CERTAIN-TEED PRODUCTS CORPORATION • ANNUAL REPORT 1969

PLAINTIFF'S EXHIBIT

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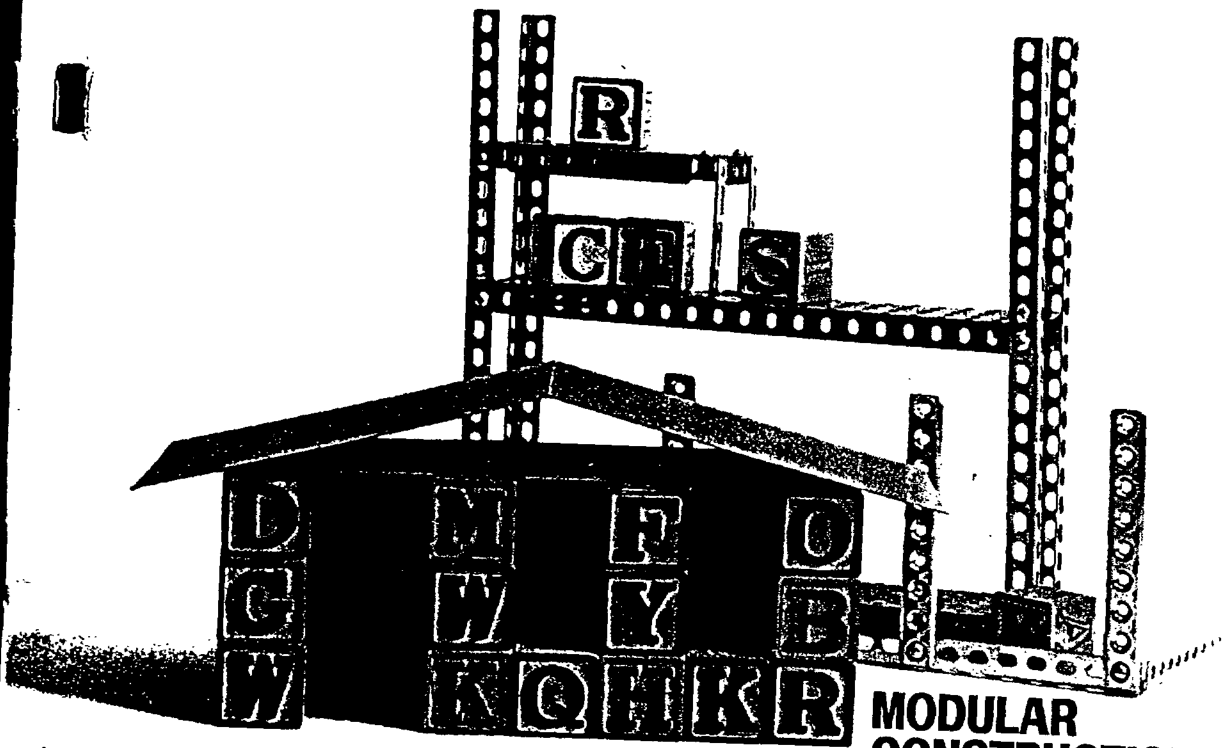

MODULAR CONSTRUCTION:

new life for the building industry through Modular Sciences, Inc.

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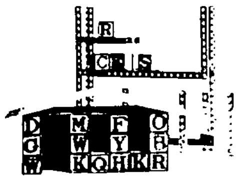


COVER: A child's toy blocks symbolize the ease and simplicity with which modular building components may be adapted to a wide variety of shelters — from summer cottages to skyscrapers. For more on modular construction and Certain-teed's growing involvement in it, see pages 3 and 21.

CERTAIN-TEED PRODUCTS CORPORATION
ANNUAL REPORT
For the Year Ended December 31, 1969

contents

Transfer Agent
Bankers Trust Company, New York

Registrar
The Chase Manhattan Bank, New York

Common Stock Listed
New York Stock Exchange and Pacific Coast Stock Exchange

To our Shareholders

The past year has been one of considerable progress and exciting changes for Certain-teed. It was also a year that ended on a note of sadness and a deep sense of loss with the untimely death on December 27 of Mr. Rawson G. Lizars, our Company's board chairman. Mr. Lizars was an uncommonly gifted executive whose sound judgement and wise counsel will be greatly missed by his friends and associates in the Company and in the industry he served so well.

For the year 1969, sales climbed to $216,589,266. This compares with $194,099,767 in 1968. The increase in sales reflects volume increases, price increases, and certain acquisitions described more fully below. Net earnings after taxes for the year were $7,579,611, as compared with $7,440,764 in 1968. Earnings per share on a fully diluted basis were $1.49 for both years. The 1969 earnings per share of $1.60, based on the average shares of Common Stock outstanding, compared with $1.70 in 1968, and reflects the conversions of Series A Convertible Preferred Stock into Common Stock.

During 1969, incremental profits normally derived from increased sales were largely offset by rising costs not yet covered by adequate price increases, and by certain nonrecurring conditions. Local labor costs at our East St. Louis, Illinois, plant rose to such a level during the early part of the year that the manufacture of prepared roofing had to be terminated at this location. Start-up costs at two new PVC pipe plants and the development costs for production of our new PVC siding products temporarily impaired profits. An abnormal fluctuation in certain lumber and plywood prices during the year resulted in a narrowing of profit margins of the Wm. Cameron Division as high-cost inventories were liquidated.

The earning power of the Company was considerably increased during 1969 as a result of several acquisitions, the expenditure of over $11.5 million in capital improvements, and the considerable progress made by unconsolidated subsidiaries and associated companies.

The Company entered the carpet manufacturing business through the acquisition of KOB Carpet Manufacturing Company and KOB Carpets, Inc. Distribution facilities of the Company have been strengthened through the acquisition of two pipe distributors in the southwest, Bowles & Edens Supply Company and The Rohan Company, and acquisition of a millwork distributor in the northeast, Middle Atlantic Millwork Company. Two new PVC pipe plants, one at Social Circle, Georgia, and one at Waco, Texas, extended the Company's service area to provide PVC pipe products to the southwest and the southeast. The McPherson, Kansas, PVC production facilities were also enlarged during the year, with the effect that total PVC pipe production capacity has been doubled. Work is continuing on the Company's new roofing plant at Avery, Ohio, and the expanded felt mill production facilities are now in operation. A new plant at Tyler, Texas, for production of fiber glass reinforced plastic products is nearing completion and is commencing the manufacture of bathroom components.

Modular Sciences, Inc., formerly Commercial Acceptance Corporation, made substantial progress during the year in developing an organization and facilities to advance the modular concept of building. A plant to produce modules was constructed at Hartford, Alabama, and motor inns were constructed by the use of modules in Atlanta, Georgia, and Jacksonville, Florida. The company has started an aggressive program of acquiring responsible building companies desiring to grow with Modular Sciences, Inc. as a significant modular builder of residential and commercial structures throughout the world. A separate report on Modular Sciences, Inc. begins on page 21 of this annual report.

Because Certain-teed is vitally concerned with the pollution problems facing our nation, and because of the increasing use of our pipe products in the fight against pollution, an investment was made during 1969 in a manufacturer of water pollution control equipment. Called Nayadic Sciences, Inc., with headquarters in West Chester, Pennsylvania, the company is currently producing and marketing a patented sewage-treatment concept based on a biological process that fills a need in municipal, industrial and commercial water systems.

Certain-teed Saint Gobain Insulation Corporation underwent a year of intensive efforts to bring its production facilities up to the efficiency levels which are obtainable under the processes acquired from Compagnie de Saint Gobain. Several scheduled shut-downs of production lines for further modifications and an unexpected furnace failure caused loss of production during the period when insulation shipments would normally have been at the highest level. A new warehouse facility at the Mountaintop, Pennsylvania, plant was completed during the year, and a new warehouse is scheduled to be completed during the first half of 1970 at the Berlin, New Jersey, plant. An evaluation of CSG's business prospects for 1970 supports the view that the company should see its first year of profitable operations. During 1969, CSG incurred a loss of $2,377,924 (see Note 7 (c) in the Notes to Financial Statements).

As a result of a far-reaching corporate reorganization in 1969, Certain-teed now consists of three major operating divisions. The divisions are: Shelter Industries, Piping & Plastics Industries, and Gustin-Bacon.

The largest of these—Shelter Industries—is headed by Vice President and General Manager Byron Radaker, and combines the previously separate Building Materials and Wm. Cameron Divisions with KOB Carpets, Inc., our wholly-owned subsidiary. Shelter Industries also is responsible for marketing of PVC home siding, formerly distributed by the Plastics Division, and for marketing of fiber glass insulation produced by CSG.

Piping & Plastics Industries combines the previously separate Plastics and Pipe Divisions, with Corporate Executive Vice President Harold McNabb serving as general manager. This group now manufactures and markets Certain-teed's complete line of both PVC and asbestos cement pipe, and, in a recent move, has acquired exclusive rights to the leasing and distribution in the United States of trenchless pipe and conduit installation equipment. Called the Badger System, it is produced by the British firm of Hudswell Yates Developments, Ltd.

Certain-teed's third operating division, Gustin-Bacon, continues to be headed by Vice President and General Manager E. L. Melton.

The year 1970 has begun with the housing industry feeling the full impact of the decline in housing starts resulting from the shortage and cost of mortgage money. We believe that the condition in the mortgage market will improve, in part by specific government assistance, and in part by a moderation of interest rates brought about by a relaxation of monetary policy. During this difficult period, every effort is being made to limit capital expenditures to those which can provide immediate profit benefits. The expenditures made in 1969, and prior years, have already positioned the Company to take advantage of the growth in building activity which is required to meet the rapidly increasing housing shortages throughout the country.

In conclusion, I wish to express my sincere appreciation to our shareholders, customers and friends for their cooperation throughout the year; and to commend the efforts of our employees, all of whom have contributed so much in 1969, and whose continued cooperation is essential to our success in the future.

Respectfully submitted,

Malcolm Meyer

President and Chairman of the Board
Ardmore, Pennsylvania
March 16, 1969

Special Report to Shareholders

Modular Construction:

New Life For The Building Industry

Late last year in Jacksonville, Florida, a dramatic demonstration took place. It was conducted by Modular Sciences, Inc. for a special gathering of business leaders from throughout the country.

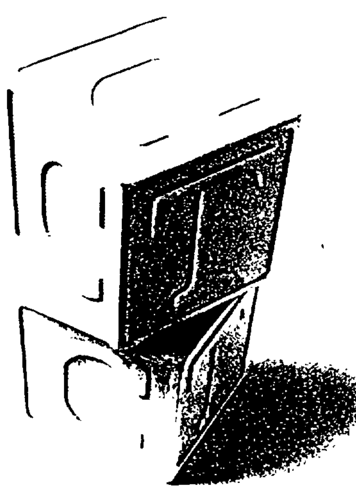
At that time, a three-bedroom, two-bath home was completed in approximately six hours, ready for occupancy. The foundation was poured the day before. The three components comprising the house (previously built at the company's Hartford, Alabama, manufacturing plant) were shipped to the job site, set in place by crane, joined together, and anchored to the foundation.

Nearby, the company demonstrated similar capabilities in the erection of a 128-room motor inn, complete with restaurant and cocktail lounge.

In each instance, the components used were factory-finished, and included utilities, carpeting and even much of the decorating.

The technique employed is called modular construction, and it represents a major change in building—from the construction of summer cottages to skyscrapers.

This controlled environment, assembly-line approach to building offers numerous advantages. In the first place, materials can be handled more efficiently. Modern machinery makes even the simple acts of sawing and nailing a precision process. But even more important, work can continue inside a plant all year long, virtually immune to capricious weather, snags in the delivery of materials to isolated construction sites and erratic availability of skilled labor—all of which combine to compound construction time and costs.



Modular techniques also provide the manufacturer with far greater control over the quality of materials which are given careful scrutiny to assure that the highest standards are maintained. Quality, in fact, is absolutely essential in an efficient factory operation since a single defective part can raise havoc, jamming or slowing down production.

Modular construction in its purest form is a logical extension of the technology of mass production that has been so successful in other industries. Many building experts believe it is the only hope for meeting this nation's future shelter needs. As one authority recently pointed out, "Factory produced modules may be the biggest change in housing since man came out of the cave."

In the years ahead, modular construction promises to fill the widening gap in the construction of low and medium priced, single and multi-family dwellings. But what is more important, it can bring the prices of these dwellings within reach of the majority of American families who are now excluded from the market by rising building costs. Modular construction also will provide vigorous new life for the building industry, and will most certainly add an entirely new dimension to the growing market for building materials.

The sizes and architectural styles of modular shelters are numerous, and can be tailored to the requirements of a wide variety of commercial and institutional facilities, as well as residential structures. These include restaurants, day-care centers, offices and rest homes, all of which will be needed in ever increasing numbers as our population continues to expand.

The Federal Government has placed major importance on factory-produced components as a key element in its search for new ways to deal with what has come to be known as the "shelter gap." The U.S. Department of Housing & Urban Development, in fact, now views the modular approach to construction as essential to the success of "Operation Breakthrough," its major program aimed primarily at increasing the production of housing for families of modest incomes.

Encouraged by the deep concern and growing financial appropriations of Federal housing authorities, as well as those at the state and local level, the technology of assembly-line homebuilding has emerged so rapidly in recent years that it has attracted some of the country's largest companies, many of which come from fields completely alien to the construction industry.

In the long run, however, those who stand to benefit most from this emerging new industry are broad-based building materials firms like Certain-teed, with long experience in, and a sound understanding of, building and construction. At Certain-teed we have for some time recognized the dramatic changes taking place in the building industry that only recently have received nationwide attention. As a result, the Company has set a course that takes full advantage of our unusually strong industry position by directing our expansion and diversification plans toward development of the widest possible range of building systems and materials to meet the soaring future demands of both modular and conventional construction.

As a step toward that goal, a major expansion program for Modular Sciences will begin in 1970. This will include not only the creation of additional manufacturing facilities, but the acquisition of building firms across the country. This will extend the Company's total capabilities beyond manufacturing to on-site construction as well.

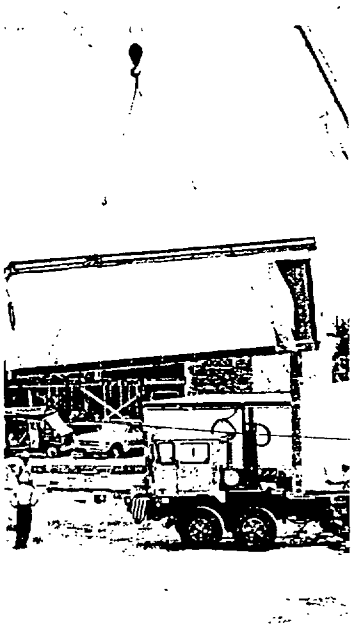
Another building system using a modular concept that might be called an "Erector Set" technique has been developed by the Company. It is particularly effective in areas where climatic conditions require concrete construction. The system consists of lightweight, extruded asbestos cement components that are easily assembled by two men without special equipment. No single component is heavier than one or two men can handle easily.

While each of these developments is exciting in its own right and holds great promise for the future, they are only a part of the Company's continuing search for new ways to meet the nation's future shelter needs.

It has been estimated that some two million marriages annually produce more than a million net new households. Add to this more than half a million obsolete structures demolished each year, freeway appropriations, urban renewal and other factors that further diminish existing structures—plus the pent-up demand that already prevails—and this country's shelter needs total between two and three million starts annually. What's more, since 1965 each year's demand has exceeded actual construction by a wide margin.

At Certain-teed, we are vitally concerned with these rather awesome statistics, and we are determined to play a major role in answering the challenge they represent. As outlined in the pages of this report, Certain-teed's capital expenditures this year for new plant capacity reached an all-time high in order to meet only current demands and those of the foreseeable future. Looking further ahead, however, our Company's research and development program, backed by our majority-owned subsidiary, Alpha Research & Development, is firmly committed to a position of leadership in developing the exciting building materials of tomorrow along with new and unique approaches to construction techniques. Modular construction is only the beginning.

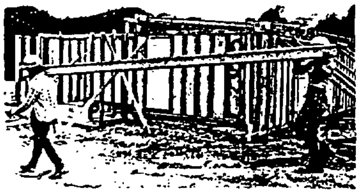
Our industry today stands at the threshold of a new era where the old ways of doing things are no longer adequate. Only a few short years from now, even our present methods and materials may seem archaic by comparison. Certain-teed's long experience and growing resources, however, place the Company at the very center of the industry, with unmatched flexibility and the proven capability that will enable us to respond to the unprecedented opportunities that lie ahead.

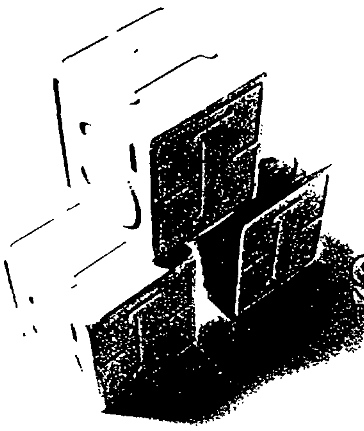


A modular motel room is lifted by crane onto a concrete foundation during construction of a new motor inn in Jacksonville, Florida. Another motor inn was completed by Modular Services, Inc. in Atlanta, Georgia, during 1969, and a third is now under construction in Columbia, South Carolina.

A completed modular motel room leaves the Hartford, Alabama, plant of Modular Services en route to Jacksonville, Florida, where it will become part of a new, 128-room motor inn.

The VAC House, designed by Vencedor Development Corporation, combines the structural advantages of poured-in-place concrete with an easily assembled construction system of extruded asbestos cement components. The lightweight components are easily carried by one or two men, and may be assembled without special equipment.





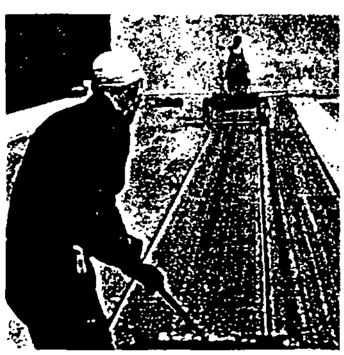
Shelter Industries

Shelter Industries represents an integrated approach to the manufacturing and marketing of the Company's broad line of building materials. It is aimed at providing interior and exterior products to be used in all types of shelters, including homes, apartments, schools, churches, office buildings or any other structures that provide protection from the elements. These products include roofing, carpeting, wood and aluminum doors and windows, vinyl siding, broadloom and indoor-outdoor carpeting, building insulation, fiberboard and other building products.

Six regional offices staffed with technical and marketing consultants have been strategically located across the country. The offices, which also serve as administrative centers, are located in Chicago, Dallas, San Francisco, Savannah, Tacoma and Wilmington, Delaware.

Plans call for continued expansion of the Shelter Industries product line in order to provide a more complete building materials package marketed through widely diverse distribution channels. Products will continue to be promoted and pre-sold to all classes of trade —from general contractors and builders to housewives—and sold through all kinds of distribution channels—from interior decorating boutiques to cash-and-carry lumber yards.

Current production facilities of Shelter Industries include eight roofing materials plants, five felt plants, a carpet mill, an aluminum door and window



plant, and one of the nation's largest millwork plants located in Waco, Texas.

Work is continuing on the Company's new roofing plant at Avery, Ohio, and the expanded felt mill production facilities are now in operation. The Cartersville, Georgia, carpet plant was also expanded in 1969.

Another major expansion program now underway at Certain-teed's McPherson, Kansas, PVC plant will increase substantially the Company's production capacity for vinyl siding. Sales of this particular product have grown dramatically over the past year.

The many Certain-teed products being marketed through Shelter Industries enjoy great popularity among discriminating home owners and builders, and include well-known trade names such as Hallmark shingles, Ideal Qualitybilt millwork and CSG fiber glass insulation.

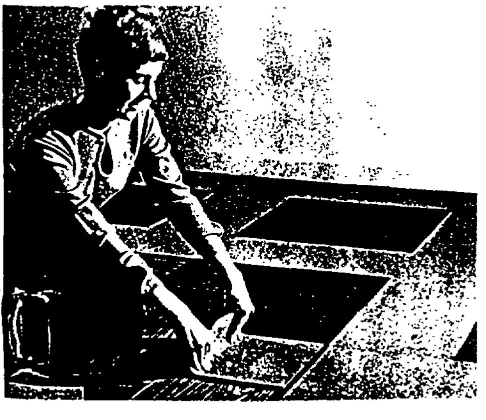
The Hallmark asphalt shingle, also known as the "Shangle," was first introduced by Certain-teed only two years ago, and since that time has captured a substantial share of the new construction, replacement and remodeling markets. The appeal of the Shangle lies in its unusual design that combines the beauty of wood shakes with the advantages of asphalt.

Ideal Qualitybilt millwork includes a decorator line of Spanish, Mediterranean and Colonial doors, as well as casement and four-way windows, mantels, kitchen cabinets and hundreds of other items that also find wide application in remodeling, replacement projects and new construction.

Since its introduction little more than two years ago, CSG fiber glass insulation sales have steadily increased. The Ideal aluminum door and window line, produced in Waco, Texas, and introduced late in 1968, has already made deep market penetration in the southwest.

Two relative newcomers to the Certain-teed line of products are Hollybrook Carpet and Quiet-Step carpet tiles. Both have wide customer appeal and are quickly producing market impact.

Shelter Industries is the vehicle that will enable Certain-teed to expand greatly its share of the market for shelter products during the Seventies—an era of unprecedented construction activity with nearly unlimited potential for the Company's ever widening line of products and services.



Piping & Plastics Industries

Piping & Plastics Industries consolidates the production, distribution facilities and personnel of Certain-teed's previously separate Pipe and Plastics Divisions and offers a complete line of both PVC and asbestos cement pipe for the growing markets in sewage disposal, water distribution, irrigation and water pollution control, as well as for those in oil and gas transmission and telephone and electrical conduits.

The combined facilities and experience of these two divisions provide one of the most extensive product-service packages of its type available in the industry.

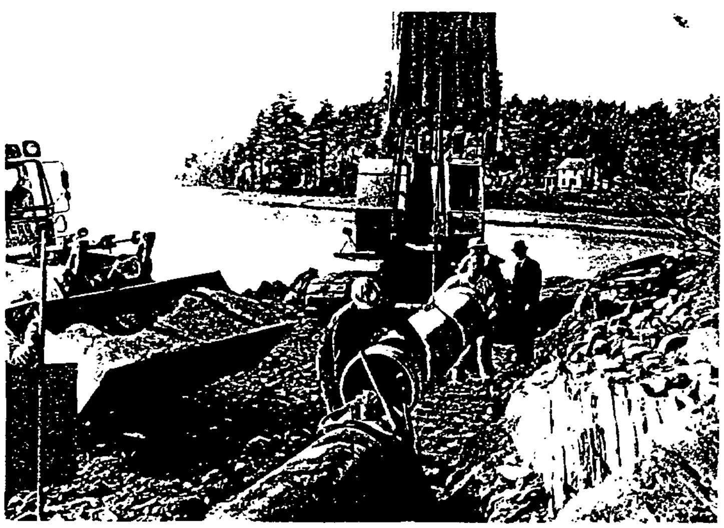
Piping & Plastics Industries has recently acquired exclusive rights to leasing and distribution in the United States of the Badger System: a fast, efficient, trenchless pipe and conduit installation technique. The equipment is produced by the British firm of Hudswell Yates Developments, Ltd., and will be marketed in this country by Certain-teed's newly formed subsidiary, Certain-teed Badger, Inc.

The Badger uses a machine-mounted blade to penetrate vertically below ground, then tunnels in a horizontal direction, pulling a continuous line of pipe behind it through the pre-formed tunnel. It is capable of installing pipe, cable or conduits as large as 24 inches in diameter to a depth of nine feet with a minimum surface disturbance. The equipment will operate in nearly any terrain, and produces substantial savings in pipe installation costs when compared with conventional trenching methods.

Two new Certain-teed PVC pipe plants were completed during 1969 and are now in full operation. One is in Waco, Texas; the other is in Social Circle, Georgia, near Atlanta. These new facilities will strengthen Certain-teed's position in the southeastern and southwestern markets where there is great demand for water and sewage systems.

Also new in 1969 was Communiplan/W, the first computerized engineering service that provides a preliminary feasibility study to aid in the design and planning of rural water piping systems. This unusual service, introduced by Piping & Plastics Industries, is available without cost to consulting engineers and local communities in the interest of developing economical, rural potable water systems.

In the years ahead, this new Division's growing resources are expected to play a major role in Certain-teed's increasing involvement in water purification, sewage disposal, construction and plastics.



To combat water pollution along Lake Cobbosseecontee in Maine, Certain-teed asbestos cement pipe was used in a new 12-mile interceptor sewer line.

Badger blades slice into the soil to depths of nir
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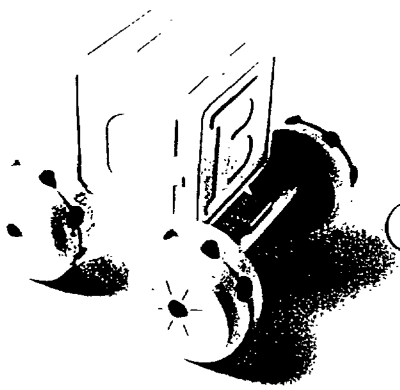


Gustin-Bacon

Certain-teed's Gustin-Bacon Division serves a number of broad markets with products designed for the construction, automotive, transportation, mining, petroleum and reinforced plastics industries. This diversity results in a steady level of sales and earnings, and provides exceptional opportunities for additional areas of growth.

Increased sales were achieved over this wide product range during 1969 as the Division deepened its market penetration. The G-B line of mechanical pipe couplings and fittings, for example, continued to show steady growth through increased usage and wider adaptations by industry. This relatively new concept in joining pipe is now used extensively for nearly every pipe coupling application in construction, mining and the petroleum and process industries.

During 1969, Gustin-Bacon also introduced Plaingrip couplings, thereby expanding its line to include plain-end pipe. Standpipe T's and additional fittings were also added in 1969 to further broaden the pipe coupling line.

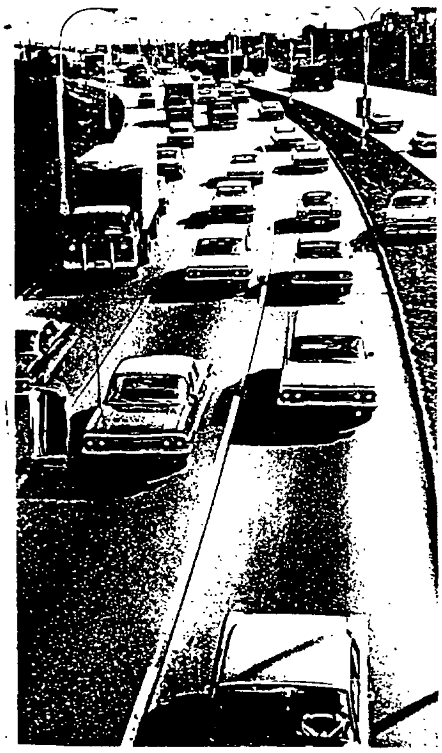
Maxibrake, the spring actuated safety and parking brake for air equipped vehicles with cam-type brakes, continued its steady sales growth and is now standard equipment in major fleets, busses, off-highway equipment and with independent truck operators. Since their introduction nearly 15 years ago, Maxibrakes have become the only widely accepted parking and emergency braking devices for heavy duty vehicles, and are still the only fail-safe, tamper-proof units available on the market. Maxibrakes are now gaining an international reputation through export to foreign countries and through manufacture by overseas licensees.

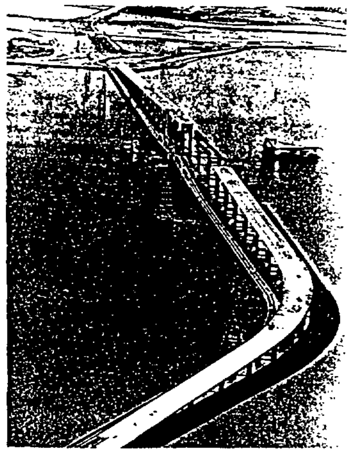
Gustin-Bacon's transportation products also include Ultralite railroad car insulation as well as locomotive pistons, gaskets, brake cylinder release valves, welded fittings, air hoses, Lock-tite cotter pins and other specialty items developed especially for railroad use. Recent development and production of fiber glass reinforced plastic railroad components, including caboose doors and engine compartment panels, have proved successful, and expanded activity in this area can be expected.

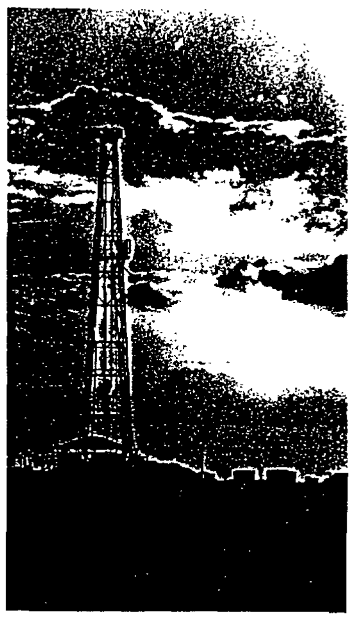
Production facilities for Gustin-Bacon's quality line of Ultralite fiber glass thermal acoustical insulations operated at near capacity throughout the year. These products are marketed nationally to the construction industry by Certain-teed's associated company, Certain-teed Saint Gobain Insulation Corporation.

Sales of Amberlite sound-deadening felts and safety paddings held pace with the number of new cars manufactured, and the automobile industry continues to provide a sizeable portion of this product's volume. Amberlite is a product seldom seen by an automobile buyer, but it performs its job effectively and quietly. Amberlite sound-deadening felts and safety paddings are used to muffle engine and road noises, serve as a heat shield under the hood, and are molded and contoured to pad dashboards for added passenger safety. Industry projections of steady increases in the production of new cars, coupled with the growing demand for quieter and safer vehicles, indicate opportunities for additional growth in the applications of this product through research and development.

Late in 1969, Gustin-Bacon also increased its production of Ultrastrand fiber glass used in the production of reinforced plastics. Additions also were made to the Division's management, technical and engineering staffs to carry out a program for updating manufacturing facilities in order to increase production and achieve deeper penetration of this market.








Certain-teed Saint Gobain

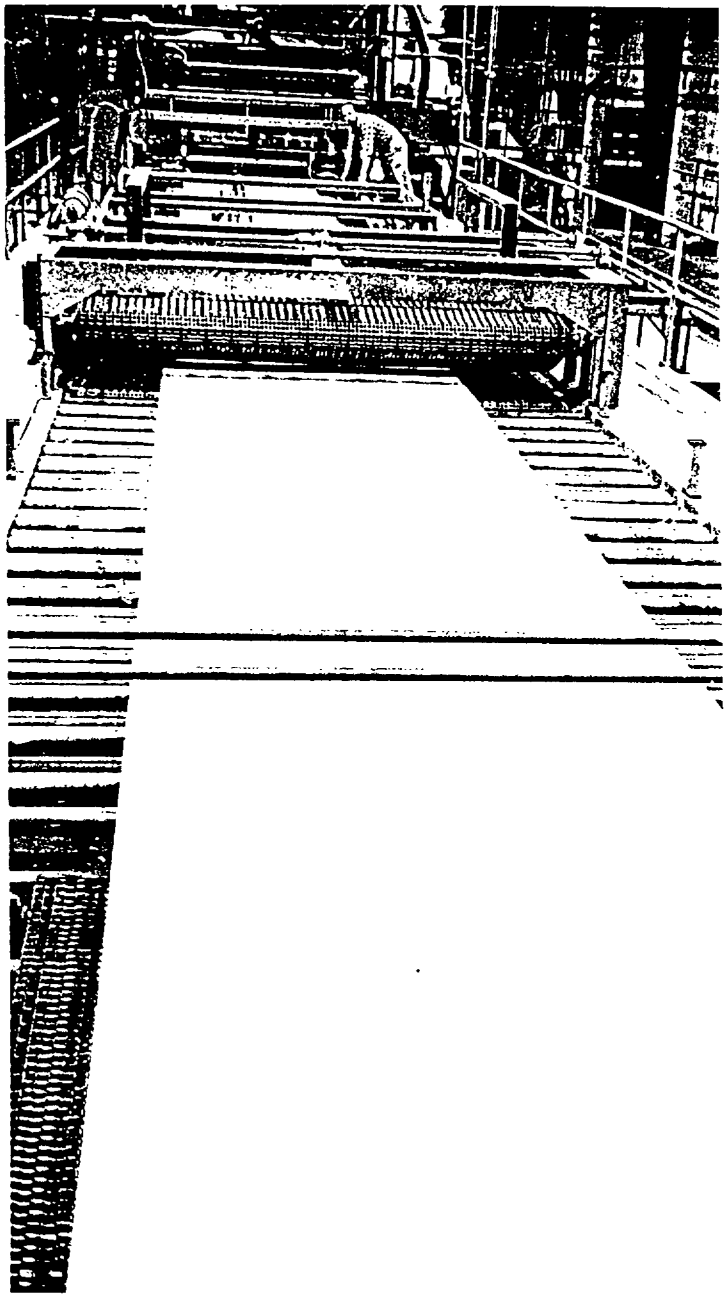
Attic Pak, a unique packaging innovation that simplifies the handling of home insulation for do-it-yourselfers, was introduced by CSG during 1969. Attic Pak enables homeowners to upgrade existing insulation for full comfort and economy.

Certain-teed Saint Gobain Insulation Corporation increased production and sales of its fiber glass insulations approximately 30 percent in 1969. At the same time, the quality of CSG products achieved a level unequaled in the industry.

Other major accomplishments in 1969 included a rebuilding of the furnace at Berlin, New Jersey, construction of a warehouse at the Mountaintop, Pennsylvania, plant, and an equipment modification which increased production of pipe covering and round air duct by 25 percent. The company also increased all fabrication facilities to provide more of the sophisticated end products which its markets require.

From a management standpoint, CSG strengthened its position in several ways. First of all, people who have been with CSG since its formation in 1967 have gained the necessary experience of working together to efficiently coordinate their efforts. Second, new personnel were recruited in 1969 to add needed capabilities in several important areas. Finally, a new department was established to coordinate all company activities in order to effectively service our customer requirements.

The development of management at CSG was essential for the successful adaptation of the advanced Saint Gobain processes to the needs of American markets, and for the internal communication and direction necessary to achieve the profit levels of which the company is capable.



A continuous ribbon of fiber glass flows down the production line at CSG's Berlin, New Jersey, plant. The manufacturing techniques employed by CSG are the most advanced in the industry, and are based upon the technical expertise of the world's leader in glass and glass fiber technology, Compagnie de Saint Gobain.

Certain-teed Products Corporation and Consolidated Subsidiaries

Consolidated statement of income and retained earnings

Years ended December 31, 1969 and 1968

	1969	1968
NET SALES	$216,589,266	$194,099,767
COSTS AND EXPENSES:		
Cost of goods sold	176,424,244	156,919,265
Selling and administrative	25,471,163	22,034,996
	201,895,407	178,954,261
	14,693,859	15,145,506
OTHER INCOME—net	301,752	69,258
	14,995,611	15,214,764
FEDERAL INCOME TAXES (net of investment credit of $389,000 and $306,000)	7,416,000	7,774,000
NET INCOME	7,579,611	7,440,764
RETAINED EARNINGS AT BEGINNING OF YEAR	57,066,761	53,605,095
	64,646,372	61,045,859
DIVIDENDS:		
Preferred Stock	799,034	1,071,845
Common Stock	3,391,858	2,907,253
	4,190,892	3,979,098
RETAINED EARNINGS AT END OF YEAR	$ 60,455,480	$ 57,066,761
Net income per common share based on weighted average shares outstanding	$1.60	$1.70
Net income per common share, assuming full dilution	$1.49	$1.49

Depreciation of plant and equipment amounted to $5,043,983 in 1969 and $4,586,181 in 1968.

The accompanying notes are an integral part of this statement.

Consolidated statement of funds

Years ended December 31, 1969 and 1968

	1969	1968
SOURCE OF FUNDS:		
Net income	$ 7,579,611	$ 7,440,764
Depreciation and amortization	5,383,646	4,924,336
Changes in long-term debt	66,080	(448,809)
Stock issued under stock option and compensation plans and exercise of stock purchase warrants	1,596,870	3,219,502
Net increase in working capital resulting from acquisitions of businesses	1,818,513	—
Decrease/(Increase) in working capital	3,078,202	(3,464,735)
	$19,522,922	$11,671,058
APPLICATION OF FUNDS:		
Increase in property, plant and equipment, net	$11,684,767	$ 5,020,821
Dividends	4,190,892	3,979,098
Investments in associated company and unconsolidated subsidiaries	3,140,717	2,181,838
Other, net	506,546	489,301
	$19,522,922	$11,671,058

Certain-teed Products Corporation and Consolidated Subsidiaries

Consolidated balance sheet

at December 31, 1969 and 1968

	1969	1968
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,341,061	$ 1,840,084
Short-term investments, at cost	5,471,587	16,700,205
Accounts and notes receivable, less allowance for uncollectibles of $1,738,116 and $1,132,053—Note 7 (c)	29,840,604	26,530,320
Inventories, including raw materials and supplies amounting to $8,785,000 and $7,628,991—at lower of cost or market	36,184,956	32,033,265
Total current assets	73,838,208	77,103,874
INVESTMENTS IN AND RECEIVABLES FROM ASSOCIATED COMPANY AND UNCONSOLIDATED SUBSIDIARIES—Notes 1 and 7(c)	20,303,131	17,162,414
PROPERTY, PLANT AND EQUIPMENT, at cost, less depreciation of $39,930,395 and $36,793,432—Note 2	55,904,862	49,090,820
OTHER ASSETS AND DEFERRED CHARGES	3,681,491	3,315,097
INTANGIBLE ASSETS, at amortized cost	2,004,327	2,208,926
	$155,732,019	$148,881,131

The accompanying notes are an integral part of this statement.

LIABILITIES	1969	1968
CURRENT LIABILITIES:		
Accounts payable and accrued expenses—Note 7 (c)	$ 20,332,043	$ 19,400,597
Notes payable to banks	1,965,050	1,333,702
Current installments on long-term debt—Note 3	975,298	307 210
Federal income taxes	3,221,968	5,640,314
Total current liabilities	26,494,359	26,681,823
LONG-TERM DEBT—Note 3	11,606,908	11,246,725
DEFERRED FEDERAL INCOME TAXES	2,493,455	2,734,002
OTHER NONCURRENT AND DEFERRED ITEMS	2,630,002	2,458,283
STOCKHOLDERS' EQUITY—Notes 1, 3, 4, 5, and 7:		
Preferred Stock, $1 par value, authorized 2,000,000 shares; 845,949 shares designated as Series A Convertible, issued 845,949 and 1,010,328 shares (liquidation preference $21,148,725 and $25,258,200)	845,949	1,010,328
Common Stock, $1 par value, authorized 7,500,000 shares, issued 4,343,480 and 4,070,232 shares	4,343,480	4,070,232
Capital in Excess of Par Value	47,085,664	44,150,088
Retained Earnings	60,455,480	57,066,761
Less: Common Stock held in treasury, at cost—21,486 and 51,686 shares	(223,278)	(537,111)
Total stockholders' equity	112,507,295	105,760,298
	$155,732,019	$148,881,131

Notes to financial statements

At December 31, 1969

1. In 1969, the Company acquired the outstanding stock of three companies in exchange for 180,000 shares of the Company's Common Stock. A maximum of 50,000 additional shares are issuable contingent on future earnings of two of the companies. The accounts of these companies are included in consolidation for 1969 on the basis of poolings of interests. The financial statements at December 31, 1968, and for the year then ended have been restated to include the accounts of such companies.

Also, in 1969, the Company purchased all the outstanding capital stock of four companies in exchange for 68,619 shares of the Company's Common Stock These transactions have been accounted for as purchases and the accompanying consolidated statement of income and retained earnings includes the results of operations of these companies from dates of acquisition to December 31, 1969; sales and net income of these companies and the excess of purchase price over net assets acquired, included in the accompanying consolidated financial statements, are not significant.

The investment ($2,158,816) in Modular Sciences, Inc. ("Modular"), a 60% owned company (formerly Commercial Acceptance Corporation), is carried at cost less the Company's share of Modular's accumulated losses since July 1, 1968 (date of acquisition of majority ownership by the Company). The Company also had notes receivable due from Modular aggregating $1,720,000. The accounts of Modular have not been consolidated because it is not a significant subsidiary. Financial statements of Modular are included elsewhere in this Annual Report.

2. Property, Plant and Equipment consists of:

Land	$ 2,341,508
Buildings	26,501,303
Equipment	63,202,171
Construction in progress	3,790,275
	$95,835,257

Depreciation on plant and equipment is computed by the straight-line method on the basis of annual rates ranging generally from 2% to 12% in the case of buildings, and 5% to 20% in the case of equipment.

Property, plant and equipment with a net book amount of approximately $3,500,000 has been pledged as collateral for certain mortgages payable.

3. Long-term debt, exclusive of current installments, consists of:

5 55% Notes payable to insurance company, requiring payments of $550,000 annually from 1970 to 1986, the remaining unpaid balance becoming due in 1987	$ 9,450,000
Capitalized lease agreements, requiring payments through 1989	1,267,525
Other	889,383
	$11,606,908

The note agreement relating to the notes payable to insurance company provides, among other matters, for prepayment options, the maintenance of a prescribed amount of consolidated working capital, and certain limitations on the declaration of dividends, other than stock dividends. At December 31, 1969, consolidated Retained Earnings of approximately $14,100,000 were not restricted as to the payment of Common Stock dividends.

4. Dividends on the Series A Convertible Preferred Stock are cumulative at the annual rate of $.90 per share Each share is entitled to one vote, has a liquidating value of $25 per share plus accrued unpaid dividends, is convertible into one share of Common Stock and may be called by the Company after June 30, 1971 (subject to the conversion rights of the holders) at a price of $25 per share plus accrued unpaid dividends.

At December 31, 1969, there was outstanding a transferable Stock Purchase Warrant for 20,000 shares of Common Stock exercisable prior to June 22, 1972, at a per share price of $23.05 The Company has reserved a sufficient number of unissued shares for issuance against the warrant.

In 1969, the Company entered into employment agreements with certain officers which provide for compensation to be made to such officers through the issuance of 30,000 shares of Common Stock. The shares issued are subject to certain restrictions and forfeiture provisions contained in such agreements. The market value at date of issuance of such shares is being charged to operations pursuant to the terms of the agreements.

Changes in shares of capital stock and in capital in excess of par value during the year are summarized as follows:

	Common Stock			Preferred Stock	
	Issued Shares	Treasury Shares	Warrants Shares	Issued Shares	Capital In Excess of Par Value
Balance at December 31, 1968, as previously reported	3 890,232	51,686	20,000	1,010,328	$43,171,537
Restatement for poolings of interests—Note 1	180 000				978,551
Balance at December 31, 1968, as restated	4 070,232	51,686	20,000	1,010,328	44,150,088
Exercise of stock options —Note 5	39,750	(200)		500	688 791
Conversion of preferred stock	164,879			(164,879)	
Resulting from companies purchased—Note 1	68,619				1,795,990
Pursuant to employment agreements—see above		(30,000)			553,995
Costs related to the acquisition of a company					(103,200)
Balance at December 31, 1969	4 343,480	21,486	20,000	845,949	$47,085,664

5. Pursuant to stock option plans for officers and key employees, options for the purchase of 36,200 shares of Common Stock were outstanding at December 31, 1969, at per share prices ranging from $13.75 to $38.38 and options for 38,900 shares are subject to future grant. During 1969 options for 16,800 shares were granted, options for 39,950 shares were exercised, and options for 400 shares lapsed, of which options for 300 shares are not subject to future grant. During 1969 options for 500 shares of Series A Convertible Preferred Stock were exercised. No options for purchase of shares of Series A Convertible Preferred Stock were outstanding as at December 31, 1969.

6. Charges to income for the current year for costs incurred under existing pension plans maintained by the Company amount to approximately $410,000. The foregoing costs are after revisions, as at January 1, 1969, in actuarial assumptions (relating principally to increased future yields), which resulted in an actuarial gain of approximately $3,048,000 that was applied to the unfunded liability and the remaining balance of $1,800,000, representing an overfunded amount, is being amortized over a twenty-year period. The Company intends to accrue but presently does not plan to fund current service costs. The actuarially computed value of vested benefits is less than the pension plan assets at December 31, 1969.

The revisions in actuarial assumptions had no material effect on net income for the year.

7. (a) The Company is contingently obligated to reimburse a finance company or an affiliate thereof for losses incurred prior to January 1, 1975, on certain installment or term receivables acquired by them, up to a maximum of $3,000,000, and for losses arising from risks against which the Company is carrying insurance or has a reserve. In addition, the Company has outstanding guarantees aggregating approximately $1,087,000 and contingent obligations under assigned long-term leases which provide for annual rentals aggregating approximately $190,000.

(b) Under date of February 27, 1969, the District Director of Internal Revenue, Philadelphia, Pennsylvania, issued reports to the Company and subsidiaries (including one subsidiary since liquidated) proposing assessments of approximately $13,400,000, exclusive of interest, for the years 1961 through 1965, inclusive. The Company filed a protest to these proposed assessments on July 24, 1969, and with respect to the significant matters included in the reports, the Company believes that it has meritorious defenses and is vigorously contesting the proposed assessments; consequently, no provision has been made therefor in the accompanying financial statements.

(c) The Company owns 50% of the voting stock, together with 5,750 shares of $60 Cumulative First Preferred Stock ($1,000 per share liquidating preference) and 10,372 shares of $60 Cumulative Second Preferred Stock ($1,000 per share liquidating preference), of Certain-teed Saint Gobain Insulation Corporation ("CSG"); in addition, the Company holds a $1,400,000 subordinated note receivable from CSG, due in 1974. The investment in the capital stock is carried at cost ($14,771,025), which exceeded the Company's equity in the net assets of CSG by $6,351,027 at December 31, 1969. The Company's equity declined during the year ended December 31, 1969, by $1,837,924, which represents CSG's net loss for that period less the forgiveness of $540,000 of prior years' unpaid accrued interest on income debentures held by a French company which owns the other 50% of CSG's voting stock. In the opinion of the Company's management, CSG's accumulated net losses of $7,807,606 subsequent to June 1967 (the last month CSG's accounts were consolidated with those of the Company and the last full month ownership of all classes of CSG stock was held by the Company) represent only a temporary impairment of the Company's investment, since it is the opinion of CSG's management that the conversion of various manufacturing facilities substantially completed during the latter part of 1969 to utilize patent and process rights acquired in 1967 by CSG from the French company should enable CSG to realize future profitable results. The opinion of the independent public accountants reporting on the financial statements of CSG as at and for the year ended December 31, 1969, has been made subject to the contingency with respect to such future profitable operations. The 1969 financial statements of CSG will be included in the Company's Annual Report on Form 10-K to be filed with the Securities and Exchange Commission.

Current accounts receivable and accounts payable include balances of $4,239,992 and $1,274,043, respectively, with CSG.

8. EVENT SUBSEQUENT TO DATE OF ACCOUNTANTS' REPORT:

On March 13, 1970, the Company entered into an agreement to acquire a business in consideration for the issuance of 150,000 shares of Common Stock. The company to be acquired presently holds an interest in certain companies to be acquired by a subsidiary, Modular Sciences, Inc. Upon completion of these acquisitions, the Company will receive an additional 245,000 shares of Modular Sciences, Inc. Common Stock.

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 consolidated subsidiaries as at December 31, 1969 and the related consolidated statement of income and retained earnings and the supplemental consolidated statement of funds 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, subject to the effect, if any, of the matters discussed in Notes 7(b) and 7(c), the accompanying consolidated balance sheet and consolidated statement of income and retained earnings present fairly the consolidated financial position of Certain-teed Products Corporation and consolidated subsidiaries at December 31, 1969, 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, and the accompanying consolidated statement of funds for the year ended December 31, 1969, presents fairly the supplemental information shown therein.

S.D. Leidesdorf & Co.

New York, N.Y.
January 30, 1970

Board of Directors

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M. S. Davis, Jr.
E. A. Diefenbach
J. R. Johnston
I. S. Kampmann, Jr.
Harold McNabb
N. W. Pearson
G. S. Sutcliffe

Executive Committee

Malcolm Meyer
Harold McNabb
E. A. Diefenbach
N. W. Pearson

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President and Chairman of the Board
Harold McNabb
Executive Vice President
E. A. Diefenbach
Vice President, Finance
M. S. Davis, Jr.
Vice President
Morris C. Hoven
Vice President
E. L. Melton
Vice President
Byron C. Radaker
Vice President
Keith Swinehart
Vice President
Fred N. Vinson
Vice President
James L. Strickland
Treasurer
Charles E. DeLong
Secretary and Resident Counsel
N. J. Mueger
Assistant to President
T. F. Merkel
Comptroller
John F. Mencer
Assistant Secretary and Assistant Treasurer
Harold Barnard
Assistant Secretary
(Mrs.) M. C. Latimer
Assistant Secretary

CERTAINTEED

Modular Sciences, Inc.
Annual Report 1969

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William G. Hays, Jr., Vice-Chairman
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Walter B. Frambes
Walter V. Gearhart
Philip Y. Meyer
James A. Parker
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Frederick G. Reiter
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Executive Committee
Malcolm Meyer, Chairman
E. A. Diefenbach
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William G. Hays, Jr., Vice-Chairman of the Board
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M. S. Davis, Jr., Executive Vice President
T. F. Merkel, Vice President, Treasurer, and Controller
Morris C. Hoven, Vice President
Herbert W. Traylor, Vice President
James A. Parker, Secretary

General Counsel
Grizzard, Jones, Parker & Simons, Atlanta, Georgia

Auditors
Arthur Andersen & Co., Atlanta, Georgia

Transfer Agents
Trust Company of Georgia, Atlanta

Registrars
The Chase Manhattan Bank, New York

To our Shareholders

In 1968, Certain-teed Products Corporation acquired a controlling interest in Modular Sciences and shortly thereafter announced that our Company would become the construction arm for Certain-teed. During 1969, many developments have taken place to make this a reality.

Confirming our belief that modular construction will shortly become the accepted way for building most housing and many commercial structures, the stockholders approved a change in the name of the Company from Commercial Acceptance Corporation to Modular Sciences, Inc.

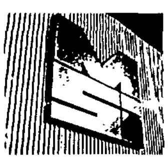
Recognizing the need for additional cash resources for a growing building business, steps were taken to place privately $3 million of a new 6 percent Convertible Preferred Stock. Steps were also taken to secure a source for long-term mortgage money to be used to finance Company-built motor inns, and at this point approximately $13 million of mortgage money has been arranged for use by the Company.

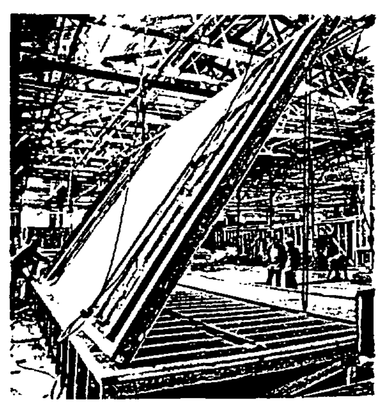
It is our belief that the modular construction concept will gain acceptance in the near future by its use among prominent far-sighted builders who recognize its cost-saving attributes. It is not our single purpose to build modular plants for builders to come to us, but rather to identify with the Company a number of successful building operations around the country which have already experienced construction through components and are ready for construction through modules. It is also our belief that the role of land acquisition and development, architectural skills, the knowledge and experience in working with the many government-sponsored housing programs and the construction, marketing and sale of housing are all essential elements in building a successful business for our Company. Therefore, it is our plan to merge into the Company a number of carefully selected, successful builders who will operate in their respective local areas under the umbrella of Modular Sciences, Inc.

Because of the fact that the Company's efforts are directed primarily at the construction business, and as a result its financial success will be the direct result of the contribution of the participating builders, we believe Modular Sciences, Inc. represents a most interesting vehicle for builders wishing to take advantage of the capital resources and economies available through the Company and its parent company.

Toward this end, agreements have been reached with a prominent builder in St. Louis, Missouri. Several companies are involved in the acquisition, including a home manufacturing plant which trades under the name of Concord Homes. The effect of this acquisition will be to provide the Company with a modular production facility and an existing market penetration in the mid-section of the country. A new modular construction plant is expected to be built shortly in connection with the needs of this profit center.

Modular shelter units built at Modular Sciences, Hartford, Alabama, manufacturing plant are factory finished and include plumbing, wiring, insulation, carpeting and interior decorating.

The organizational structure within the Company has been established to accommodate a number of individual builder profit centers, and it is expected that other builders will join the Company in the near future.

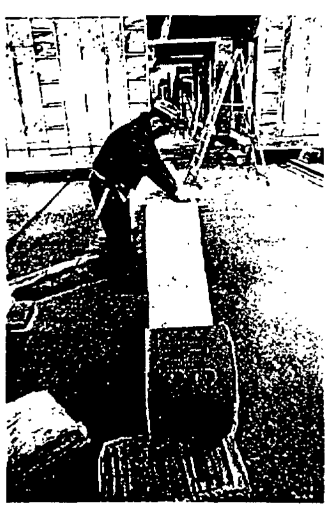
During 1969, Modular Services, Inc., a subsidiary, completed a modular production plant at Hartford, Alabama, and modules were produced for a motor inn in Jacksonville, Florida. The plant is presently producing modules for a motor inn in Columbia, South Carolina. The company expects to continue the construction and sale of motor inns as a part of its modular business. The operations of this subsidiary in 1969 were organizational in nature as a result of the development of a program for the construction of modules and their utilization in motor inn construction.

Vencedor Development Corporation completed its first full calendar year with the Company in 1969 and produced a profit. Two housing developments are under way in Puerto Rico, and a new development is starting in Southern Florida. The Vencedor operation includes land acquisition and development, manufacture of extruded asbestos cement building components, the construction of residential housing for both the general public and the government of Puerto Rico, and the marketing and sale of housing. It is a fully integrated building operation and fits well into our broad building concept.

During 1969, steps were taken to convert the Finance Division of the Company into a mortgage placement and servicing facility for the many building operations underway and contemplated. Plans are proceeding and will be discussed further as developments take place. Losses were incurred in this Division during 1969 as a substantial number of repossessed houses were sold. A study of ultimate costs of liquidating the remaining houses and installment obligations indicates they will approximate income and established reserves (as to additional contingent liabilities, see Note 5 to the Financial Statements). As this Division changes its direction, profits should accrue from its efforts.

The year 1969 should be looked upon as a year in which the concepts conceived for modular construction moved from the development stage to the construction stage. The addition of other builders will accelerate this program so that the Company can make a significant impact on employing its concepts in the period when a high level of building activity is expected.

In conclusion, we wish to express our sincere appreciation to our shareholders, customers and our lenders for their cooperation throughout the year, and to commend the efforts of our employees, all of whom have contributed so much to the development of the Company.



Respectfully submitted,

Chairman of the Board

President

Ardmore, Pennsylvania
March 16, 1970

CTD036530

Modular Sciences, Inc. and Subsidiaries

Consolidated statement of loss and retained earnings (deficit)

For the Year Ended December 31, 1969

REVENUES:	
Sale of houses, land and construction materials	$ 3,590,743
COSTS AND EXPENSES:	
Cost of houses, land and construction materials sold	2,785,086
Selling and administrative expenses	266,200
Interest expense	400,394
Provision for Puerto Rican income taxes	31,500
	3,483,180
Income from nonfinance operations	107,563
LOSS FROM FINANCE OPERATION (Note 4)	(355,654)
NET LOSS	(248,091)
RETAINED EARNINGS (DEFICIT), beginning of year	(1,858,653)
RETAINED EARNINGS (DEFICIT), end of year (Note 6)	$ (2,106,744)
LOSS PER SHARE, based on average shares outstanding	$(.13)

Audited figures for calendar year 1968 are not available due to a change in the Company's fiscal year-end.

Consolidated statement of funds

For the Year Ended December 31, 1969

SOURCE OF FUNDS:	
Increase in notes payable and lease obligations	$ 4,296,331
Increase in accounts payable and accrued expenses	775,357
Decrease in finance operation assets, less reserves	147,523
Exercise of stock options and warrants	13,141
	$ 5,232,352
APPLICATION OF FUNDS:	
Net loss for year	$ 248,091
Less—Depreciation	83,369
	164,722
Motel properties additions	1,926,988
Increase in real estate development assets	1,274,227
Increase in other assets	986,366
Property, plant and equipment additions, net	621,531
Increase in cash, receivables and inventories	258,518
	$ 5,232,352

The accompanying notes are an integral part of these statements.

Modular Sciences, Inc. and Subsidiaries

Consolidated balance sheets

December 31, 1969 and 1968

ASSETS	1969	1968
CASH	$ 139,186	$ 120,551
ACCOUNTS RECEIVABLE	172,356	147,685
INVENTORIES, at lower of cost (first-in, first-out) or market	458,007	242,795
REAL ESTATE DEVELOPMENT ASSETS, at cost (Note 2)	9,587,747	8,313,520
MOTEL PROPERTIES under construction, and related equipment, at cost	1,955,390	28,402
PROPERTY, PLANT AND EQUIPMENT, at cost, less depreciation (Note 3)	797,092	258,930
FINANCE OPERATION ASSETS, less reserves (Note 4)	4,469,520	4,617,043
OTHER ASSETS:		
Goodwill and manufacturing rights (Note 1)	1,187,049	1,187,049
Preferred stock of The Oxford Finance Companies, Inc., at cost (Note 5)	741,400	743,000
Deferred charges (Note 1)	984,656	—
Miscellaneous	52,528	50,118
	2,965,633	1,980,167
	$20,544,931	$15,709,093
LIABILITIES		
NOTES PAYABLE AND LEASE OBLIGATIONS (Note 6)	$10,694,462	$ 6,398,131
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	1,844,730	1,069,373
SUBORDINATED LIABILITIES (Note 6)	4,672,845	4,673,745
CONTINGENT LIABILITIES (Notes 2, 4 and 5)		
STOCKHOLDERS' INVESTMENT (Notes 1, 6, 7 and 9):		
Common stock, $.50 par value, authorized 5,000,000 shares, outstanding 1,955,116 shares in 1969 and 1,952,616 shares in 1968	977,558	976,308
Capital in excess of par value	4,462,080	4,450,189
Retained earnings (deficit)	(2,106,744)	(1,858,653)
	3,332,894	3,567,844
	$20,544,931	$15,709,093

The accompanying notes are an integral part of these balance sheets.

Certain 1968 amounts have been reclassified to conform with the 1969 presentation.

Notes to financial statements

December 31, 1969

1. PRINCIPLES OF CONSOLIDATION AND INTANGIBLE ASSETS:

The accompanying financial statements have been prepared on a consolidated basis and include the accounts of all subsidiaries after elimination of all significant intercompany balances and transactions.

In 1968, the Company acquired a subsidiary engaged in the development of real estate and construction of housing in Puerto Rico. This transaction was accounted for as a purchase and in this connection $955,563 goodwill was recorded. This amount is reflected in the accompanying balance sheet together with $231,486 manufacturing rights, under a license agreement with Certain-teed Products Corporation, that were recorded in 1968 by the Puerto Rican subsidiary upon purchase of the stock of a construction materials manufacturing company. The Company does not plan to amortize these intangible assets unless there is a diminution in the value thereof. Further goodwill will arise in the event additional common stock (maximum 500,000 shares) is issued to the former owners, contingent upon the future earnings of the Puerto Rican companies through 1972.

During 1969, significant start-up costs were incurred by the modular manufacturing plant operated by a subsidiary. In this connection, costs amounting to $984,656 are reflected in the accompanying balance sheet as deferred charges and will be amortized over a five-year period, commencing in March, 1970, the expected end of the start-up period. Recovery of these costs is dependent upon the success of future operations.

2. REAL ESTATE DEVELOPMENT OPERATIONS:

Real estate development assets, at cost, are located primarily in Puerto Rico and consist of:

	1969	1968
Land under development	$8,753,866	$7,967,246
Houses under construction	833,881	346,274
	$9,587,747	$8,313,520

Substantially all of the land under development and houses under construction are pledged as collateral to mortgage notes.

All costs and expenses incurred during the development and construction period are being capitalized and are being charged to cost of sales ratably as the houses and land are sold. The purchase prices of certain properties are based, in part, on profits from the projects and therefore, the amounts recorded for land under development, and the related subordinated liabilities, may be adjusted when the purchase prices are finally determined.

3. PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment consist of:

	1969	1968
At cost—		
Real estate development construction equipment	$448,447	$103,765
Modular manufacturing plant facilities and equipment	238,353	—
Construction materials manufacturing plant facilities and equipment	107,682	104,480
Other equipment	169,428	131,810
	963,910	340,055
Less—Accumulated depreciation	166,818	81,125
	$797,092	$258,930

Real estate development construction equipment costing approximately $366,000 is pledged as collateral to equipment obligations. The modular manufacturing plant facilities and related equipment are leased by a subsidiary from a municipality and the cost thereof and related lease obligations have been recorded in the financial statements. Depreciation is computed principally by the straight-line method.

4. FINANCE OPERATION:

Finance operation assets, less reserves, consist of:

	1969	1968
Installments receivable, including installments due after one year	$3,836,280	$2,653,064
Receivable under contract with Certain-teed Products Corporation	2,156,342	2,683,924
Installment receivables under foreclosure, foreclosed properties, insurance claims, etc	897,155	1,813,092
	6,889,777	7,150,080
Less—		
Unearned finance charges and contract income	1,888,801	1,911,657
Reserve for credit and foreclosure losses	531,456	621,380
	$4,469,520	$4,617,043

Loss from finance operation for the year ended December 31, 1969, is shown below:

Revenues—		
Finance charges and contract income earned		$ 553,766
Commissions, gain on sale of foreclosed properties, rental income, etc		169,648
		723,414
Costs and expenses—		
Operating and administrative expenses	607,225	
Interest expense	208,843	
Provision for credit and foreclosure losses	263,000	
		1,079,068
Loss from finance operation		$ (355,654)

Installment receivables are for low-cost housing and are due in monthly installments over periods of twelve years and longer. The receivable under contract with Certain-teed Products Corporation originated in 1963 and represents the Company's 10% equity in a low-cost housing installment mortgage portfolio now held by a third party. The remaining balance of this receivable is due on a monthly basis as payments are made by mortgagors to the third party.

Under this contract, the Company is committed to purchase, within two years, those mortgages that default. At December 31, 1969, the Company had a contingent liability in this connection amounting to $25,000,000, after deducting its 10% equity. The purchase price to the Company of those mortgages that have defaulted but have not yet been purchased at December 31, 1969, amounted to $353,000. The Company must pay a service charge on defaulted mortgages that are not purchased within six months of the default date.

Finance charges and contract income earned are recognized under the sum-of-the-digits method for financial reporting purposes. For income tax reporting, the straight-line method is used as installments are collected. The Company is not providing deferred income taxes for the income currently recognized for financial reporting purposes but deferred for income tax purposes since unused prior years' loss carry-forwards remain for reduction of future taxable income.

5. WARRANTY CLAIMS:

In June, 1968, the Company made certain warranties to the purchaser of a substantial portion of the Company's installment receivables, primarily as to the validity and priority of real estate liens securing the assets sold. Preferred stock of The Oxford Finance Companies, Inc. ($735,000 cost) was placed in escrow to indemnify the purchaser against any losses arising from breach of warranties, if any, and was to have been released in June, 1969, if there were no unremedied warranty claims.

Prior to the scheduled escrow release date, the purchaser submitted warranty claims covering substantially all of the assets previously sold. The Company is in the process of evaluating the validity of these claims and will defend those that, in the opinion of legal counsel, are without merit. The ultimate effect, if any, on the accompanying financial statements is not presently determinable.

6. NOTES PAYABLE, LEASE OBLIGATIONS AND SUBORDINATED LIABILITIES:

Notes payable, lease obligations and subordinated liabilities consist of:

Description	1969 Total	1969 Payable Within One Year	1968 Total
6%-12 85% mortgage notes, secured by land under development and houses under construction, due $3,059,806 in 1970, $169,220 in 1971, $930,572 in 1972 and $96,836 thereafter	$ 4,256,434	$3,059,806	$3,852,071
8%-9¾% notes payable to banks, unsecured	2,316,155	2,316,155	604,021
6½% Series F senior notes, unsecured, due $283,350 in 1971, $566,700 in 1972, $566,700 in 1973 and $472,250 in 1974	1,889,000	—	1,889,000
9½% notes payable to Certain-teed, unsecured	1,720,000	1,720,000	—
Lease obligations, secured by modular manufacturing plant	250,000	10,000	—
Equipment obligations, secured by construction equipment	214,779	140,849	53,039
Life insurance policy loans	48,094	48,094	—
Total notes payable and lease obligations	$10,694,462	$7,294,904	$6,398,131

Description	1969 Total	1969 Payable Within One Year	1968 Total
6½% Series C senior subordinated notes, unsecured, due $73,500 each year commencing in 1971	$ 735,000	$ —	$ 735,000
Liabilities assumed from a predecessor company, subordinated to other liabilities relating to development of certain Puerto Rican real estate, due in 1972 or upon earlier completion of project	1,418,418	—	1,419,318
Liabilities subordinated to certain notes payable to banks and $1,250,000 of liabilities assumed from a predecessor company—			
Contracts payable to president of a subsidiary, due solely out of "net proceeds received from sale of houses," as defined	2,119,427	—	2,119,427
Noninterest-bearing debenture payable to Certain-teed, due in 1973	400,000	—	400,000
Total subordinated liabilities	$ 4,672,845	$ —	$4,673,745

The agreements under which the senior notes payable were issued provide, among other things, that the Company will not permit net worth to be less than $2,000,000 or certain percentages of senior and subordinated indebtedness. In addition, certain restrictions are placed on payment of cash dividends and other payments. At December 31, 1969, no amounts are available for such restricted payments.

7. COMMON STOCK, CAPITAL IN EXCESS OF PAR VALUE AND RELATED MATTERS:

Changes in common stock and capital in excess of par value during the year ended December 31, 1969, are as follows:

	Common Stock	Capital in Excess of Par Value
Balance, beginning of year	$976,308	$4,450,189
Proceeds received for 2,500 shares of common stock issued upon exercise of stock options and warrants	1,250	11,891
Balance, end of year	$977,558	$4,462,080

At December 31, 1969, officers and key employees held options to purchase 70,000 shares of common stock at prices ranging from $2.75 to $10.25 per share, of which options for 23,327 shares are exercisable currently. During the year, options for 1,000 shares were exercised at an option price of $4.50 per share, warrants for 1,500 shares were exercised at a price of $5.76 per share, options for 13,000 shares were granted and options and warrants for 6,500 shares expired. An additional 10,000 shares are reserved for future options.

In November, 1969, the Company's Board of Directors authorized the issuance of 15,000 shares of common stock to Certain-teed Products Corporation in exchange for certain patent rights. As of December 31, 1969, these shares had not been issued.

At December 31, 1969, a total of 595,000 shares of authorized and unissued common stock was reserved as indicated above and in Note 1.

Under an agreement, the Company may be required to repurchase up to 72,120 shares of the Company's common stock owned by an officer, in the event of his death, at a price of $5.34 per share. The Company has life insurance on this officer to provide the funds necessary to purchase this stock.

8. EVENT SUBSEQUENT TO DATE OF AUDITORS' REPORT:

On March 13, 1970, the Company entered into agreements to acquire the outstanding stock of three companies (Concord Homes, Inc., Fischer & Frichtel Development Corporation and Fischer & Frichtel, Inc.) in exchange for 548,667 shares of the Company's common stock and $400,000 cash. In addition, Certain-teed Products Corporation, Modular's parent, entered into an agreement to acquire a company affiliated to certain of these companies.

AUDITORS' REPORT

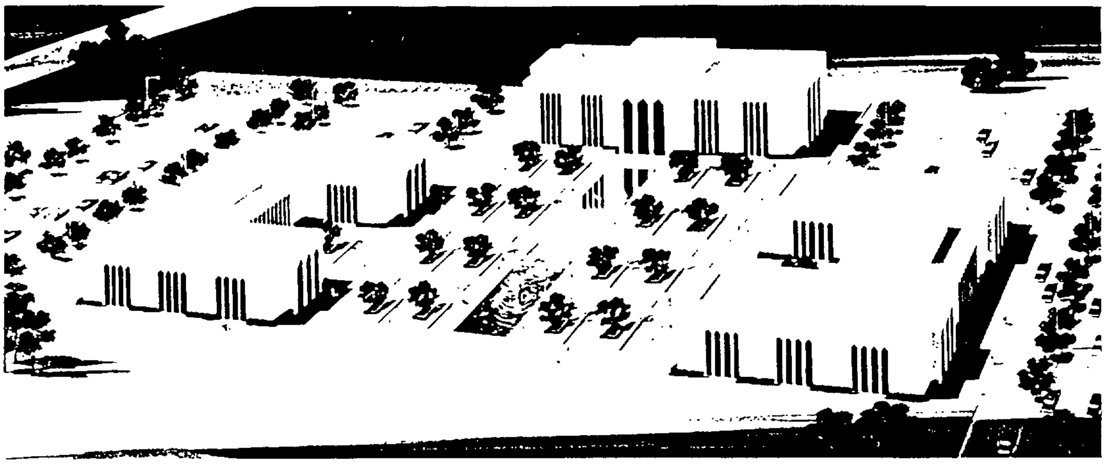
To the Stockholders of
Modular Sciences, Inc.:

We have examined the consolidated balance sheet of Modular Sciences, Inc. (formerly Commercial Acceptance Corporation; a Georgia corporation and a subsidiary of Certain-teed Products Corporation) and subsidiaries as of December 31, 1969, and the related statements of loss and retained earnings (deficit) and source and application of funds 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, subject to (1) the recovery of deferred start-up costs of the modular manufacturing plant (as discussed in Note 1), and (2) the effect of any adjustments that may result from certain warranty claims (as discussed in Note 5), the accompanying consolidated financial statements present fairly the consolidated financial position of Modular Sciences, Inc. and subsidiaries as of December 31, 1969, and the results of their operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Arthur Andersen & Co.

Atlanta, Georgia,
January 23, 1970



Certain-teed Products Corporation's new headquarters complex in Valley Forge, Pennsylvania, is currently under construction and is expected to be completed by the fall of 1970. The facilities will consolidate the Company's widely scattered Philadelphia area operations, and will include the executive and administrative offices of Shelter Industries, Piping & Plastics Industries, Certain-teed Saint Gobain Insulation Corporation and Modular Sciences, Inc.

EXECUTIVE OFFICES

Ardmore, Pennsylvania

DIVISION OFFICES

Ardmore, Pennsylvania
Bala-Cynwyd, Pennsylvania
Fort Washington, Pennsylvania
Kansas City, Kansas

RESEARCH LABORATORIES

Blue Island, Illinois
Kansas City, Kansas
McPherson, Kansas
North Wales, Pennsylvania
Savannah, Georgia
Waco, Texas

SALES OFFICES

Ambler, Pennsylvania
Anaheim, California
Arlington, Virginia
Atlanta, Georgia
Baltimore, Maryland
Baton Rouge, Louisiana
Cartersville, Georgia
Chicago, Illinois
Chicago Heights, Illinois
Cleveland, Ohio
Dallas, Texas
Detroit, Michigan
Houston, Texas
Kansas City, Kansas
King of Prussia, Pennsylvania
McPherson, Kansas
Marlton, New Jersey
Metuchen, New Jersey
Orinda, California
Phoenix, Arizona
Richmond, California
Roanoke, Virginia
San Francisco, California
San Mateo, California
Savannah, Georgia
St. Louis, Missouri
Social Circle, Georgia
Tacoma, Washington
Wilmington, Delaware

PLANTS

Ambler, Pennsylvania
Avery, Ohio
Berlin, New Jersey
Buffalo, New York
Cartersville, Georgia
Chicago Heights, Illinois
Dallas, Texas
East St. Louis, Illinois
Hartford, Alabama
Hillsboro, Texas
Kansas City, Kansas (3)
Kansas City, Missouri
McPherson, Kansas
Mountaintop, Pennsylvania
Richmond, California
Riverside, California
Santa Clara, California
Savannah, Georgia
Social Circle, Georgia
St. Louis, Missouri
Tacoma, Washington
Tyler, Texas
Vega Alta, Puerto Rico
Waco, Texas (3)
York, Pennsylvania

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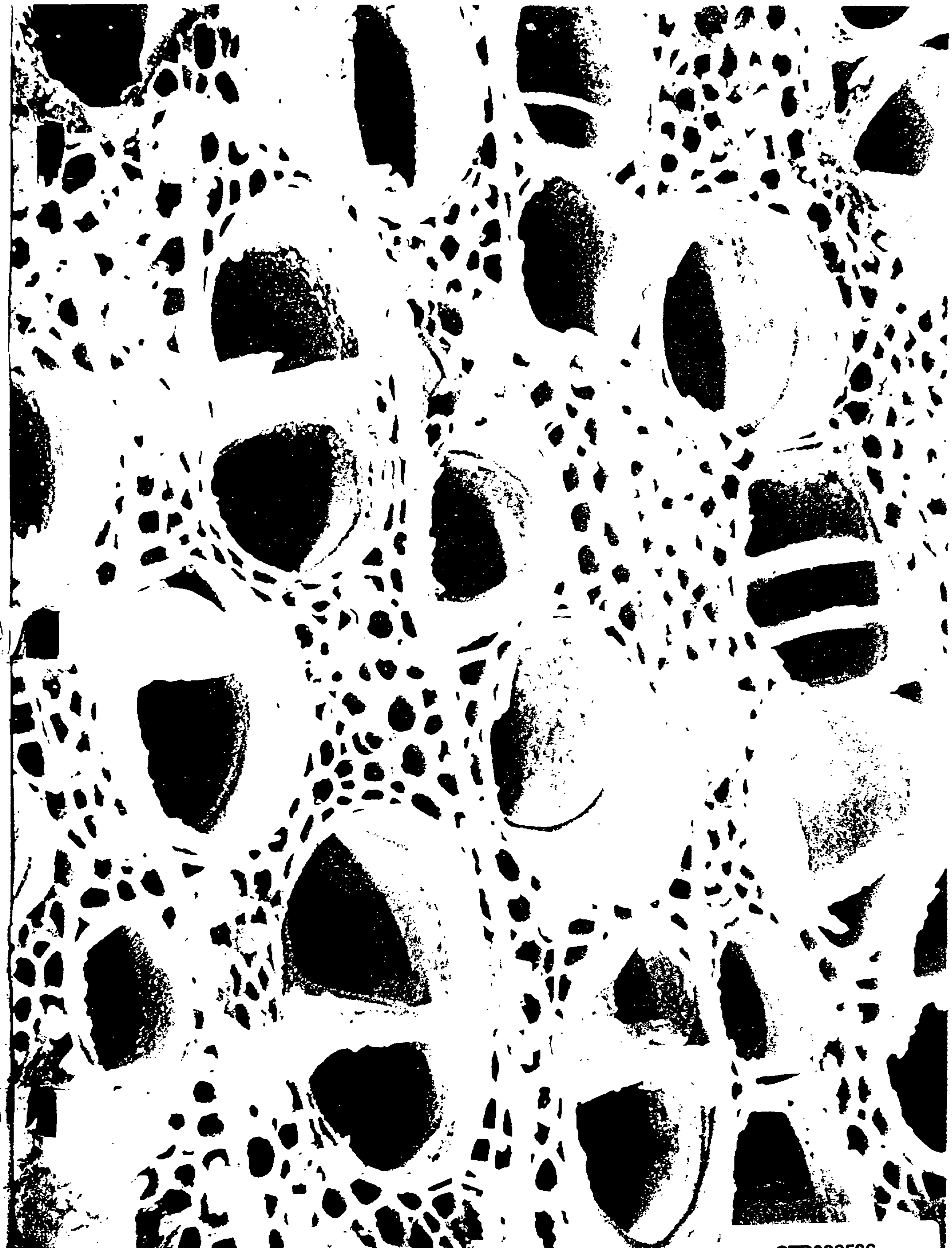
Houston, Texas
LaMirada, California
Little Rock, Arkansas
Longview, Texas
Los Angeles, California
Lubbock, Texas
Lufkin, Texas
Midland, Texas
Mount Laurel, New Jersey
Odessa, Texas
Portland, Oregon
San Angelo, Texas
San Antonio, Texas (2)
San Francisco, California
Shreveport, Louisiana
Springfield, Massachusetts
Tampa, Florida
Texarkana, Texas
Tyler, Texas
Waco, Texas (2)
Wichita Falls, Texas
Woodbury Heights, New Jersey

A cross-sectional view of pine wood magnified thousands of times scanning electron photomicrograph techniques at the Blue Island, Illinc laboratories of Certain-teed's majority-owned subsidiary, Alpha Researcl Development, Inc. Alpha's highly skilled and experienced research provides technical assistance to all of Certain-teed's divisions in development of new and improved materials and products, and als engaged in a wide variety of research, development, engineering and te ing programs for outside industrial and governmental clients.



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CERTAINTEED

120 EAST LANCASTER AVENUE, ARDMORE, PENNSYLVANIA 19003

MODULAR SCIENCES, INC.