THE FLINTKOTE COMPANY/ANNUAL REPORT 1967

FLINTKOTE ®

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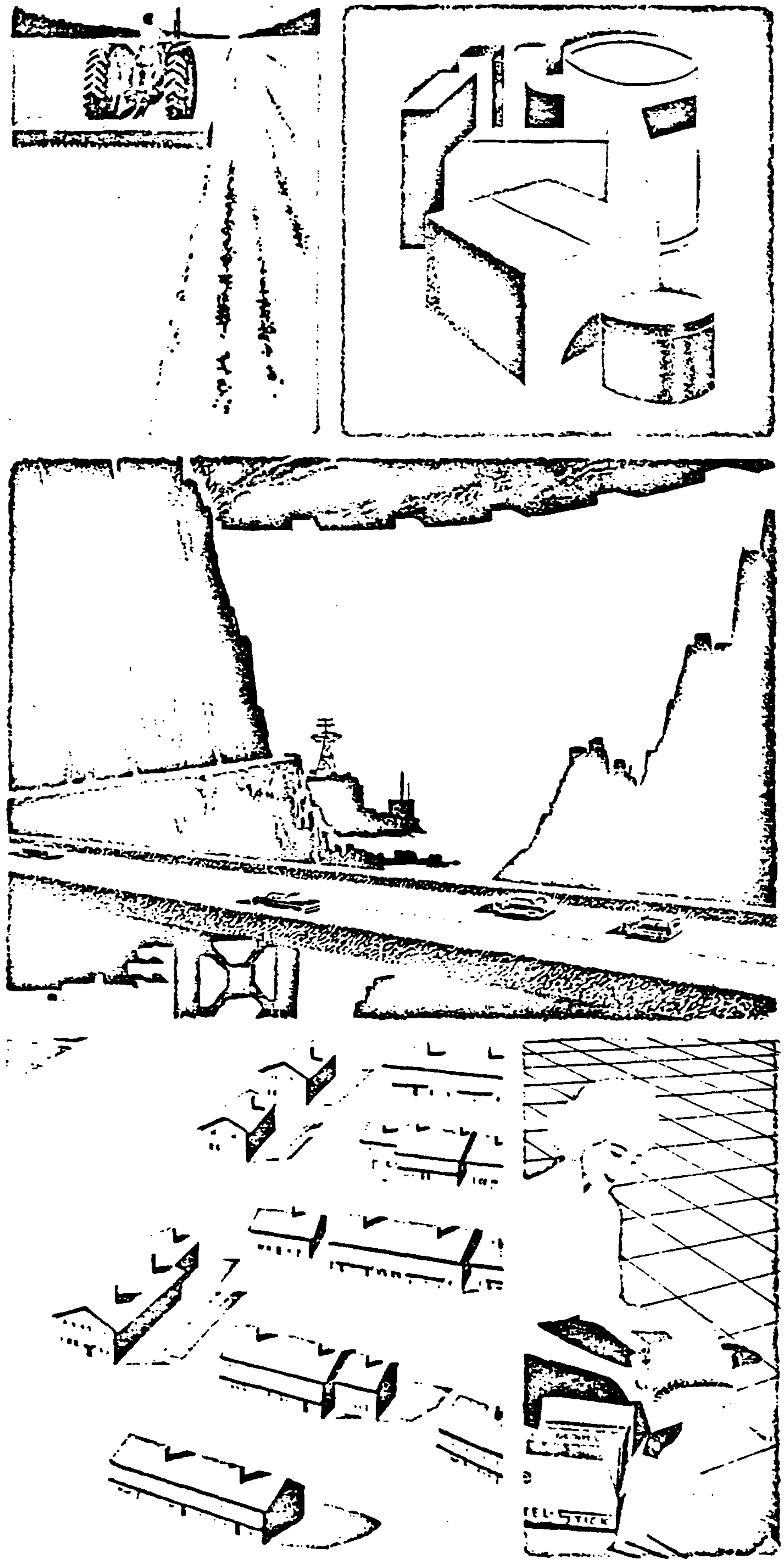


The Markets We Serve

% NON-RESIDENTIAL CONSTRUCTION
(Compared with 42% in 1966 and 42% in 1965)

The percent of sales dollars from this marketing segment has been maintained for the past three years and is likely to continue at this level in 1968.

SIDENTIAL CONSTRUCTION
(Compared with 20% in 1966 and 25% in 1965)

Percent of sales to this market dropped slightly in 1967 but authoritative predictions point to increased residential construction in 1968. Flintkote should show improvements accordingly.

% REPAIR AND MODERNIZATION
(Compared with 10% in 1966 and 9% in 1965)

The growth rate of repair and modernization is expected to continue in 1968. With the help of new products, Flintkote should continue to increase its share of this growing market.

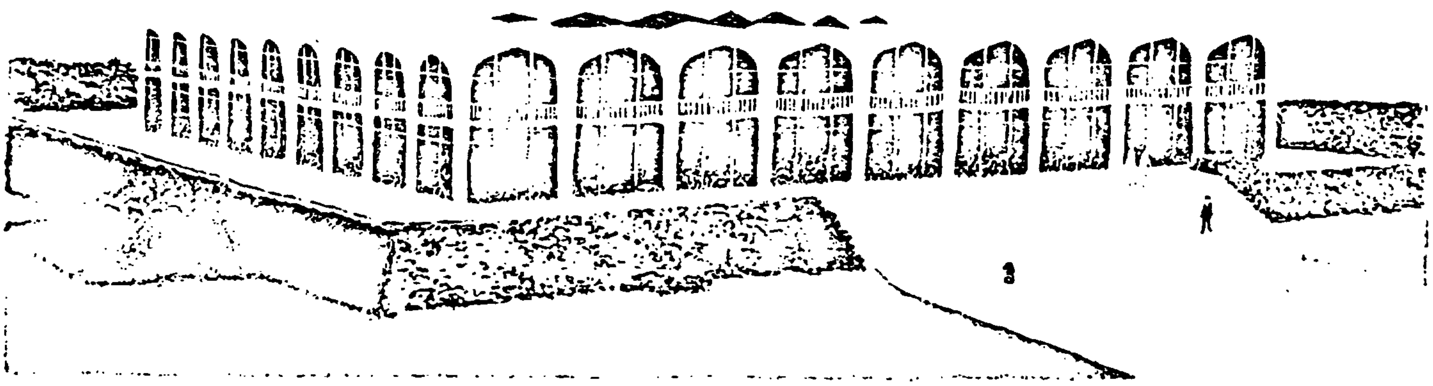
% THE PACKAGING MARKET
(Compared with 16% in 1966 and 16% in 1965)

With 11 plants strategically located throughout the country and planned improvement of its manufacturing facilities, Flintkote's marketing position is strengthened and its ability to serve customers better is improved.

% INDUSTRY AND AGRICULTURE
(Compared with 12% in 1966 and 8% in 1965)

Flintkote sales to industrial processing, agriculture and other markets, along with its ackaging operation, illustrate Flintkote's diversification. This market is a growing force in Flintkote operations.

The Flintkote Company/Annual Report 1967



Flintkote's attractive new Corporate headquarters in suburban Westchester County, New York, will be completed and occupied in 1968.

GEORGE J. PECARO, *President*

To the Stockholders

Sales in 1967 at $296,426,989, declined from 1966 record sales of $303,849,511, largely due to the delayed recovery of housing—in the nation in general and on the West Coast in particular. Non-residential construction which normally offsets softness in the residential field also remained at a low level during the first six months of the year.

Consolidated earnings before extraordinary items were $9,334,726, a decrease from 1966 earnings attributable principally to the reduced sales volume. 1967 prices generally firmed compared to 1966 but the price improvement could not offset the higher unit costs resulting from reduced plant operating levels.

Capital expenditures during 1967 at $16,361,842 continued to be concentrated on plant improvements and modernization to reduce manufacturing costs and improve service to our customers. Significant cost improvements were attained in the gypsum plant at Las Vegas and the floor tile plant in New Orleans. Numerous other improvements in lime plants, aggregate production facilities, concrete plants, pipe production facilities and packaging products plants help make the Company more competitive.

Profit improvement remains uppermost in management's current and long-range thinking. Our program for profit improvement encompasses two principal areas; first, cost reduction by modernization and technological innovation, and second, the disposition of products and manufacturing operations which cannot offer a satisfactory return on investment or do not fit the framework of our long-range planning. Illustrative of the latter objective was the sale of the folding carton operation in Los Angeles in 1967 which had not adequately contributed to the Company's earnings and growth. There remain other areas in the Company which are being studied with the aim of eliminating activities and operations which do not fit into our plans.

Increasing emphasis is being placed on product and process research and development. Results during the past year have been most encouraging and justify the time and effort allocated to this essential activity.

During 1967, the organizational structure of the Company was strengthened with the election of Mr. James D. Moran as executive vice president. Mr. Monte C. Carpenter was named vice president of the Building Products Group and Mr. William L. Bapst was named president of Hankins Container Division filling the position vacated by the retirement of Mr. Willard L. Davis who continues as a director. Mr. William L. Kauffman, vice president, retired after 45 years with the Company.

While 1968 is projected to show improvements in sales and earnings over 1967, the Company performance could be adversely affected by a low level of construction activities resulting from a threatened return of a tight money economy.

I am encouraged by the aggressive marketing and manufacturing efforts of the Company employees which have sustained earnings during a difficult period. I am appreciative of the employee teamwork in the Company, the guidance of the directors and the continued support of the stockholders.

George J. Pecaro

GEORGE J. PECARO,
President

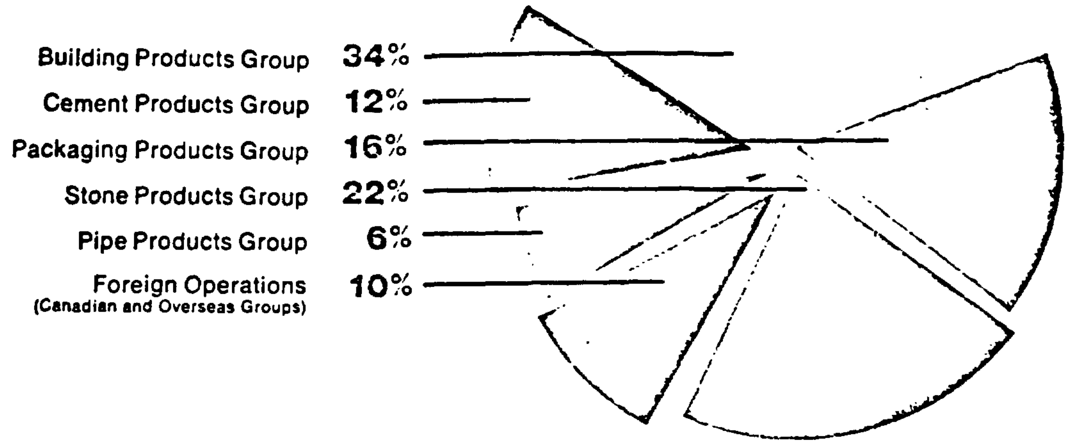
March 1, 1968

The Year in Review

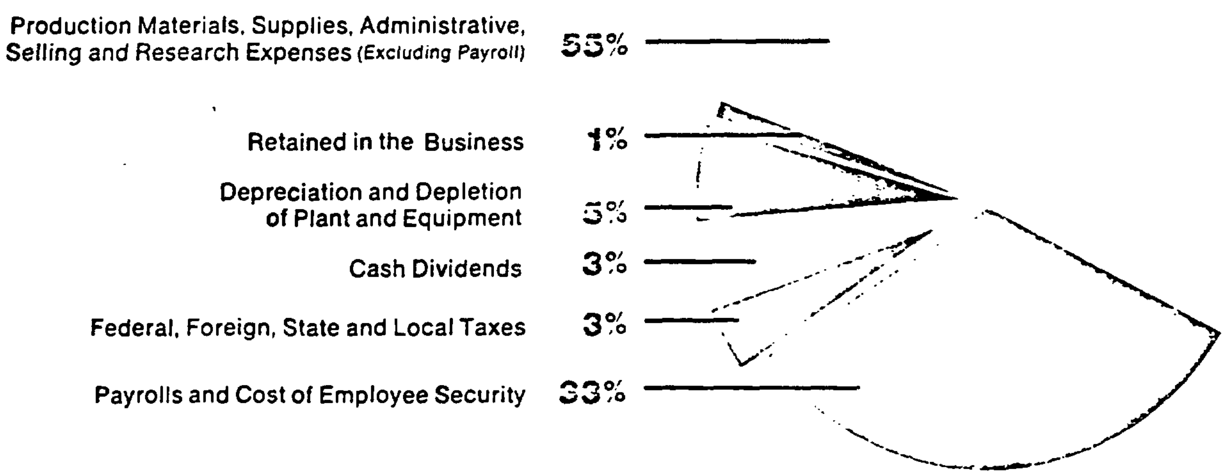
	December 31 1967	1966
	(In Millions)	
Sales	$296.4	$303.8
Income Before Extraordinary Items	9.3	12.4
Extraordinary Items, Net of Tax	1.1	6.4
Net Income	10.4	18.8
Cash Dividends (Common and Preferred)	7.5	7.5
Working Capital	71.6	71.3
Net Assets	187.8	185.0
Depreciation and Depletion of Plant and Property	14.3	14.3
Common Shares Outstanding	5,574,464	5,574,105
Common Shareholders of Record	22,186	22,702
Per Common Share		
(Based on Average Number of Shares Outstanding— 5,574,287 shares 1967— 5,567,566 shares 1966)		
Income, After Preferred Dividends:		
Income Before Extraordinary Items	$1.32	$1.86
Extraordinary Items, Net of Tax	.19	1.16
Net Income	1.51	3.02
Cash Dividends	1.00	1.00

Details are reported in the financial statements on pages 17 through 21

SOURCES OF THE 1967 SALES DOLLAR



DISTRIBUTION OF THE 1967 INCOME DOLLAR



Net sales for the fiscal year ended December 31, 1967, were $296,426,989; compared with the previous year's all-time high of $303,849,511.

Income before extraordinary items was $9,334,726; which amounts to $1.32 per common share. These 1967 earnings are directly comparable with the net income of $12,354,491 or $1.86 per common share as it was reported in the 1966 Annual Report.

This year the Company is complying with an opinion of the Accounting Principles Board and has included extraordinary items in net income for 1967 and restated the net income figures for previous years. (See Notes to Financial Statements—#9). With this inclusion of extraordinary items, net income for 1967 was $10,404,347 or $1.51 per common share versus $18,790,507 or $3.02 per common share in 1966. The earnings per share are based on the average number of shares outstanding during each year, after provision for preferred dividends.

The $0.25 per common share quarterly dividend was continued during 1967, thus maintaining the $1.00 per year dividend rate on common shares established in the last quarter of 1964.

Financial Highlights

The Company's financial position remained strong during the year, with working capital on December 31, 1967, increasing to $71,563,596 compared with $71,340,847 at the previous year end. Accounts receivable were maintained in line with sales volume despite the credit stringencies which affected our markets during the year. In addition, a corporate-wide effort successfully reduced the Company's investment in inventories from earlier levels. With this strong working capital position at the beginning of the current year, management expects that the Company can continue to finance its normal investment requirements during 1968 from internally generated funds.

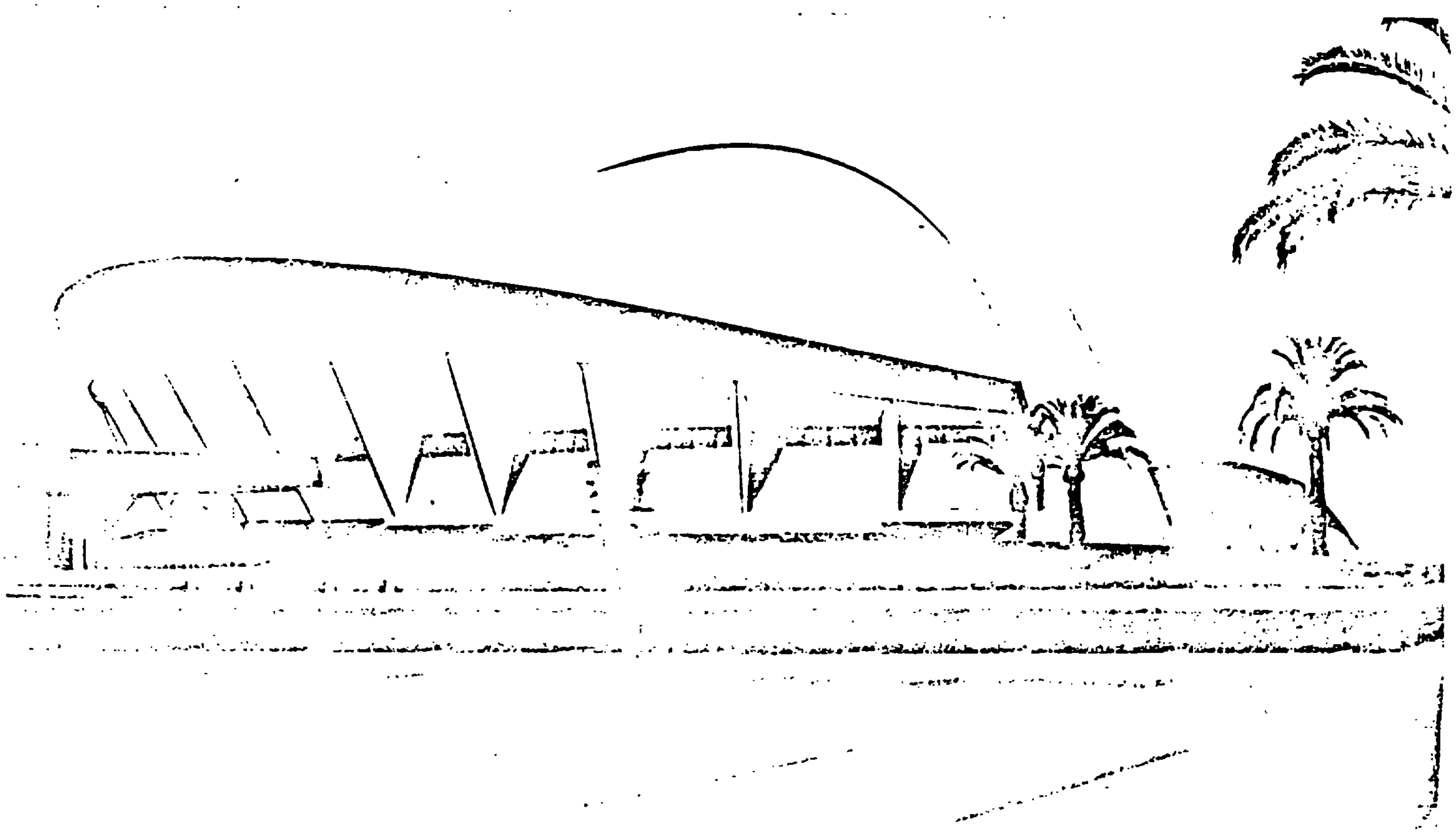
Expenditures of $16,361,842 for capital additions were made in 1967 and are anticipated to run at a higher level in 1968. Provisions for depreciation and depletion were $14,314,000 in 1967 and are estimated to be about $14,750,000 in 1968.

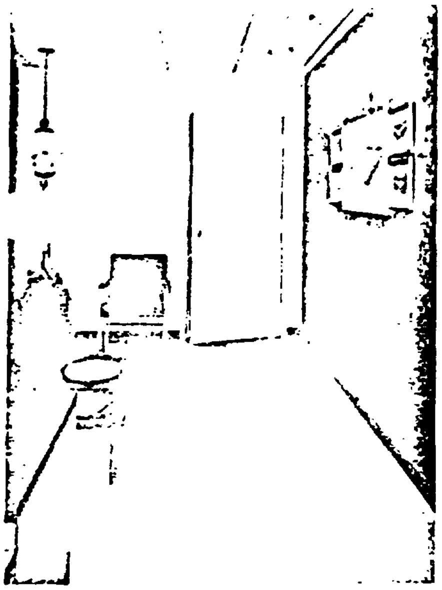
The Company continued to amortize investment tax credits over a ten-year period, and 1967 earnings include $468,436 attributable to the investment tax credit.

The above pie graph shows the sources of the 1967 sales dollar and reflects the Company's organizational structure. Each domestic product group is shown separately. The Canadian and Overseas Groups are combined and shown as "Foreign Operations". Each group is discussed separately in more detail later in the Report.

Building Products Group

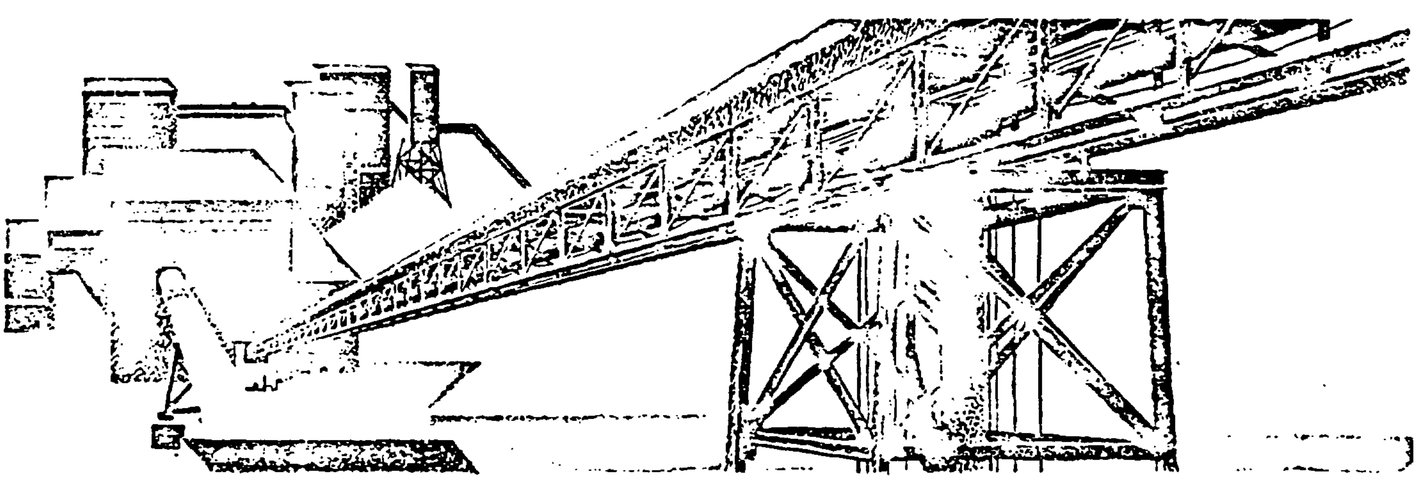
FLINTKOTE® custom specification roof meets the demands of contemporary design—the Anaheim Convention Center, Anaheim, California.



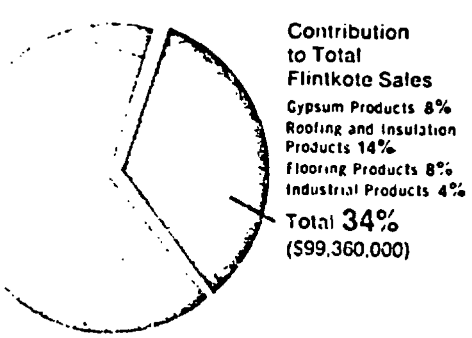


Quality, new styling of FLINTKOTE drop-in ceiling panels and vinyl-covered gypsum wallboard provide growth opportunity in commercial and residential markets.

High quality gypsum ore from Flintkote's Newfoundland mines supplies the Company's gypsum products plants along the eastern seaboard.



Major organizational changes were made in the Building Products Group in 1967 to more effectively cope with the requirements of today's competitive marketing conditions. The four divisions previously comprising this Group have been realigned according to product lines nationally forming six divisions: Gypsum Products Division, Flooring Products Division, Building Materials Division, Industrial and Automotive Products Division, Pioneer Division and Sealzit Division. The Group produces an extensive line of building materials, adhesives, flooring, industrial and automotive products.



Overall performance of the Group improved in 1967 as cost reduction plans showed results, helping to counteract some of the negative forces in the market place.

The Company's major commitment to its gypsum business is proving justified and profitable. The Gypsum Products Division's performance improved over 1966 in spite of depressed home construction activity during the first half of 1967. Gypsum product demand should continue upward if the late 1967 upturn in new home construction continues through 1968 as expected.

A brighter outlook for increased sales and improved profits for the gypsum line in 1968 is based on improved prices, major manufacturing facility improvements at the Las Vegas, Nevada plant serving California markets, and the indicated upturn in housing construction.

Flintkote's exciting Peel and Stick floor tile was moved into nationwide distribution which is a part of the Company's continuing efforts to round out its flooring products line. Peel and Stick floor tile and WALK-EASE Cushioned Sheet Vinyl Flooring, another new product, are enjoying steady growth in consumer acceptance.

The market position of roofing and insulation board products is being strengthened by new promotional techniques, new marketing ideas and product innovations.

The VAN PACKER® Industrial Chimney product line was broadened through increased industrial and commercial applications.

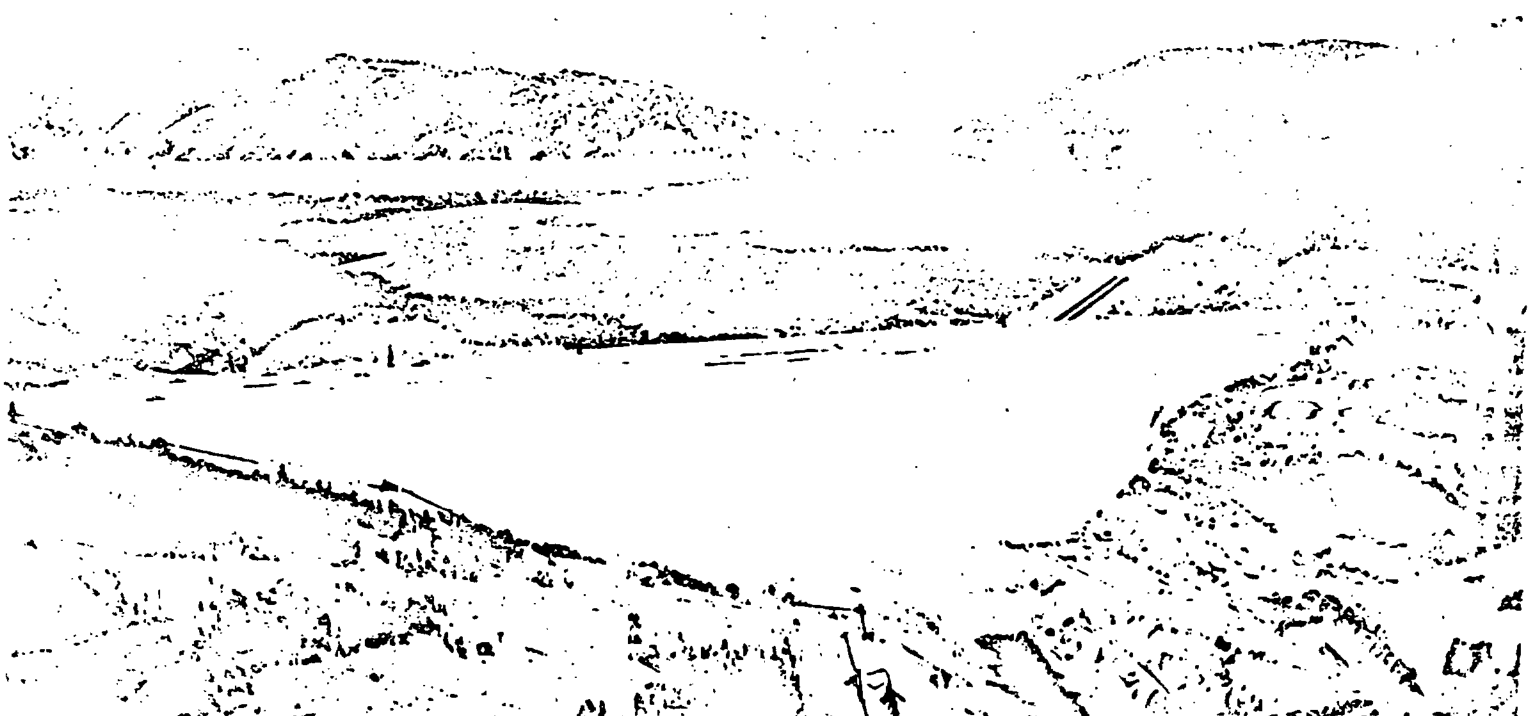
Flintkote's diversified line of industrial and automotive products continues to enjoy wide acceptance making it a more important segment of this Group.

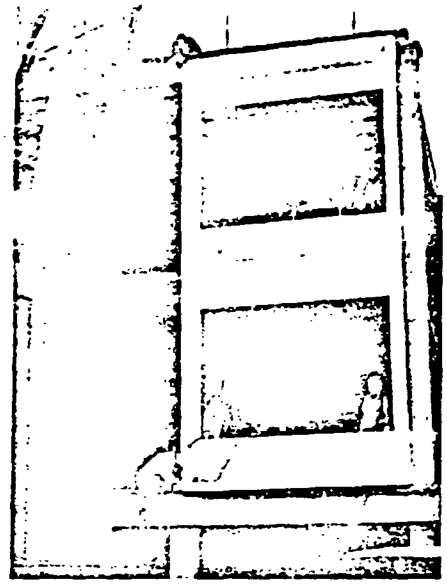
Expansion of our SEALZIT® contracting organization continues and has gained importance with successful installations utilizing urethane foam to provide monolithic, low temperature insulation in a variety of applications.

The general outlook for this Group in 1968 is optimistic but is contingent upon availability of mortgage money, continued expansion of construction and stabilization of prices and costs.

Cement Products Group

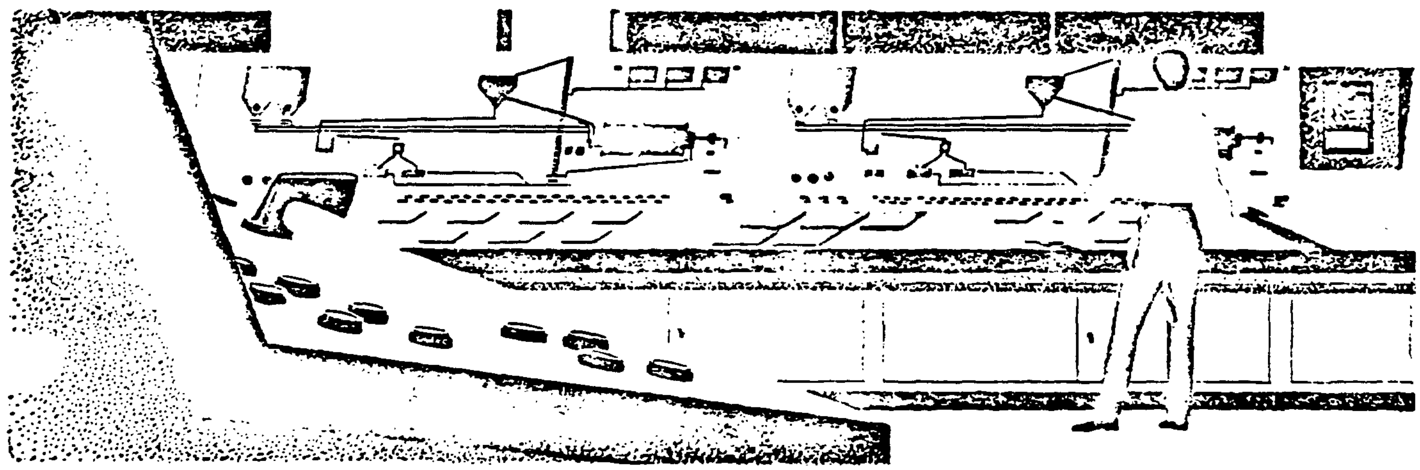
In California, the new Oroville Dam is the world's highest earth-fill dam. Its concrete core is built with Flintkote's Calaveras cement.





A precast window panel is lifted into place in the New Hampshire State Office Building at Concord. Flintkote's Glens Falls portland cement was used in this project.

The Calaveras Division pioneered in the electronic control of the cement manufacturing process. This is the control room at Redding, Calif.



The Cement Products Group which includes the Calaveras, Diamond and Glens Falls Divisions, and the Kosmos Portland Cement Company did well in 1967 in spite of the sluggish construction market and unseasonably bad weather in many of our marketing areas. The total dollar contribution to Flintkote's sales in 1967 decreased from 1966, due principally to the depressed construction activity in the West Coast marketing areas.

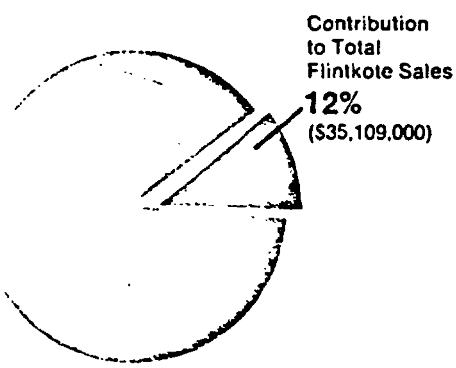
The construction slump on the West Coast was also a major cause of a reduction in cement consumption nationally in 1967. This decrease represents the first time since 1960 that cement consumption has dipped from the previous year; however, it is expected that the decrease will be overcome and gains enjoyed in 1968 with the predicted increase in construction activity.

Cost reduction programs and careful management helped reduce the effects of adverse market conditions. Programs for increasing manufacturing efficiency and quality control continued in 1967 with excellent results, and plans for 1968 are well underway. The Calaveras Division will continue its project to develop a new source of raw materials for its plant at San Andreas, California. By constructing a pipe line to convey raw material from the quarries to the burning kilns, this division will be tapping high-grade raw materials with supplies sufficient for many years to come.

The year ended on a note of optimism with shipments for the last half of the year exceeding those for the same period of 1966. Whether this trend will continue depends, to a large extent, upon the general economy, spending by the various government bodies, interest rates and availability of funds.

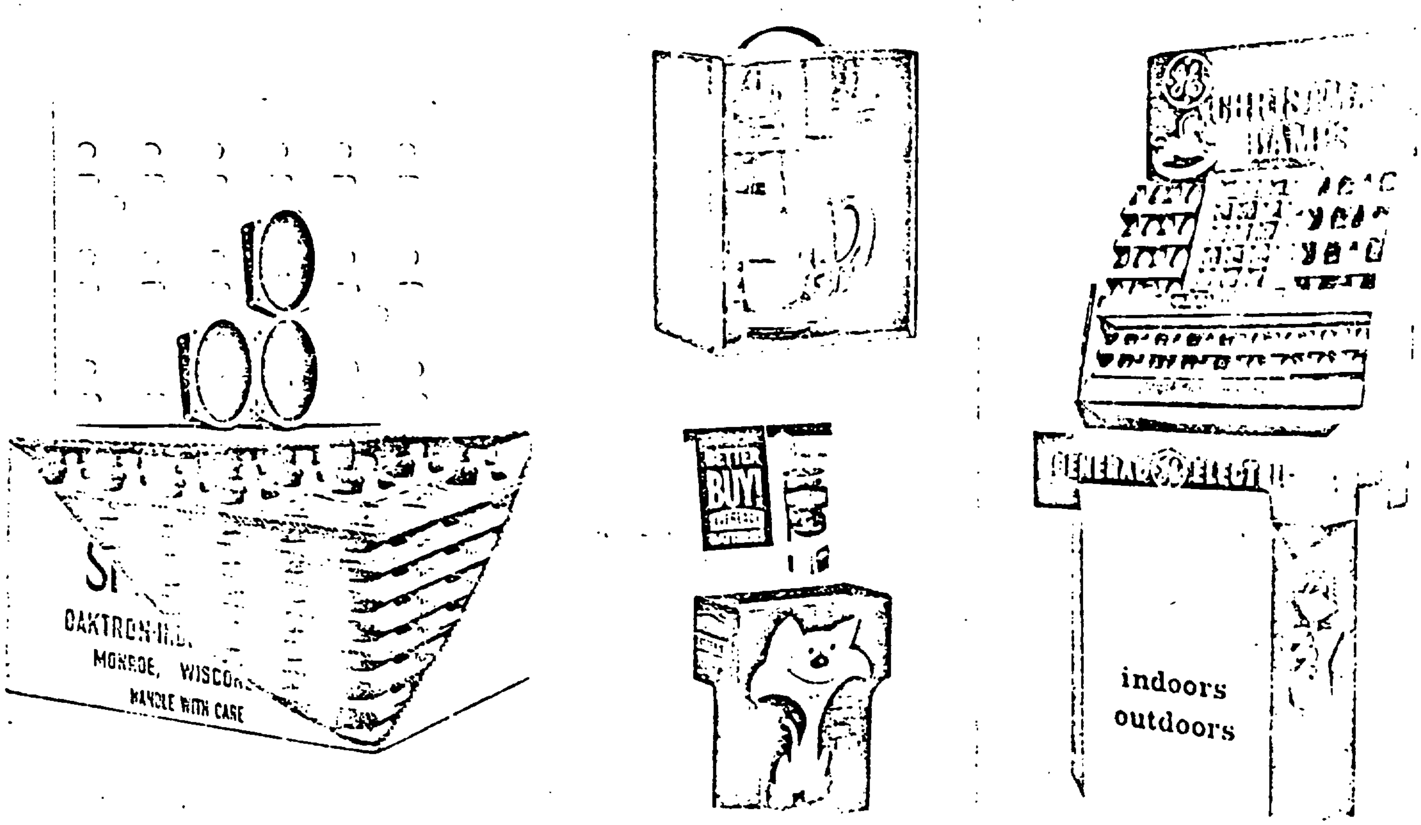
All popular types of portland cement are produced by the Cement Products Group and marketed to the broad construction industry including building materials dealers, concrete products manufacturers, ready-mixed concrete producers and highway contractors.

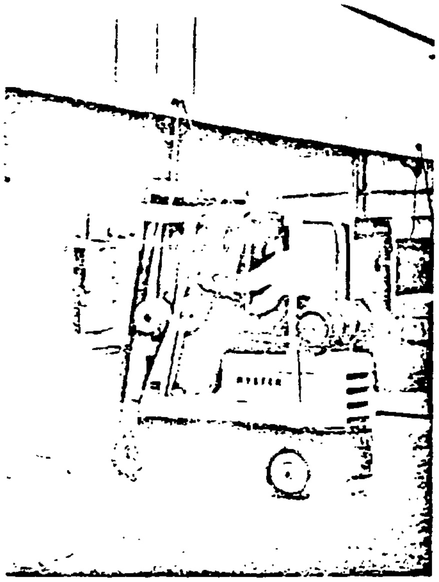
Our top management structure remains strong with good middle management back-up. During the year Mr. Wilbur D. Correll was named president and general manager of the Diamond Portland Cement Company Division succeeding the late R. D. Raff, Jr.



Packaging Products Group

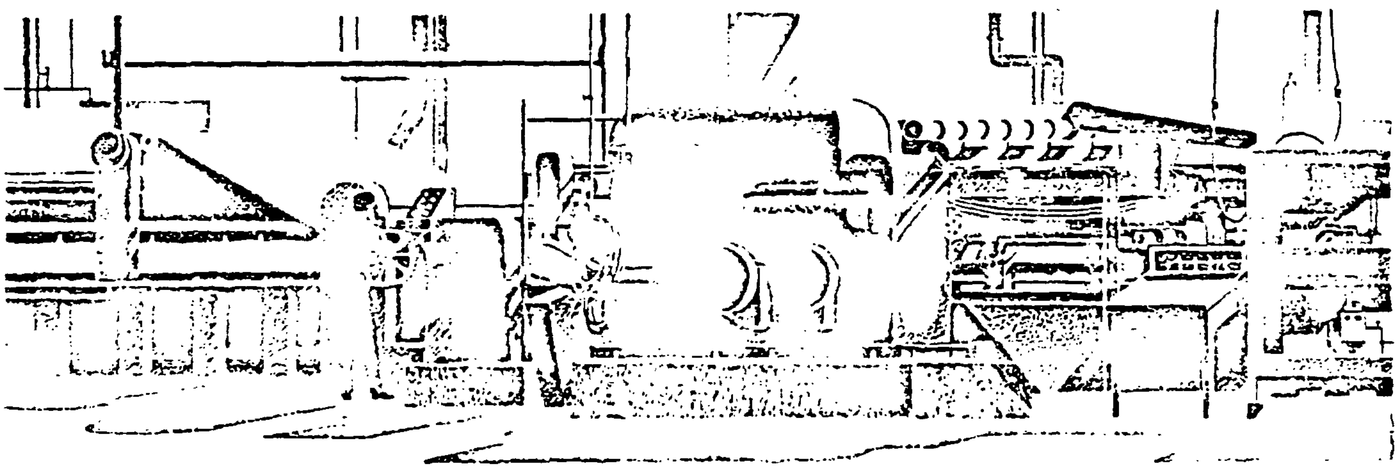
Examples of the wide variety of corrugated paper products manufactured by the Packaging Products Group.





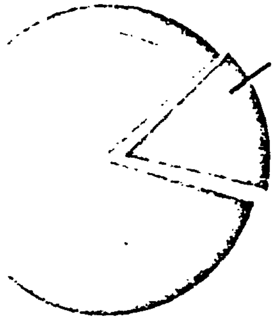
Productive capacity of Flintkote's Packaging Products Group was increased in 1967.

his sketch shows the production line in one of Flintkote's Packaging Products plants.



The Flintkote Packaging Products roup, which includes the Hankins Conainer and Western Packaging Divi:ons, produces a broad line of corruated paper products and displays at 'even plant locations in the United tates. The products are marketed to large variety of industries across the ountry.

As forecast last year, 1967 was a good ear. It was highlighted by good profits; ie startup of new facilities at Centerlle, Ohio; Chicago, Illinois and Hous:n, Texas; and new market developents which strengthened our marketing position and broadened our product base.



The Hankins Container Division developed and improved containers for fruits and vegetables and for air freight cargo, and also developed machinery for more efficient printing and production of special containers. Plans for expansion of the Little Rock, Arkansas plant are underway and should be completed in 1968.

The Western Packaging Division continued its programs for improving the efficiency of production facilities with a new machinery installation at San Leandro, California. This will enable us to become more active in military packaging. Plans were completed for the installation of many new improvements in 1968 which will further streamline manufacturing operations at Los Angeles.

New marketing developments in the Western Packaging Division included an automated garment box line, which is a substantial first for us in this area, and important developments in produce packaging.

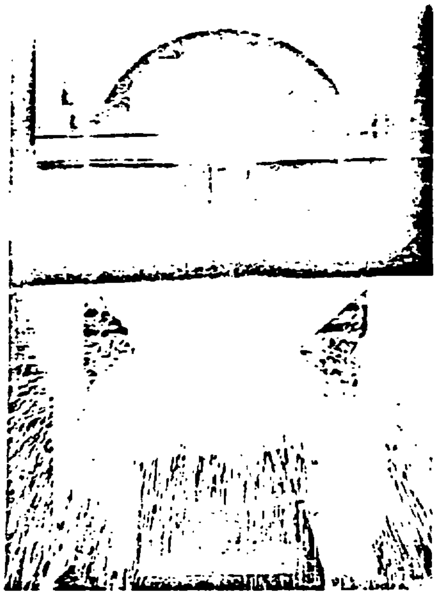
Customer service keynotes the efforts of this group and strongly supports the general sales organization. Specialists are made available to customers to help them solve their packaging problems, designing products to individual specifications.

With startup costs of the three new facilities behind us and with strong marketing programs, 1968 should bring an even better profit picture for the Packaging Products Division. The future of this group, short and long-range, is a bright one and the capital outlays for new plants, equipment and new products, exemplifies the Company's confidence in the potential of the packaging industry.

Prices in 1967 continued stable in the parts of the packaging industry served by Flintkote.

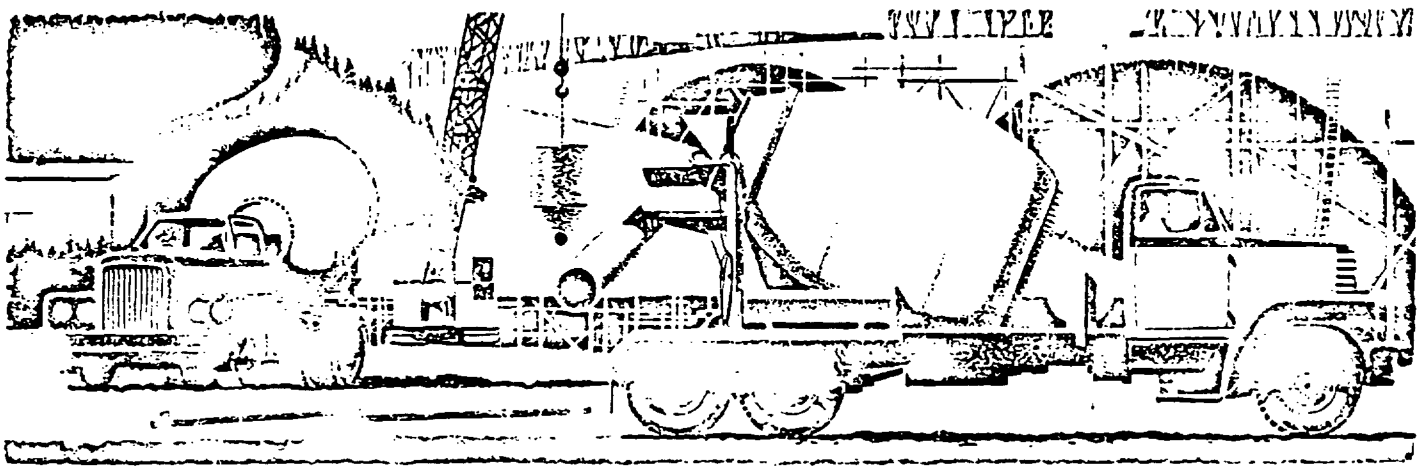
Stone Products Group

This beautiful Merced River bridge in California was built with construction materials from Flintkote's Standard Materials Company.



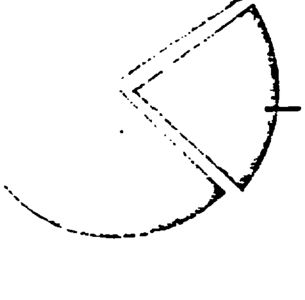
The growth of lime consumption with increased use of the Basic Oxygen Furnace (see photo) in steel processing, makes this market even more important to Flintkote's lime producing divisions.

A large portion of the Stone Products Group's sales comes from ready-mixed concrete. Five of its six divisions produce ready-mixed concrete.



The Eastern Stone Products Group is made up of the Harry T. Campbell Sons' Corporation and the M. J. Grove Lime Division. The Western Stone Products Group consists of the Blue Diamond Concrete Materials Division, U.S. Lime Division, Standard Materials Company and the Stockton Building Materials Company. The two groups comprise the Company's Stone Products Group.

The products include ready-mixed concrete, lime, stone, calcium carbonate, gravel, SAKRETE® mixes, asphaltic concrete, industrial and concrete sand and reinforcing steel for concrete. They are marketed to virtually all segments of the construction industry, to agriculture and to industrial processing firms.



Sales of the Harry T. Campbell Sons' Corporation reached a new high and 1967 earnings topped those of 1966. A new SAKRETE plant at Oxford, Massachusetts began operations in 1967 and plans for extending the Company's ready-mixed concrete marketing activities are underway.

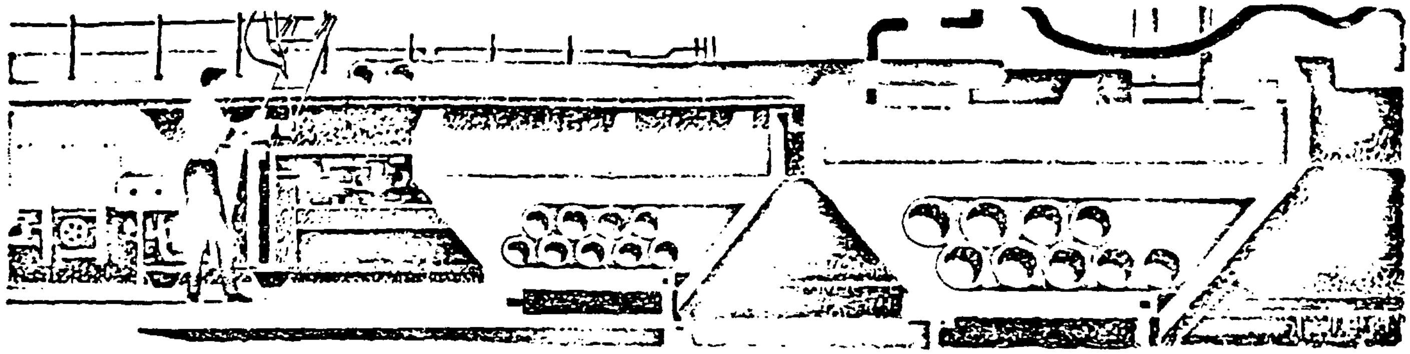
The M. J. Grove Lime Division maintained sales volume compared to the previous year but earnings were off due to increased production costs and lower prices. Additions to the glasshouse limestone plant at Stephens City, Virginia increased production and improved product quality. Also, stone reserves were purchased, further strengthening the Company's long-term position in the market.

Blue Diamond Division sales were lower in 1967 than in 1966. Its markets for rock and sand, concrete and reinforcing bars suffered from lower construction activity in southern California.

The U.S. Lime Division's 1967 sales decreased slightly from 1966 with earnings down somewhat due to the continued low level of residential construction. New developments give considerable cause for optimism in this division: the development of the lime stabilization market in California; a new 300-ton-per-day kiln to be constructed in 1968 at the Apex, Nevada operation; a quicklime and hydrating facility to be complete in 1968 to serve the Southern California market, and other improvements are in the planning stages.

The 1967 sales volume of the Standard Materials Company decreased from the 1966 level reflecting the residential construction decline and the cutbacks in Federal-State spending for street and road construction. In 1968, sales should increase with the predicted step-up in construction activity.

The Stockton Building Materials Company experienced a slight increase in sales and profits in 1967 and another increase in sales is predicted for 1968 if California's construction picture improves as expected.



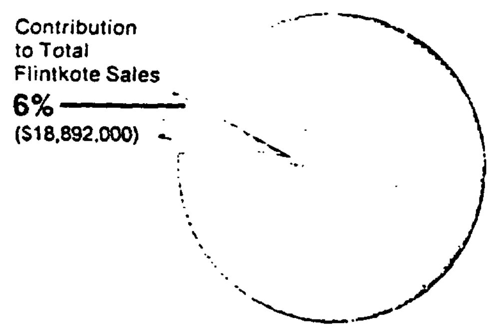
New and improved production facilities are helping Flintkote's Pipe Products Group improve its position in major growth markets.

Pipe Products Group

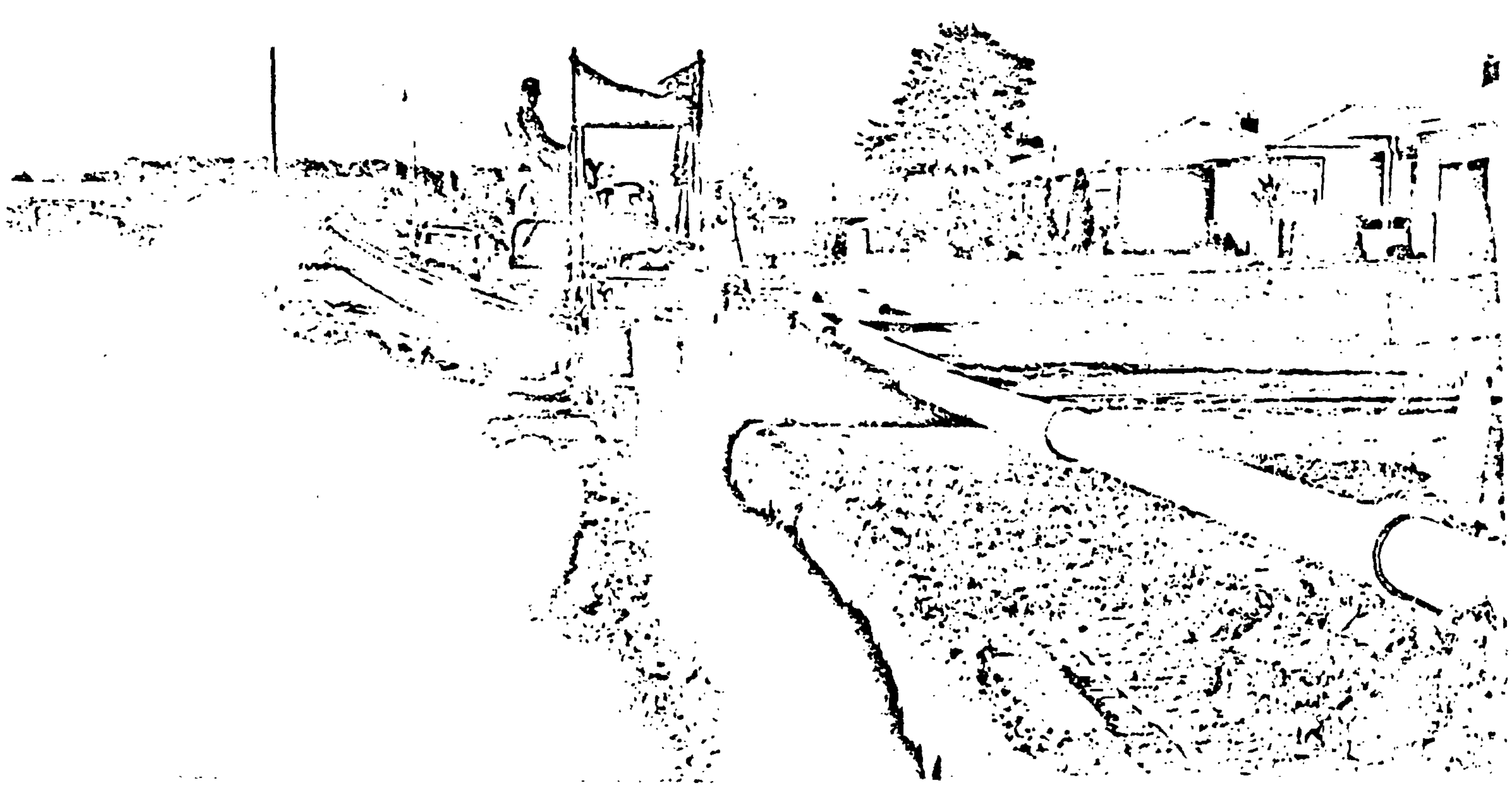
The Pipe Products Group manufactures and markets complete lines of FLINTITE® asbestos cement pipe for private and public water distribution and sewer main construction projects; ORANGEBURG® bituminized fibre pipe for outside underground residential drainage; ORANGEBURG® fibre conduit for underground electrical and telephone duct system construction; and ORANGEBURG SP® ultra high density polyethylene pipe and tubing for water and gas utility and residential service connection installations. All pipe products except FLINTITE® asbestos cement pipe are marketed nationally.

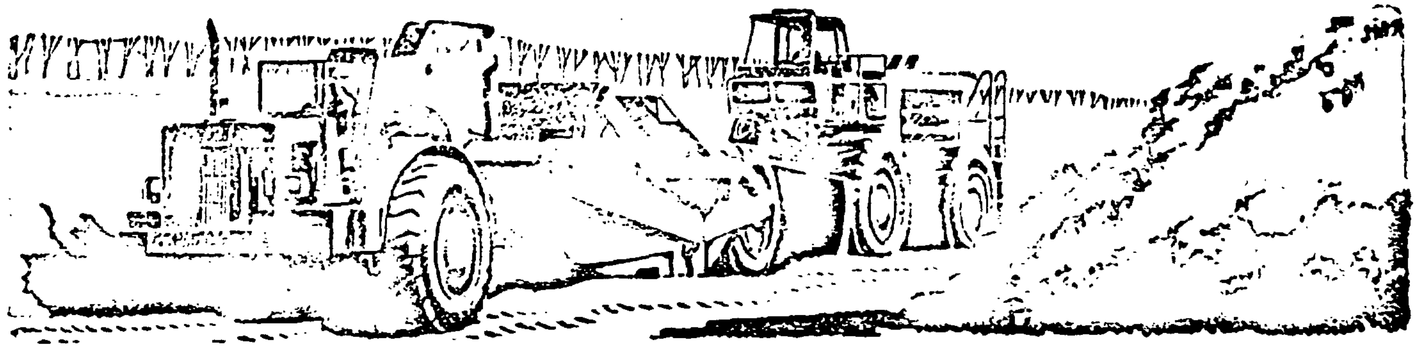
Although Flintkote's pipe business was good in terms of volume for 1967, price levels on asbestos cement and bituminized fibre pipe products during the first half of the year adversely affected operating results for the entire year. Price improvements during the last half of 1967 make the projection of operations for 1968 more attractive. Also, improved manufacturing efficiency during the second half of 1967 will have a beneficial effect on future operations.

The rapidly growing acceptance of plastic pipe for outdoor underground applications prompted Flintkote to build a plant in Los Angeles (completed during 1967) thus increasing the Company's productive capacity for this product 100%, and to begin the construction of a polyvinyl chloride pipe plant at Ravenna, Ohio. The Los Angeles plant is the first manufacturing facility for this particular product line on the West Coast and will improve our ability to service customers throughout the Southwest.



Projected population and industrial growth will require water lines such as this one, and FLINTKOTE Asbestos-Cement Pipe is serving that market.





This sketch symbolizes the dynamic road construction industry in Canada which is the source of a substantial part of the Canadian Group's sales.

Canadian Group

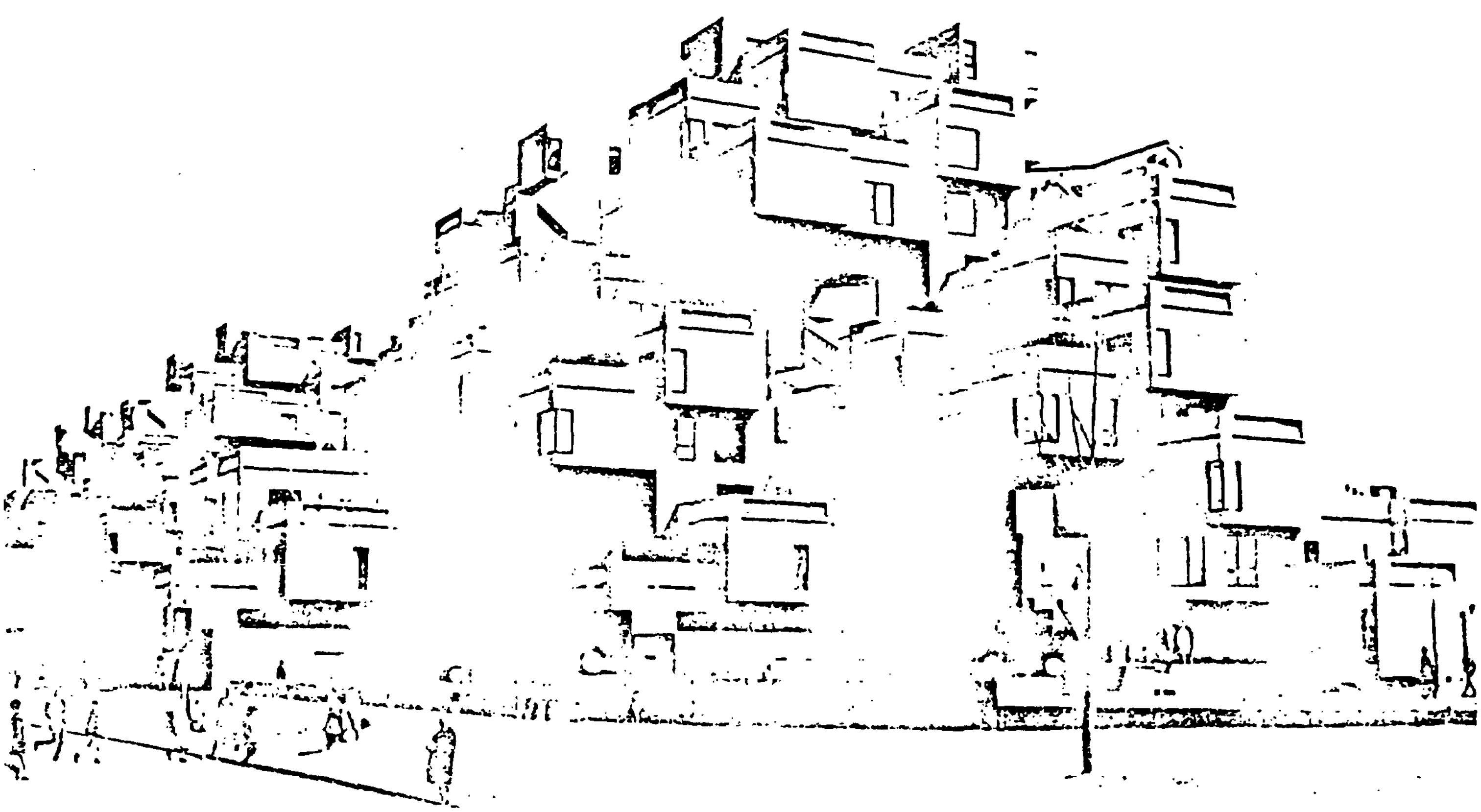
The Canadian Group, made up of The Flintkote Company of Canada Limited, King Paving and Materials Limited, Stradwick Industries Ltd. and Flintkote Mines Limited, serves the broad and dynamic Canadian construction industry. The products include flooring, adhesives, protective coatings, road emulsions, ready-mixed concrete, asbestos fibres, stone, sand and gravel.

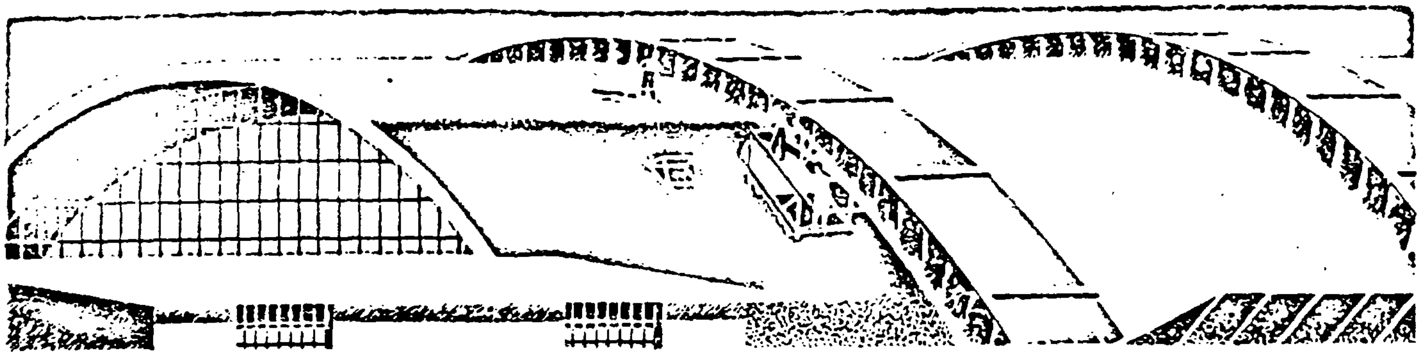
The total sales and earnings for King Paving and Materials Limited reached record levels in 1967, and potential demand in its marketing areas remains dynamic with a long-term outlook of sustained and rapid growth. An increase in the sales of crushed stone and concrete in 1967 helped offset the effect of the sharp drop in construction operations. Production efficiency was further improved in 1967 with a new automated concrete batch plant and a new portable asphalt plant. The increased capacity and operating efficiency of these two installations helped reduce costs.

Sales of the Flintkote Company of Canada Limited climbed to record volume but earnings were down slightly from 1966. New products under active research and expansion of the sheet flooring line will help improve market penetration.

The London (Ontario) Vina-Rug plant was transferred from Stradwick Industries Ltd. to the Flintkote Company of Canada Limited early in the year, and this resulted in a reduction in Stradwick's total dollar volume. Their sales through retail stores and contract operations, however, were increased, and increased sales are anticipated in 1968 in spite of the very keen competitive situation in the industry.

One of the floor coverings specified for each of the 158 apartments in Canada's Habitat '67 was Flintkote's WALK-EASE® Cushioned Sheet Vinyl Flooring.





FLINTKOTE roof waterproofing being applied on a large bus garage in Oslo, Norway.

Overseas Group

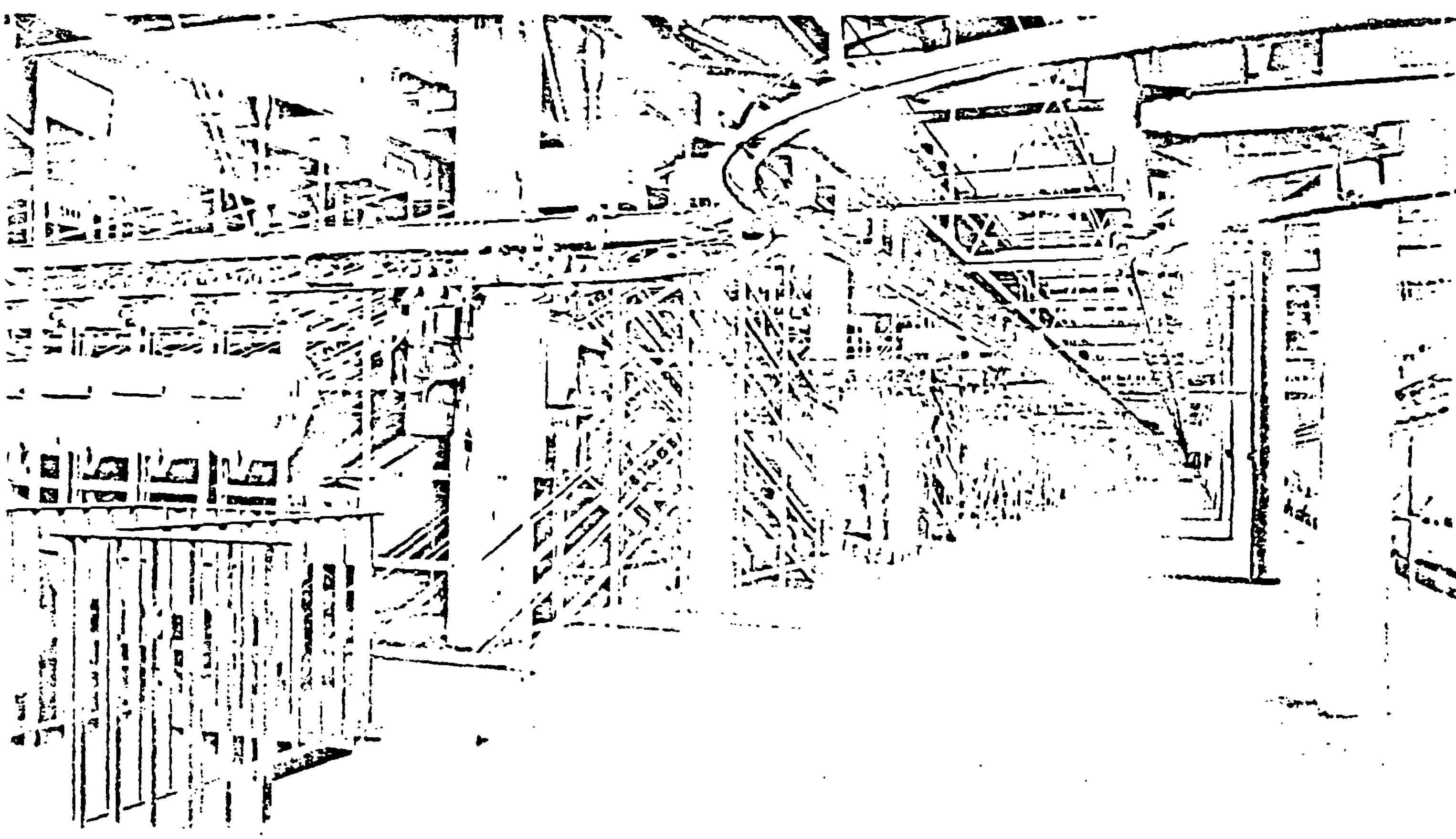
The product line of the Overseas Group includes automotive products, protective coatings, adhesives, industrial and decorative paints, roofing, flooring and insulation systems including the MONOFORM* Roofing System which has been successfully introduced in numerous overseas markets. These products are marketed in over one hundred countries throughout the world.

The Company's overseas divisions are operated through its subsidiary, The Flintkote Company Limited, London, England. Manufacturing subsidiaries of the London-based company are Enfield Chemicals Limited, Flintkote France S.A.R.L., Flintkote (New Zealand) Limited and Flintkote South Africa (Pty) Limited.

The operating results of this Group were satisfactory when judged against the economic background of the areas it served during the year 1967. The consolidated sales of the Group were lower than in 1966. The decrease was due in large part to the effects of deflationary or restrictive measures taken by the British and other governments; also, to the disruption of export shipments resulting from the prolonged dock strike at Liverpool and London and to the political and economic consequences of the Middle East conflict.

Further steps were taken in 1967 to strengthen the Group's marketing, sales and development activities. The efficiency of all overseas plants was well maintained and production capacity further expanded. The benefit of increased investment in production facilities and personnel is expected to make its impact upon both sales volume and operational profits in the years ahead as economic conditions improve.

FLINTKOTE industrial flooring was installed in this large storage depot for the Galeries Lafayette near Paris, France.



onsolidated Statements of Income and Earned Surplus

for the years ended December 31, 1967 and 1966

	1967	1966
Sales	$296,426,989	$303,849,511
Cost of goods sold	231,611,601	234,223,007
Gross profit on sales	64,815,388	69,626,504
Selling, administrative and general expenses	44,667,678	45,252,875
	20,147,710	24,373,629
Other income	1,752,689	4,104,488
	21,900,399	28,478,117
charges:		
Cash discounts on sales	4,700,260	4,805,994
Interest	2,357,383	2,386,549
Miscellaneous	678,654	1,062,698
	7,736,297	8,255,241
Income before federal and foreign taxes on income	14,164,102	20,222,876
Federal and foreign taxes on income:		
Currently payable:		
United States	2,275,818	5,344,181
Foreign	1,334,280	1,195,414
Deferred *(Note 3)*	1,208,057	1,165,946
Charge equivalent to investment tax credit, net *(Note 4)*	11,221	162,844
	4,829,376	7,868,385
Income before extraordinary items	9,334,726	12,354,491
Extraordinary items, net of income taxes: 1967, $992,275; 1966, $3,453,541 *(Note 9)*	1,069,621	6,436,016
Net income	10,404,347	18,790,507
Earned surplus, January 1	97,797,121	86,556,136
	108,201,468	105,346,643
Less, Cash dividends on:		
Preferred stocks	1,976,688	1,982,163
Common stock, $1.00 per share	5,574,284	5,567,359
	7,550,972	7,549,522
Earned surplus, December 31 *(Note 8)*	$100,650,496	$ 97,797,121
Per share of common stock (after preferred dividends) based on the average number of shares outstanding:		
Income before extraordinary items	$1.32	$1.86
Extraordinary items, net of tax	.19	1.16
Net income	$1.51	$3.02

See notes to financial statements.

Consolidated Balance Sheets

for the years ended December 31, 1967 and 1966

ASSETS:	1967	1966
Cash	$ 13,110,218	$ 13,947,795
Marketable securities, at cost (approximates market)	6,748,462	4,834,756
Accounts and notes receivable:		
Customers, less allowance for doubtful items: 1967, $5,452,189; 1966, $4,808,422	44,045,504	44,426,881
Other	1,451,884	7,191,856
	45,497,388	51,618,737
Inventories, at the lower of average cost or market:		
Finished goods and work in process	21,627,113	23,886,220
Raw materials and operating supplies	17,480,067	17,970,214
	39,107,180	41,856,434
Total current assets	104,463,248	112,257,722
Property, plant and equipment *(Note 1)*	169,200,202	169,214,950
Investments, at cost, and long-term receivables	1,819,082	2,233,724
Good will, patents and other rights, at cost	4,234,067	4,252,817
Prepaid and deferred expenses and other assets	5,096,172	5,275,159
	$284,812,771	$293,234,372

See notes to financial statements.

LIABILITIES:	1967	1966
Accounts payable and accrued expenses	$ 20,051,308	$ 20,553,983
Notes payable	2,055,000	555,000
Current instalments on long-term debt	1,105,783	1,169,563
Accrued federal, state and other taxes	8,344,418	14,533,259
Reserves for product guarantees and self-insurance	1,250,608	1,536,370
Production payment, net of taxes	92,535	2,568,700
Total current liabilities	32,899,652	40,916,875
ng-term debt *(Note 2)*	41,189,312	43,810,185
Reserve for product guarantees	—	1,800,000
Deferred taxes on income *(Note 3)*	19,799,577	18,574,083
Deferred investment tax credits *(Note 4)*	3,169,799	3,158,578
	97,058,340	108,259,721
Commitments *(Note 5)*		
CAPITAL:		
Capital stock *(Notes 2, 6 and 7)*:		
Preferred stocks, par or stated amount (aggregate involuntary and voluntary liquidation (or redemption) amounts $44,646,700 and $46,986,789, respectively)	27,977,635	27,977,635
Common stock, $5 par:		
Authorized 10,000,000 shares; issued, 1967, 5,574,464 shares; 1966, 5,574,105 shares, stated at	59,255,388	59,245,870
Issuable under stock option plan purchase contracts, 359 shares	—	9,518
Earned surplus, statement annexed *(Note 8)*	100,650,496	97,797,121
	187,883,519	185,030,144
Less, Treasury stock at cost *(Note 6)*	129,088	55,493
	187,754,431	184,974,651
	$284,812,771	$293,234,372

See notes to financial statements.

Notes to Financial Statements

1. Property, plant and equipment are stated at cost, less:

	1967	1966
Allowance for depreciation and depletion	$152,861,359	$144,473,184
Allowance for estimated losses on disposal of certain plants	1,396,071	600,571

At December 31, 1967, properties carried at a depreciated cost of approximately $10,600,000 were pledged under debt agreements.

2. Details of long-term debt at December 31, 1967 are as follows:

Description	Current Portion	Due Subsequent to 1968 Total	Annual Instalments
Sinking fund debentures:			
4⅝%, due April, 1, 1981	—	$29,680,000	$1,680,000 for 1969, $1,750,000 through 1980, balance 1981
4¾%, due April 1, 1977	—	6,442,000	$442,000 for 1969, $500,000 through 1976, balance 1977
4½% debentures, due October 1, 1980	$ 146,000	1,206,000	$147,000 through 1976 except each fourth instalment beginning 1968 shall be $146,000, balance 1977
Notes:			
5%, due December 1, 1970	200,000	500,000	$200,000 through 1969, balance 1970
4⅞%, due April 1, 1977	250,000	1,850,000	$250,000 through 1974, with lesser amounts thereafter
Other long-term debt	509,783	1,511,312	Varying through 1988
	$1,105,783	$41,189,312	

The 4½% debentures are convertible into common stock at the rate of one share for each $45 principal amount of debentures. At December 31, 1967, 30,045 shares of common stock were reserved for conversion of such debentures.

3. Depreciation for book purposes is provided on the straight-line method and for certain assets is less than depreciation claimed for income tax purposes. Further, certain mine development costs are claimed for income tax purposes as incurred but for book purposes are deferred and amortized on a per-ton-mined basis. The resulting current tax benefits are deferred to subsequent periods when book provisions for depreciation and amortization will exceed the amounts allowable for income tax purposes.

4. Investment tax credits are being amortized ratably over ten-year periods.

5. At December 31, 1967, the Company had authorized future additions to plant and property of which the estimated cost to complete was $14,000,000.

The companies have long-term lease obligations involving annual rentals of approximately $1,200,000 through 1970 and reduced amounts thereafter through 2000.

6. Preferred stocks comprise:

	Shares Authorized	Shares Issued	Amount
$4 cumulative, no par	53,877	53,877	$ 5,714,329
4½% convertible second, $100 par	72,965	72,965	7,296,500
$4.50 Series A convertible second, $100 par	120,225	120,225	12,022,500
$2.25 Series B convertible second, no par	648,000	398,800	2,944,306
			$27,977,635

The $4 preferred stock has a sinking fund provision requiring the annual redemption of 2,000 shares, with the privilege of applying any excess redemptions to subsequent periods. Shares have been acquired and retired to meet the sinking fund requirements through 1968.

Conversion features:

	Shares of Common Stock for Each Share of Preferred Stock
4½% series	3.000
$4.50 series	2.678
$2.25 series	1.111

Common stock reserved for conversion of preferred stocks aggregated 983,925 shares at December 31, 1967.

Treasury stock at December 31, 1967 consisted of 990 shares of $4 cumulative preferred and 750 shares of $4.50 Series A convertible second preferred (at December 31, 1966, 750 shares of $4.50 Series A convertible second preferred).

7. At December 31, 1967, there were outstanding exercisable stock options, granted to certain officers and employees, to purchase 145,153 shares of common stock at prices ranging from $22.00 to $22.50 per share. During 1967, options for 104,600 shares were granted at a price of $22.50 per share (the fair market value at date of grant), no options were exercised, and options for 16,329 shares were canceled.

Shares reserved for future options at the beginning and end of 1967 were 100,405 and 12,134, respectively.

8. The indentures covering the sinking fund debentures, the long-term note agreements and the Company's Articles

of Organization contain restrictive provisions as to the payment of cash dividends on, and the purchase or redemption of, Company stocks. Under the most restrictive of these provisions, the amount of earned surplus available for cash dividends on common stock at December 31, 1967 was approximately $49,288,000.

9. Extraordinary items, net of income taxes:

1967:	
Reduction of 1963 provision for shutdown expenses and loses on sale of certain plants to estimated amounts presently required	$1,400,000
Loss on devaluation of foreign currency	(330,379)
	$1,069,621
1966:	
Gain on sale of timberlands and disposal of plant	$ 9,817,911
Write-off of intangibles, considered to be no longer of value, relating to businesses acquired from 1945 to 1960	(3,381,895)
	$ 6,436,016

The items reported in 1966 as special items (after net income) have been restated as extraordinary items in conformity with Opinion 9 of the Accounting Principles Board of the American Institute of Certified Public Accountants.

10. Provisions for depreciation and depletion of $14,314,000 in 1967 and $14,288,000 in 1966 are included in the consolidated statements of income.

11. The Company and its subsidiaries have various pension plans, some of which are contributory, covering substantially all salaried and sales employees and certain hourly employees. The total pension expense of approximately [illegible]3,000 in 1967 and $2,797,000 in 1966 includes amortization of prior service costs over periods of 20 to 30 years. The Company's policy is to fund pension costs accrued. At December 31, 1967, vested benefits of some plans exceeded the total of the applicable pension funds and balance sheet accruals by an estimated $2,550,000.

Auditors' Report

To the Board of Directors and Stockholders,
The Flintkote Company:

We have examined the consolidated balance sheet of THE FLINTKOTE COMPANY and its WHOLLY OWNED SUBSIDIARIES as of December 31, 1967 and the related consolidated statement of income and earned surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the Company for 1966 which have been restated to reflect certain transactions as extraordinary items as described in Note 9 to the financial statements.

In our opinion, the afore-mentioned financial statements present fairly the consolidated financial position of The Flintkote Company and its Wholly Owned Subsidiaries at December 31, 1967 and 1966, and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

We have made a similar examination of the accompanying consolidated statement of source and application of funds which, in our opinion, when considered in relation to the basic financial statements, presents fairly the source and application of funds of The Flintkote Company and its Wholly Owned Subsidiaries for the year ended December 31, 1967.

Lybrand, Ross Bros. & Montgomery

New York, February 1, 1968.

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
for the year ended December 31, 1967

SOURCE OF FUNDS:	
Net income	$10,404,000
Provision for depreciation and depletion	14,314,000
Increase in deferred taxes and investment tax credits	1,237,000
Other, net	801,000
	$26,756,000
APPLICATION OF FUNDS:	
Additions to property, plant and equipment	$16,362,000
Reduction in long-term debt	2,621,000
Dividends paid on preferred and common stocks	7,551,000
	26,534,000
Increase in working capital	222,000
	$26,756,000

The Flintkote Company and Its Wholly Owned Subsidiaries

Ten-Year Comparison

CONDENSED CONSOLIDATED BALANCE SHEET (a)	1967	1966
Assets:		
Cash	$ 13,110,218	$ 13,947,795
Marketable securities	6,748,462	4,834,756
Accounts and notes receivable (less allowances)	45,497,388	51,618,737
Inventories	39,107,180	41,856,434
Total current assets	104,463,248	112,257,722
Property, plant and equipment:		
Gross	323,457,632	314,288,705
Allowance for depreciation and depletion	154,257,430(b)	145,073,755(b)
Net	169,200,202	169,214,950
Investments and long-term receivables	1,819,082	2,233,724
Good will, patents and other rights	4,234,067	4,252,817
Prepaid and deferred expenses and other assets	5,096,172	5,275,159
	$284,812,771	$293,234,372
Liabilities:		
Accounts payable and accrued expenses	$ 20,051,308	$ 20,553,983
Notes and current instalments on long-term debt	3,160,783	1,724,563
Accrued federal, state and other taxes	8,344,418	14,533,259
Reserves for product guarantees and self-insurance	1,250,608	1,536,370
Production payment, net of taxes	92,535	2,568,700
Total current liabilities	32,899,652	40,916,875
Long-term debt	41,189,312	43,810,185
Reserve for product guarantees	–	1,800,000
Deferred taxes on income	19,799,577	18,574,083
Deferred investment tax credits	3,169,799	3,158,578
Total liabilities	$ 97,058,340	$108,259,721
Capital:		
Capital stock:		
Preferred	$ 27,977,635	$ 27,977,635
Common, issued and subscribed	59,255,388	59,255,388
	87,233,023	87,233,023
Earned surplus	100,650,496	97,797,121
	187,883,519	185,030,144
Less, Treasury stock, at cost	129,088	55,493
	$187,754,431	$184,974,651
	$284,812,771	$293,234,372

CONDENSED STATEMENT OF CONSOLIDATED INCOME (a)	1967	1966 (c)
Sales	$296,426,989	$303,849,511
Cost of goods sold	231,611,601	234,223,007
Gross profit on sales	64,815,388	69,626,504
Selling, administrative and general expenses	44,667,678	45,252,875
	20,147,710	24,373,629
Other income	1,752,689	4,104,488
	21,900,399	28,478,117
Other charges	7,736,297	8,255,241
	14,164,102	20,222,876
Federal and foreign taxes on income	4,829,376	7,868,385
Income before extraordinary items	9,334,726	12,354,491
Extraordinary items, net of income taxes	1,069,621	6,436,016
Net income	$ 10,404,347	$ 18,790,507
Provision for depreciation and depletion included above	$ 14,314,000	$ 14,288,000
Per share of common stock (after preferred dividends) based on the average number of shares outstanding:		
Income before extraordinary items	$1.32	$1.86
Extraordinary items, net of tax	.19	1.16
Net income	$1.51	$3.02

(a) Harry T. Campbell Sons' Corporation, The Diamond Portland Cement Company and M. J. Grove Lime Company included only in years 1959 through 1967.

1965	1964	1963	1962	1961	1960	1959	1958
$ 7,790,135	$ 12,758,103	$ 10,360,366	$ 10,859,820	$ 14,339,093	$ 12,683,534	$ 15,597,009	$ 14,021,674
1,671,150	3,330,174	1,465,391	385,268	772,460	1,987,123	2,706,901	2,683,370
49,966,477	40,068,060	37,999,768	37,595,021	36,676,791	35,044,172	30,164,111	23,842,258
[illegible]77,350	36,658,538	35,147,408	33,161,561	32,406,637	32,134,753	30,279,908	26,252,860
[illegible]6,505,112	92,814,875	84,972,933	82,001,670	84,194,981	81,849,582	78,747,929	66,800,162
305,761,427	294,620,395	291,120,031	275,648,078	254,891,914	229,804,208	206,549,925	160,851,720
136,338,608(b)	131,093,812(b)	129,436,067(b)	117,606,145	109,887,814	102,338,266	90,619,004	71,980,904
169,422,819	163,526,583	161,683,964	158,041,933	145,004,100	127,465,942	115,930,921	88,870,816
3,871,928	2,312,032	2,070,335	2,360,338	2,350,552	6,588,310	2,893,028	3,398,910
7,744,425	7,414,515	7,507,103	7,595,325	7,669,815	7,512,063	2,962,004	2,962,004
5,992,107	6,093,402	5,957,666	5,709,781	5,629,737	4,954,549	4,517,803	3,664,967
$285,536,391	$272,161,407	$262,192,001	$255,709,047	$244,849,185	$228,370,446	$205,051,685	$165,696,859
$ 23,080,965	$ 18,509,641	$ 20,525,122	$ 19,507,217	$ 17,322,268	$ 16,969,637	$ 15,649,567	$ 12,688,910
12,960,831	2,341,939	2,059,877	2,966,732	1,813,549	13,219,037	1,380,742	1,007,403
5,760,385	10,153,464	10,725,986	10,669,531	11,551,461	17,087,518	17,964,317	8,045,384
1,688,318	2,071,878	1,972,637	1,361,670	1,099,480	880,537	759,554	630,879
503,566	2,939,500	—	—	—	—	—	—
43,994,065	36,016,422	35,283,622	34,505,150	31,786,758	48,156,729	35,754,180	22,372,576
46,537,168	49,395,813	52,353,014	53,831,097	55,941,097	27,869,976	22,496,666	16,874,862
1,900,000	1,950,000	2,300,000	—	—	—	—	—
17,328,711	14,946,089	10,982,866	7,552,996	3,935,597	2,344,322	990,382	582,930
2,995,734	2,388,025	1,929,347	483,430	—	—	—	—
$112,755,678	$104,696,349	$102,848,849	$ 96,372,673	$ 91,663,452	$ 78,371,027	$ 59,241,228	$ 39,830,368
[illegible]77,635	$ 27,977,635	$ 27,977,635	$ 27,977,635	$ 27,977,635	$ 28,190,526	$ 28,433,567	$ 26,931,315
[illegible]255,387	59,249,643	59,381,710	59,249,647	59,297,193	58,991,644	56,503,084	51,685,977
87,233,022	87,227,278	87,359,345	87,227,282	87,274,828	87,182,170	84,936,651	78,617,292
86,082,587	80,772,676	72,518,703	72,643,988	66,445,801	63,055,838	61,062,704	47,483,657
173,315,609	167,999,954	159,878,048	159,871,270	153,720,629	150,238,008	145,999,355	126,100,949
534,896	534,896	534,896	534,896	534,896	238,589	188,898	234,458
$172,780,713	$167,465,058	$159,343,152	$159,336,374	$153,185,733	$149,999,419	$145,810,457	$125,866,491
$285,536,391	$272,161,407	$262,192,001	$255,709,047	$244,849,185	$228,370,446	$205,051,685	$165,696,859

1965	1964	1963 (c)	1962	1961	1960	1959	1958
$286,917,507	$278,279,704	$278,789,673	$272,357,365	$248,758,325	$252,171,900	$253,054,691	$194,071,638
221,567,784	207,249,901	209,690,645	205,906,404	187,461,261	189,324,957	189,197,174	147,434,190
65,349,723	71,029,803	69,099,028	66,450,961	61,297,064	62,846,943	63,857,517	46,637,448
40,307,809	37,723,960	37,269,865	36,499,500	34,675,922	34,071,915	31,733,440	23,626,000
25,041,914	33,305,843	31,829,163	29,951,461	26,621,142	28,775,028	32,124,077	23,011,448
2,674,127	1,687,983	1,438,305	2,002,002	1,683,553	1,708,915	1,821,245	1,605,160
27,716,041	34,993,826	33,267,468	31,953,463	28,304,695	30,483,943	33,945,322	24,616,608
8,614,042	8,260,704	8,724,598	8,705,172	7,252,686	6,578,318	5,636,682	4,549,608
19,101,999	26,733,122	24,542,870	23,248,291	21,052,009	23,905,625	28,308,640	20,067,000
6,258,986	11,788,238	11,163,950	10,646,119	9,573,269	10,941,998	13,240,222	9,078,862
12,843,013	14,944,884	13,378,920	12,602,172	11,478,740	12,963,627	15,068,418	10,988,138
—	—	(7,100,000)	—	—	—	—	—
$ 12,843,013	$ 14,944,884	$ 6,278,920	$ 12,602,172	$ 11,478,740	$ 12,963,627	$ 15,068,418	$ 10,988,138
$ 13,240,000	$ 12,778,000	$ 12,753,000	$ 11,470,000	$ 10,504,000	$ 10,434,000	$ 10,490,000	$ 7,720,000
$1.96	$2.34	$2.06	$1.92	$1.72	$1.98	$2.37	$1.96
—	—	(1.28)	—	—	—	—	—
$1.96	$2.34	$ .78	$1.92	$1.72	$1.98	$2.37	$1.96

(b) Includes reserve for property losses net of federal taxes.
(c) Restated to reflect certain transactions as extraordinary items.

DIRECTORS

Paul Abbott
R. McLean Campbell
W. L. Davis
Allen O. Eaton
Charles Horner
nes E. McCauley
Wm. Wallace Mein, Jr.
James D. Moran
George J. Pecaro
Noel J. Redmond
J. A. Thomas
B. A. Tompkins
Harry F. Vickers

EXECUTIVE AND FINANCE COMMITTEE

J. A. Thomas, *Chairman*
Paul Abbott
R. McLean Campbell
George J. Pecaro
Noel J. Redmond
B. A. Tompkins
Harry F. Vickers

OFFICERS

George J. Pecaro, *President*
James D. Moran, *Executive Vice President*
M. C. Carpenter, *Vice President*
Thomas L. Donoghue, *Vice President*
Wilson Harvey, *Vice President*
John Legh-Jones, *Vice President*
James E. McCauley, *Vice President*
Wallace Mein, Jr., *Vice President*
old F. Stepanek, *Vice President*
H. G. Wace, *Vice President*
R. McLean Campbell, *Vice President and Treasurer*
Gene G. Curry, *Secretary and Legal Counsel*
John E. Igoe, *Controller*
Allen O. Eaton, *Clerk*
Donald E. Trimble, *Assistant Treasurer*
Frank D. Curtis, *Assistant Secretary*
Harry J. Lange, *Assistant Controller*
Robert W. Russell, *Assistant Controller and Assistant Secretary*

TRANSFER AGENTS

Bankers Trust Company
16 Wall Street, New York, N.Y.

Bank of America Nat'l Trust and Savings Assoc.
111 West 7th Street, Los Angeles, Calif.

Old Colony Trust Company
45 Milk Street, Boston, Mass.

REGISTRARS

The Manufacturers Hanover Trust Company
The First National Bank of Boston
United California Bank

AUDITORS

Lybrand, Ross Bros. & Montgomery

JNSEL

White & Case, New York, N.Y.
Ropes & Gray, Boston, Mass.

The Flintkote Company

EXECUTIVE OFFICES

30 Rockefeller Plaza
New York, N.Y. 10020

DOMESTIC PRODUCT GROUPS

Building Products Group

Gypsum Products Division
Flooring Products Division
Building Materials Division
Industrial and Automotive Products Division

480 Central Avenue
East Rutherford, New Jersey

Pioneer Division
5500 South Alameda Street
Los Angeles, California

Sealzit Division
3640 Chicago Avenue
Riverside, California

Cement Products Group

Calaveras Division
315 Montgomery Street
San Francisco, California

Diamond Division
Middle Branch, Ohio

Glens Falls Division
313 Lower Warren Street
Glens Falls, New York

Kosmos Portland Cement Company
1529 Starks Building
Louisville, Kentucky

Packaging Products Group

Hankins Container Division
14801 Emery Avenue
Cleveland, Ohio

Western Packaging Division
5500 South Alameda Street
Los Angeles, California

Pipe Products Group

Orangeburg and Flintite Products
Orangeburg, New York

Eastern Stone Products Group

Harry T. Campbell Sons' Corporation
Towson, Baltimore, Maryland

M. J. Grove Lime Division
Lime Kiln, Maryland

Western Stone Products Group

Blue Diamond Concrete Materials Div.
1650 South Alameda Street
Los Angeles, California

U.S. Lime Division
2244 Beverly Boulevard
Los Angeles, California

Standard Materials Company
Modesto, California

Stockton Building Materials Company
Stockton, California

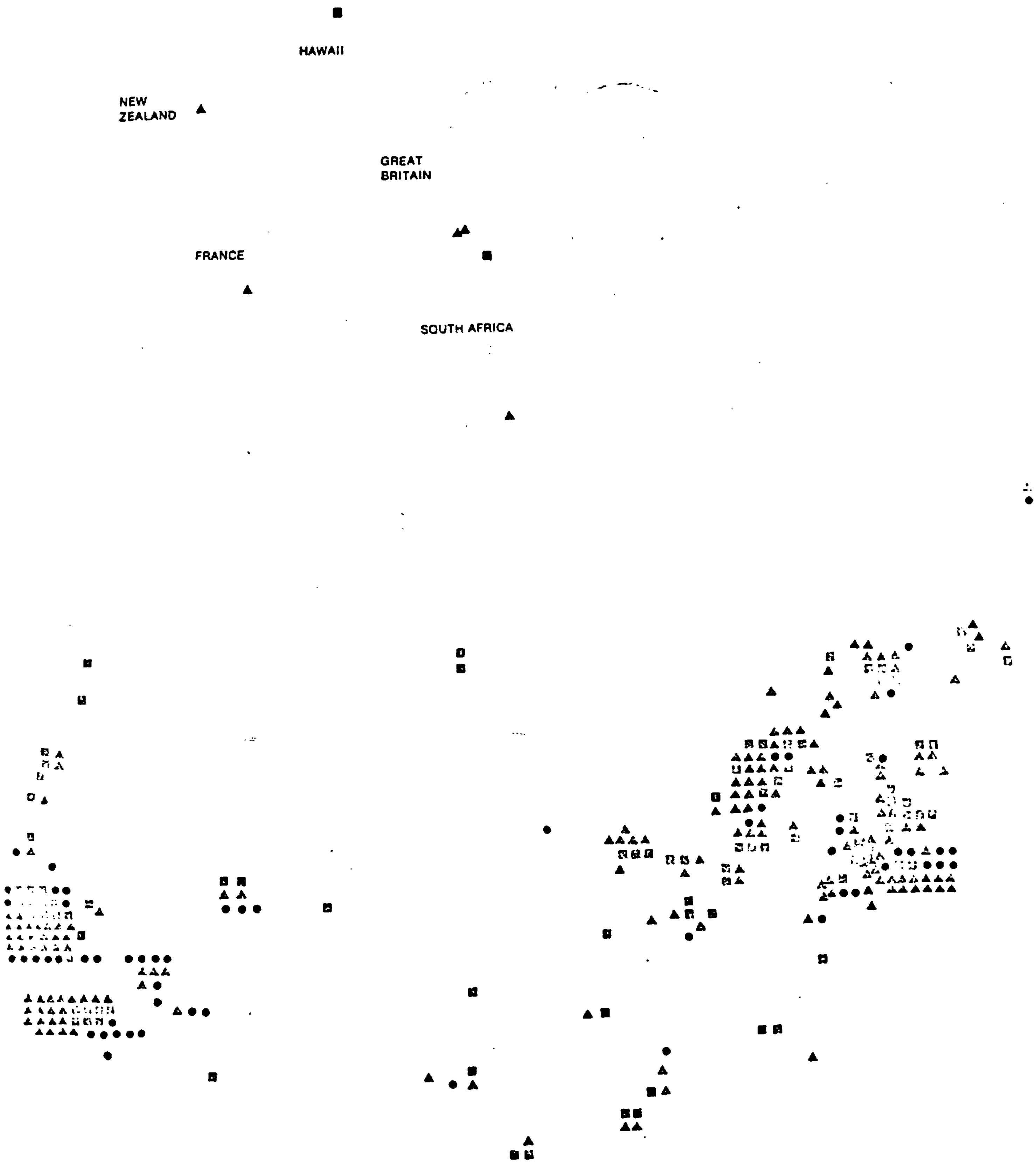
FOREIGN GROUPS

Canadian Groups

The Flintkote Company of Canada Limited
30th Street, Long Branch
Toronto, Ontario
- Stradwick Industries Limited
- King Paving & Materials Limited
- Flintkote Mines Limited

Overseas Group

The Flintkote Company Limited
Adam House, One Fitzroy Square
London W.1, England
- Enfield Chemicals Limited
- Flintkote France S.A.R.L.
- Flintkote (New Zealand) Limited
- Flintkote South Africa (Pty.) Limited



▲ Manufacturing and Processing Plants,
■ Principal Sales Offices,
● Natural Resources,

Note: The map symbol locations are approximate because of space limitations.