stock which would be issued if all converted.

#### **Description of Proposed Debentures.**

The interest rate, maturity, redemption price and other terms of the Debentures have not as yet been determined. They will be fixed at the time of the meeting in the light of then existing market conditions. While the Board of Directors reserves the right to determine the final terms of the Debentures, it is presently contemplated that they will bear interest at the rate of 4½% (but not exceeding 5%) per year payable semi-annually, will mature in twenty years, will be entitled to a sinking fund designed to retire at least 65% of the issue by maturity, and will be callable, both at the option of the Company and for the sinking fund, at 100%.

The Indenture under which the Debentures are issued will also contain restrictions, applicable while any of the Debentures are outstanding, on funded debt, the payment of dividends on the Common Stock and the mortgaging of assets. While these restrictions have not been finally determined, they will probably provide that the Company (a) may create or incur funded debt up to 35% of consolidated net tangible assets immediately after the creation of such debt (at December 1, 1954, the contemplated limitation would have permitted total funded debt of approximately \$26,000,000, including the Debentures), (b) may declare cash dividends and make cash distributions on its Common Stock in amounts equal to earnings subsequent to November 30, 1954 plus \$4,000,000 and may declare stock dividends on its Common Stock without limit, and (c) may not create any mortgage or permit any liens on any of its property except for certain permitted encumbrances and except for liens existing on, or created to secure debt to pay the cost of, property acquired subsequent to November 30, 1954, provided that the amount of debt secured by such liens shall not exceed 66% of the cost or fair value of such property and shall not exceed 10% of consolidated net tangible assets immediately after acquiring any such property.

The Debentures will not be secured, nor will they be convertible into any other security. They will be issued under an Indenture to Old Colony Trust Company, as Trustee, and the Indenture will be qualified under the Trust Indenture Act of 1939.

#### **Proposed Vote.**

On March 16, 1955, there were 995,197 authorized but unissued shares of Common Stock, the issue of which is restricted by the By-Laws to satisfaction of the conversion rights of the \$5 Convertible Preference Stock. The By-Laws also provide that holders of the Common Stock have preemptive rights to subscribe to any stock issued by the Company (other than Common Stock issued upon conversion of the \$5 Convertible Preference Stock) unless such right is waived by the holders of 60% of the Common Stock. The By-Laws further provide that the By-Law itself may be amended by the holders of 60% of the Common Stock and a majority of the voting power of each other class of stock outstanding and entitled to vote.

It is proposed that the Board of Directors be authorized to issue the authorized but unissued shares either in satisfaction of the conversion rights of the \$5 Convertible Preference Stock or pursuant to the proposed reinvestment offer, that the preemptive rights of the holders of the Common Stock be waived with respect to shares of Common Stock issued pursuant to the reinvestment offer, and that the By-Laws be amended to reflect such authorization and waiver.

A favorable vote of the holders of not less than 60% of the outstanding shares of Common Stock and of a majority of the outstanding shares of \$5 Convertible Preference Stock, each voting as a separate class, is required for adoption of this vote, except that if the \$5 Convertible Preference Stock is called for redemption prior to the meeting and redemption funds deposited therefor, the holders thereof will not be entitled to vote at the meeting.

### MARKET PRICES OF STOCKS

Brown Company's \$5 Convertible Preference Stock and Common Stock are listed on the American Stock Exchange. The high and low sale prices therefor on the American Stock Exchange by quarterly periods for 1952, 1953 and 1954, and to March 11 in 1955 were:

Period	\$5 Preference		Common	
	High	Low	High	Low
<b>1952</b>				
1st Quarter .....	112 $\frac{3}{4}$	106	15 $\frac{1}{2}$	12 $\frac{1}{8}$
2nd Quarter .....	105	100	13 $\frac{1}{8}$	10 $\frac{5}{8}$
3rd Quarter .....	105 $\frac{1}{2}$	101	11 $\frac{5}{8}$	9 $\frac{5}{8}$
4th Quarter .....	100	98	11 $\frac{1}{4}$	8 $\frac{5}{8}$
<b>1953</b>				
1st Quarter .....	100	96	12 $\frac{3}{8}$	9 $\frac{1}{8}$
2nd Quarter .....	95	87	11 $\frac{1}{2}$	8 $\frac{3}{8}$
3rd Quarter .....	89 $\frac{1}{2}$	88 $\frac{1}{4}$	9 $\frac{1}{2}$	7 $\frac{1}{4}$
4th Quarter .....	92	89	9 $\frac{1}{8}$	7 $\frac{1}{8}$
<b>1954</b>				
1st Quarter .....	101	89 $\frac{3}{4}$	12 $\frac{7}{8}$	8 $\frac{3}{4}$
2nd Quarter .....	105	99	14	11 $\frac{1}{2}$
3rd Quarter .....	120	102 $\frac{1}{2}$	17 $\frac{1}{4}$	12 $\frac{5}{8}$
4th Quarter .....	121	107	17 $\frac{1}{2}$	14 $\frac{1}{2}$
<b>1955</b>				
To March 11 .....	119 $\frac{3}{4}$	109 $\frac{1}{2}$	17	14 $\frac{3}{4}$

### ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of the Stockholders of the Company will not be held until after the consummation in May of the proposed \$5 Convertible Preference Stock Reinvestment Offer. At the meeting, all of the twelve Directors would, if the proposed offer is authorized, be elected by the holders of the Common Stock.

### FINANCIAL STATEMENTS

Included in this Proxy Statement are audited balance sheets as at November 30, 1954 of Brown Company and Brown Corporation, consolidated, of Brown Company alone, and of Brown Corporation alone. Also included are audited statements of income and surplus for each of the last three fiscal years for Brown Company and Brown Corporation, consolidated, for Brown Company alone, and for Brown Corporation alone.

As shown in these Financial Statements, substantially all of the assets of Brown Corporation were sold for cash on December 1, 1954. For a period of one or two years, Brown Company's earnings are expected to be reduced by a substantial portion of Brown Corporation's former earnings. In the fiscal year ending November 30, 1954, Brown Corporation's net income was \$2,266,159 (Canadian).

However, in the fiscal year 1954, the Company declared \$931,295 of dividends on its Preference Stocks, which constituted a charge on the earnings of the Company ahead of earnings applicable to the Common Stock. This charge will be entirely eliminated upon the retirement of the remaining Preference Stock. The Company has also retired all of its \$12,800,000 of Bonds. Although the amount of Debentures may exceed the amount of Bonds retired, it is believed that the interest charges on the proposed Debentures will not materially exceed the interest charges on the Bonds, and that the combined interest and sinking fund charges on the proposed Debentures will be less than the combined interest and sinking fund charges on the Bonds.

Plans are underway to make certain additions and improvements to the Company's plants at Berlin, N. H. estimated to cost at least \$10,000,000. Approximately \$10,000,000 of the proceeds received from the sale of Brown Corporation, together with funds available from internal sources, will be used for this purpose. These plans are designed to recover a major portion of the earning power of Brown Corporation and will include a sulphate bleachery which will permit the Company to produce bleached pulps similar to those formerly purchased from Brown Corporation.

#### SOLICITATION OF PROXIES

In addition to the solicitation of proxies by mail, officers and employees of the Company may solicit in person or by telephone. Georgeson & Co., of New York City, has been employed to solicit proxies (through approximately 40 of its employees) by mail, telephone or personal solicitation, at an anticipated cost to Brown Company of not more than \$7,500. The Company will, upon request, reimburse persons holding stock in their names or those of other nominees for their reasonable expenses in sending proxies and other relevant material to their principals.

Shares of stock which are represented by Voting Trust Certificates issued under the expired Voting Trust Agreement and which have not been exchanged for actual stock certificates will be voted by the Voting Trustees only upon receipt of and in accordance with proxies submitted by the holders of such Voting Trust Certificates. Thus, the form of proxy covers actual shares of stock as well as unexchanged Voting Trust Certificates.

Respectfully,

L. F. WHITTEMORE, *President*

March 15, 1955

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

*To the Board of Directors of*

BROWN COMPANY:

In our opinion, the accompanying balance sheets and related statements of income and surplus of Brown Company, of its subsidiary, Brown Corporation, and of the two companies consolidated, with the notes thereto, present fairly the financial position of the companies at November 30, 1954, their consolidated financial position at November 30, 1954 (before and after giving effect to the sale of Canadian assets on December 1, 1954 referred to in Note 2), and the results of their operations for the three years then ended, in conformity with generally accepted accounting principles applied on a basis consistent in all material respects throughout the period. Our examination of such 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

February 17, 1955

**BROWN COMPANY  
AND ITS SUBSIDIARY, BROWN CORPORATION  
CONSOLIDATED BALANCE SHEET**

**ASSETS**

	<b>November 30, 1954</b>	<b>November 30, 1954 Adjusted*</b>
<b>CURRENT ASSETS:</b>		
Cash .....	\$ 2,156,496	\$32,410,723
Cash on deposit with bond trustee (Note 9) .....		12,800,000
Accounts receivable, trade, less \$150,000 allowance for doubtful accounts .....	5,641,971	5,641,971
Account receivable, Canadian International Paper Company, from sale of Canadian assets (Note 2) .....		2,357,048
Accounts receivable, other .....	289,576	289,576
 Inventories (Note 4):		
Pulp and other products .....	\$ 4,168,315	\$ 3,860,071
Pulpwood .....	5,517,677	1,101,397
Pulpwood operations in progress .....	5,433,928	1,619,251
Other materials and supplies .....	4,301,183	2,891,052
 Prepaid insurance, taxes and other expenses .....	\$19,421,103	\$ 9,471,771
 Total current assets .....	\$ 1,213,352	\$ 1,000,961
 <b>FIXED ASSETS (Note 5):</b>		
Plants and equipment:		
Land .....	\$ 1,284,588	\$ 1,160,304
Buildings and other structures .....	22,263,459	15,274,336
Machinery and equipment .....	52,613,302	35,847,179
Construction work in progress .....	1,469,302	1,469,302
 Less — Depreciation .....	\$77,630,651	\$53,751,121
	42,637,022	27,179,419
 Timberlands .....	\$34,993,629	\$26,571,702
 Less — Depletion .....	\$12,674,744	\$ 8,495,428
	7,359,445	5,286,158
 Total fixed assets .....	\$ 5,315,299	\$ 3,209,270
 <b>INVESTMENTS AND OTHER ASSETS:</b>		
Capital stocks of subsidiaries not consolidated (Note 6) .....	\$ 7	\$ 7
Advance to subsidiary not consolidated .....	3,161	3,161
Capital stock of St. Maurice Power Corporation (Note 2) .....	1	
Investments in other companies, at cost or written-down amounts (Note 7) .....	267,547	255,001
Claims for refund of prior years' income taxes (Note 8) .....	410,979	410,979
Patents, at cost, \$379,986, less amortization, \$346,841 .....	33,145	33,145
Other assets and deferred charges .....	326,584	171,162
 Total investments and other assets .....	\$ 1,041,424	\$ 873,455
 \$70,072,850		\$94,626,477

(See notes to financial statements)

\*Adjusted to give effect to sale of Canadian assets on December 1, 1954, etc. (Note 2)

**BROWN COMPANY  
AND ITS SUBSIDIARY, BROWN CORPORATION  
CONSOLIDATED BALANCE SHEET  
LIABILITIES**

	<b>November 30, 1954</b>	<b>November 30, 1954 Adjusted*</b>
<b>CURRENT LIABILITIES:</b>		
Notes payable to banks .....	\$ 2,000,000	\$ 2,000,000
Accounts payable, trade .....	4,762,596	4,797,073
Accrued payrolls .....	984,212	984,212
Accrued interest on funded debt .....	74,871	74,871
Other accrued expenses .....	629,979	629,979
Unpaid expenses, other than income taxes, relating to sale of Canadian assets (Note 2) .....		763,404
Dividends on preference stocks, payable December 1, 1954 .....	217,334	217,334
United States and Canadian taxes on income (Note 8) .....	1,769,871	7,877,190
Funded debt payable within one year (paid in February, 1955) .....	800,000	12,800,000
 Total current liabilities .....	 \$11,238,863	 \$30,144,063
 <b>FUNDED DEBT OF BROWN COMPANY (Note 9):</b>		
Collateral trust bonds, 3½%, payable after one year (paid in February, 1955) .....	\$12,000,000	\$
 <b>DEFERRED INCOME TAXES (Note 5):</b>	 \$ 520,000	 \$ 520,000
 <b>CAPITAL STOCK AND SURPLUS:</b>		
Convertible first preference stock, \$5 cumulative, without par value (Note 10):		
Authorized to be issued, issued and outstanding — 142,326 shares, at stated value of \$60 per share (call and liquidating value, \$100 per share) .....	\$ 8,539,560	\$ 8,539,560
Second preference stock, \$3 cumulative, without par value (Note 10):		
Authorized to be issued and issued — 78,528 shares		
Outstanding (after deducting from the issued shares, shares purchased and deposited with the sinking fund agent for retirement) — 52,191 shares, at stated value of \$40 per share (redeemed after November 30, 1954 at a cost of \$2,844,085) .....	2,087,640	2,087,640
Common stock, par value \$1 (Note 10):		
Authorized to be issued — 2,997,009 shares		
Issued and outstanding — 2,000,727 shares (996,282 unissued shares reserved for conversion of first preference stock in the ratio of 7 for 1) .....	2,000,727	2,000,727
Capital surplus (Note 11), per accompanying statement .....	2,934,530	2,934,530
Earned surplus (Note 12), per accompanying statement:		
Reserved for retirement of first and second preference stocks outstanding (excess of call and liquidating value over stated value above) .....	6,423,714	6,423,714
Unreserved .....	24,327,816	41,976,243
 Total capital stock and surplus .....	 \$46,313,987	 \$63,962,414
 Commitments, Etc. (Note 15)	 \$70,072,850	 \$94,626,477

(See notes to financial statements)

\*Adjusted to give effect to sale of Canadian assets on December 1, 1954, etc. (Note 2)

**BROWN COMPANY  
AND ITS SUBSIDIARY, BROWN CORPORATION**

**CONSOLIDATED STATEMENT OF INCOME**

	Year ended November 30		
	1954	1953	1952
Sales, less discounts, returns and allowances .....	\$66,969,748	\$67,197,203	\$65,638,483
<b>Costs and operating expenses (Note 16):</b>			
Materials, services and other manufacturing costs, research and development expenses, etc. (Note 4) .....	\$56,431,154	\$57,207,057	\$53,305,969
Selling, general and administrative expenses .....	3,508,466	3,170,733	3,019,604
Retirement plan costs (Note 13) .....	457,111	456,157	919,657
	<hr/>	<hr/>	<hr/>
	\$60,396,731	\$60,833,947	\$57,245,230
Net operating income .....	<hr/>	<hr/>	<hr/>
	\$ 6,573,017	\$ 6,363,256	\$ 8,393,253
<b>Other income:</b>			
Interest on United States and Canadian government obligations .....	\$	\$ 7,223	\$ 42,972
Dividends from St. Maurice Power Corporation (Note 2) .....	72,000	76,000	89,000
Other interest and dividend income .....	2,685	3,699	2,742
Miscellaneous other income .....	216,847	80,580	114,786
	<hr/>	<hr/>	<hr/>
	\$ 291,532	\$ 167,502	\$ 249,500
	<hr/>	<hr/>	<hr/>
	\$ 6,864,549	\$ 6,530,758	\$ 8,642,753
<b>Other charges:</b>			
Interest on funded debt .....	\$ 471,321	\$ 492,658	\$ 512,658
Other interest expense .....	39,149	23,172	18,495
Retirement allowances to former employees (Note 13) .....	186,039	185,177	186,581
Canadian tax withholdings on interest and dividends from Brown Corporation .....	154,120	131,561	144,097
Miscellaneous other charges .....	72,745	37,494	103,955
	<hr/>	<hr/>	<hr/>
	\$ 923,374	\$ 870,062	\$ 965,786
	<hr/>	<hr/>	<hr/>
	\$ 5,941,175	\$ 5,660,696	\$ 7,676,967
<b>Provision for United States and Canadian taxes on in- come (Note 5):</b>			
United States normal income tax and surtax .....	\$ 590,000	\$ 1,210,000	\$ 820,000
Refund of 1951 United States excess profits tax attrib- utable to credit carry-back .....			(370,000)
Canadian income taxes .....	1,940,000	1,400,000	2,830,000
	<hr/>	<hr/>	<hr/>
	\$ 2,530,000	\$ 2,610,000	\$ 3,280,000
	<hr/>	<hr/>	<hr/>
Net income .....	\$ 3,411,175	\$ 3,050,696	\$ 4,396,967
Adjustment for unrealized exchange gain on conversion of assets and liabilities of Brown Corporation (Note 1)			729,236
Net income and exchange adjustment .....	<hr/>	<hr/>	<hr/>
	\$ 3,411,175	\$ 3,050,696	\$ 5,126,203

(See notes to financial statements)

**BROWN COMPANY  
AND ITS SUBSIDIARY, BROWN CORPORATION  
CONSOLIDATED STATEMENT OF SURPLUS**

	<b>Earned surplus</b>		
	Capital surplus	Reserved for retirement of preference stocks	Unreserved
Balance, November 30, 1951 .....	\$ 2,736,515	\$ 7,239,138	\$15,692,535
Additions (deductions) for year ended November 30, 1952:			
Net income .....			4,396,967
Adjustment for unrealized exchange gain on conversion of assets and liabilities of Brown Corporation (Note 1) .....			729,236
Total of net income and exchange adjustment .....			\$ 5,126,203
Cash dividends declared:			
First preference stock — \$5 per share .....			(717,280)
Second preference stock — \$3 per share .....			(310,660)
Excess of call and liquidating value over cost of 11,435 shares of second preference stock purchased and deposited with sinking fund agent for retirement .....	38,347		
Reserved portion of earned surplus applicable to 11,435 shares of second preference stock purchased for retirement .....		(160,090)	
Balance, November 30, 1952 .....	\$ 2,774,862	\$ 7,079,048	\$19,790,798
Additions (deductions) for year ended November 30, 1953:			
Net income .....			3,050,696
Cash dividends declared:			
First preference stock — \$5 per share .....			(717,280)
Second preference stock — \$3 per share .....			(264,398)
Excess of call and liquidating value over cost of 16,204 shares of second preference stock purchased and deposited with sinking fund agent for retirement .....	51,094		
Reserved portion of earned surplus applicable to 16,204 shares of second preference stock purchased for retirement .....		(226,856)	
Balance, November 30, 1953 .....	\$ 2,825,956	\$ 6,852,192	\$21,859,816
Additions (deductions) for year ended November 30, 1954:			
Net income .....			3,411,175
Cash dividends declared:			
First preference stock — \$5 per share .....			(715,464)
Second preference stock — \$3 per share .....			(215,831)
Excess of call and liquidating value of 1,130 shares of first preference stock converted into common stock, over par value of 7,910 shares of common stock issued therefor .....	105,090		
Premium paid (amount of accrued dividend) on call for redemption of 18,000 shares of second preference stock .....			(11,880)
Excess of call and liquidating value over cost of 9,377 shares of second preference stock purchased and deposited with sinking fund agent for retirement .....			
Reserved portion of earned surplus applicable to 1,130 shares of first preference stock converted into common stock and 27,377 shares of second preference stock called for redemption or purchased for retirement .....	3,484		
Balance, November 30, 1954 .....	\$ 2,934,530	\$ 6,423,714	\$24,327,816
Adjustments to give effect to sale of Canadian assets on December 1, 1954 and taxes on subsequent distributions in liquidation of Brown Corporation:			
Excess of consideration received over book value of assets sold and expenses relating or incident to the sale (Note 2) .....			21,178,427
Provision for Canadian income tax withholdings on distributions in liqui- dation of Brown Corporation .....			(600,000)
Provision for United States income tax on distributions in liquidation of Brown Corporation (Note 8) .....			(2,930,000)
Balance, November 30, 1954, after giving effect to the above adjustments....	<u>\$ 2,934,530</u>	<u>\$ 6,423,714</u>	<u>\$41,976,243</u>

(See Notes to Financial Statements)

**BROWN COMPANY**

**BALANCE SHEET**

**ASSETS**

November 30,  
1954

**CURRENT ASSETS:**

Cash .....	\$ 1,568,006
Accounts receivable, trade, less \$150,000 allowance for doubtful accounts .....	3,307,938
Accrued interest on bonds of Brown Corporation .....	150,000
Accounts receivable, other .....	231,089
Inventories (Note 4):	
Pulp and other products .....	\$ 3,951,071
Pulpwood .....	1,101,397
Pulpwood operations in progress .....	1,619,251
Other materials and supplies .....	2,973,052
\$ 9,644,771	 
Prepaid insurance, taxes and other expenses .....	\$ 860,416
Total current assets .....	<u>\$15,762,220</u>

**FIXED ASSETS (Note 5):**

Plants and equipment:	
Land .....	\$ 1,160,304
Buildings and other structures .....	15,274,336
Machinery and equipment .....	35,847,179
Construction work in progress .....	1,469,302
\$53,751,121	 
Less — Depreciation .....	27,179,419
\$26,571,702	 
Timberlands .....	\$ 8,495,428
Less — Depletion .....	5,286,158
\$ 3,209,270	 
Total fixed assets .....	<u>\$29,780,972</u>

**INVESTMENTS AND OTHER ASSETS:**

Capital stock and mortgage bonds of Brown Corporation (Notes 1 and 9) ..	\$15,650,000
Capital stocks of other subsidiary companies (Note 6) .....	7
Advance to subsidiary company .....	3,161
Investments in other companies, at cost or written-down amounts (Note 7) ..	255,001
Patents, at cost, \$379,986, less amortization, \$346,841 .....	33,145
Other assets and deferred charges .....	167,848
Total investments and other assets .....	<u>\$16,109,162</u>
	<u>\$61,652,354</u>

(See notes to financial statements)

BROWN COMPANY

BALANCE SHEET

LIABILITIES

November 30,  
1954

CURRENT LIABILITIES:

Notes payable to banks .....	\$ 2,000,000
Accounts payable, trade .....	3,662,610
Accrued payrolls .....	364,356
Accrued interest on funded debt .....	74,871
Other accrued expenses .....	160,120
Account payable to Brown Corporation .....	2,395,257
Dividends on preference stocks, payable December 1, 1954 .....	217,334
Federal taxes on income (Note 8) .....	615,730
Funded debt payable within one year (paid in February, 1955) .....	800,000
 Total current liabilities .....	 \$10,290,278

FUNDED DEBT (Note 9):

Collateral trust bonds, 3½%, payable after one year (paid in February, 1955)	\$12,000,000
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DEFERRED INCOME TAXES (Note 5) .....

\$ 520,000

CAPITAL STOCK AND SURPLUS:

Convertible first preference stock, \$5 cumulative, without par value (Note 10):

Authorized to be issued, issued and outstanding — 142,326 shares, at stated value of \$60 per share (call and liquidating value, \$100 per share) .....	\$ 8,539,560
---	--------------

Second preference stock, \$3 cumulative, without par value (Note 10):

Authorized to be issued and issued — 78,528 shares

Outstanding (after deducting from the issued shares, shares purchased and deposited with the sinking fund agent for retirement) — 52,191 shares, at stated value of \$40 per share (redeemed after November 30, 1954 at a cost of \$2,844,085) .....	2,087,640
--	-----------

Common stock, par value \$1 (Note 10):

Authorized to be issued — 2,997,009 shares

Issued and outstanding — 2,000,727 shares (996,282 unissued shares reserved for conversion of first preference stock in the ratio of 7 for 1) .....	2,000,727
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Capital surplus (Note 11), per accompanying statement .....

2,934,530

Earned surplus (Note 12), per accompanying statement:

Reserved for retirement of first and second preference stocks outstanding (excess of call and liquidating value over stated value above) .....	6,423,714
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Unreserved .....

16,855,905

Total capital stock and surplus .....

\$38,842,076

Commitments, Etc. (Note 15)

\$61,652,354

(See notes to financial statements)

**BROWN COMPANY**  
**STATEMENT OF INCOME**

	<b>Year ended November 30</b>		
	<b>1954</b>	<b>1953</b>	<b>1952</b>
Sales, less discounts, returns and allowances .....	\$46,196,398	\$48,243,133	\$45,705,867
 Costs and operating expenses (Note 16):			
Materials, services and other manufacturing costs, research and development expenses, etc. (Note 4) .....	\$40,878,143	\$42,069,981	\$39,936,485
Selling, general and administrative expenses .....	2,778,832	2,466,585	2,287,453
Retirement plan costs (Note 13) .....	457,111	456,157	919,657
	<hr/>	<hr/>	<hr/>
	\$44,114,086	\$44,992,723	\$43,143,595
Net operating income .....	<hr/>	<hr/>	<hr/>
	\$ 2,082,312	\$ 3,250,410	\$ 2,562,272
 Other income:			
Interest on United States government obligations .....	\$ 3,611	\$ 26,946	
Dividends from Brown Corporation .....	2,182,404	1,731,215	1,981,940
Interest on funded debt of Brown Corporation .....	300,000	300,000	300,000
Other interest and dividend income .....	1,288	1,092	743
Miscellaneous other income .....	71,765	63,127	88,196
	<hr/>	<hr/>	<hr/>
	\$ 2,555,457	\$ 2,099,045	\$ 2,397,825
	<hr/>	<hr/>	<hr/>
	\$ 4,637,769	\$ 5,349,455	\$ 4,960,097
 Other charges:			
Interest on funded debt .....	\$ 471,321	\$ 492,658	\$ 512,658
Other interest expense .....	39,149	23,172	18,438
Retirement allowances to former employees (Note 13) .....	99,433	106,677	122,349
Canadian tax withholdings on interest and dividends from Brown Corporation .....	154,120	131,561	144,097
Miscellaneous other charges .....	61,288	26,415	45,580
	<hr/>	<hr/>	<hr/>
	\$ 825,311	\$ 780,483	\$ 843,122
	<hr/>	<hr/>	<hr/>
	\$ 3,812,458	\$ 4,568,972	\$ 4,116,975
 Provision for federal taxes on income (Note 5):			
Normal income tax and surtax .....	\$ 590,000	\$ 1,210,000	\$ 820,000
Refund of 1951 excess profits tax attributable to credit carry-back .....			(370,000)
	<hr/>	<hr/>	<hr/>
	\$ 590,000	\$ 1,210,000	\$ 450,000
Net income .....	<hr/>	<hr/>	<hr/>
	\$ 3,222,458	\$ 3,358,972	\$ 3,666,975
	<hr/>	<hr/>	<hr/>

(See notes to financial statements)

**BROWN COMPANY**  
**STATEMENT OF SURPLUS**

	<b>Earned surplus</b>	
	<b>Reserved for retirement of preference stocks</b>	<b>Unreserved</b>
Balance, November 30, 1951 .....	\$ 2,736,515	\$ 7,239,138
Additions (deductions) for year ended November 30, 1952:		\$ 9,560,293
Net income .....		3,666,975
Cash dividends declared:		
First preference stock — \$5 per share .....		(717,280)
Second preference stock — \$3 per share .....		(310,660)
Excess of call and liquidating value over cost of 11,435 shares of second preference stock purchased and deposited with sinking fund agent for retirement .....	38,347	
Reserved portion of earned surplus applicable to 11,435 shares of second preference stock purchased for retirement .....		(160,090)
Balance, November 30, 1952 .....	\$ 2,774,862	\$ 7,079,048
Additions (deductions) for year ended November 30, 1953:		\$12,199,328
Net income .....		3,358,972
Cash dividends declared:		
First preference stock — \$5 per share .....		(717,280)
Second preference stock — \$3 per share .....		(264,398)
Excess of call and liquidating value over cost of 16,204 shares of second preference stock purchased and deposited with sinking fund agent for retirement .....	51,094	
Reserved portion of earned surplus applicable to 16,204 shares of second preference stock purchased for retirement .....		(226,856)
Balance, November 30, 1953 .....	\$ 2,825,956	\$ 6,852,192
Additions (deductions) for year ended November 30, 1954:		\$14,576,622
Net income .....		3,222,458
Cash dividends declared:		
First preference stock — \$5 per share .....		(715,464)
Second preference stock — \$3 per share .....		(215,831)
Excess of call and liquidating value of 1,130 shares of first preference stock converted into common stock, over par value of 7,910 shares of common stock issued therefor .....	105,090	
Premium paid (amount of accrued dividend) on call for redemption of 18,000 shares of second preference stock .....		(11,880)
Excess of call and liquidating value over cost of 9,377 shares of second preference stock purchased and deposited with sinking fund agent for retirement .....	3,484	
Reserved portion of earned surplus applicable to 1,130 shares of first preference stock converted into common stock and 27,377 shares of second preference stock called for redemption or purchased for retirement .....		(428,478)
Balance, November 30, 1954 .....	<u>\$ 2,934,530</u>	<u>\$ 6,423,714</u>
		<u>\$16,855,905</u>

(See Notes to Financial Statements)

**BROWN CORPORATION**

**BALANCE SHEET**

(Canadian Dollars)

**ASSETS**

**November 30,  
1954\***

**CURRENT ASSETS:**

Cash .....	\$ 570,188
Accounts receivable, trade .....	2,261,441
Account receivable from Brown Company .....	2,320,760
Accounts receivable, other .....	56,668
	<hr/>
<b>Inventories (Note 4):</b>	
Pulp and other products .....	\$ 298,657
Pulpwood .....	4,278,926
Pulpwood operations in progress .....	3,696,035
Other materials and supplies .....	1,366,273
	<hr/>
	\$ 9,639,891
Prepaid insurance, taxes and other expenses .....	<hr/>
	\$ 341,959
Total current assets .....	<hr/>
	\$15,190,907

**FIXED ASSETS (Note 5):**

Plants and equipment:	
Land .....	\$ 124,687
Buildings and other structures .....	7,019,092
Machinery and equipment .....	16,844,384
	<hr/>
<i>Less — Depreciation</i> .....	\$23,988,163
	15,494,749
	<hr/>
	\$ 8,493,414
Timberlands .....	<hr/>
<i>Less — Depletion</i> .....	\$ 4,179,315
	2,073,286
	<hr/>
	\$ 2,106,029
Total fixed assets .....	<hr/>
	\$10,599,443

**INVESTMENTS AND OTHER ASSETS:**

Capital stock of St. Maurice Power Corporation (Note 2) .....	\$ 1
Investments in other companies, at cost or written-down amounts .....	12,546
Claims for refund of prior years' income taxes (Note 8) .....	398,197
Other assets and deferred charges .....	153,799
	<hr/>
Total investments and other assets .....	\$ 564,543
	<hr/>
	\$26,354,893

(See notes to financial statements)

\* Immediately prior to the sale on December 1, 1954 of substantially all of the company's assets (Note 2).

## **BROWN CORPORATION**

## BALANCE SHEET

(Canadian Dollars)

## LIABILITIES

November 30,  
1954\*

### CURRENT LIABILITIES:

Accounts payable, trade .....	\$ 1,065,774
Accrued payrolls .....	600,578
Accrued interest on bonds owned by Brown Company .....	145,335
Other accrued expenses .....	455,246
Canadian taxes on income (Note 8) .....	1,118,245
 Total current liabilities .....	 \$ 3,385,178

**FUNDED DEBT (Note 9):**

First mortgage 6% bonds, maturing December 1, 1956 (all owned by Brown Company) (paid after November 30, 1954) ..... \$ 5,000,000

#### **CAPITAL STOCK AND SURPLUS:**

Common stock, par value \$100 per share:

Authorized, issued and outstanding —	
106,500 shares (all owned by Brown Company) .....	\$10,650,000
Earned surplus (Note 12), per accompanying statement .....	7,319,715
Total capital stock and surplus .....	\$17,969,715
	\$26,354,893

(See notes to financial statements)

\* Immediately prior to the sale on December 1, 1954 of substantially all of the company's assets (Note 2).

**BROWN CORPORATION**

**STATEMENT OF INCOME**

(Canadian Dollars)

	<b>Year ended November 30</b>		
	<b>1954</b>	<b>1953</b>	<b>1952</b>
Sales, less discounts, returns and allowances:			
To Brown Company .....	\$ 4,142,127	\$ 4,576,913	\$ 4,621,339
Other .....	20,262,150	18,680,603	19,700,995
	<hr/> <u>\$24,404,277</u>	<hr/> <u>\$23,257,516</u>	<hr/> <u>\$24,322,334</u>
Costs and operating expenses (Note 16):			
Materials, services and other manufacturing costs, research and development expenses, etc. (Note 4) .	\$19,297,798	\$19,493,338	\$17,968,061
Selling, general and administrative expenses .....	710,026	692,893	718,785
	<hr/> <u>\$20,007,824</u>	<hr/> <u>\$20,186,231</u>	<hr/> <u>\$18,686,846</u>
Net operating income .....	<hr/> <u>\$ 4,396,453</u>	<hr/> <u>\$ 3,071,285</u>	<hr/> <u>\$ 5,635,488</u>
Other income:			
Interest on United States and Canadian government obligations .....	\$	\$ 3,576	\$ 15,993
Dividends from St. Maurice Power Corporation (Note 2) .....	70,000	75,000	87,500
Other interest and dividend income .....	1,630	2,543	1,960
Miscellaneous other income .....	97,110	17,158	26,259
	<hr/> <u>\$ 168,740</u>	<hr/> <u>\$ 98,277</u>	<hr/> <u>\$ 131,712</u>
	<hr/> <u>\$ 4,565,193</u>	<hr/> <u>\$ 3,169,562</u>	<hr/> <u>\$ 5,767,200</u>
Other charges:			
Interest on funded debt .....	\$ 292,083	\$ 294,901	\$ 294,997
Other interest expense .....			57
Retirement allowances to former employees (Note 13)	84,313	77,185	63,110
Miscellaneous other charges .....	52,638	14,498	184,164
	<hr/> <u>\$ 429,034</u>	<hr/> <u>\$ 386,584</u>	<hr/> <u>\$ 542,328</u>
	<hr/> <u>\$ 4,136,159</u>	<hr/> <u>\$ 2,782,978</u>	<hr/> <u>\$ 5,224,872</u>
Provision for Canadian taxes on income .....	1,870,000	1,360,000	2,800,000
Net income .....	<hr/> <u>\$ 2,266,159</u>	<hr/> <u>\$ 1,422,978</u>	<hr/> <u>\$ 2,424,872</u>

(See notes to financial statements)

**BROWN CORPORATION**

**STATEMENT OF EARNED SURPLUS**  
(Canadian Dollars)

Balance, November 30, 1951 .....	\$6,956,706
Additions (deductions) for year ended November 30, 1952:	
Net income .....	2,424,872
Cash dividends declared — \$18 per share .....	(1,917,000)
Balance, November 30, 1952 .....	<u>\$7,464,578</u>
Additions (deductions) for year ended November 30, 1953:	
Net income .....	1,422,978
Cash dividends declared — \$16 per share .....	(1,704,000)
Balance, November 30, 1953 .....	<u>\$7,183,556</u>
Additions (deductions) for year ended November 30, 1954:	
Net income .....	2,266,159
Cash dividends declared — \$20 per share .....	(2,130,000)
Balance, November 30, 1954 .....	<u><u>\$7,319,715</u></u>

(See notes to financial statements)

**BROWN COMPANY  
AND ITS SUBSIDIARY, BROWN CORPORATION  
NOTES TO FINANCIAL STATEMENTS**

*NOTE 1—Principles Applied in Consolidation and Conversion:*

The accompanying consolidated financial statements include the accounts of Brown Company, a Maine corporation, and its wholly-owned Canadian subsidiary, Brown Corporation. The accounts of other wholly-owned subsidiaries have not been consolidated primarily on the basis that their assets, liabilities and operations are not significant in amount. These unconsolidated subsidiaries are further discussed in Note 6.

All intercompany transactions and indebtedness between Brown Company and Brown Corporation, and estimated intercompany profits not realized from a consolidated standpoint, have been eliminated in consolidation.

Brown Company's investment in Brown Corporation is carried on Brown Company's books at \$15,650,000, the sum of the face amount of Brown Corporation's first mortgage bonds, \$5,000,000, and the par value of Brown Corporation's common stock, \$10,650,000. Brown Company's equity in the net assets of Brown Corporation, as shown on the books of the latter and with appropriate adjustments to convert its assets and liabilities from Canadian to United States dollars, amounted to \$23,294,910 as of November 30, 1954 (\$44,473,337 after giving effect to sale of Canadian assets on December 1, 1954—Note 2). The excess of equity over the carrying value, amounting to \$7,644,910 (\$28,823,337 after giving effect to sale of Canadian assets on December 1, 1954), is included in consolidated earned surplus (unreserved).

The Canadian assets and liabilities of Brown Corporation, except fixed assets, have been converted to United States currency at the exchange rate prevailing on the balance sheet date. Fixed assets acquired before September 1949 have been converted dollar for dollar, and those acquired subsequently, at the average of exchange rates in effect at or about the time of acquisition. The Canadian income accounts for the several periods covered by the accompanying statements of income have been converted at averages of rates prevailing during the respective periods except that in the case of depreciation and depletion averages of rates used for fixed assets have been applied. Brown Company has followed the policy in recent years of crediting or charging to consolidated earned surplus the unrealized exchange gains or losses on the conversion of Canadian assets and liabilities, and of showing such gains or losses as a special adjustment at the foot of the income statement. For the years ended November 30, 1953 and 1954 unrealized exchange gains were not material in amount and were credited to income.

*NOTE 2—Sale of Canadian Assets on December 1, 1954:*

On December 1, 1954 Brown Corporation sold for cash substantially all of its assets, except cash, receivables and its investment in St. Maurice Power Corporation, and assigned substantially all of its contracts relating to the operation of its business, to Canadian International Paper Company. Simultaneously the Corporation sold, also for cash, its 50% interest in the capital stock of St. Maurice Power Corporation to Shawinigan Water and Power Company, the holder of the other 50% interest. The consideration received, certain expenses and adjustments relating or incident to the sale, the book value of assets sold and the resulting gain on the sale (all expressed in U. S. dollars with Canadian amounts converted at appropriate exchange rates) are summarized as follows:

**BROWN COMPANY**  
**AND ITS SUBSIDIARY, BROWN CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

Total consideration for the sale, including \$4,639,175 U.S. dollar equivalent of \$4,500,000 in Canadian dollars received for the investment in St. Maurice Power Corporation .....	\$45,759,110
<i>Less</i> — Canadian income tax and other expenses and adjustments relating or incident to the sale (partly estimated) .....	3,838,703      \$41,920,407
Book value of assets sold:	
Inventories .....	\$ 9,949,332
Plants and equipment, \$23,879,530, less depreciation, \$15,457,603 .....	8,421,927
Timberlands, \$4,179,315, less depletion, \$2,073,286 .....	2,106,029
Investment in capital stock of St. Maurice Power Corporation .....	1
Other investments and sundry assets .....	264,691      20,741,980
Excess of consideration received over book value of assets sold, expenses and adjustments .....	\$21,178,427

The above statement is subject to possible further adjustments not presently determinable, the net effect of which is not expected to be material in amount. Of the total consideration, \$43,402,062 was received in cash on December 1, 1954. Payment of the balance was deferred pending final determination of the value of the inventories and other adjustments provided for in the sale agreements. After reflecting the sale as above, the assets and liabilities of Brown Corporation consisted of the following amounts (expressed in U. S. dollars, including Canadian assets totaling \$8,227,282 and Canadian liabilities totaling \$6,316,496 after conversion at the then current exchange rate):

Assets:	
Cash .....	\$30,842,718
Cash on deposit with bond trustee (Note 9) .....	12,800,000
Account receivable, Canadian International Paper Company .....	2,357,048
Account receivable, Brown Company .....	2,395,257
Other accounts receivable, etc. .....	2,536,378
Claims for refund of income taxes .....	410,979 \$51,342,380
Liabilities:	
Collateral trust bond (owned by Brown Company) .....	\$ 5,000,000
Accounts payable and accrued expenses, including expenses relating to the sale .....	3,137,583
Canadian taxes on income .....	3,731,460
	\$11,869,043 \$39,473,337
Excess of assets over liabilities .....	\$39,473,337

**BROWN COMPANY  
AND ITS SUBSIDIARY, BROWN CORPORATION  
NOTES TO FINANCIAL STATEMENTS (Continued)**

In anticipation of the pending liquidation of Brown Corporation and distribution of its net assets to Brown Company (Note 3) further provision has been made in the adjusted consolidated balance sheet as of November 30, 1954 for Canadian and United States income taxes on the distribution, as more fully explained in Note 8.

A substantial part of the consolidated net income for 1954 and previous years is attributable to the operations of Brown Corporation. Reference is made to comments contained herein under the caption "Financial Statements" concerning the reduction in earnings which will result from the sale of Canadian assets and possibilities for the recovery thereof.

**NOTE 3—*Certain Transactions Subsequent to Sale of Canadian Assets:***

The following is a summary of certain transactions consummated by Brown Company and Brown Corporation subsequent to the sale of Canadian assets on December 1, 1954 and up to February 17, 1955, relating to the liquidation of Brown Corporation and the disposition of proceeds of the sale, etc.:

Brown Corporation's assets remaining after the sale have been substantially liquidated except for income tax refund claims, and its liabilities have been substantially paid except for Canadian taxes on income.

Cash of Brown Corporation in the amount of approximately \$39,800,000 has been distributed to Brown Company as dividends (less Canadian tax withholdings thereon), as payments of inter-company indebtedness (net), or as partial distributions pursuant to a plan of complete liquidation of Brown Corporation adopted by its stockholders in January, 1955, leaving approximately \$4,500,000 of cash balances with Brown Corporation for the payment of unpaid Canadian taxes on income and other liabilities and for further distribution to Brown Company.

Brown Company has paid its notes payable to banks, which at November 30, 1954 amounted to \$2,000,000.

Brown Company has redeemed all of its outstanding second preference stock at an aggregate cost of \$2,844,085 (Note 10).

Brown Company has paid in full its outstanding funded debt at a cost of \$12,864,000 plus accrued interest to the date of payment.

**NOTE 4—*Inventories:***

Brown Company's inventories of pulpwood and pulpwood content of pulp, amounting to \$1,708,100 as of November 30, 1954, are stated at cost determined by the "last-in first-out" method of valuation. Otherwise Brown Company's inventories and those of Brown Corporation are stated on the basis of cost or market, whichever is lower, cost representing actual, current average or current standard cost.

Beginning and closing inventories are used in the determination of the amounts of "Materials, services and other manufacturing costs" shown in the statements of income. The aggregate amounts of such inventories at the respective dates were as follows:

	<b>Brown Company (U.S. dollars)</b>	<b>Brown Corporation (Canadian dollars)</b>	<b>Consolidated (U.S. dollars)</b>
November 30, 1951 .....	\$ 7,247,672	\$10,039,732	\$16,723,739
November 30, 1952 .....	8,245,361	10,826,479	19,301,569
November 30, 1953 .....	10,183,736	9,191,729	19,507,207
November 30, 1954 .....	9,644,771	9,639,891	19,421,103

Brown Company's inventories at November 30, 1954 include an estimated amount of \$173,000 of intercompany profits (eliminated in consolidation) on products purchased from Brown Corporation.

**BROWN COMPANY  
AND ITS SUBSIDIARY, BROWN CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 5—Fixed Assets, Policies Followed with Respect to Depreciation, Depletion, Maintenance, etc., and the Effect of Certain Depreciation Policies on Provisions for United States Taxes on Income:**

Plants and equipment are stated in the balance sheets substantially at cost to the respective companies. The stated value of Brown Company's timberlands represents \$1 per cord of estimated standing softwood as at November 30, 1904, plus subsequent purchase acquisitions at cost. Brown Corporation's timberlands are stated at cost plus carrying charges to March 15, 1915.

Depreciation has been provided for by Brown Company on the straight-line method at rates computed on the basis of estimates made from time to time of the useful lives of the various classes of properties. In the case of some of the older properties still in use the rates used have proven to be more than adequate to amortize their carrying values over the actual lives, such properties having become fully depreciated and depreciation thereon discontinued.

Rates of depreciation used by Brown Company fall largely within the following ranges:

Buildings and other structures .....	2% - 5%
Automotive equipment .....	20% - 30%
Machinery, furniture and other equipment .....	5% - 15%

On plant and equipment properties authorized under Certificates of Necessity, Brown Company is providing for depreciation on the books at normal rates based on estimated useful lives of such facilities rather than on the basis of the shorter amortization period of five years which is permitted, and is being used, for federal income tax purposes. Federal income taxes have been provided for in the income statement on the basis of deducting only the amount of depreciation charges recorded on the books. The excess of tax provisions computed on this basis over the estimated amounts currently payable (\$222,000 for 1954, \$208,000 for 1953 and \$77,000 for 1952) has been credited to deferred income taxes and is considered to cover a portion of the taxes for future years for which tax deductions for depreciation of the properties in question will no longer be available.

Brown Corporation has provided and charged income with depreciation computed on the basis of the diminishing balance method adopted in 1950 as permitted, and at rates prescribed, by the Canadian Government for income tax purposes. In addition to depreciation thus computed the company has charged to income approximately \$96,000 per year for each of the three years ended November 30, 1954, representing the allowable excess over "normal" depreciation provided on those assets which qualified for so-called "double" depreciation under the Canadian Income Tax Act.

The rates of depreciation used by Brown Corporation, applied to net depreciated book values under the diminishing balance method, range between 5% and 30% for the various classes of assets, with the rate of 10% applied to approximately 85% of the total of net depreciated book values.

Depletion has been provided for by Brown Company at the rate of \$1.55 per cord of softwood cut and \$.27 per cord of hardwood. These over-all rates were determined several years ago on the basis of estimates of remaining cords of merchantable timber then available, with allowance for a residual land value of \$.50 per acre. The depletion rates used by Brown Corporation are based on, and applied to, softwood only. Different rates are used for the several tracts, the rate currently in use for each tract being based on the most recent survey of standing timber contained therein. In the determination of rates for the Corporation no allowance has been made for any residual land value. The depletion rates for both companies are currently considered to represent a reasonable measure of amortization of the portion of the carrying value of timberlands allocated to standing timber without regard for new growth since the surveys on which the rates are based were made.

**BROWN COMPANY  
AND ITS SUBSIDIARY, BROWN CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

When properties are sold or otherwise disposed of the cost (or, if not readily determinable, a reasonable estimate thereof) is credited to the asset account, the depreciation provided to the date of disposal is charged to the related depreciation reserve account, and the difference, adjusted for proceeds realized through sale or salvage, is credited or charged to income.

The companies follow the policy of charging to income directly, or as part of the cost of pulp-wood, expenditures for maintenance, repairs and minor renewals, and of charging to fixed assets accounts expenditures for additions to, and betterments, improvements and major renewals of, their plants and equipment. Additions to timberlands are charged to the timberland (fixed asset) accounts.

**NOTE 6—*Investments in Capital Stocks of Subsidiaries Not Consolidated:***

At November 30, 1954 Brown Company's investments in capital stocks of subsidiaries not consolidated comprised the capital stocks of six wholly-owned subsidiaries, carried at nominal amounts aggregating \$7. These six subsidiaries are principally dam and improvement companies whose activities are confined, mainly, to owning and maintaining dams, booms and piers along waterways used by Brown Company and others for log driving. The assets, liabilities and operations of these companies are not significant. There have been no significant changes in the investments in subsidiaries not consolidated during the period from November 30, 1951 to November 30, 1954.

**NOTE 7—*Investments in Other Companies:***

Investments in other companies at November 30, 1954 include a 25% interest, carried at the cost of \$250,000, in Androscoggin Reservoir Company, which owns a dam on the Androscoggin River above Brown Company's mills at Berlin, New Hampshire. No amortization of this investment has been provided on the basis that cost is a conservative representation of the current value of the investment to the Company's operations.

**NOTE 8—*United States and Canadian Taxes on Income:***

In the consolidated and respective company balance sheets at November 30, 1954 provision has been made for accrued unpaid United States and Canadian taxes on income for the fiscal year then ended and for possible additional assessments less refunds for unsettled prior years (1950 to 1953 in the case of Brown Company and 1949 to 1953 in the case of Brown Corporation).

In the adjusted consolidated balance sheet at November 30, 1954, further provision has been made for the Canadian income tax attributable to the sale of Canadian assets on December 1, 1954 (Note 2) and, on the basis that Brown Corporation's remaining assets are to be transferred in liquidation to Brown Company, for Canadian and United States income taxes on the liquidation. With reference to the latter, Brown Company has obtained a ruling from the Commissioner of Internal Revenue determining certain questions with respect to United States income taxes which might otherwise be subject to controversy. Under this ruling the United States income tax on the liquidation is computed at a maximum of \$2,930,000 based on cost to Brown Company of its investment in Brown Corporation, or at a minimum of \$430,000 based on a claimed value of the investment as of March 1, 1913 (plus subsequent additions at cost) which is \$10,000,000 more than cost. As finally determined these two tax computations might vary somewhat from the foregoing, but it is believed that any such variations would not be material. The difference of \$2,500,000 in the two tax computations represent the capital gain tax at the rate of 25% on \$10,000,000. The 1913 value will be passed on by the Commissioner when the

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

income tax return has been examined and the tax liability is finally determined. Provision for United States income tax on the liquidation of Brown Corporation has been made in the adjusted consolidated balance sheet at November 30, 1954 in the amount of \$2,930,000, the maximum amount computed under the Commissioner's ruling. The actual tax liability will be less depending on the extent to which the claimed appreciation in 1913 value is substantiated when the return is examined.

The Canadian Department of National Revenue has assessed against Brown Corporation additional income taxes for the years ended November 30, 1949 to 1952, inclusive, based on the disallowance of a portion of administrative and research expenses allocated by Brown Company to Brown Corporation. The Corporation has paid these assessments under protest. The amounts, together with a proposed similar assessment for 1953, total \$410,979 (U.S. dollars). It is believed that, to the extent that the additional taxes are not recoverable from Canada, Brown Company would have a substantially equivalent claim against the United States under provisions of the tax convention designed to prevent double taxation by the two countries.

**NOTE 9—Funded Debt:**

On November 30, 1954 Brown Company's funded debt, consisting of \$12,800,000 of 3½% collateral trust bonds, was secured by the pledge of the entire capital stock and the \$5,000,000 outstanding first mortgage bond of Brown Corporation (both owned by Brown Company and eliminated in consolidation). At the same time Brown Corporation's \$5,000,000 first mortgage bond was secured by the pledge of substantially all its assets. Coincident with the sale of assets on December 1, 1954 (Note 2), and in consideration of the release from the mortgage of the assets to be sold, Brown Corporation issued a new \$5,000,000 collateral trust bond to Brown Company in exchange for the \$5,000,000 mortgage bond (which was thereupon canceled) and deposited with the trustee, as collateral security for the new bond, \$12,800,000 of the proceeds from the sale of assets.

As indicated in Note 3, the funded debt of both Brown Company and Brown Corporation has subsequently been paid in full, and all pledged collateral restored free and clear to the respective companies.

Brown Company's funded debt is classified as a current liability in the adjusted consolidated balance sheet as at November 30, 1954 on the basis that the debt was to be paid in full if the sale of Canadian assets were consummated.

**NOTE 10—Capital Stock:**

In December, 1954 Brown Company purchased for retirement an additional 650 shares of its second preference stock at \$54 per share and on February 1, 1955 redeemed the remaining 51,541 shares which were outstanding at November 30, 1954, at the redemption price of \$54.50 per share which includes \$.50 per share for accrued dividends. The aggregate cost of such acquisition and redemption was \$2,844,085, of which \$2,087,640, the stated value of \$40 per share, has been charged to the second preference stock account, \$730,674, or \$14 per share, to the reserved portion of earned surplus and \$25,771, or \$.50 per share on the shares called, to the unreserved portion of earned surplus.

Upon the redemption of the second preference stock the first preference stock became entitled under the by-laws to the benefit of an annual sinking fund whereby the company is required to pay to the sinking fund agent on or before April 1 of each year for the retirement of such stock an amount, in cash or in purchased shares at the cost thereof, equal to one third of the balance of "net income" for the preceding fiscal year remaining after deducting therefrom required payments on principal of funded debt and dividends accrued on preference stocks for such year. The first such sinking fund

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

payment is required to be made on April 1, 1956 based on "net income", less deductions, for the company's fiscal year which will end on November 30, 1955.

Also, subsequent to November 30, 1954, and up to February 17, 1955, an additional 155 shares of first preference stock have been converted by shareholders into common stock in the established ratio of 7 shares of common for each share of first preference stock. The effect of these subsequent conversions has been to increase the common stock account by \$1,085 and the capital surplus account by \$14,415 and to decrease the first preference stock account by \$9,300 and the reserved portion of earned surplus by \$6,200.

**NOTE 11—*Capital Surplus:***

Capital surplus represents the excess of the stated amount of Brown Company's assets over the sum of its liabilities and the par value of its issued capital stock as of the effective date of its reorganization, November 30, 1941, as subsequently adjusted from time to time for charges and credits of a capital nature or charges and credits applicable to the period prior to November 30, 1941.

**NOTE 12—*Earned Surplus:***

Earned surplus of Brown Company has been reserved by vote of the Board of Directors to the extent of the excess of the aggregate call and liquidating value of the first and second preference stocks over their aggregate stated value. Such reserved earned surplus, amounting to \$6,423,714 at November 30, 1954, is being reduced proportionately when shares of preference stock are retired or purchased for retirement and is not available for dividends. As a result of the redemption of the second preference stock in February, 1955, and the conversion since November 30, 1954 of 155 shares of first preference stock (Note 10), the reserved earned surplus was reduced to \$5,686,840.

At November 30, 1954 the earned surplus of Brown Company was subject to restrictions on the payment of dividends provided for in the indenture covering the company's 3½% collateral trust bonds. These restrictions have been removed as a result of the subsequent payment of the bonds (Note 3).

**NOTE 13—*Retirement Plans and Allowances:***

Brown Company maintains a contributory retirement plan for employees in which all employees who have completed five years of continuous service are eligible to participate. The company is required to make annual contributions to the insurance company through which the plan is being administered, in amounts which, together with required employee contributions, will be sufficient to fund the plan over a period of forty years. For the years ended November 30, 1954, 1953, and 1952 the company has paid or provided for and charged to income \$457,111, \$456,157 and \$919,657, respectively, in contributions to the plan. The currently estimated amount, actuarially determined, required to complete the funding of the past-service cost is approximately \$5,100,000.

In connection with the sale of Canadian assets referred to in Note 2, Brown Corporation established as of November 1, 1954 a pension plan for its employees who on December 1, 1954 became employees of Canadian International Paper Company. Brown Corporation agreed to make certain initial contributions to the plan, which have been treated in the accounts as expense incidental to the sale. Otherwise Brown Corporation's obligations under the plan have been assumed by Canadian International Paper Company.

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

Brown Company and Brown Corporation have been making retirement payments on a voluntary basis to certain former employees under year-to-year authorizations by the Board of Directors. Such payments for both companies, made and included in other charges to income, have averaged approximately \$185,000 per year since November 30, 1951.

**NOTE 14—Stock Option:**

In January, 1955 Brown Company granted an option to the president of the company to purchase 20,000 shares of its common stock at \$13.39 per share, or slightly more than 85% of the market value on the date granted as permitted to qualify as a Restricted Stock Option under the Internal Revenue Code. The option is subject to the approval of stockholders and authorization of the required shares. It is exercisable during the period of nine years, or less under certain conditions, beginning in January, 1956.

**NOTE 15—Commitments, etc.:**

Brown Company, by judicial decree, is subject to certain limitations placed upon its sulphite pulp production during summer months as a result of stream pollution occasioned by the deposit of waste sulphite liquors. If the Company desired to procure the removal of these limitations, some further expenditures by the Company might be required.

Brown Company leases certain pulpwood trucks and other motor equipment under the terms of an indefinitely continuing lease agreement terminable upon thirty days notice, and leases for a period of 10 years expiring in 1962 the garage in which this equipment is housed and maintained. Termination of the equipment lease by Brown Company requires the purchase by it of the leased property at depreciated values and the purchase of the garage at the unamortized cost. Rentals paid under these leases for the years ended November 30, 1954 and 1953 were \$790,602 and \$337,104, respectively. Otherwise, obligations under long-term leases are not material.

At November 30, 1954 Brown Company had unexpended balances totaling approximately \$1,600,000 under approved authorizations for plant extension and improvement projects. Further authorizations totaling approximately \$7,500,000, including funds for a new kraft bleachery, have been approved since November 30, 1954 up to February 17, 1955. Other outstanding commitments for materials and services are considered to be in the ordinary course of business and for normal requirements.

**NOTE 16—Supplementary Profit and Loss Information:**

	<b>Year ended November 30</b>		
	<b>1954</b>	<b>1953</b>	<b>1952</b>
<b>CONSOLIDATED</b>			
Maintenance and repairs (Note 5):			
Charged to materials, services and other manufacturing costs, etc. ....	\$5,393,131	\$5,766,940	\$5,533,916
Charged to other expenses .....	11,911	12,270	12,345
	<u>\$5,405,042</u>	<u>\$5,779,210</u>	<u>\$5,546,261</u>
Depreciation (Note 5):			
Charged to materials, services and other manufacturing costs, etc. ....	\$2,980,788	\$2,980,236	\$2,661,877
Charged to other expenses .....	4,902	4,170	3,713
	<u>\$2,985,690</u>	<u>\$2,984,406</u>	<u>\$2,665,590</u>

**BROWN COMPANY  
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**NOTES TO FINANCIAL STATEMENTS (Continued)**

	<b>Year ended November 30</b>		
	<b>1954</b>	<b>1953</b>	<b>1952</b>
Depletion (Note 5):			
Substantially all charged to materials, services and other manufacturing costs, etc. ....	\$ 95,268	\$ 149,610	\$ 152,968
Amortization of patents:			
Substantially all charged to materials, services and other manufacturing costs, etc. ....	\$ 4,462	\$ 4,089	\$ 3,875
Taxes, other than United States and Canadian taxes on income:			
Local property and water taxes .....	\$1,188,383	\$1,090,347	\$1,028,244
Social security taxes .....	442,522	385,648	432,854
Provincial educational tax .....	77,291	56,280	38,078
Other taxes .....	51,676	51,167	62,080
	<hr/> \$1,759,872	<hr/> \$1,583,442	<hr/> \$1,561,256
Charged to:			
Materials, services and other manufacturing costs, etc. ....	\$1,671,934	\$1,507,960	\$1,469,970
Other expenses .....	67,625	61,758	71,809
Construction accounts .....	20,313	13,724	19,477
	<hr/> \$1,759,872	<hr/> \$1,583,442	<hr/> \$1,561,256
Rentals:			
Charged to materials, services and other manufacturing costs, etc. ....	\$ 860,552	\$ 410,640	\$ 63,398
Charged to other expenses .....	69,382	67,489	66,139
	<hr/> \$ 929,934	<hr/> \$ 478,129	<hr/> \$ 129,537

**BROWN COMPANY**

Maintenance and repairs (Note 5):			
Charged to materials, services and other manufacturing costs, etc. ....	\$3,733,109	\$4,244,407	\$4,027,028
Charged to other expenses .....	11,647	12,023	12,345
	<hr/> \$3,744,756	<hr/> \$4,256,430	<hr/> \$4,039,373
Depreciation (Note 5):			
Charged to materials, services and other manufacturing costs, etc. ....	\$1,786,987	\$1,742,866	\$1,330,281
Charged to other expenses .....	4,902	4,170	3,713
	<hr/> \$1,791,889	<hr/> \$1,747,036	<hr/> \$1,333,994

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

	<b>Year ended November 30</b>		
	<b>1954</b>	<b>1953</b>	<b>1952</b>
<b>Depletion (Note 5):</b>			
Substantially all charged to materials, services and other manufacturing costs, etc. ....	\$ 73,728	\$ 129,285	\$ 118,963
<b>Amortization of patents:</b>			
Substantially all charged to materials, services and other manufacturing costs, etc. ....	\$ 4,462	\$ 4,089	\$ 3,875
<b>Taxes, other than federal taxes on income:</b>			
Local property taxes .....	\$ 933,356	\$ 877,854	\$ 844,532
Social security taxes .....	442,522	385,648	432,854
Other taxes .....	8,115	10,059	18,688
	<hr/> <u>\$1,383,993</u>	<hr/> <u>\$1,273,561</u>	<hr/> <u>\$1,296,074</u>
<b>Charged to:</b>			
Materials, services and other manufacturing costs, etc. ....	\$1,321,202	\$1,222,814	\$1,228,232
Other expenses .....	42,478	37,023	48,365
Construction accounts .....	20,813	13,724	19,477
	<hr/> <u>\$1,383,993</u>	<hr/> <u>\$1,273,561</u>	<hr/> <u>\$1,296,074</u>
<b>Rentals:</b>			
Charged to materials, services and other manufacturing costs, etc. ....	\$ 817,111	\$ 350,257	\$
Charged to other expenses .....	64,546	62,773	61,583
	<hr/> <u>\$ 881,657</u>	<hr/> <u>\$ 413,030</u>	<hr/> <u>\$ 61,583</u>
<b>Maintenance and repairs (Note 5):</b>			
Charged to materials, services and other manufacturing costs, etc. ....	\$1,615,884	\$1,496,306	\$1,480,435
Charged to other expenses .....	257	243	
	<hr/> <u>\$1,616,141</u>	<hr/> <u>\$1,496,549</u>	<hr/> <u>\$1,480,435</u>

**BROWN COMPANY  
AND ITS SUBSIDIARY, BROWN CORPORATION**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

	<b>Year ended November 30</b>		
	<b>1954</b>	<b>1953</b>	<b>1952</b>
<b>BROWN CORPORATION</b>			
(Canadian dollars)			
Depreciation (Note 5):			
Substantially all charged to materials, services and other manufacturing costs, etc. ....	<u>\$1,199,383</u>	<u>\$1,245,163</u>	<u>\$1,341,536</u>
Depletion (Note 5):			
Substantially all charged to materials, services and other manufacturing costs, etc. ....	<u>\$ 21,540</u>	<u>\$ 20,325</u>	<u>\$ 34,005</u>
Taxes, other than Canadian taxes on income:			
Local property and water taxes ....	<u>\$ 248,087</u>	<u>\$ 208,833</u>	<u>\$ 180,488</u>
Provincial educational tax ....	<u>75,235</u>	<u>55,310</u>	<u>37,409</u>
Other taxes ....	<u>42,391</u>	<u>40,443</u>	<u>42,637</u>
	<u>\$ 365,713</u>	<u>\$ 304,586</u>	<u>\$ 260,534</u>
Charged to:			
Materials, services and other manufacturing costs, etc. ....	<u>\$ 341,246</u>	<u>\$ 280,234</u>	<u>\$ 237,496</u>
Other expenses ....	<u>24,467</u>	<u>24,352</u>	<u>23,038</u>
	<u>\$ 365,713</u>	<u>\$ 304,586</u>	<u>\$ 260,534</u>
Rentals:			
Charged to materials, services and other manufacturing costs, etc. ....	<u>\$ 42,286</u>	<u>\$ 59,343</u>	<u>\$ 62,285</u>
Charged to other expenses ....	<u>4,707</u>	<u>4,638</u>	<u>4,467</u>
	<u>\$ 46,993</u>	<u>\$ 63,981</u>	<u>\$ 66,752</u>



