

THE ROCKBESTOS COMPANY

INTERNAL MEMORANDUM



TO: G. L. Evans

cc: RC Gluth

A Michael

RA Pritzker

GT Shannon

JW Wellhausen

FROM: D. R. Bafundo

DATE: March 11, 1987

SUBJECT: FINANCIAL COMMENTARY—FEBRUARY, 1987

Net Income was \$9,000 for February.

	<u>Forecast</u> (\$000's)	<u>Actual</u> (\$000's)
Net Sales	3,740	3,586
Cost of Sales at Standard	2,961	2,848
Manufacturing Variance	60	(45)
Warehouse Expense	58	55
Other	95	67
Total Cost of Goods Sold	<u>3,174</u>	<u>2,925</u>
Gross Profit	566	661
Other Revenues	5	8
Net Operating Expenses	567	653
Pretax Income	4	16
Provision for Taxes	(2)	(7)
Net Income	2	9

Shipments were below forecast by \$154,000 (\$62,000 Rockbestos products - \$92,000 Cerro Armored products) which was offset by favorable manufacturing variance of \$45,000. Although total Rockbestos products shipments were \$62,000 below forecast, stock shipments were \$233,000 below forecast. Orders for Cerro Armored products were being refused in February because prices had fallen below the acceptable range.

The forecast for March is:

	<u>(\$000's)</u>
SALES	
Rockbestos	2,816
Cerro Armored	<u>1,158</u>
TOTAL Net Sales	<u>3,974</u>
Manufacturing Variance	0
Net Income (Loss)	(35)

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The volume for Rockbestos continues to reflect our below average booking from prior months. Although bookings in February improved to nearly 3 million, this is not sufficient enough to offset the prior months. The Net Loss of \$35,000 for March is the result of additional reserves required for asbestos lawsuits received in the first week of March, expected relocation expenses, and a warranty return from G.P.U. The total impact will be \$123,000 of additional expenses. Our forecast net income would have been \$44,000 without this additional expense.

INVENTORIES

Inventories increased by \$1,958,000 in February. Our inventory turnover decreased from 3.9 to 3.2.

A comparison of January and February shows:

	<u>January</u>	<u>February</u>	<u>Difference</u>
		(\$000's)	
Raw Material	3,179	3,412	233
W.I.P.	2,956	4,059	1,103
Finished Goods			
Rockbestos	4,301	4,656	355
Cerro Armored	2,859	3,126	267
TOTAL	7,160	7,782	622
Obsolescence & LIFO Reserve	(4,511)	(4,511)	-
TOTAL	8,784	10,742	1,958

The Raw Material increase was primarily due to copper purchases. These purchases are based on contractual requirements which will be adjusted in March and April. Finished Goods increased by \$622,000 (\$355,000 Rockbestos, \$267,000 Cerro Armored). The Rockbestos increase is related to the build up of the P.N.R. product line. This is a market Rockbestos served in the past and we are now going to re-enter. In addition, a build up of stock has been in process for the last two months. We have been losing a substantial amount of stock orders due to our depleted inventories. Our normal monthly sales volume for stock products should be in excess of \$1,000,000. For the last four months our sales have been approximately \$800,000. During the first week of March stock sales were \$330,000 primarily because of availability. The dramatic increase in W.I.P. is related to a large Railroad order (approx. \$500,000) currently in process and production requirements for April (both stock and specials).

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ACCOUNTS RECEIVABLE

Accounts Receivable outstanding days increased in February from 58 days to 65 days. One order (PECO) for \$2,000,000 is responsible for the increase. At the end of February PECO had \$1,158,000 past due. The problem, a normal one when dealing with utilities, was getting the paperwork started. During the first week of March \$440,000 has been collected. The major portion of the outstanding balance is expected to be collected by the end of March.

GOALS FOR MARCH

1. Finalize Cerro Armored's profitability.
2. Finalize the department's organization and begin implementation.


Donald R. Bafundo

DRB/ddm

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FORECAST
MARCH 1987
(\$000'S)

	NEW HAVEN	%	E. GRANBY	%	TOTAL	%
SALES						
Rockbestos Gross Sales	2,010	101.3%	843	101.3%	2,853	101.3%
Less Returns & Allowances	26	1.3%	11	1.3%	37	1.3%
Rockbestos Net Sales	1,984	100.0%	832	100.0%	2,816	100.0%
Cerro Armored Gross Sales	1,200	103.6%	0	0.0%	1,200	103.6%
Less Returns & Allowances	42	3.6%	0	0.0%	42	3.6%
Cerro Armored Net Sales	1,158	100.0%	0	0.0%	1,158	100.0%
TOTAL NET SALES	3,142	100.0%	832	100.0%	3,974	100.0%
COST OF GOODS SOLD						
Cost of Sales at Standard						
Rockbestos	1,550	78.1%	558	67.1%	2,108	74.9%
Cerro Armored Products	1,042	90.0%	0	0.0%	1,042	90.0%
Total Cost of Sales at Standard	2,592	82.5%	558	67.1%	3,150	79.3%
Manufacturing Expense Variance	0	0.0%	0	0.0%	0	0.0%
Material Variance	0	0.0%	0	0.0%	0	0.0%
Physical Inventory Adjustment	0	0.0%	0	0.0%	0	0.0%
Warehouse Expense Rockbestos	24	0.8%	16	1.9%	40	1.0%
Warehouse Exp. Cerro Armored	20	0.6%	0	0.0%	20	0.5%
Freight	75	2.4%	20	2.4%	95	2.4%
Intercompany Sales Net	0	0.0%	0	0.0%	0	0.0%
Total Cost of Goods Sold	2,711	86.3%	594	71.4%	3,305	83.2%
GROSS PROFIT	430	13.7%	238	28.6%	669	16.8%
Other Revenues	0	0.0%	0	0.0%	0	0.0%
OPERATING REVENUE	430	13.7%	238	28.6%	669	16.8%
OPERATING EXPENSES						
Field Selling Rockbestos	57	1.8%	38	4.6%	95	2.4%
Other Selling Rockbestos	84	2.7%	56	6.7%	140	3.5%
Selling Cerro Armored Products	65	2.1%	0	0.0%	65	1.6%
General & Admin. Rockbestos	185	5.9%	123	14.8%	308	7.8%
General & Admin. Cerro Armored	29	0.9%	0	0.0%	29	0.7%
Engineering, R & D	45	1.4%	30	3.6%	75	1.9%
Home Office	7	0.2%	5	0.6%	12	0.3%
Total Operating Expenses	472	15.0%	252	30.3%	724	18.2%
Income Before Extraordinary Items	(42)	-1.3%	(14)	-1.7%	(55)	-1.4%
Extraordinary Items	0	0.0%	0	0.0%	0	0.0%
Retax Income	(42)	-1.3%	(14)	-1.7%	(55)	-1.4%
Provision for Taxes	15	0.5%	5	0.6%	20	0.5%
NET INCOME	(27)	-0.8%	(9)	-1.1%	(35)	-0.9%

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THE ROCKBESTOS
FORECAST
MARCH
(\$000'S)

	January Actual	February Actual	March Forecast	1st Qtr	2d Qtr	3d Qtr	4th Qtr	Total
Bookings Order Forecast								
Rockbestos	2,318	2,949	3,000	8,267	10,145	8,725	10,345	37,482
Cerro Armored	1,001	1,175	1,200	3,376	4,027	3,452	3,836	14,691
Total Bookings	3,319	4,124	4,200	11,643	14,172	12,177	14,181	52,173
Acknowledged Orders	2,714	2,929						
Rockbestos Net Sales	2,511	2,531	2,816	7,858	9,600	9,023	9,914	36,395
Gross Margin Percent @ Standard	22.6%	25.4%	24.2%	24.4%	25.5%	25.6%	25.5%	25.3%
Cerro Armored Net Sales	882	1,056	1,158	3,096	3,959	3,393	3,770	14,218
Gross Margin Percent @ Standard	7.6%	9.0%	10.0%	9.0%	11.0%	11.0%	11.0%	10.6%
Total Net Sales	3,393	3,587	3,974	10,954	13,559	12,416	13,684	50,613
Gross Margin Percent @ Standard	18.7%	20.6%	20.7%	20.0%	21.3%	21.6%	21.5%	21.2%
Manufacturing Expense Variance	(120)	(45)	0	(165)	80	70	70	55
Gross Profit	575	662	669	1,906	2,326	2,204	2,418	8,854
Net Operating Expenses	568	654	724	1,946	2,013	1,726	1,915	7,600
Extraordinary Items	0	0	0	0	0	0	0	0
Income Before Taxes	13	16	(55)	(26)	313	478	503	1,268

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