





1963 Annual Report

Certain-teed Products Corporation

CTD035983



CTD035984

60th

Certain-teed

Annual Report

CTD035985

Divisions, Products & Services

ASBESTOS-CEMENT PIPE DIVISION

Pressure pipe

Irrigation pipe

Gravity sewer pipe

Building sewer pipe

Air duct pipe

Asbestos-cement extruded products

BUILDING MATERIALS DIVISION

Asphalt roofing products

Insulating sidings

Fiberglas building products

Asbestos sidings

Insulation board products

Hardboard products

WM. CAMERON & CO. DIVISION

"Ideal" millwork

Wholesale and retail building materials distribution

IEH HOME BUILDING SERVICE

Architectural planning and financing services for builders

CTD035986

The President's Message to the Stockholders

Net sales for the year 1963 were $133,214,168 compared with $151,942,111 in 1962. Sales of IEH housing were discontinued during the year and were approximately $31,600,000 less than those of the preceding year, sales in the Asbestos-Cement Pipe Division increased over the seven months in 1962 for the asbestos-cement pipe plants purchased June 1, 1962 and sales in all other divisions increased over the year 1962. Net earnings for the year 1963 were $3,058,308 or $0.97 per share, compared with $1,577,018 or $0.54 per share based on the average number of shares outstanding during 1962. Cash dividends of $1,891,242 were paid in 1963 representing four quarterly dividends of $0.15 a share. The Company's working capital increased during the year by $3,680,590 to a total of $34,558,907 at December 31, 1963.

Arrangements were made in December 1963 with Commercial Acceptance Corporation of Atlanta, Georgia, which arrangements are designed to remove from the Company any further resales and refinancing that might otherwise have resulted from future defaulted installment notes receivable (originally pledged to Universal C.I.T. Credit Corporation) and any costs or losses incident thereto. In connection with these arrangements, the Company has made a charge to Retained Earnings of $625,000. Further details are given in the Notes to Financial Statements.

In 1963, many beneficial changes were made which we believe will substantially increase the Company's return on its investment. We have set out for your review some of the accomplishments and objectives of our various Divisions in another section of this report.

We are pleased to announce that during 1963 the Board of Directors elected Ralph M. Bateman a Director of the Company, and M. S. Davis, Jr. and Harold McNabb to positions of Vice President of the Company. Mr. Bateman is Deputy Chairman and Joint Managing Director of Turner & Newall, Limited.

The cooperation of the Company's stockholders, friends and customers, and the efforts of our loyal and able employees are greatly appreciated.

Respectfully submitted,

President

Chairman of the Board

Ardmore, Pa.
March 26, 1964

CTD035987

ASBESTOS-CEMENT PIPE DIVISION

The demand for asbestos-cement pipe products used primarily for water and sewer systems, is growing in the United States and throughout the world. The population increase in the United States requires constant expansion of municipal and private facilities. Sources of water are being tapped at greater distances from cities requiring extended lines, and Federal and State drives for pollution control accelerate the installation of modern water and sewer systems. Improved living standards throughout the United States are bringing about the installation of new pipe line facilities in many smaller communities which have relied primarily on private wells and septic systems. U. S. aid programs are opening up markets in foreign countries for asbestos-cement pipe manufactured in the United States.

An expansion program involving the construction of additional facilities is under consideration and it is anticipated that approximately $3,000,000 toward such a program will be spent during 1964.

The start-up problems at the Hillsboro, Texas pipe plant have now been overcome and this plant is now among the Division's efficient, high-volume-producing plants. During the year, equipment was installed at this plant to manufacture larger diameter asbestos-cement pipe to meet the market demand.

BUILDING MATERIALS DIVISION

The cost of operations in the Building Materials Division has been under intensive study during the year, and progress was made during 1963 toward cost reduction and increased profitability in several important areas.

The introduction of automatic equipment designed by the Company's Engineering Department has further increased the efficiency of our production facilities. As automation is increased, certain start-up costs are experienced during the conversion period. The automatic equipment is now in operation throughout the various plants and the full effect of the savings should be reflected in 1964.

Price increases for several of the Company's building products have been announced, and it appears that prices in 1964 will be generally improved over the depressed prices in 1963. This factor in combination with the reduction of costs put into effect in the latter part of 1963 should in part contribute to the anticipated improvement in the Company's earnings in 1964.

The Company and Bestwall Gypsum Company have divided their common sales facilities and organization, previously represented by Bestwall-Certain-teed Sales Corporation which is owned equally by each company and which sold the building material products of the Company. In addition to establishing sales offices at the Company's various manufacturing plants, sales territories have also been realigned.

WM. CAMERON & CO. DIVISION

The Wm. Cameron & Co. Division, which is composed of the Ideal millwork factory at Waco, Texas and wholesale and retail distribution outlets throughout the Southwest, increased its sales, earnings and return on investment during 1963. The increase in return on investment was due in part to the program of closing or replacing marginal outlets.

The shipping areas of the Ideal millwork factory have now been expanded to the point where the factory is operating at a high level of capacity. The "Ideal" trademark has long been identified throughout the Southwest with a high standard of quality and this factor has been instrumental in the acceptance of the millwork products in the new marketing areas in the central and eastern parts of the United States.

IEH HOUSING PROGRAM

During the year the Company discontinued the sale and financing of low cost housing under its IEH housing program. In December 1963, arrangements were made to sell to a finance company, without recourse, the Company's inventory of repossessed housing and future defaulted installment notes acquired under the old IEH program. See Note 1 of Notes to Financial Statements for further details.

IEH HOME BUILDING SERVICE

During 1963, the Company introduced an architectural planning and financing service having distinctly different characteristics from the old IEH Housing Program and applying to conventional finished housing. IEH Home Building Service provides builders with architectural plans, costing data, detailed specifications and promotional materials for a complete line of homes ranging from $10,000 to $35,000. Engineering services provided to builders include plumbing, electrical and heating details and a color styling service to enhance the appearance of the homes. It is believed that the principal benefit to be derived from this program will be from increased sales of the Company's building material products.

A builder wishing to use the financing services is put in contact with an approved Savings and Loan Association in his community. In addition to the usual mortgage loan commitment, the builder receives a commitment to purchase his interest in a pledged savings account, thereby freeing his working capital for reinvestment in his basic business of home-building.

Under present arrangements, the Company purchases, at a discount, pledged savings accounts which are then assigned as collateral for loans to the Company in amounts equal to the purchase price paid to the builders. Such loans and interest thereon are satisfied solely from dividends earned on the savings accounts and periodic releases of the savings account from the Savings and Loan Associations. Under these financing arrangements, there is no recourse to the Company beyond the collateral represented by the pledged savings accounts.

The IEH Home Building Service has received a Certificate of Merit award from the National Association of Home Builders at its annual convention in 1963.

CTD035990

CERTAIN-TEED PRODUCTS CORPORATION and Subsidiaries

Consolidated Statement of Income and Retained Earnings
Year Ended December 31, 1963

REVENUES:		
Net sales		$133,214,168
Time charges and discount earned on installment notes receivable		7,844,500
Other income		376,589
		141,435,257
COSTS AND EXPENSES:		
Cost of sales	$108,239,796	
Selling and administrative	17,685,077	
Loss on defaulted installment notes—Note 1	2,002,246	
Interest	7,522,911	
Other deductions	79,919	135,529,949
		5,905,308
FEDERAL INCOME TAXES—Note 5		2,847,000
NET INCOME		3,058,308
RETAINED EARNINGS AT BEGINNING OF YEAR		27,774,248
		30,832,556
DEDUCT:		
Estimated loss in connection with the assignment of right to receive a portion of the collections on certain installment notes receivable—Note 1		625,000
Dividends on Common Stock		1,891,242
RETAINED EARNINGS AT END OF YEAR		$ 28,316,314

Depreciation of fixed assets and amortization of intangible assets amounted to $2,379,499 and $244,944, respectively.

The accompanying Notes to Financial Statements are an integral part of this statement.

CTD035991

CERTAIN-TEED PRODUCTS C

Consolidated Balance S

ASSETS

CURRENT ASSETS:	
Cash	$ 3,331,526
U. S. Government securities, at cost (approximate market)	8,065,428
Receivables — Note 1	19,602,129
Inventories — Note 2	19,093,109
Total current assets	50,092,192
NONCURRENT RECEIVABLES—Note 1	61,688,341
PROPERTY, PLANT AND EQUIPMENT—Note 3	30,619,526
OTHER ASSETS AND DEFERRED CHARGES—Note 1	3,733,721
INTANGIBLE ASSETS, at amortized cost or nominal amount	2,173,797
	$148,307,577

The accompanying Notes to Financial Sta

ʀPORATION and Subsidiaries

:t at December 31, 1963

LIABILITIES

CURRENT LIABILITIES:	
Accounts payable and accrued expenses	$ 8,966,248
Current installments on notes payable—Note 4	4,252,755
Federal income taxes	2,314,282
Total current liabilities	15,533,285
NOTES PAYABLE, less current installments—Note 4	61,757,384
DEFERRED FEDERAL INCOME TAXES—Note 5	2,641,000
OTHER NONCURRENT ITEMS	1,933,773
STOCKHOLDERS' EQUITY—Notes 4, 6 and 7	66,442,135
	$148,307,577

:nts are an integral part of this statement.

CTD035993

Notes to Financial Statements at December 31, 1963

1. Receivables consist of the following:

Installment notes receivable		$104,733,084
Less: Unearned time charges	$31,429,194	
Assignment to Commercial Acceptance Corporation (see below)	6,973,180	
Sundry deferred discount	166,786	38,569,160
		66,163,924
Other accounts and notes receivable, less estimated uncollectibles of $524,521		15,126,546
		$ 81,290,470
Included in assets as:		
Current		$ 19,602,129
Noncurrent		61,688,341
		$ 81,290,470

Installment notes receivable, which arose from the sale of houses, are collateralized by mortgages on the houses and their related lots and generally have terms of five to twelve years. As at December 31, 1963, installment notes pledged as collateral for notes payable issued under agreements (see Note 4) with Universal C.I.T. Credit Corporation ("CIT") and a Canadian affiliate thereof aggregate approximately $63,000,000 and $300,000, respectively, after deducting unearned time charges, and sundry deferred discount and assignment to Commercial Acceptance Corporation (see following paragraph).

Under the Company's accounting policy, a discount of ten percent of the face amount, exclusive of time charges, of the notes received under the Institute for Essential Housing ("IEH") program was deferred and taken into income as installment collections were received. This discount was considered sufficient by the Company to cover estimated future losses and costs (charged to income as incurred) pertaining to the notes, including the cost of providing casualty insurance protection on the houses, an obligation of the Company under agreements with the houseowners and with CIT. The assignment to Commercial Acceptance Corporation in the foregoing tabulation is equivalent to the amount of the discount deferred on installment notes pledged with CIT. See also subdivision (6) of the following paragraph.

During the year, the Company discontinued the sale and financing of houses under its IEH program. Subsequently, arrangements were made whereby certain employees of the organization engaged in servicing defaulted installment notes and in foreclosing and disposing of the houses mortgaged by such notes were employed by Commercial Acceptance Corporation ("Commercial"), a finance company which began business in 1960, in connection with agreements entered into in December 1963 between Commercial and the Company. Some of the principal arrangements under the agreements with Commercial are summarized below:

(1) With respect to installment notes receivable pledged as collateral for notes payable to CIT that become defaulted (or any houses securing such notes that become vested in the Company), the Company makes certain warranties and agrees to sell to Commercial and Commercial agrees to purchase for cash, without recourse, a specified number of those notes (or houses) within a prescribed period after default and either to purchase for cash, without recourse, all defaulted notes in excess of such specified number or to pay prescribed service charges to the Company. With respect to service charges on the specified number of notes to be purchased within a prescribed period after default, Commercial will pay such service charges to the Company for a defined period beginning with the date of default (as defined).

(2) The purchase prices of the defaulted notes are to be the amounts required in connection with the prepayment of the Company's borrowings from CIT against which the notes have been pledged.

(3) Commercial has been granted the exclusive right to purchase by December 18, 1965 or by a date which is two years from the date of property title clearance, whichever is later, houses which had been repossessed at December 20, 1963 or were then being repossessed. The purchase prices for the houses are to be payable half in Commercial's Series A preferred capital stock at par and half in 5% subordinated notes at principal amount. The Series A preferred stock is non-voting, is not entitled to dividends, is convertible into common stock at any time within two years of date of issue and is redeemable at par at option of holder after twelve years; any number of shares is callable and redeemable in cash at any time, after 30 days' notice, at par at the option of Commercial. Commercial retains the right to create other classes of capital stock ranking in parity with the Series A preferred stock as to distribution of assets and having a preference over such stock as to dividends. The 5% subordinated notes will mature in ten equal annual installments commencing not earlier than June 1, 1966.

(4) The Company agrees to pay Commercial a service fee for each house purchased per (3) above, the maximum aggregate service fees approximating $570,000 for all such houses. (See second following paragraph).

(5) For each house not purchased by Commercial within the time prescribed by the agreement, Commercial agrees to pay service charges to the Company for a defined period.

(6) The Company assigned to Commercial the right to receive the collections on all notes pledged with CIT to the extent that such collections pertain to the "discount of ten percent" commented on above.

In connection with the assignment of the right to receive certain collections, mentioned in subdivision (6) above, the Company has provided for an estimated loss (charged, net of Federal income taxes, to Retained Earnings), which loss is equivalent to certain related unrecoverable costs not assumed by Commercial but to be incurred by the Company.

As at December 31, 1963, repossessed houses are carried at the aggregate amount of approximately $2,820,000. This amount is included in Other Assets and Deferred Charges and represents the aggregate estimated net realizable value of such houses based primarily on the Company's previous experience. Further, such amount plus presently estimated additional costs to be incurred by the Company in disposal of the houses (including the service fees referred to in subdivision (4) above) is not in excess of the sum of the par value of the Series A preferred stock and the principal amount of the 5% subordinated notes of Commercial estimated to be receivable in exchange for all such repossessed houses. As at December 31, 1962, repossessions were included in Receivables.

If the Company should exercise its right to convert the maximum number of shares of preferred stock, which it would receive if all the houses are purchased, into common stock, it would thus acquire and then own approximately 46% of Commercial's outstanding common stock, based on unaudited data as to Commercial's capital structure as at December 31, 1963 and before giving effect to outstanding warrants and options. The Company makes no representation as to the financial ability of Commercial to discharge fully its obligations under the agreements.

2. Inventories consist of the following:

Merchandise inventories at lower of cost or market:	
Raw materials and supplies	$ 3,958,445
Finished goods and work in process	14,544,617
Improved real estate and land, at cost or less	590,047
	$19,093,109

CTD035995

3. Property, plant and equipment, at cost, consist of the following:

Land	$ 1,866,335
Buildings and equipment, less depreciation of $18,139,938 and investment tax credit of $242,319	28,753,191
	$30,619,526

4. Notes payable consist of the following:

5% Note payable to bank, due in five equal annual installments of $600,000 each to April 1, 1968, less current installment	$ 2,400,000
Collateral notes payable, less current installments	59,344,338
Other	13,046
	$61,757,384

Under a loan agreement with the bank, there is available through February 1, 1965 a line of credit, as required, not to exceed $5,000,000. Such amounts as may be borrowed will be due on February 1, 1965 and may be repaid in cash on or before that date or, at the option of the Company, by the issuance on February 1, 1965 of a term note for up to $5,000,000 due in five equal annual installments to February 1, 1970. Agreements with the bank provide, among other things, that so long as the credit shall be available and until all borrowings thereunder shall be repaid the Company will maintain consolidated net current assets of at least $24,000,000.

The collateral notes payable are outstanding under agreements with Universal C.I.T. Credit Corporation and a Canadian affiliate thereof, in connection with the financing of customer installment notes receivable which arose from the erection and sale of IEH houses. Because it has discontinued selling IEH houses, the Company does not contemplate any additional borrowings thereunder, except for approximately $1,200,000 which may be borrowed to finance installment notes not as yet pledged under the agreements. See Note 1 for installment notes receivable pledged, as at December 31, 1963, as collateral for notes payable issued under the agreements.

With respect to the aforementioned collateral note agreements, amounts borrowed (90 per cent of the amount, net of time charges, of related customer installment notes) are required to be (a) collateralized by the installment notes, and (b) repaid from collections on such notes or, with respect to borrowings relating to a note any installment of which is 90 days past due, prepaid immediately. However, with respect to a portion of the outstanding borrowings and so long as it is not in default under its agreement, the Company shall be under no obligation to prepay amounts borrowed on past due notes then outstanding, if ever and so long as the cumulative aggregate net loss, as defined, on the installment notes pledged exceeds a formula amount, the effect thereof being to limit any aggregate ultimate possible net loss by the Company on such notes to the formula amount. In the opinion of Management, this latter provision of the agreement relating to limitation of losses is not expected to become operative. See Note 1 in connection with agreement of Commercial Acceptance Corporation to purchase defaulted installment notes receivable.

Interest paid on the borrowings under the collateral note agreements is equal to the amount of earned time charges on the pledged installment notes receivable, computed on a basis that assigns a greater portion of earned time charges to the earlier installment periods ("Rule of 78").

The collateral note agreements further provide, among other things, for the maintenance of specific minimum amounts of consolidated net current assets (as defined) and consolidated net worth (as defined), and restrictions on the declaration of dividends, other than stock dividends, and the acquisition of shares of the Company's capital stock.

At December 31, 1963, the amount of consolidated Retained Earnings not restricted for payment of dividends and for acquisition of shares of the Company's capital stock under the most restrictive of the foregoing agreements approximated $10,500,000.

CTD035996

5. The deferred Federal income taxes shown in the accompanying consolidated balance sheet represent taxes payable in future years as a result of differing treatments for Federal income tax and financial accounting purposes with respect to time charges and discount earned on customer installment notes, and depreciation.

   The provision for Federal income taxes is approximately $290,000 less than would have been required if operating loss carryovers of a consolidated subsidiary, merged into the Company during the year, had not been available as a deduction from taxable income.

   The accompanying consolidated financial statements are subject to final determination of Federal, state and local taxes.

6. Stockholders' Equity consists of the following:

Capital assigned to shares:	
4½% Cumulative Prior Preference Stock, $100 par value, authorized and unissued 50,000 shares	—
Common Stock, $1 par value, authorized 7,500,000 shares, issued 3,354,206 shares	$ 3,354,206
Capital in excess of par value	36,568,219
	39,922,425
Retained earnings	28,316,314
	68,238,739
Less: Common Stock held in treasury, at cost—201,917 shares	1,796,604
	$66,442,135

   During the current year, pursuant to stock option incentive plans for officers and key employees, options for 9,200 shares were granted, options for 3,175 shares were exercised and options for 1,625 shares lapsed. At December 31, 1963, options to purchase 26,337 shares at $9.88 a share, 625 shares at $44.08 a share and 8,200 shares at $14.14 a share were outstanding, and 21,300 shares (after applicable adjustment for shares under the lapsed options) were reserved for future grants. Shares issued in connection with options exercised during the year resulted in an increase of $28,194 in capital in excess of par value.

7. The Company, along with eleven other companies, is a defendant in a pending lawsuit involving alleged violations of the anti-trust laws of the United States, in which the plaintiff seeks damages aggregating approximately $1,600,000, to be trebled in accordance with the pertinent statute. In the opinion of Company counsel, the Company's liability is doubtful but, in the event of an adverse decision, damages against the Company would be substantially less than claimed. The Company denies any liability in this litigation.

   The Company is a defendant in two lawsuits, one for $1,000,000 involving alleged damages claimed by a homeowner and the other for $500,000 involving alleged breach of contract. The Company denies any liability in these suits and, in the opinion of Management, based on information from counsel, the ultimate disposition thereof could not result in any significant payment by the Company.

   An action has been brought against the Company to recover approximately $2,000,000 for alleged violations of the Securities Act of 1933 and the Securities Exchange Act of 1934 said to have been committed by the Company and others. The plaintiff in that action claims to bring it on behalf of itself and as representative of all other persons similarly situated. The action is in its preliminary stages and the Company denies any liability. On the basis of the investigation of facts and law thus far made by Company counsel, nothing has come to their attention which in their opinion discloses any liability on the part of the Company.

Other pending litigation (and tax assessments) against the Company, not covered by insurance, aggregate approximately $700,000, as to which the Company denies any significant liability.

In the opinion of Management, based on opinions of counsel, the ultimate disposition of all the foregoing litigation should have no material adverse effect on the accompanying consolidated financial statements.

At December 31, 1963, the unfunded cost of past service benefits under existing pension plans amounted to approximately $1,000,000, after giving effect to a revised actuarial assumption regarding ages of certain employees of asbestos-cement pipe operations acquired in 1962.

The Company was contingently liable at December 31, 1963 on approximately $900,000 of mortgage notes receivable sold to a finance company.

Approved future additions to fixed assets, including commitments at December 31, 1963, approximate $3,650,000, all of which is expected to be expended by December 31, 1964.

8. By the end of 1963, the Company and Bestwall Gypsum Company had divided their common sales facilities and organization, previously represented by the Bestwall-Certain-teed Sales Corporation whose capital stock is owned equally by each company. Also, the Company is presently making arrangements for the discontinuance of the administrative services, including related charges therefor, provided to Bestwall.

ACCOUNTANTS' REPORT

To the Board of Directors
Certain-teed Products Corporation
Ardmore, Pennsylvania

We have examined the consolidated balance sheet of Certain-teed Products Corporation and subsidiaries as at December 31, 1963, and the related consolidated statement of income and retained earnings 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.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings, together with the notes to financial statements, present fairly the consolidated financial position of Certan-teed Products Corporation and subsidiaries at December 31, 1963, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & Co.

New York, N. Y.
February 14, 1964

EXECUTIVE OFFICES

Ardmore, Pennsylvania

RESEARCH LABORATORIES

Ambler, Pennsylvania
Savannah, Georgia

SALES OFFICES

Albany, New York
Ambler, Pennsylvania
Ardmore, Pennsylvania
Atlanta, Georgia
Burlingame, California
Chicago Heights, Illinois
Cleveland, Ohio
Dallas, Texas
Denver, Colorado
East St. Louis, Illinois
Houston, Texas
Kansas City, Missouri
Kirkwood, Missouri
Los Angeles, California
Richmond, California
Savannah, Georgia
Seattle, Washington

PLANTS

Ambler, Pennsylvania
Chicago Heights, Illinois
Dallas, Texas
East St. Louis, Illinois
Hillsboro, Texas
Kansas City, Missouri
Richmond, California
Santa Clara, California
Savannah, Georgia
St. Louis, Missouri
Tacoma, Washington
Waco, Texas
York, Pennsylvania

CTD035999

BOARD OF DIRECTORS	Rawson G. Lizars, Chairman
	William C. Baird
	Ralph M. Bateman
	Donald N. Clausen
	Albert J. Hettinger, Jr.
	John R. Johnston
	I. S. Kampmann, Jr.
	Malcolm Meyer
EXECUTIVE COMMITTEE	Rawson G. Lizars, Chairman
	Malcolm Meyer
	William C. Baird
OFFICERS	
Chairman of the Board	Rawson G. Lizars
President	Malcolm Meyer
Vice President, Treasurer and Comptroller	John R. Johnston
Vice President	Dan LeBow
Vice President	Harold Barnard
Vice President	E. A. Diefenbach
Vice President	M. S. Davis, Jr.
Vice President	Harold McNabb
Secretary	Arthur O. Graves
Assistant Secretary and Assistant Treasurer	James L. Strickland
Assistant Secretary	Tom Warren
Assistant Secretary and Assistant Treasurer	J. E. Schulze
Assistant Treasurer	Norman J. Mueger
TRANSFER AGENT	Bankers Trust Company, New York
REGISTRAR	The Chase Manhattan Bank, New York
GENERAL COUNSEL	Clausen, Hirsh, Miller and Gorman, Chicago
AUDITORS	S. D. Leidesdorf & Co., New York

CTD036000