

PLAINTIFF'S
EXHIBIT
TPI-123

DUFF, ANDERSON & CLARK, INC.

INDUSTRIAL INVESTMENT AND FINANCIAL ANALYSTS
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November 13, 1968

Board of Directors
Saturn Industries, Inc.
Southland Center
Dallas, Texas 75201

Gentlemen:

In accordance with your request, we are submitting herewith our Valuation Report on Tyler Pipe Industries, Inc. This Report sets forth in detail our conclusions as to the strengths and weaknesses of the Company and our appraisal as to its fair value. These conclusions are presented at the end of the Report.

Based on all of the factors which we regard as relevant to an evaluation of this type, we conclude that the fair value of your 98.6% equity interest in Tyler Pipe Industries at this time is \$52 million which is equal to about 20 times recent earnings. We feel this value is fully justified by the Company's excellent record of profitability and future growth potential which, in our opinion, reflect the demonstrated ability of Tyler's management to generate earnings on the assets employed in the business as opposed to any particular underlying values of these assets. In this connection, we further conclude that Tyler's asset values are generally conservatively stated but are comprised of basically single purpose buildings and equipment. Moreover, any additional values which might be ascribed to such assets would not, in our opinion, be material relative to the real value of the business.

If you have any questions or if we may be of further service, please let us know.

Respectfully submitted,

Duff, Anderson & Clark, Inc.
DUFF, ANDERSON & CLARK, INC.

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DUFF, ANDERSON & CLARK, INC.

INDUSTRIAL INVESTMENT AND FINANCIAL ANALYSTS

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VALUATION REPORT

TYLER PIPE INDUSTRIES, INC.

November, 1968

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INTRODUCTION

Tyler Pipe Industries, Inc., with sales exceeding \$40 million, is a leading producer of cast iron soil pipe and fittings, cast iron pressure pipe fittings, and specification drains. The Company was formed in 1935 and full control of the Company was acquired by Michael J. Harvey, now chairman of the board, in 1937. Prior to the recent acquisition by Saturn Industries, Inc. the common stock of Tyler Pipe was held 42% by the Harvey family and 28% by members of management and a few major shareholders. A limited market was maintained for the stock with the major trading confined to the Dallas area.

Purpose of Report During August and September of 1968, Saturn Industries, Inc. of Dallas, Texas purchased for cash under a tender offer 98.6% of the common stock of Tyler Pipe Industries, Inc. for a total consideration of \$42.4 million, at \$40 per share. The purchase was financed principally through bank borrowings, and Saturn is now in registration for sale of \$15 million of a new issue of convertible subordinated debentures to refund a portion of such borrowings.

The total consideration of \$42.4 million was \$29.9 million in excess of the net assets of Tyler with such amount now classified as "cost in excess of net assets of businesses acquired" pending completion of studies now in progress, including this Report.

Duff, Anderson & Clark, Inc. has been retained by the board of directors of Saturn to determine the fair value of Tyler Pipe Industries on a going concern basis.

Scope of the Work In the preparation of this Report, we reviewed the Company's background, present status and outlook with principal members of corporate management and heads of various staff functions. We visited the two manufacturing or foundry facilities in Swan, Texas and Macungie, Pennsylvania. We did not deem it necessary for purposes of our study to visit the Wade, Inc. (a wholly owned subsidiary of Tyler Pipe) warehouse facilities in Franklin Park, Illinois or its smaller warehouses in Atlanta and San Francisco. These facilities are all leased and Wade represents only 10% of volume and a smaller percentage of earnings. Our financial analysis of the operation is based principally on audit reports prepared by Arthur Young & Company, supplemented by review of internally prepared statements and other information as required. The comparative financial information on other publicly owned companies used herein was obtained from regularly published financial and investment sources.

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Organization of Report In this Report we first review the history and background of the business and then discuss Tyler Pipe's product line and competitive position, manufacturing operations, transportation and marketing activities. This is followed by our appraisal of the organization and management, and an analysis of consolidated earnings and financial condition. Our business conclusions and valuation are set forth at the end of the Report.

CORPORATE HISTORY AND STRUCTURE

Tyler Pipe Industries, Inc., incorporated under the laws of Texas, dates from a small foundry company formed as Tyler Iron & Foundry Company in Tyler, Texas in 1935. The name was changed to Tyler Pipe & Foundry Company in 1946 and to the present name in 1967. Michael J. Harvey (70), now chairman of the board of directors (who was then in the clothing manufacturing business), purchased an interest in the Company and eventually bought full ownership in 1937 with his total investment being on the order of \$3,000. With the purchase of a number of old patterns, the foundry entered the soil pipe business on a limited basis.

During its formative years, Tyler Pipe experienced considerable operating difficulties as a small regional soil pipe producer. During World War II the Company was involved in some government work. However, the period of major growth developed in the early postwar years spurred by the shortages and purchasing backlog built up during the war. Tyler outgrew its small plant located in downtown Tyler and moved to the present location in Swan, Texas (immediately north of Tyler) in 1948. The plant facilities have been expanded periodically since the original construction. Also, increasing mechanization has been introduced in the manufacturing process in contrast to the Company's early years when the bulk of the output was done by hand.

Most of the growth of Tyler Pipe developed internally. The Company has expanded from a limited line regional soil pipe producer (marketing largely in a 5-state area of the south and southwest) to a national organization with perhaps the most complete line in the industry.

The only external growth has come from two small cash acquisitions. In May, 1963 Tyler acquired Wade, Inc., a Chicago based producer of an extensive line of specification drains and other related products used in the plumbing industry. Tyler had a small line of these products but needed additional patterns to develop a viable market position. The common stock of Wade was purchased for \$272,250. At the time of acquisition, Wade's sales of around \$3.5 million were generating minimal earnings and some losses in prior years. Wade had no manufacturing facilities; while it owned patterns, production was jobbed out to other foundries. Wade's property consisted of a warehouse and office facilities in Franklin Park, Illinois. The property is now owned by Tyler Pipe's Employees Trust and leased to the Company. Wade's manufacturing requirements have been absorbed by Tyler, and the headquarter staff and sales activities have also been moved to the parent company location.

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The June 1964 acquisition of East Penn Foundry Company of Macungie, Pennsylvania was prompted by the need to have foundry facilities in the east in order to compete effectively in the important eastern market. Tyler had formerly served this area by rail shipments but this was becoming increasingly uneconomical. East Penn was purchased for cash including \$375,000 for the common stock and \$135,000 for a preferred stock issue. East Penn's soil pipe products are generally the same as the parent company's but its line is less extensive (confined more to standard items) and is supplemented through shipments from Tyler. Sales volume of East Penn was around \$3 million but the company was showing losses.

Tyler today ranks as probably the nation's second largest producer of cast iron soil pipe and fittings. In addition, it is an important factor in the production of cast iron pressure pipe fittings (utilities or water mains) and specification drains (Wade). As will be discussed later in this report, Tyler Pipe has a history of innovativeness within its industry in product development, manufacturing techniques, transportation, and sales which has contributed greatly to its progress over the years.

The common stock of Tyler Pipe was closely held until a public offering of 150,000 shares at 12 $\frac{1}{2}$ (adjusted) in September 1954. Of this, 100,000 shares were offered by stockholders and 50,000 shares represented new money to the Company. Until the cash acquisition by Saturn Industries, the Harvey family owned about 42% of the total stock outstanding with approximately another 28% held by members of management, employees, and a few major stockholders (including former members of management). As of yearend 1967, Tyler Pipe had a total of 1,540 shareholders.

Corporate Structure Major operations of Tyler Pipe Industries, Inc. are conducted through the parent company. In addition, Tyler has several smaller wholly owned subsidiaries, namely East Penn Foundry Company of Macungie, Pennsylvania; Wade, Inc. (formerly headquartered in Franklin Park, Illinois but now in Tyler, Texas); Tyler Brokerage Company (which owns all of the highway tractors and trailers leased to the parent); and Swan Development Company which furnishes water to the parent as well as an insignificant amount to residents of Swan, Texas.

MARKETS, PRODUCTS AND COMPETITION

Tyler Pipe Industries' products are broken down into three broad groups -- cast iron soil pipe and fittings, cast iron pressure pipe fittings (Utilities), and specification drains (Wade).

A sales and pretax income breakdown for the past two years by the three major product group divisions -- Soil Pipe Division, Utilities Division and Wade Division -- is set forth below:

Sales and Pretax Income (In 000's)

<u>Division</u>	<u>Year Ended</u> <u>February 3, 1968 (1)</u>			<u>Year Ended</u> <u>October 29, 1966</u>		
	<u>Sales</u>	<u>Pretax</u> <u>Income</u>	<u>%</u> <u>Sales</u>	<u>Sales</u>	<u>Pretax</u> <u>Income</u>	<u>%</u> <u>Sales</u>
Soil Pipe (2)	\$31,667	\$3,561	11.3%	\$30,674	\$2,213	7.2%
Utilities	5,155	773	15.0	4,731	568	12.0
Wade	4,187	402	9.6	4,309	293	6.8
Total	\$41,009	\$4,736	11.5%	\$39,714	\$3,074	7.7%

(1) Fiscal year changed from Saturday nearest October 31 to Saturday nearest January 31.

(2) Includes operations of East Penn Foundry

Soil Pipe and Fittings Soil pipe and fittings are by far the most important group of the three, accounting for 77.2% of sales and 75.2% of pretax income for Tyler in the fiscal year ended February 3, 1968. These products are used primarily in buildings for drainage, waste and vent piping. Non-building uses include swimming pool drains and recirculating lines to pool filters, and drainage on bridges where corrosion is a problem.

Total annual industrywide sales of cast iron soil pipe and fittings are estimated to approximate \$200 million (near 1 million tons at about \$200 per ton). According to the "Cast Iron Soil Pipe and Fittings Handbook" published by the Cast Iron Soil Pipe Institute, from 70-80% of the product is installed in plumbing systems in residential construction; most of the remainder is used in commercial and industrial construction including public buildings

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such as hospitals and schools. Consequently, cast iron soil pipe sales are related closely to building activity in general and more particularly to residential housing starts. In the following table we show total cast iron soil pipe and fittings shipments compared with housing starts and value of new construction (in constant dollars) for the period 1957-1967:

Comparison of Housing Starts,
Value of New Construction, and Soil Pipe and Fittings Shipments
1957-1967

	Total Public and Private Housing Starts (Excluding Farm)		Value of New Private and Public Construction in Constant 1957-59 Prices		Cast Iron Soil Pipe and Fittings Shipments		Ratio of Soil Pipe Index to Housing Starts		Ratio of Soil Pipe Index to New Construction	
	Total Units	Index 1957-59 = 100	Total	Index 1957-59 = 100	Tonnage	Index 1957-59 = 100				
	(000's)		(Millions)		(000's)					
1967	1,299	94	\$59,257	115	939	117	1.25		1.02	
1966	1,173	85	61,692	120	986	123	1.45		1.02	
1965	1,488	108	62,213	121	958	120	1.11		.99	
1964	1,535	111	59,172	115	940	117	1.05		1.02	
1963	1,615	117	58,101	113	913	114	.98		1.01	
1962	1,469	107	55,948	109	889	111	1.04		1.02	
1961	1,337	97	53,087	103	834	104	1.07		1.01	
1960	1,274	93	52,171	102	782	97	1.04		.95	
1959	1,531	111	54,222	105	862	107	.97		1.02	
1958	1,382	100	50,270	98	784	96	.98		1.00	
1957	1,224	89	49,635	97	758	95	1.07		.98	

Source: U. S. Department of Commerce "Construction Review".

As indicated, shipments of cast iron soil pipe and fittings (broken down in tonnage around three-fourths pipe and one-fourth fittings) have shown little growth over the period, increasing only 17% from 1957-1959 through 1967. In the past ten years the rate of growth in shipments has been only about 2% compounded annually and in the past five years 1%.

With few exceptions the relationship of soil pipe shipments to housing starts and (even more significantly) to value of new construction (in constant dollars) show a fairly close correlation. The major deviation of soil pipe shipments from housing starts

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occurred in the period 1963-1966 when housing units declined precipitously. However, total value of new construction held up well during this period as non-residential building (including public, industrial and commercial) showed good increases. Paradoxically, soil pipe shipments declined nearly 5% in 1967 from 1966 despite a more than 10% increase in housing starts. Thus it appears that total housing starts have become a less reliable barometer for the cast iron soil pipe industry than in the past. On the other hand, value of total construction, which includes commercial and industrial building, has shown an almost perfect correlation over the entire period.

There are many factors which help to explain the divergence of cast iron soil pipe shipments from residential housing starts. First has been an emergence of substitute materials for making soil pipe such as copper and plastics. In recent years, copper in particular has made substantial inroads in residential housing, and, in some areas, plastics have also become an increasingly important factor. These substitutes have been able to compete effectively on a cost basis and, in addition, have certain advantages (such as less weight) in the small sizes of pipe and fittings used in single family residences. The more recent shortages and resulting higher cost of copper, however, have apparently stemmed, at least temporarily, this trend to some extent. It should be pointed out that even with increasing use of copper and plastics, cast iron retains a substantial part of the market in single family residences and continues as the preferred material for underground installation.

A favorable development for the industry in single family residences, as well as in housing in general, has been the increasing trend toward multi-bathroom units requiring additional quantities of soil pipe and fittings. For example, the number of units having two bathrooms or more has increased from 46% in 1963 to 59% in 1967. Units having two-and-a-half bathrooms or more have increased even faster from 13% to 23% over the same period (source is the National Association of Home Builders economics department). This trend is expected to continue for the foreseeable future.

At the same time that housing starts have been declining and substitute materials increasing in market penetration, another development which has had important implications for the cast iron soil pipe industry has been the changing composition of the housing market. During the past ten years (particularly through 1963), an increasing percentage of total starts have been represented by multi-family and apartment buildings. In these markets larger size diameter pipe and fittings are required, and cast iron continues to represent the preferred material. In fact, we understand from Tyler Pipe management that copper and plastic have been unable to compete on a cost or quality basis in the larger diameter (5 inches and above) sizes. Thus the housing market has trended toward areas requiring larger size soil pipe. This has proven a benefit to the cast iron industry in terms of tonnage shipments offsetting to some

extent the total decline in starts and substitution of other materials. In our opinion, however, it appears likely that total cast iron soil pipe sales to the residential market have shown little growth and quite probably have declined in recent years. This is borne out by Tyler Pipe's experience whereby its sales mix has trended increasingly to larger diameter sizes as against the smaller sizes used in single family residences. We believe this trend also holds true for the soil pipe industry as a whole.

A more important reason for cast iron soil pipe and fittings shipments rising in recent years in the face of declining housing starts is revealed to some extent in the excellent correlation with value of private and public construction (in constant 1957-1959 prices). Construction of public and private non-residential buildings, (including commercial, industrial and public buildings such as schools and hospitals) has shown excellent growth -- the single exception being a decline in 1967 from 1966 -- over the entire period. Value of public and private non-residential building (in constant dollars) has increased from an average of \$13.5 million in 1957-1959 to slightly over \$21 million in 1967, or an increase of 56%. In the meantime, value of residential construction in constant dollars has declined from \$21.6 million average for 1957-1959 to just under \$19 million in 1967 or 12% during the period. (In the table on page 4, total figures on the value of private and public construction also include private farm and public utilities construction, and public construction such as highways and streets, military facilities, conservation and development, sewer systems, water supply facilities and other miscellaneous construction. These combined made up around one-third of the total figure in 1967.) As in the case of apartment house buildings, non-residential buildings require larger sizes of pipe and fittings where cast iron apparently has no peer from a quality and cost standpoint. Thus cast iron soil pipe shipments have likely benefited greatly from growth in non-residential building markets. Further evidence of the importance of this segment of the market as far as soil pipe shipments are concerned is borne out by the decline in value of private and public construction in 1967 from 1966 when residential housing starts increased. As can be noted, soil pipe shipments also declined in an approximately equal percentage during 1967 from the previous year.

Against this industry background, the table on the following page shows Tyler Pipe's cast iron soil pipe and fittings shipments for the period 1961 through 1967 and also the Company's percentage of total industry shipments. Also shown are East Penn's shipments since its acquisition by Tyler four years ago.

Soil Pipe and Fittings Shipments

	<u>Tyler Pipe (1)</u>		<u>East Penn</u>		<u>Combined</u>	
	<u>Tonnage</u>	<u>% Industry</u>	<u>Tonnage</u>	<u>% Industry</u>	<u>Tonnage</u>	<u>% Industry</u>
1967	149,600	15.9%	23,246	2.5%	172,846	18.4%
1966	149,686	15.2	25,900	2.6	175,586	17.8
1965	141,772	14.8	19,700	2.1	161,472	16.9
1964	131,420	14.0	11,606	1.2	143,026	15.2
1963	122,027	13.4				
1962	106,774	12.0				
1961	93,816	11.2				

- (1) Excludes intercompany shipments included in East Penn's figures of 4,184 tons in 1965, 6,055 tons in 1966 and 4,201 tons in 1967. East Penn also purchases products from other producers.

In contrast to the relatively static trends shown by the industry as a whole, Tyler Pipe's sales of soil pipe and fittings have increased sharply. Since 1961, Tyler Pipe's tonnage has increased at a compound rate of 10.7% annually (8.1% excluding East Penn) compared with only 2% for the industry over this period. Thus its share of total cast iron soil pipe shipments has grown from 11% in 1961 to more than 18% in 1967 with increased penetration in each year. The decline in shipments in 1967 from 1966 (1.6% versus 5% for the industry) is attributed to a deliberate program of reducing sales in marginal areas rather than actual inability to sell the product. This permitted a reduction in labor overtime and has lead to substantial improvement in profit contribution, particularly from East Penn.

Tyler feels its product line is one of the broadest (if not the broadest) in the industry. Products are available in two weights -- service and extra heavy -- and in sizes ranging from 2 inches to 15 inches in diameter. A broad line of products (or patterns) is necessary for any company wishing to compete on a national scale. There are apparently more than 3,000 different plumbing codes -- city, state, regional and national -- in the United States with limited standardization in fittings between municipalities. Thus a fitting which is sold in Detroit, for example, is unlikely to meet specifications in any other municipality. Moreover, attempts to effect changes in building codes in order to increase standardization have proven extremely difficult and time-consuming. Tyler estimates that about 75% of its fittings are produced from 160-180 patterns but several thousands of additional patterns are required to complete the product line. Obviously, this requires considerable

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numbers of short manufacturing runs at marginal profitability. It should be noted, however, that elimination of these short run lines would probably result in reduced sales of more profitable long run lines (for example pipe) as customers would likely order from companies able to meet all specifications. Thus, the broad line of products represents a necessary evil but also carries with it certain blessings making it extremely difficult for new companies to enter the industry.

Tyler Pipe's phenomenal growth within a static industry results from a number of factors, foremost of which we feel is highly capable management. From all indications, Tyler has been the industry leader in new product development, sales, manufacturing, and transportation innovations (which will be discussed later in this Report).

In product development, the Company was first to introduce 10 foot pipe (in 1957) with only 5 foot lengths available in prior years. This pipe with a plain end was adapted from a Swedish process modified to suit Tyler's needs. The pipe is manufactured by a centrifugal casting process using permanent metal molds rather than sand molds; adoption of this method has led to considerable increases in production as well as savings to the plumbing industry in installation costs. Despite opposition from others in the industry and the need to effect changes in building codes, the 10 foot single hub pipe (as well as 5 foot single hub lengths) has become a standard. Tyler showed substantial growth after its introduction, and single hub pipe (5 and 10 foot lengths) now represents over 48% of total Company soil pipe and fittings sales (based on tonnage sales in the first quarter of 1968) and around two-thirds of total soil pipe sales. In terms of actual production of soil pipe, however, the percentage is slightly larger since Tyler does not manufacture its own 10 foot double hub pipe which is purchased from competitors.

Tyler later developed permanent mold methods (in 1960) for making fittings, adapted from processes used in making castings in the automobile industry. It was the first in the industry to use permanent mold wheel type casting machines, resulting in substantial increases in production. Most of Tyler's soil pipe fittings are presently made by this method although the old sand mold method is still used in shorter run patterns. The permanent mold method permitted castings to be made to much closer tolerances than before, thus making it possible to develop new and improved types of joints.

The soil pipe joint (connection between two pieces of soil pipe or a pipe and a fitting) has long been made from oakum fiber and molten lead. This joint, while perfectly satisfactory, is somewhat difficult and time consuming to make. Tyler in a joint effort with Murray Rubber Company Inc. (which recently was acquired by Woodward Corporation) developed a neoprene rubber gasket compression joint sold under the trade name TY-SEAL. This joint has proven to be a

much more efficient, lower cost method and is gaining increasing acceptance in the plumbing trade. Since its introduction in 1961, Tyler sales of TY-SEAL gaskets have increased substantially, approximating \$3.7 million (9% of total sales) in the fiscal year ended February 3, 1968, and importantly, contributing measurably to profits (probably over 20% of total net income last year).

Despite the fact that a joint patent is held with Murray, Tyler has offered the gasket free of charge to the soil pipe industry. It is felt that greater and more rapid acceptance by the plumbing industry will result from an industrywide effort to the benefit of all participants rather than a solo effort by Tyler. Moreover, the economies provided to the plumbing industry in installation costs compared with former methods of making joints has probably been a factor in keeping cast iron soil pipe competitive against alternative materials.

Tyler supplies about 50% of all joints of this type (made for Tyler to its specifications by several rubber companies -- but no longer by Murray) with its brand TY-SEAL being almost a generic name and commanding a premium price. Other companies, however, are developing more competitive products. Thus, Tyler's advantage may be diminishing. At the same time growth should continue strong with only about 50% of cities as yet having approved the gaskets.

A more recent development -- not by Tyler -- has been hubless pipe and fittings using a sleeve joint consisting of a rubber gasket and a steel shield tightened by a steel retaining clamp (much like the clamp used to attach radiator hose in an automobile). Tyler sales of no hub pipe and fittings are as yet small but are increasing rapidly.

The table on the following page dramatically illustrates the importance to Tyler Pipe's product and profit breakdown of the developments discussed above. Specifically, 10 foot plain end pipe plus TY-SEAL gaskets accounted for over three-fifths of pretax profit in the soil pipe and fittings division in the first 12 weeks of this year.

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Soil Pipe and Fittings
Percentage Sales and Profit Breakdown
First 12 Weeks 1968

	<u>% Tonnage</u>	<u>% Sales Dollars</u>	<u>Pretax Margin</u>	<u>% Pretax Profit</u>
5 Foot Single Hub	17.2%	11.4%	5.2%	3.9%
5 Foot Double Hub	19.9	14.0	(5.3)	(4.8)
10 Foot Single Hub	30.7	22.2	22.0	31.9
10 Foot Double Hub	.8	.6	(18.7)	(.8)
No Hub Pipe	2.5	2.2	14.2	2.0
Total Soil Pipe	<u>71.1</u>	<u>50.4</u>	<u>9.8</u>	<u>32.2</u>
Soil Fittings	24.3	27.5	15.4	27.7
TY-SEAL Gaskets and Accessories	1.3	13.8	34.1	30.6
Staple Specials	3.2	6.0	16.0	6.3
No Hub Accessories	.1	2.3	20.0	3.2
Total Soil Division	<u>100.0%</u>	<u>100.0%</u>	<u>15.3%</u>	<u>100.0%</u>

In assessing the above tables, several factors should be borne in mind. First, the figures are for Tyler, Texas operations only, excluding East Penn. Moreover, the figures represent only the first 12 weeks of this year and reflect an unusually profitable period in Tyler Pipe's operations. Thus pretax profit margins are not indicative of what should be expected for the full year or in the future (the pretax profit margin for the soil pipe and fittings division in fiscal 1968 was 11.3% and in the previous year 7.2%). Also, Tyler management has indicated that the Company has not developed sophisticated measurements of cost allocation and product profit breakdown. Within these limitations, however, we feel the figures are representative of product sales breakdowns both by tonnage and dollars and, although not in absolute terms, give some indication of differences and relative contribution to profitability of various products.

As indicated, profit margins are very good in 10 foot single hub pipe, TY-SEAL gaskets, fittings and other specialties. The Company has had considerable difficulty in developing a profitable double hub business (and indeed purchases all of its 10 foot double hub pipe from other manufacturers) but hopes to make some improvement with better manufacturing techniques.

We next show a summary of sales and pretax income for the soil pipe and fittings division for the past five years. The figures are broken down to show sales from Tyler, Texas of soil pipe and fittings, TY-SEAL gaskets and accessories, and East Penn operations.

Soil Pipe and Fittings Division
Summary of Sales and Pretax Income

Year (1)	Sales (000's)							
	Tyler		TY-SEAL		East Penn		Total	
1968	\$23,723		\$ 3,662		\$ 4,283		\$31,667	
1966	23,161		3,099		4,414		30,674	
1965	21,130		2,005		3,235		26,370	
1964	19,527		1,114		783		21,424	
1963	18,697		587		-		19,284	

Year (1)	Pretax Income (000's)							
	Tyler		TY-SEAL		East Penn		Total	
	\$	% Sales	\$	% Sales	\$	% Sales	\$	% Sales
1968	\$1,967	8.3%	\$1,099	30.0%	\$ 495	11.6%	\$3,561	11.3%
1966	1,204	5.2	930	30.0	79	1.8	2,213	7.2
1965	1,907	9.0	602	30.0	(312)	(9.6)	2,197	8.3
1964	1,793	9.2	334	30.0	(155)	(19.8)	1,972	9.2
1963	1,581	8.5	176	30.0	-	-	1,757	9.1

(1) Fiscal years ended around October 31 in 1963-1966 and February 3, 1968.

In viewing these figures, some of the limitations mentioned previously in regard to profitability of product groups should be kept in mind. For example, the fact that pretax margins on TY-SEAL gaskets have been unchanged for the entire five-year period suggests that profit figures may have been forced to some extent. Given these limitations, the table shows a strong growth trend in TY-SEAL sales as well as a turnaround in profitability of East Penn operations. This latter recovery has been accomplished with the elimination of unprofitable sales and stress on a limited line of long-run products augmented by shipments of products from Tyler. The 1966 decline in Tyler profit margins reflects to some extent heavy charge-offs relating to unsuccessful attempts to develop a machine to make double hub pipe.

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For the entire four-year period, sales of the soil pipe and fittings division have increased at a more than 13% annual rate compounded while pretax income has grown at a more than 19% annual rate. This has been accomplished entirely from development of new products such as TY-SEAL gaskets and superior volume growth both relative to the industry and in absolute terms. We understand that little if any benefit has come from increases in product prices with prices of cast iron soil pipe and fittings possibly down for the five-year period.

As to competition in the soil pipe industry, Tyler Pipe is probably the number two factor behind Woodward Corporation. United States Pipe and Foundry Company and Central Foundry Company rank third and fourth. In addition to these four major factors, there are a number of regionally based companies. In all there are now about 19 companies in the industry with 31 plants in 14 states. The number of foundries producing soil pipe has declined over the years from 56 plants in 1953 to 47 in 1956 and 38 in 1959. Thus although shipments have increased slowly, the business has been divided by fewer companies, permitting somewhat faster growth individually than indicated by total industry figures. Manufacturing capacity is heavily concentrated in Alabama which accounts for around three-fifths of total industry shipments.

Along with competition from other cast iron soil pipe producers, inroads have been made by substitute materials. We have already mentioned competition from copper and plastics. In addition, soil pipe is made of fiber (basically slurred paper), concrete and clay tile. Fiber was used more extensively during the war and intermediate postwar periods when other materials were in short supply. Concrete and clay are used primarily in sewer mains and in underground connections outside buildings. Thus Tyler's competition from substitute materials is primarily from copper and plastic. As we have mentioned, this competition has intensified in the lower diameter sizes, but these sizes generally are less profitable. It is in the lower diameter lines that plastics appear to be making the most headway currently. Tyler has estimated plastic soil pipe sales at \$30 million annually, compared with \$200 million for cast iron. In the larger sizes, cast iron continues by far the preferred material both from a quality and economic standpoint, and competitive inroads are less likely to develop rapidly in the foreseeable future. It should again be emphasized that these larger sizes represent the most profitable segment of the soil pipe business and constitute the bulk of Tyler's sales volume.

Pressure Pipe Fittings (Utilities) Tyler Pipe's second most important product line is cast iron pressure pipe fittings with these items accounting for about 12.6% of sales and 16.3% of pretax income in the fiscal year ended February 3, 1968. These products are used in municipal and private

water supply and other systems for transporting liquids under pressure. The Company also distributes (but does not produce) a modest amount of pressure pipe. The product line also includes municipal castings -- valve boxes used in water systems and for metering controls, and manhole rings and covers used in sanitary systems. Tyler's pressure pipe fittings line encompasses thousands of different patterns in various shapes and sizes ranging in diameter from 2 through 16 inches. Below we set forth a comparison of Tyler Pipe's production of pressure pipe fittings with industry shipments of these items.

Comparison of Industry Shipments
of Pressure Pipe and Fittings
with Tyler Pipe Production
1961 - 1967

	Cast Iron Pressure Pipe and Fittings Tonnage Shipments (1) (000's)	Tyler Pressure Pipe and Fittings Tonnage Shipments	Tyler % Total Shipments
1967	1,781	16,287	.91%
1966	1,806	13,392	.74
1965	1,876	14,291	.76
1964	1,859	15,443	.83
1963	1,677	11,797	.70
1962	1,351	9,847	.73
1961	1,384	7,437	.54

(1) Source: U. S. Department of Commerce "Construction Review".

Tyler Pipe is a relatively small factor in the total industry which includes pipe used for gas mains etc., as well as water mains. Management, however, has estimated that it accounts for around 12% of total industry sales of cast iron pressure pipe fittings for water mains alone. Since 1961, Tyler's production has more than doubled, increasing at a 14% compound rate annually compared with just over 4% for industry shipments.

Pressure pipe fittings carry higher average sales prices per ton than soil pipe and fittings (around \$300 versus \$200) and have proven to be a highly profitable line for Tyler Pipe. This is revealed in the following summary of sales and pretax profits for the past five years.

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Sales and Pretax Income
Pressure Pipe Fittings
1963-1968

<u>Year (1)</u>	<u>Net Sales</u> (000's)	<u>Pretax Income</u>	
		<u>\$</u> (000's)	<u>% Sales</u>
1968	\$5,155	\$773	15.0%
1966	4,731	568	12.0
1965	4,272	641	15.0
1964	4,621	693	15.0
1963	3,554	533	15.0

(1) Fiscal years ended around October 31 for 1963-1966 and February 3, 1968

Again, these figures should be viewed within the limitation of product profit breakdown as discussed earlier in relation to profitability of soil pipe products. Sales and profits have increased nearly 10% annually during the past four years or slightly faster than Tyler's tonnage production for the same period. The prospects for further growth in this area are considered quite attractive. Limitations on sales in recent years have largely resulted from lack of facilities, but Tyler is now in the process of increasing its capacity for producing cast iron pressure pipe fittings.

Tyler's competition in cast iron pressure pipe fittings comes from a number of the same companies with which it competes in soil pipe. The larger companies in the industry include Clow Corporation, Woodward Corporation, United States Pipe and Foundry, American Cast Iron Pipe, McWane Cast Iron Pipe and the Griffin Pipe Division of Amsted Industries. In addition, competition is also developing from other materials such as plastics, asbestos cement, and concrete. Cast iron continues to hold the major part of total sales, but asbestos cement has made inroads in the past 15 years, and plastics have become more important in recent years, particularly in the smaller diameter sizes.

Specification Drains (Wade) Tyler's third broad product group is specification drains -- the line acquired in the purchase of Wade, Inc. in 1963. These products accounted for slightly over 10% of total sales and 8.5% of pretax income for the year ended February 3, 1968. The WADE line encompasses a wide range of different iron and brass items specified by mechanical engineers by name, purpose and use number. At the time of acquisition, Wade had its own patterns but all the manufacturing was jobbed out to other foundries. The line has subsequently been broadened and manufacturing is now centered in Tyler's Texas plant. However, some difficulties have been experienced in bringing Wade's profitability up to desired levels despite the fact that average sales prices (around \$1,000 per ton) are much higher than for other products. Part of the problem lies in the large number of specialized short run products, but we also sense that the major warehousing facility in Franklin Park, Illinois is less than of optimum efficiency.

Tonnage figures on specification drains and related items used by the plumbing industry are not available but are less meaningful than in the soil pipe and pressure pipe fittings area due to the wide range of products and materials. The table following summarizes Wade's sales, pretax and net income for the past five years:

<u>Wade, Inc.</u>					
<u>Sales and Earnings 1963-1968</u>					
<u>Year (1)</u>	<u>Net Sales</u> (000's)	<u>Pretax Income</u>		<u>Net Income</u>	
		<u>\$</u> (000's)	<u>% Sales</u>	<u>\$</u> (000's)	<u>% Sales</u>
1965	\$4,187	\$ 402	9.6%	\$ 217	5.2%
1966	4,309	293	6.8	197	4.6
1965	3,588	73	2.1	73	2.1
1964	3,191	111	3.5	111	3.5
1963 (2)	1,532	-	-	-	-

- (1) For years ended around October 31 from 1963 through 1966 and February 3, 1968.
 (2) Figures cover six month period from May 1 acquisition date to end of fiscal year.

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Wade's sales and pretax income since 1964 (the first full year of operations under Tyler) have increased at annual rates of about 9.5% and 53.5%, respectively. The latter figure is of little significance, however, when viewed in the context of the marginal

profitability of Wade three to four years ago. The net income figures for fiscal 1964 through 1966 reflect prior years' tax loss carry forwards totaling \$222,400 (approximating \$86,760 in 1964, \$68,560 in 1965 and \$67,090 in 1966).

Tyler Pipe indicates that Wade ranks a strong fourth nationally in sales of specification drains and related products. According to figures compiled for Plumbing and Drainage Institute covering six companies, Wade accounts for from 11-12% of the total. The three largest companies in the industry are Josam Manufacturing Co. of Michigan City, Indiana, Zurn Industries of Erie, Pennsylvania and J. R. Smith Manufacturing Co. domiciled in New Jersey. Competition from alternate materials such as plastic is not of consequence.

Summary To summarize Tyler Pipe's product lines, the Company is a particularly strong factor in soil pipe and fittings which provide by far the bulk of its sales and earnings. Tyler has one of the broadest product lines in the industry and has a history of innovation in terms of new product development. We are impressed with the Company's tonnage growth over a period of years despite a basically static trend in industrywide sales. Management has exhibited an ability to emphasize products which carry above average profitability and has effectively exploited developments within the building industry such as the trends to larger size pipes and fittings. With a larger than industry proportion of its sales going to commercial and industrial markets, we feel Tyler Pipe is less vulnerable to developing competition from alternative materials such as plastics and copper.

In pressure pipe fittings (utilities), Tyler has developed a good market position in a product area carrying above average profitability. Sales growth, while good has apparently been limited to some extent by lack of facilities but capacity for these items is now being increased. Thus, we feel Tyler's potential in this area continues very good over the next few years.

The Wade line (specification drains and related items) is a more specialized product group with large numbers of different items. Profitability in this area continues below desired levels. We sense, however, that Tyler is in the process of making improvements in manufacturing and product quality as well as in distribution, and these programs should improve profit contribution from Wade over the next several years.

FACILITIES

Tyler Pipe has three foundries -- two at Swan, Texas and the third at Macungie, Pennsylvania (near Allentown). In the process of preparing this Report, we visited and inspected thoroughly all of these facilities and found them to be in good condition for plants of this type. Tyler Pipe's initial foundry was located in Tyler, Texas. However, with the expansion of business following World War II, additional space was required. In 1945 a tract of land was purchased in Swan, Texas eight miles north of Tyler and initial construction begun on what is now referred to as the South Plant or foundry. The second foundry was begun in 1951. Both facilities have been expanded periodically since the initial construction, and Tyler has also added to its land holdings from time to time.

As presently constituted, the main office and two foundries at Swan are situated on a 307 acre tract of land (all owned in fee) with approximately 71 acres utilized and the remaining acreage available for expansion purposes. The Swan complex encompasses several buildings of corrugated iron and steel frame construction having approximately 575,000 square feet of floor space of which around 400,000 square feet are devoted to foundry operations and the remainder to machine shops, garages and warehousing. A considerable amount of outdoor space is paved and utilized as storage for soil pipe and fittings and pressure pipe fittings. Warehouses under roof are devoted to storage for patterns, supplies, Wade products, some pressure pipe fittings and TY-SEAL gaskets. The main office is located in a building of masonry construction having approximately 17,500 square feet of space. The land, buildings and all machinery and equipment at Swan are subject to a lien securing Tyler's outstanding \$2.2 million 5.3% first mortgage bonds (original amount \$3.5 million) held by American National Insurance Company.

The East Penn Foundry at Macungie, Pennsylvania (acquired in 1964) is located on a 73 acre tract of land. The buildings, which we understand were built some 40 years ago, are of masonry construction with about 105,000 square feet utilized for foundry, garage and warehouse operations and an additional 3,500 square feet of office space.

Wade, Inc., originally located in Franklin Park, Illinois (outside of Chicago), is now headquartered in the main office. Manufacturing facilities are also included in Tyler's foundry complex. Wade continues to operate a 40,000 square foot office and warehouse at Franklin Park and in addition has major warehouses at Swan (included in the previous discussion and consisting of 35,000 square feet) and Macungie and two smaller warehouses in Atlanta and San Francisco. The Franklin Park warehouse is owned by Tyler Pipe's employees profit sharing trust and leased to the Company under a long term

lease having about five to six years to run for \$50,000 annually. The warehouses in Atlanta and San Francisco are also leased under short term arrangements of less than three years. Tyler management now feels the Franklin Park warehouse is too large for its needs (as well as being inefficient) and is considering leasing a smaller location in the Chicago area (little difficulty is expected in sub-leasing this facility to other parties).

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MANUFACTURING AND LABOR RELATIONS

Financial comparisons with competitors (which will be detailed later in this Report) indicate that Tyler is a very efficient producer, notwithstanding some clearly defined problem areas -- specifically the Wade line (due to the high degree of specialization of its products) and double hub pipe. Additional production difficulties result from the need to provide two weights of pipe and fittings (service and extra heavy) plus the wide variety of fittings and other products required to meet the many plumbing codes in different municipalities. As a result, there is little if any opportunity for standardization. If, however, the industry is at least partially successful in its efforts to bring about more standardization in both patterns and weights, substantial breakthroughs in production efficiency could well result.

Raw Materials Basic raw materials include scrap metal, coke, limestone, fluorspar, resin, bentonite, silicon, sand and core oils. Such materials are acquired from a great number of sources but there are no significant contractual arrangements with suppliers. Most of the scrap metal is purchased from dealers in many parts of the United States where Company trucks make delivery of finished goods and then back haul scrap to Tyler.

In its earlier years, Tyler's major raw material was pig iron (which is still used by its major competitors). However, its source of supply (Lone Star Steel's Daingerfield, Texas plant) was lost in 1954, and with no alternative source for purchasing pig iron within a reasonable distance of its plant Tyler found itself at a considerable disadvantage relative to Alabama based soil pipe producers. At that time Tyler turned to scrap iron which has proven to be a very economical raw material.

Production Processes The scrap metal is melted in three cupola furnaces (the two at Tyler are water cooled and that at Macungie is a conventional furnace). Present cupola capacity at the Tyler plant is 300,000 tons a year which compares with actual plant production of around 175,000 tons. Thus, the Company has substantial excess furnace capacity with actual production of soil pipe and fittings limited to some extent by a tight labor supply.

In its manufacture of soil pipe fittings and other products, Tyler uses all of the standard casting methods. Production of soil pipe fittings and other fittings and specialties incorporate both the static sand mold and permanent metal mold methods although the latter process accounts for the bulk of Tyler's output. Both methods involve pouring molten metal into a mold and around a sand core to form the inside of the fitting. All single hub pipe,

representing by far the greater proportion of total Company pipe output, is made by the centrifugal casting method (which does not require a core to form the center); as mentioned previously, this process was pioneered by Tyler. In double hub pipe, both centrifugal and conventional static casting are used. Tyler has had difficulty in developing a satisfactory machine for the centrifugal process for making double hub pipe; in fact, problems in this area resulted in large charge-offs against earnings in 1963, 1964 and 1966. We understand the Company has now developed a better machine but is still not fully satisfied with performance to date.

The Company at present is in the process of increasing its facilities for producing pressure pipe fittings and is increasing its total capacity to produce fittings by 17%. It is estimated that present pipe machinery already provides a reserve capacity of 25% except for double hub pipe. Thus, with the present expansion, Tyler will have adequate reserve capacity to permit continued good growth in production over the next several years.

Tyler management has given careful consideration to entering the plastic pipe and fittings business. It is felt that such a move is not yet warranted but that entry could be accomplished with a relatively low investment, probably on the order of \$2.5 million total. This would involve several regional plants plus development of some 500 patterns to produce small diameter sizes (2 to 4 inches) of pipe and fittings where plastics have proven more competitive.

Inventory and Production Control Tyler has developed a fairly sophisticated computerized inventory and production control system and believes it is the first company in the industry to do so. It is significant that considerably more emphasis has been given to utilizing computers in this function than in the more standard but less profitable areas such as financial accounting. Inventory planning is tied to a sales forecast (based on past sales history) which is revised continuously. The computer reviews inventory levels and automatically delineates those areas which are in short supply. From this information production schedules are also developed by the computer.

Although the peak seasonal sales period for Tyler's products falls in the spring and summer months, production at peak levels during the cooler winter months has proven to be more efficient from a labor standpoint. Thus the major inventory building is done in this period and, accordingly, shipments are made out of inventory during the peak sales months.

As will be detailed in the Transportation section that follows, the ability to deliver products within a very short period of time is crucial in this industry and thus good inventory and production control is essential; Tyler's method has proven very successful in scheduling its many different products. In this connection, coordination between Tyler's production staff and the financial and accounting department is very close.

The above discussion relates to the soil pipe and pressure pipe fittings divisions where the computer program has produced excellent results. Tyler is presently in the process of putting the Wade line of products on the computer but this is proving more difficult due to the myriad number of products in this area.

Labor Relations Tyler Pipe's labor relations have on the whole been quite good, and over the years, the Company has never had a crippling strike. Three different work stoppages have been called but these received only minimal support from Tyler's employees. Until 1965, the Texas plant was not unionized. In that year The International Molders Union (which has been the bargaining unit at the East Penn Foundry for several years) was able to win an election to organize Tyler Pipe's foundry workers at Swan. This election is still being contested and is scheduled to be reviewed in the Court of Appeals this month. It is felt that if the Court rules for a new election, the Union will have little chance of winning. The Teamsters Union recently held an election to organize Tyler's transportation workers but lost by a substantial margin.

A shortage of labor has been a limiting factor for Tyler Pipe both at Swan and Macungie. Operations at Swan are on a two-shift basis. North Plant operations are on a two ten hour shift, four day a week basis with the South Plant operating on a five day basis with two shifts of eight hours each. Tyler has tried three eight hour shifts per day but this has proven to be less efficient than on a two a day basis. The East Penn plant is presently on only one shift a day, presumably due to difficulty in getting additional labor. Swan has some 2,300 employees including 1,900 on an hourly basis and East Penn has 150 employees of which 125 are on an hourly basis.

Many of the hourly labor force is on an incentive-piece work basis. Other incentives for the workers include a profit sharing plan and pension fund. These two funds are tied together so that pension benefits begin after profit sharing proceeds are used up.

TRANSPORTATION

As another example of management's innovativeness, Tyler Pipe was the first company in the soil pipe industry to offer truck delivery to its customers; previously, all shipments had been by rail. In effect, it could be argued that Tyler Pipe's growth and major industry position has been built on transportation. In addition to providing better service to its customers, good transportation was later necessitated due to its location. Texas was relatively remote from the traditional basic sources of raw material supply compared with principal competitors based in Alabama, particularly after losing its source of pig iron from Lone Star Steel. Thus its raw materials had to be trucked or brought in by railcar.

With the initiation of truck transportation, Tyler began providing a considerable amount of warehousing for its customers with product delivery promised on a very short notice. Thus it has become the practice in the industry for users to order soil pipe and fittings at the time needed rather than some period in advance. This, of course, puts considerable pressure on Tyler's transportation system as well as its inventory and production control activities (discussed earlier). Inability to deliver would likely cause a loss of product sales to a competitor. In Tyler's case, approximately 50% of truck deliveries are direct to the job with the balance to customers warehouses.

Tyler's wholly owned subsidiary, Tyler Brokerage Company, operates some 75 large highway tractors and about 125 trailers which are leased to the parent. All of its equipment is serviced in Tyler's own garages by its own maintenance force. In addition to operating the highway equipment, other functions under the Transportation Department include all the inplant equipment (such as fork trucks, yard tractors, etc.), warehousing and purchasing -- excluding bulk commodities, and the Wade warehouses (where special attention is now being given to improving operations at the Franklin Park location).

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Transportation operations are carefully coordinated to insure optimum use of Tyler's own equipment. In order to assure full loads trips are scheduled on a multi stop basis but with a maximum of three stops per trip. Delivery is rarely scheduled in Tyler's own trucks unless a "back haul" of raw material to the plant can be arranged. In fact Tyler's trucks are loaded both going and returning about 95% of the time. About 50% of all raw materials including much of its scrap iron, is brought in by Tyler's own trucks with the remaining materials (primarily sand, limestone, and coke) shipped in by rail. When a shipment cannot be economically justified via its own truck fleet, Tyler uses commercial carriers -- generally C & H Transportation of Dallas in the north and northeast and Eagle Motor in the southeast. Tyler also uses railcars in some cases (e.g., the Northwest). Inability to compete effectively in transportation to the northeast was the major factor prompting the acquisition of East Penn.

Since a substantial amount of its competition is centered in Alabama, Tyler must absorb freight charges when shipping into the southeast area. Prices to customers are generally based on the nearest shipping point. Conversely, the Company obviously has a freight advantage over its Alabama competitors in the five-state area of Texas, Louisiana, Arkansas, Oklahoma, and New Mexico as well as in some parts of the midwest and west. However, Tyler frequently must absorb freight in some of the latter areas where smaller regional producers provide strong competition.

Management estimates that it operates its fleet of trucks around 10 million miles a year with approximately 200 truck loads a week. During the peak summer months the Company has about 140 drivers (two per truck) but this is reduced to around 120 drivers in the seasonally slack winter months. Mileage for each team is carefully scheduled to assure fair treatment for all 140 drivers.

Trucks are generally driven some 1 million miles each before being sold. Even so, with the excellent maintenance, Tyler has had little difficulty in selling the used vehicles at good prices. Trucks to be sold are disposed of in the winter months with delivery of new vehicles taken in the spring.

MARKETING

Another of Tyler Pipe's real competitive strengths, in our opinion, is its marketing organization. Sales are through some 200 manufacturers representatives who handle Tyler's products on an exclusive basis but may also carry other non-competing plumbing lines. Tyler has only ten salesmen on its own payroll.

The Company sells to about 1,200 accounts of which around 300 represent meaningful sales volume. The two largest national accounts are American Standard, Inc. (with Tyler's sales to 70 of its branches) and Crane Company (71 branches in the midwest). At one time these companies accounted for 6% each of Tyler's soil pipe and fittings sales but neither accounts for over 4% presently.

Tyler's own small sales force spends considerable time on so called "missionary" work, and thus these salesmen are not order takers as such. Missionary work in this case involves calling on contractors, municipalities, etc. with the primary objective being the specification of Tyler Pipe products by these ultimate users. In addition, through its contacts with contractors and municipalities, this group is continually involved in working on improving and increasing standardization of building and plumbing codes to permit greater utilization of such products as TY-SEAL gaskets. This program has proven quite successful over the years, particularly in connection with newer products such as 10 foot plain end pipe and TY-SEAL gaskets (both of which were initially opposed by others in the industry).

The great bulk of Tyler's sales are to plumbing supply houses, with the remainder direct to utility contractors or municipalities; some of the latter sales are on a competitive bid basis. Because most of its sales are indirect, Tyler has no accurate measurement of the type of buildings (residential, commercial, etc.) in which its products are used. However, based on weight and diameters of soil pipe and fittings, Tyler feels that from 50-60% of its sales go to the commercial and industrial market (presumably also including larger apartment dwellings); this is in contrast to the total soil pipe industry where 70-80% of sales are in the residential sector. Thus Tyler's sales mix is more heavily weighted toward the larger and heavier products which carry better profit margins.

We have indicated previously that Tyler has a definite freight advantage over most of its competitors in the five-state area of Texas, Louisiana, Oklahoma, Arkansas and New Mexico. The only direct competition in this region is from a smaller Woodward Corporation plant (also located in Tyler, Texas). Of Tyler's total shipments from Swan, Texas (as measured in the year from October 31, 1966 through November 4, 1967), approximately 37% were to this five-state area with Texas alone accounting for one-fourth

of total sales. Other important sales regions include the eight-state midwest area (Michigan, Ohio, Indiana, Illinois, Wisconsin, Minnesota, Iowa and Missouri) accounting for about one-third of sales. About half of these sales are in the two states of Illinois and Michigan. Less than 10% of sales are to the southeast, not surprising in view of the heavy concentration of competitors in the area. In the far west, Tyler has good sales totals in California but has elected to curtail its efforts in the northwest and northern California due to heavy absorption of freight. All shipments into this area are by rail.

East Penn has increased Tyler's ability to compete in the northeast where previously its sales were minimal. This area consumes some 35-40% of all soil pipe in the industry. East Penn's sales are generally limited to a 350 mile radius of the foundry. However, this takes in most of the major cities of the east including Pittsburgh on the west, Washington D. C. and upper New York State to Buffalo. At present, however, very little business is being done in New York City or Philadelphia, both of which are characterized as "price" markets. A very minimal percentage of Tyler Pipe's sales are normally to overseas accounts.

Wade sales operations are somewhat more specialized due to the nature of its products. Orders are smaller and call for a larger variety of items. As indicated earlier, Wade has five company operated regional warehouses and apparently few customers inventory the Wade lines. In order to compete, sales representatives must work closely with architects in order to have Wade products specified in buildings.

ORGANIZATION AND MANAGEMENT

Tyler Pipe's organizational structure can be characterized as a simple line-staff type of framework. There are three line functions -- operations, sales, and transportation -- and two staff departments -- treasury and industrial relations. The men in charge of these five areas report directly to president John A. Warner (44). In addition, the vice president for advertising and public relations (who is also assistant to the president) plus the man in charge of bulk commodity purchases also report directly to Mr. Warner.

A description of the major activities included in the above five functions plus advertising and public relations follows. Biographies of Company officers are shown beginning on page 29.

Operations

William J. Speas (51), vice president

Manufacturing, engineering, and construction.

Sales

James B. Horan (45), vice president

Marketing of all three Company lines -- soil pipe, Wade, and utility areas.

Transportation and Distribution

W. B. Duckett (53), vice president

Shipping and receiving, warehousing, purchasing (except for bulk commodities), vehicle maintenance, mobile equipment, and Wade operations (basically a warehousing function).

Treasury

Glen Uzzel (46), vice president and treasurer

Normal treasury functions (including credit), controller's office (data processing), and also inventory and production planning.

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Industrial Relations

David McKie (48), director of industrial relations

Labor relations and personnel.

Advertising and Public Relations

Richard S. Harvey (34), vice president and
assistant to the president

In addition to the preceding organizational structure, East Penn Foundry is a separate company operating on an autonomous basis with assistance provided by Tyler when required. This operation is run by a general manager with the other key men being the plant manager and the treasurer. The general manager and plant manager moved to East Penn from Tyler shortly after the acquisition was consummated in 1964.

Excluding Mr. Michael Harvey (70), chairman and chief executive officer, and Mr. Duckett, all of the officers are relatively young with Mr. Speas the oldest at 51. In addition, all of the members of top management have been with the Company for all or most of their business careers with the shortest tenure Mr. Horan's 14 years. We should cite Mr. Duckett's health as a possible problem as he is currently recuperating from a heart attack.

In our opinion Tyler's management philosophy is best characterized by a great deal of autonomy by the vice presidents; yet we feel that communication is excellent between these men and president Warner and also with each other. Coordination among the production, sales, and treasurer's (which includes the important inventory control responsibility) functions is close although informal. In this connection, we are much impressed by the fact that all of the members of top and middle management appear to have an excellent working familiarity with manufacturing operations as well as demonstrated expertise in their specific areas of responsibility.

Committees play a relatively minor role. A management staff consisting of all officers plus Mr. McKie meets weekly, but this is primarily a reporting session. An executive committee is made up of Messrs. Warner, Uzzel, Michael Harvey Sr., and Richard Harvey; however, we get the impression that this is not a regularly working committee.

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As to the evolvement of the present management group, Mr. Warner succeeded Michael Harvey Sr. as president in 1965. Mr. Harvey continues as chairman and chief executive officer and is still very active in general policy decisions; however, for all practical purposes, Mr. Warner is running Tyler on a day-to-day basis. Mr. Harvey's ultimate successor at one time was felt to be Mr. Malcolm Henley who served as vice president - operations from

1952-1962. For personal reasons, however, Mr. Henley left the Company in 1962. Also during this period, there was speculation that Mr. Harvey's oldest son, Michael Jr., would eventually become chief executive, but he left the Company as a vice president in 1964 and went off the board in May of this year.

Against this background, John Warner was named executive vice president in 1964 (prior to which he was not a Company officer) and a director and president the following year. Although Mr. Warner had previously been junior to Messrs. Uzzel, Speas, Horan, and Duckett, all of whom held their present positions prior to 1964 (actually Mr. Uzzel was secretary - controller and a director in 1964 and was not made a vice president until 1966), we feel his selection was, and continues to be, a generally popular choice.

Middle management presently consists of about 35 men ranked for compensation purposes in grades #1 through #4. There are seven men in grade #1 including: David McKie (43), director of industrial relations; Dwain Kline (36), controller; J. P. Johnson (47), foundries superintendent; John A. Lasater (53), chief engineer; and three sales managers -- Carl Schilter (52), soil pipe; Gray Ellis (40), Wade; and Dale Meador (40), utilities. As in top management, most of this group has been with Tyler for all of their careers and average about 15 years of service (exceptions are Messrs. Kline, Lasater, and Ellis who came to the Company from outside). Groups 2-4 are primarily made up of various production supervisory people and generally have long tenure with the Company.

The table below shows compensation for the top officers plus grade #1. In our opinion, pay levels are certainly reasonable for this size company and particularly so in light of Tyler's excellent record.

	<u>Salary</u>	<u>Bonus</u>	<u>Total^a Compensation</u>
M. J. Harvey	\$47,500	\$17,500	\$65,000
John A. Warner	33,000	15,000	48,000
W. B. Duckett	27,000	10,000	37,000
Richard Harvey	27,000	10,000	37,000
James B. Horan	27,000	10,000	37,000
W. J. Speas	27,000	10,000	37,000
Glen Uzzel	27,000	10,000	37,000
Group 1 Average (seven men)	15,000	4,000	22,000

a In addition, Company provides each officer plus Group 1 personnel with an automobile.

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Brief biographical summaries of Company officers follow:

Michael J. Harvey (70), chairman and chief executive officer, founded Tyler in 1935 (and bought out his original partner two years later) following previous sales management experience with Sledge Manufacturing, a work clothes producer also located in Tyler. He served as chairman and president until 1965 when Mr. John A. Warner was named president. Mr. Harvey, who attended Texas A & M and the University of Wisconsin, is a director of Tyler Bank & Trust Company and East Texas Savings & Loan Association.

John A. Warner (44), president, attended Notre Dame, Purdue, and the University of Oklahoma. Following a few years in a family oil distribution business, he joined the Company in 1950. From 1950-1964, he was in the operations area and was named North Plant superintendent in 1962. Mr. Warner was elected executive vice president in 1964 and president and a director the following year. He is very active in industry affairs and currently serves as president of the Cast Iron Soil Pipe Institute.

W. B. Duckett (58), vice president, transportation, joined Tyler in 1950 following 21 years with Southwest Transportation, a subsidiary of the Cotton Belt Railroad. His 18 years with the Company have been devoted to the transportation area, and he was named to his present position in 1963. Mr. Duckett has many years of service with several trucking industry groups including a term as president of the Texas Motor Carriers Transportation Association.

Richard Harvey (34), vice president and assistant to the president, is the youngest son of Chairman Michael Harvey. He attended Southern Methodist University and the University of Alabama and joined the Company on a full time basis in 1958. Following experience in several areas of the business, Mr. Harvey was named a vice president in 1961 and currently is responsible for advertising and public relations.

James B. Horan (45), vice president, sales, came to Tyler in 1954 following sales experience with Armco Steel. His career with the Company has been devoted to sales, and he was made sales manager in 1961 and assumed his present position in 1963. Mr. Horan attended Texas A & M University.

William J. Speas, Jr. (51), vice president, operations, has been with Tyler Pipe Industries for 25 years. Mr. Speas has come up through the manufacturing side of the business holding such positions as foundry superintendent and plant manager prior to becoming vice president, operations in 1964. He attended the University of Michigan.

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Glen Uzzel (46), vice president and treasurer, has been connected with Tyler Pipe for 21 years although his early years were primarily spent in working on Mr. Michael Harvey's personal affairs. He was named assistant secretary in 1956 and has held the secretary, controller, and treasurer's positions and was named vice president, treasurer in 1966. Mr. Uzzel has been a director since 1964. He attended Tyler Junior College.

Dwain C. Kline (36), secretary and controller, came to the Company in 1960 following experience in public accounting with Arthur Young & Company. Mr. Kline was named assistant secretary in 1963, controller in 1965, and secretary in 1967. He is a graduate of Southern Methodist University and a certified public accountant.

Comments on Management We are generally much impressed with the present management group at Tyler Pipe. In our opinion, the Company's excellent record in a relatively undynamic industry is primarily the result of management strengths in such key areas as transportation, inventory and production control, product quality and trade relationships and customer service. Of a more intangible quality is the dedication and high morale that appears to pervade the whole Company. The members of top management have worked together effectively for many years and probably know each other better than top managements in most United States industrial companies. We are also impressed with the knowledge of manufacturing operations that all members of this group seem to possess. It is also our opinion that the general quality of the 35 members of the middle management group is above average.

Board of Directors As shown in the following table, the board of directors is presently made up of four Company officers, one former officer, and five Tyler businessmen. Outside of the Company representatives, we do not consider the board a particularly strong one.

TYLER PIPE INDUSTRIES, INC.Board of Directors

<u>Company Officers</u>	<u>Director Since</u>
M. J. Harvey, chairman	1935
John A. Warner, president	1965
Richard S. Harvey, vice president	1961
Glen Uzzel, vice president - treasurer	1964
 <u>Former Officer</u>	
Louis Squyres, former treasurer	1964
 <u>Outside Directors</u>	
J. S. Hudnall, Hudnall & Pirtle, consulting geologists, Tyler, Texas	1960
T. W. Joyner, Joyner-Fry, retail clothing, Tyler, Texas	1960
W. Abe Pounds, chairman, Tyler Bank & Trust Company, Tyler, Texas	1960
J. C. Wynne, independent oil operator, Tyler, Texas	1960
W. Dewey Lawrence, Lawrence & Lawrence, attorneys, Tyler, Texas	1962

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SALES AND EARNINGS

A comparative consolidated statement of earnings for the years ended around October 31, 1958 through 1966, and February 3, 1968 appears on the following page. As noted thereon, the figures are obtained from audit reports of Arthur Young & Company. We understand that Tyler's tax returns have been cleared by the Internal Revenue Service through 1964. A review of these figures is contained in the following section.

Historical Results As we have developed in previous sections of this Report, Tyler Pipe Industries has shown phenomenal growth within its industry. Dollar sales have almost quadrupled in the last nine years, increasing at a 16% compound annual rate. Combined sales of Wade and East Penn have increased from about \$6.4 million at the time of acquisition (in 1963 and 1964, respectively) to \$8.5 million in the fiscal year ended February 3, 1968. Even if these sales are eliminated the Company still has about tripled sales with the rate of gain approximately 13% annually. Growth is slightly distorted in that Tyler Brokerage and Swan Development were not included in the early figures. However, sales growth has continued unabated in recent years, increasing 15% annually in the past five years (10% if acquisitions are excluded).

The primary factor leading to the strong growth in sales has been well above-average expansion of physical volumes. Tyler's soil pipe and fittings sales tonnage has increased at a rate four to five times faster than total industry volume in recent years (8-10% annual gains versus 2% for the industry). This area, of course, continues to provide the bulk of Company sales and earnings. In addition, such new developments as 10 foot plain end pipe and TY-SEAL gaskets have added importantly to sales and have helped to keep the Company ahead competitively within the industry. Pressure pipe fittings sales tonnage has also grown at a rate three times better than total industry sales (14% versus 4% since 1961). It is our understanding that the increase in Tyler's dollar sales results entirely from higher tonnage plus changing sales mix (including such products as TY-SEAL). Unit product prices have apparently shown no improvement over the period and in all probability are below levels of the late 1950's. It should also be underscored that Tyler's excellent gains have come despite the very slow basic growth of the industry in which it competes.

Net income and earnings per share have shown even more rapid growth. Net income has increased 33% annually since 1958 and 20% annually in the past five years. Year-to-year advances in net income have been uninterrupted with the exception of 1960 and 1962.

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CO
Years

Net sales
Cost of sales

Gross margin

Selling, general and administrative
expenses

Operating margin

Other income, net

Interest expense

Income before income taxes

Provision for Federal income taxes

Net Income

Depreciation included above

Retained Earnings

Balance, beginning of year

Add: Tyler Brokerage Company -
acquired 10/27/61 as a
pooling of interests
Swan Development Company -
acquired 1/2/62 as a pooli
of interests
The Cal-Tex Company of Tyle
loss since purchase 6/30/5
not previously provided fo
Net income (\$254,000) less
quarterly dividend paid
(\$213,000) during period f
10/29/66 to 1/28/67

Adjusted balance, beginning of y

Add: Net income
IRS adjustments, net

Deduct: Cash dividends - preferre
Cash dividends - common
Stock dividends - common
Redemption of preferred
stock

Balance, end of year

a In January, 1967 the Company's
January 31. Operations for the
sales of \$7,540,000 and net inc

Source: Audit reports of Arthur Yc

1958-1968

a Years ended about October 31, 1958-1966 and year ended February 3, 1968.

b In 1966 certain expenses were reclassified from SG&A expenses to cost of sales. 1965 expenses of \$437,000 so restated would have decreased the gross margin to 19.9% and the SG&A expenses to 11.0%.

c In 1962 certain freight expenses were reclassified from SG&A expenses to a deduction from sales. 1961 expenses of \$753,000 so restated would have decreased the gross margin to 23.9% and the SG&A expenses to 10.2% and would have increased the operating margin to 13.7%, the pretax margin to 13.4% and the net margin to 6.9%.

Earnings per share growth has been slightly less than net income progress (28% annually in the past nine years and 19% in the past five) due to increases in shares outstanding -- primarily reflecting the common stock offering in 1964.

Tyler has generally followed fairly conservative accounting practices with depreciation identical for both tax and shareholder books. In addition, the 7% investment tax credit has been spread over the life of the assets rather than included in current earnings. This accounts for the \$269,000 deferred tax credit carried on the balance sheet as of February 3, 1968. While this practice may have penalized earnings modestly in the past (in 1964 the tax credit approximated \$.10 per share) relative to the more general practice, we do not believe this is of major earnings consequence currently.

As shown on page 34, pretax profit margins showed good improvement in the early years from 1958 through 1961, declined through 1966 but recovered sharply in the year ended February 3, 1968. Gross profit margins were at peak levels in the early 1960's. As detailed in the footnote, part of the decline in 1962 reflected changes in accounting procedures which occurred again in 1966 when Wade Division warehouse expenses were moved to cost of goods sold. The Wade and East Penn acquisitions also hurt profit margins in the 1963-1965 period when both of these companies were losing money or showing only marginal profits. Other factors which have affected profit margins in recent years, particularly in 1963, 1964 and 1966, include heavy charge-offs and research and development expenses relating to double hub pipe production machinery. We understand research and development expenses penalized earnings on the order of \$300,000 annually during the 1963-1964 period and that charge-offs in 1966 were on the order of \$400,000. This reduced margins around 1% in each of these years.

In the year ended February 3, 1968, Tyler's earnings per share increased sharply (53%) on only a 3% increase in sales. The modest sales rise resulted from Tyler electing to curtail soil pipe and fittings sales in certain marginal areas such as the northwest and northern California and in New York where price competition was quite severe. The Company also imposed somewhat more stringent credit policies on marginal sales accounts which may have restrained sales volume to a modest extent. Although these factors held the sales increase to modest proportions, the sales mix improved with good increases in such areas as pressure pipe fittings, single and no hub pipe, and TY-SEAL gaskets, all of which carry above-average profit margins.

The more favorable product mix was a factor in the improvement in profit margins in 1968 relative to fiscal 1966. In addition, the restraint in sales permitted the Company to utilize its productive facilities more efficiently with improved inventory and production scheduling. Overtime was held to a minimum and labor productivity rose as the Company moved from a three-shift to a two-shift,

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operation. Other factors which helped to improve profit margins were lower scrap metal costs (around \$150,000) and the absence of the aforementioned \$400,000 charge-off in double hub pipe machinery. A strong recovery in earnings was realized at both East Penn and Wade despite small sales declines reflecting the impact of the aforementioned program of curtailing sales in marginal areas. Finally, depreciation charges were off from the previous year. As a result of all of these factors pretax profit margins registered a good increase from 7.7% in 1966 to 11.5% in the year ended February 3, 1968. Net margins were up about 50% from 4.2% to 6.3% of sales in 1968.

Fiscal 1969 Earnings In the 36 weeks ended October 12, 1968, Tyler's net sales totaled \$34.1 million, an increase of almost 16% over the \$29.5 million for the corresponding 1967 period. Tonnage was some 10% or more ahead of a year ago; additional benefits this year included a modest firming in product prices plus continued strong gains in sales of newer products such as TY-SEAL gaskets and no hub pipe.

Pretax profits were up 30% (from \$3.7 to \$4.8 million) with profit margins increasing from 12.4% to 13.9%. Raw material costs were higher but these increases were more than offset by lower selling, general and administrative expenses. While Wade's sales and pretax earnings declined slightly from the 1967 period, East Penn showed strong improvement.

The effective income tax rate increased significantly to just over 52% compared with 46% in 1967. The increase primarily reflected the 10% surtax but also resulted in small part from absence of tax-loss carry forwards at East Penn (its effective tax rate increased from 31% to 47% in 1968). Even with the moderating effect of higher income taxes, the gain in net income was still an excellent 15% from the comparable 36 weeks in 1967 and earnings during this period equaled \$2.13 per share, compared with \$1.86 in 1967.

For the balance of the fiscal year ending around January 31, 1969, we look for somewhat more modest gains. With tonnage sales having exceeded expectations to date, Tyler's inventories are in a relatively tight position currently. Thus, it will be difficult to continue the sales pace of the first 36 weeks of the year. Also, with the excellent sales and operating conditions, profit margins have been at historical peak levels this year and will be difficult to maintain. We note, however, that if Tyler only equals the earnings for the final 16 weeks of fiscal 1968 (\$.57 per share), full year results would reach the \$2.70 level, an increase of 11% from the \$2.43 reported last year. Barring unusual yearend charges, we feel earnings could reach the \$2.75 per share level (after about \$.30 per share for the 10% surtax) or 13% above fiscal 1968.

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Long Term Earnings Outlook The outlook for Tyler Pipe's markets for the next several years appears reasonably good. The high and expanding potential demand for new housing has been well documented in terms of factors such as the outlook for rising marriage and family formation rates, evidence of underbuilding in recent years (following some earlier excesses), and the need to rebuild the relatively significant proportion of existing housing regarded as dilapidated. The National Association of Home Builders has made projections based essentially on demand which are useful in gauging probable levels of housing starts. In any single year, significant underbuilding or overbuilding can develop, depending on availability of capital and other economic considerations.

Based on the projections of the NAHB, total private and public housing demand could expand by as much as 60% over the five years 1967 through 1972. Apparently single family housing is expected to grow somewhat faster than multi-family units. The trend towards houses having two or more baths is expected to continue unabated. Based on these projections, demand for Tyler Pipe's products for the residential housing market should show somewhat faster growth than has been true in the past five years. As we have pointed out previously, this has not been the most profitable area of business for Tyler Pipe (or the industry) and is also the most vulnerable to competitive inroads from other materials. However, the development of no hub cast iron pipe is expected to stem this to some extent. Thus, we would look for good growth in Tyler Pipe's sales to the residential market over the next several years.

As far as non-residential building is concerned, we would look for at least moderate growth but perhaps not quite as fast as in recent years. This, of course, is the most attractive market for Tyler's products with larger sized pipe and fittings required.

As in the past, we feel Tyler Pipe will continue to outpace its competitors. Management has a demonstrated ability to develop and sell products at a rate far superior to the basic growth trends of the industry in which it participates. With the expansion of facilities for fittings, capacity should be sufficient to permit good growth in sales volumes.

Profit margins are presently at peak levels. However, we feel the Company is improving its efficiency with sophisticated inventory and production control techniques. Also, development of higher margin products (such as TY-SEAL gaskets) and improving production machinery to make double hub pipe should be a benefit. Moreover, increasing attention is being given to markets to assure that sales are not stressed in areas of marginal profitability. Finally, the Wade line of products offers good potential for sales growth and margin improvement, especially from better inventory and production controls.

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On balance we feel Tyler Pipe will continue to show good growth in earnings on the order of 8-10% annually from estimated fiscal 1969 levels. Thus our projection of earning power by fiscal 1973 (year ended January 31, 1973) is in the range of from \$3.75-4.00 per share. The principal negative in the Tyler picture is the possibility of inroads from competitive materials such as plastics. We note, however, that Tyler is more heavily oriented towards larger sizes of pipe and fittings where the threat appears less serious. Thus we do not feel that this will represent a material negative to earning power during the next five years. We are impressed that Tyler management is well aware of developments in this area, and we feel they will take steps to develop products manufactured from competitive materials if these become a major factor in the market.

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FINANCIAL CONDITION

On the following page is a comparative consolidated balance sheet as of February 3, 1968 and the years October 31, 1958 through 1966. As indicated, the figures are from audit reports of Arthur Young & Company. On page 41 is a statement of source and application of funds for the same period.

At fiscal yearend 1968, long term debt totaled \$2,217,000 -- 16% of total capital -- and consisted of a 5.30% first mortgage bond held by American National Insurance Company. This obligation is payable in annual installments of \$233,000 with a final payment of \$121,000 due November 1, 1978. In addition, annual obligations on leases of three years or more total about \$50,000, and if these are capitalized ten times, the debt ratio is increased to 19%.

Working capital on February 3, 1968 of \$6.9 million compared with \$6.1 million a year earlier. Total current assets of \$10.4 million were close to twice total debt (current and long-term) of the Company. Inventories accounted for about three-fifths of current assets with accounts receivable roughly one-third. As mentioned earlier, the peak selling season is during the summer months but the major inventory building period actually occurs from December through April. Bank credit is generally used during this latter period with the total reaching as high as \$1 million last year. Based on balance sheet figures, receivables turnover averages 33 days. Credit terms are 3% ten days, 2% - 15 days, and net 30 days. Tyler has a very good credit department (with bad debt losses a minimal \$20,000 in 1968 and no write-offs the previous two years). New accounts are generally not taken on unless the potential customer has a minimum \$100,000 net worth.

Capital expenditures in recent years have averaged close to \$2 million with this level considered a good working projection for the future net of any major new projects. Among more important projects of recent years are the current expansion of pressure pipe fittings capacity at Tyler and a major plant renovation program at East Penn in the first few years following acquisition in 1964. As a general rule this \$2 million capital expenditure figure breaks down about \$500,000 transportation equipment, \$300,000 buildings and \$1.2 million machinery and equipment. Over the entire ten-year period, internally generated funds have been more than sufficient to cover capital spending and sinking fund payments, and thus working capital has been built up without interruption except for fiscal 1962.

ASSETS

Current Assets

Cash
Accounts receivable
Inventories
Total current assets

Property, Plant and Equipment, at C

Land
Buildings
Machinery and equipment

Less: Accumulated depreciation
Total net property, plant and
equipment

Investment in and advances to
unconsolidated subsidiary
Prepayments, deferred charges and
other assets

Total Assets

LIABILITIES

Current Liabilities

Notes payable
Current portion of long-term deb
Accounts payable
Accrued liabilities
Provision for Federal income tax
Total current liabilities

Long-term debt
Deferred investment tax credit^b

Stockholders' Equity

6% preferred stock
Common stock
Capital surplus
Retained earnings
Total stockholders' equity

Total Liabilities

Working Capital
Current Ratio

a In January, 1967 the Company's f
January 31.

b The accumulated investment tax c
(\$174,000 was restated as a def

Source: Audit reports of Arthur Yo

	<u>1959</u>	<u>1958</u>
<u>Source of Funds</u>		
Net income	569	\$ 202
Depreciation	480	396
Deferred investment tax credit	-	-
Long-term debt	50	157
Sale of preferred stock	-	65
Common stock offering	-	-
Common stock options	-	-
Common stock issued to employees and profit sharing trust	252	-
Other sales of common stock	-	-
Tyler Brokerage Company and Swan Development Company poolings of interests	-	-
Total source of funds	<u>1,351</u>	<u>820</u>
<u>Application of Funds</u>		
Cash dividends - preferred	2	-
Cash dividends - common	-	-
Net additions to property, plant and equipment	703	380
Retirement of long-term debt	332	107
Redemption of preferred stock	-	-
Other, net	<u>- 111</u>	<u>1</u>
Total application of funds	<u>- 1,148</u>	<u>488</u>
Net Increase (Decrease) in Working Capital	<u>\$ 203</u>	<u>\$ 332</u>

a \$174,000 total for fiscal year

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As to fixed assets, book values of property, plant and equipment on February 3, 1968 were as follows:

<u>Tyler Pipe Industries</u> <u>Consolidated Property, Plant and Equipment</u> <u>February 3, 1968</u>			
	<u>Cost</u>	<u>Allowance For Depreciation</u>	<u>Depreciated Book Value</u>
Land:			
Tyler	\$ 441,520	\$ --	\$ 441,520
East Penn	9,750	--	9,750
Total Land	451,270	--	451,270
Buildings:			
Tyler	3,116,346	1,260,648	1,855,698
East Penn	440,019	340,757	99,262
Total Buildings	3,556,365	1,601,405	1,954,960
Machinery and Equipment:			
Tyler	3,964,315	5,636,692	3,327,623
East Penn	1,021,379	537,630	483,749
Total Machinery and Equipment	9,985,694	6,174,322	3,811,372
Transportation Equipment:			
Tyler	2,338,372	2,069,314	769,058
East Penn	90,940	51,948	38,992
Total Transportation Equipment	2,929,312	2,121,262	808,050
Total Property	<u>\$16,922,641</u>	<u>\$9,896,989</u>	<u>\$7,025,652</u>

NOTE: Tyler includes all facilities, etc. at Swan, Texas (including those of Swan Development) plus modest amounts of machinery and equipment and transportation equipment of Wade presumably located at its regional warehouses. Transportation equipment is primarily that of subsidiary Tyler Brokerage Company which owns all highway equipment leased to the Company.

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The land on which the plant and main office are located at Swan, Texas is carried at \$1,260 per acre (excluding \$54,137 in land held by Swan Development, a subsidiary). Although we do not purport to be real estate experts in any sense, we understand that the above value approximates current market levels based on recent purchases by Tyler of land adjacent to the plant. East Penn's land was acquired many years ago and is carried at a relatively low \$135 per acre. In all likelihood, current market value would be well in excess of this figure; even if it were valued at \$1,500 per acre, however, Tyler's consolidated book value would be increased by only \$100,000.

The plants at Tyler, Swan and Macungie are essentially single purpose foundry layouts, designed specifically to accommodate machinery and equipment to produce pipe and fittings. Nearly all of the facilities at Swan have been designed and constructed by Company personnel.

In addition, a large share of the machinery and equipment at both Swan and Macungie was designed and built by Tyler employees. Other than some machine tools, all of the equipment is single purpose -- namely to manufacture cast iron soil pipe and fittings, pressure pipe fittings and specification drains. Also included in the machinery and equipment account are thousands of individual patterns. Other foundry machinery and equipment is generally of massive proportions, and thus capital asset values include substantial installation costs. We feel that since most of the machinery and equipment could only be used by another company in the same industry, it would likely prove uneconomical to dismantle and move to another site.

As to accounting policies, Tyler Pipe has generally used accelerated and guideline depreciation schedules for machinery and equipment, both for tax and shareholder reporting purposes. Although this is a fully accepted procedure, it is generally considered more conservative accounting with many companies using accelerated depreciation for tax purposes only and straight line for shareholder reporting. This ordinarily results in higher reported earnings after provision for deferred taxes than if tax and shareholder earnings books were identical -- which is Tyler's procedure. This would, of course, be true only as long as depreciation under accelerated methods exceeded straight line (generally the pattern in the early years of a machine or building's life). In the case of Tyler, however, we note that its depreciation charges in fiscal 1968 were lower than the previous year's (\$1.5 million versus \$1.6 million); this indicates that charges under accelerated methods may now actually be lower than if the Company used all straight line schedules. We understand that this recent pattern at least partially reflects the fact that Tyler did not replace any of its highway equipment in 1968 (all depreciated on a double declining balance method over a five year period) in addition to being partially caused by the use of accelerated depreciation.

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In conclusion, given the nature of the plant and equipment and after examining the asset and depreciation schedules on significant buildings and machinery, it is our opinion that the asset values as carried on Tyler's books are fairly represented. The Company has employed what we generally consider to be conservative but fully acceptable accounting procedures. We understand that land values at Swan are generally representative of actual fair market value as measured by recent purchases. The land at Macungie could well have additional market value over the present book value. In our opinion, however, any additional worth which could be ascribed here or at Tyler would not be material relative to the real value of the business as developed subsequently in this Report. The real value of these or any other single purpose properties to a prospective purchaser lies in the profit which can be generated from them. We feel that Tyler's growth and profitability, however, does not reflect any particular value which can be ascribed to its physical assets; instead, it is our opinion that the Company's success can be traced entirely to the ingenuity of its organization (management and staff) in developing and selling products in quantity and of a quality permitting it to far exceed the rate of gain turned in by others in the industry.

BUSINESS CONCLUSIONS

Presented below are our principal conclusions in regard to the operations of and outlook for Tyler Pipe Industries.

1. Tyler Pipe Industries, Inc., with sales exceeding \$40 million, is a leading producer of cast iron soil pipe and fittings and is also a leading manufacturer of cast iron pressure pipe fittings and specification drains. Operations are well established dating back to the mid-1930's.
2. Cast iron soil pipe and fittings, accounting for around three-fourths of Company sales and pretax earnings, are used in buildings for drainage, waste and vent piping. Approximately 70-80% of total industry output goes to residential buildings with virtually all of the balance in larger public, commercial and industrial buildings. Total industry shipments have shown only modest increases (around 2% annually) over the past ten years, reflecting slow basic growth in end markets plus inroads made by competitive materials such as copper and plastics. We expect these basic industry trends to continue and look for further substitution of materials such as plastics, specifically in smaller sizes of soil pipe and fittings used primarily in residential construction.
3. Tyler Pipe's cast iron soil pipe and fittings shipments have increased around 11% annually, far surpassing industry progress. Its share of the market has risen from around 11% in 1961 to over 18% in 1967 (16% if the 1964 acquisition of East Penn Foundry were excluded). The Company ranks as a strong number two in the industry and believes it has the broadest product line in the industry. This broad product line is necessary in order to satisfy the large number of different building and plumbing codes throughout the United States. Indications are that, relative to the industry, a much larger proportion of Tyler's shipments (50-60%) go to commercial and industrial markets where larger diameter sizes of cast iron pipe and fittings are required. In addition to being more profitable, these larger sizes have also proven less vulnerable to replacement by competitive materials.
4. Tyler's strong growth -- both relative to its industry, and in absolute terms -- reflects, in our opinion, a highly capable management group. Tyler has been an innovator in all areas of its business, and in soil pipe product development pioneered 10 foot plain end cast iron pipe (flanged at only one end) and TY-SEAL rubber compression joints. Prior to these innovations, only 5 foot pipe was available, and joints were made by the time consuming lead and oakum process. Both of these developments have resulted in substantial savings to the plumbing

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industry and have helped to maintain the competitive position of cast iron soil pipe and fittings against substitute materials. In addition, these products carry excellent profit margins and have contributed importantly to Tyler's strong sales and earnings growth in its soil pipe division.

5. Tyler Pipe has developed an important position in cast iron pressure pipe fittings used in municipal and private water supply and other systems for transporting liquids under pressure. Its shipments have expanded more than three times the growth rate turned in by the total industry since 1961. These products now account for about one-eighth of Tyler's sales and around 16% of pretax income. Pressure pipe fittings capacity is presently being increased. As in the case of cast iron soil pipe, inroads are being made in this market by competitive materials such as plastics, particularly in smaller sizes.
6. Tyler's line of specification drains resulted from the acquisition of Wade, Inc. in 1964. These products now account for slightly over 10% of sales and 8.5% of pretax income. The Wade product line encompasses a wide range of items (made of iron and brass) and are specified as to name, purpose and use number by mechanical engineers, etc. Tyler ranks number four in the industry but to date has had difficulty in bringing this line up to desired profitability, reflecting inventory and manufacturing problems as well as inefficiency of warehouse operations. The Wade operation, however, offers good growth potential, and efforts are being made to improve profit contribution.
7. Manufacturing operations are conducted in two locations -- Swan, Texas (north of Tyler, Texas) and Macungie, Pennsylvania (near Allentown). The plants are basically single purpose foundry and supporting facilities (designed to produce cast iron soil pipe and fittings, pressure pipe fittings and specification drains), and generally are in good condition. Attesting to the specialized character of these facilities, most of the buildings and machinery were designed and built by Tyler's own staff, largely due to frequent difficulties encountered in attempting to have this work done by outside contractors. With the planned expansion now underway, Tyler will have sufficient capacity to permit reasonable growth over the next three to five years.
8. In its manufacturing operations, Tyler has been an innovator. It was the first company to use scrap iron as a basic raw material due to loss of its source of pig iron. The Company also pioneered the centrifugal process using a permanent metal mold for making soil pipe and permanent metal molds for making fittings. These developments have led to important economies and substantial increases in productivity and product quality. Tyler, based on its relative profitability compared with competitors, is a very efficient manufacturer.

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9. Tyler has experienced some difficulty in developing a satisfactory machine for making double hub pipe (with resulting substantial charge-offs against earnings in recent years). A recently developed machine, however, is producing better results, but further improvement is looked for. Other manufacturing difficulties are the aforementioned problems in the Wade line (due primarily to the myriad number of products and resulting short manufacturing runs).
10. Another example of the innovativeness of Tyler's management is the development of sophisticated computerized controls of inventories and production. This is particularly important in this industry where the ability to deliver products on short lead time is of paramount importance. This computerized inventory system is presently being adopted for Wade but is proving considerably more difficult due to the diversity of product line.
11. Labor relations are good with the Company never having suffered a crippling work stoppage. Tyler's Texas operations are non-unionized but a successful union election several years ago is now being contested in the courts (the Macungie plant has been unionized for several years). One of the major limitations in increasing production is a shortage of available labor. However, this is a problem plaguing industry in general and foundries in particular.
12. Tyler was the first in the soil pipe industry to offer truck delivery, and the Company has developed a reputation for fast and reliable service to its customers. Tyler's truck fleet is utilized efficiently with delivery only in areas in which it can assure a back haul of raw material or other equipment to its plants. In other cases, commercial or rail delivery is utilized.
13. Another source of competitive strength is Tyler's marketing organization. Sales are through some 200 manufacturers representatives covering 1,200 accounts. No single account contributes as much as 4% of sales. Tyler's own sales force (only ten in number) spends considerable time on missionary work calling on contractors, municipalities, etc. to persuade these people to specify Tyler's products. In addition, major emphasis is given to improving and increasing standardization of building and plumbing codes to permit greater utilization of newer products.
14. The prime element of Tyler's strength, in our opinion, is its capable management. With the exception of the founder and chairman of the board, Michael J. Harvey (70), and W. Belton Duckett (58), vice president-transportation, all are relatively young. We are nevertheless impressed with the depth of experience and dedication to performance. Management exhibits a healthy awareness of industry problems and is fully cognizant

of competitive developments such as potential inroads of plastics and other substitute materials. We are satisfied that steps will be taken to fully exploit market developments and, if necessary, to enter into manufacturing of products made from competitive materials.

15. Tyler's financial position is strong. Its accounting procedures can generally be considered on the conservative side with accelerated depreciation taken for both tax and shareholder reporting (tax returns have been cleared by the Internal Revenue Service through 1964). We note that depreciation charges in fiscal 1968 were lower than in the previous year, indicating that use of accelerated depreciation may no longer penalize reported earnings compared with use of straight line depreciation.
16. We feel that asset values as carried on Tyler's books are generally conservative but still representative. While the land at Macungie, Pennsylvania (acquired many years ago) undoubtedly has value in excess of that stated, any additional worth that might be ascribed to such land would not be material relative to the real value of the business as developed subsequently in this Report. Buildings and equipment, while conservatively valued on Tyler's balance sheet, are basically single purpose assets (specialized foundry and equipment) and, therefore, derive value from the ability of management to generate earnings on such assets. In this regard, Tyler management unquestionably has done an outstanding job as evidenced by the substantial consideration received on the sale of the total business to Saturn. Furthermore, as discussed in the following section of this Report, we feel that even this value is very conservative.
17. Since fiscal 1958, Tyler's sales (including two small acquisitions) have increased at a 16% compound annual rate. Net per share has increased at an even faster 28% annual rate from \$.26 in 1958 to \$2.43 in fiscal 1968. Despite the lack of basic growth in the industry, Tyler has demonstrated a high quality of earning power with only two year-to-year declines in net per share (1960 and 1962) in the past decade. Profit margins declined following the early 1960's, reflecting in part unusual factors as well as low profitability of acquisitions, but recovered sharply in fiscal 1968. This recovery reflected better sales mix, curtailment of sales in marginal areas, improving manufacturing efficiency and absence of unusual expenses relating to charge-offs on double hub pipe machinery. Earnings per share as a result increased sharply to \$2.43 from \$1.59 in the previous year. A further strong gain is in prospect this year with our estimate being \$2.75 per share (after about \$.30 for the 10% surtax).

18. Despite the slow growth of its markets, we regard Tyler's future potential as being excellent. We feel its management will continue to outperform competition. Thus we look for growth in earning power on the order of 8-10% annually from estimated 1969 to a level of \$3.75-4.00 per share by fiscal 1973 (year ended around January 31).

Our investment conclusions are set forth in the following section.

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VALUATION

As set forth in the Introduction to this Report, we have been retained by Saturn Industries, Inc. to determine the fair value of Tyler Pipe Industries, Inc. on a going concern basis and, therefore, the fair value of Saturn's interest in Tyler. For its 98.6% interest, Saturn paid \$40 per share or \$42.4 million; of this amount, \$29,916,000 represents an excess over applicable net asset value as carried on Tyler's balance sheet. Saturn's management and directors have classified this amount as "cost in excess of net assets of businesses acquired" and plan to continue doing so pending completion of studies presently in progress including this Report.

Valuation Procedure There are many considerations in determining the fair value of a business on a going concern basis. Some of the more important factors include: (1) competitive industry position and management's ability to maintain or improve this position; (2) product line and new product development capabilities applicable to its business; (3) strength of marketing and distribution organization; (4) breadth and growth potential of the markets served by the company; (5) adequacy of plant facilities and manufacturing processes; (6) labor relations; (7) depth of management; (8) financial condition and the ability of the company to handle additional capital requirements; (9) dividend paying ability; and (10) general regard with which investors hold the company's industry as an investment medium at the present time.

In the final analysis, of course, all of these factors are related to earning power of the business and the value of such earning power. Accordingly, determination of fair value on a going concern basis is a matter of judgment giving consideration to all relevant qualitative and quantitative factors. The major qualitative considerations applicable to such an evaluation of Tyler's business have been reviewed in detail in this Report with appropriate conclusions. Basically, we feel that management has done an excellent job with Tyler's growth far exceeding the modest progress turned in by the industry. At the same time, it is our opinion that Tyler's relative competitive position is being strengthened on a continuing basis, and thus a strong base has been formed for the future.

As a result of our analysis, we do not feel that there are any serious problems facing the Company today that would adversely affect future fundamental earning power. We recognize that potential substitute materials (primarily plastics) could well make inroads in the soil pipe market on a long-term basis. However, we are impressed with the thorough manner in which Tyler management continually keeps abreast of these developments; furthermore, we are convinced that, should a major breakthrough be made in plastics or other substitute materials, Tyler would enter this new area and

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be able to participate in such a development on the strength of its excellent industry reputation and strong distribution and marketing organization. In this connection, the Company has pioneered the major postwar developments in the soil pipe industry, and we would expect these forward-looking policies to be continued.

Comparative Data As background material to assist in the determination of fair value on a going concern basis, we set forth in this section of the Report a number of quantitative comparisons using ten building materials companies. The companies selected for this purpose are listed below in order of 1967 sales volume:

	<u>1967 Sales</u>
Johns-Manville Corporation	\$510,000,000
Armstrong Cork Company	460,000,000
Carrier Corporation	439,000,000
United States Gypsum Company	373,000,000
The Flintkote Company	292,000,000
United States Pipe and Foundry Company	162,000,000
Woodward Corporation	155,000,000
Kaiser Cement & Gypsum Corporation	94,000,000
Clow Corporation	66,000,000
Central Foundry Company	30,000,000

Among the ten companies, United States Pipe and Foundry, Woodward, Clow, and Central Foundry are closely comparable with Tyler, and, as mentioned earlier, are Tyler's major competitors in many markets. The remaining six, of course, are broadly based building materials producers, but, to the extent that their operations are generally affected by the same general economic and industry factors as Tyler's, relative earnings performance and market valuation tend to make such comparisons relevant.

Johns-Manville is the world's largest producer of asbestos fiber and similar products. Major sales classifications include industrial insulation, pipe packings and friction materials, and a variety of building products including roofing and flooring materials, insulation, and asbestos-cement pipe. It has very valuable asbestos reserves.

Armstrong Cork has the leading position in resilient flooring and acoustical ceiling materials. The company also produces other building products, industrial specialties, glass and plastic packaging and certain consumer products. The recent acquisition of Thomasville represented initial entry into wooden furniture manufacturing.

Carrier is a major manufacturer of a broad line of air-conditioning, refrigerating, and heating equipment. A minor portion of the total company business is in the area of boiler and furnace production in addition to some manufacturing of parts for military and commercial aircraft.

United States Gypsum is the largest factor in the gypsum industry, accounting for close to half of domestic volume. Other products include lime, metal lath, paints, asphalt shingles and roofing, and refractory brick.

Flintkote is engaged in the manufacturing, mining, and sale of a variety of building products including gypsum, roofing, flooring, cement, and stone and pipe. The company also has a small participation in packaging products.

United States Pipe and Foundry is a manufacturer of cast iron pipe and special castings, principally for water and gas mains. The company also produces cast iron soil valves and hydrants as well as some machinery used in chemical industries. United States Pipe produces its own pig iron in the Birmingham, Alabama region.

Woodward produces cast iron pipe, fittings, iron castings, and cement and service boxes. Subsidiaries are engaged in the production of lime, other mason products, and cement asbestos pipe. Woodward also produces a portion of its own pig iron.

Kaiser Cement & Gypsum manufactures Portland cement, gypsum products, wood fiber insulating materials, and is also in the sand, gravel, and ready-mix concrete business.

Clow is a manufacturer of cast iron pressure pipe and valves plus materials for waterworks, gas plants, and railroads. The company also makes plastic and clay pipe and fire hydrants.

Central Foundry is a producer of cast iron soil pipe and fittings, a line of plumbers specialties, and pressure pipe, fiber pipe, and other fiber products.

Data and supporting figures used for this comparative analysis are included in the Appendix to this Report. The following significant observations can be made from a review of these figures:

- (1) In terms of sales growth, Tyler at 209% ranks number one among the eleven companies. Furthermore, we feel that its performance is particularly meaningful relative to such direct competitors as Woodward (208%) and United States Pipe (45%), both of whom have been much more active in the acquisition area than has Tyler.

- (2) As to growth in net earnings per share -- which is a key investment test and would properly adjust for the effect of acquisitions to the extent of gains or losses to the shareholders -- Tyler's performance is outstanding with 1967 net per share close to $5\frac{1}{2}$ times the 1958-1959 level. Thus its growth rate over the nine-year period is more than twice that of the second ranking company, Carrier Corporation, and naturally exceeds by an even greater degree the gains turned in by the more comparable companies -- Clow, Woodward, Central Foundry, and United States Pipe. With regard to quality of earning power, Tyler shows a more stable pattern with only two year-to-year declines in net per share since 1958, (1960 and 1962) compared with four declines for Clow and Central Foundry and five for Woodward and United States Pipe and Foundry.
- (3) Return on total invested capital is also a key investment test inasmuch as the common stocks of those companies in a given industry with higher returns on capital will normally show better earnings growth and higher price earnings multiples in the market -- all other things being equal. Returns for the eleven companies in 1967 ranged from 19.4% for Tyler to 4.1% for Flintkote, with Tyler's return almost twice that of the second ranking company. While last year's performance by the Company was well above its levels of previous years, Tyler nevertheless has consistently been the leading performer in this important measure.
- (4) Approximately the same relative pattern exists in return on common equity with a 1967 range of 23.6% for Tyler to 5.2% for Flintkote. Based on Tyler's relatively conservative capitalization, its increase in this measure over return on invested capital (23.6% versus 19.4%) is naturally less than that shown by more highly leveraged Kaiser (12.6% versus 6.6%).
- (5) Pretax margins last year ranged from 15.2% for United States Gypsum to 3.9% for Central Foundry. Tyler's 11.5% ranked third, representing an improvement over its historical standing within this group. Over the years, the Company's performance here has been exceeded by Clow and Woodward (whose operations are diversified beyond the soil pipe business) but has been better than those of more closely comparable United States Pipe and Central Foundry. We would suspect that the Company's margins over the years are somewhat understated relative to the others due to conservative accounting policies.
- (6) As to balance sheets, Tyler's current ratio of 3 times approximates the median for the group. Its liquidity (represented by cash and equivalent as a percent of current liabilities) is somewhat below average, and thus, as might be expected, Tyler's working capital to sales ratio is the lowest in the group. Capital structures range from 100% common equity for Johns-Manville to a highly leveraged 37% for Kaiser Cement & Gypsum. Tyler at 84% common is slightly above average.

Summarizing all of the above, Tyler's performance ranks at the top among this broad-based group with the exception of pretax margin. As to this latter measure, Tyler's accounting policies are conservative; moreover, the soil pipe industry has traditionally been less profitable than other building fields represented in our group. Finally, it is significant that Tyler currently has the highest pretax margin among the other foundry companies in our comparative analysis.

On the basis of these measures of performance and even recognizing Tyler's smaller size relative to some of the major companies used in the comparison, we would conclude that a fair value on a going concern basis for Tyler common stock would be based on a price earnings multiple certainly above average for the entire group and particularly well above the multiples awarded the four other more closely comparable companies.

Relative Market Data Comparative common stock data (based on prices on the August 26, 1968 acquisition date) for Tyler Pipe Industries and the ten companies included in the comparative analysis appears in the table on the following page. As indicated, nine of the companies have common stocks listed on the New York Stock Exchange with Clow (and Tyler before acquisition) trading over the counter. The number of shares outstanding varies widely from 730,000 for Central Foundry to 10,700,000 for Armstrong Cork. Trading in the nine listed stocks appears to be fairly active with the possible exception of Central Foundry. Trading in United States Pipe and Foundry and Woodward common has, of course, accelerated in the past six months due to attempts made to acquire these two companies.

Based on market prices for August 26, 1968 (the effective date of the Tyler acquisition by Saturn Industries) and using the actual purchase price of 40 for Tyler, the Company's stock ranks seventh in the group on a P/E comparison although justifiably ahead of the other pipe foundry companies. Price earnings ratios for the eleven common stocks cover a wide range -- 31.1 times for Armstrong Cork to 11.8 times for Clow. At the same time, the range for the soil pipe producers is much narrower at 15.7-11.8 times earnings.

Among the six larger companies, the relative ranking seems reasonable with Armstrong Cork having the best record over all and Johns-Manville the most lackluster performer. As to the five smaller companies, Tyler has by far the best record but is still valued only slightly higher than the others; at the same time Clow has the lowest multiple and yet has a reasonably good historical operating performance.

TYLER PIPE INDUSTRIES, INC.
COMPARATIVE COMMON STOCK DATA

55.

PRICE/EARNINGS RATIOS AND YIELDS

	Market 8-26-68 ^a	Earnings Per Share Latest 12 Months ^b	P/E Ratio	Ind. Dividend	Current Yield	% Payout
Armstrong Cork	78½	\$2.52	31.1	\$1.50E	1.9E%	60E%
Kaiser Cement	31½	1.12	28.3	.80	2.5	71
Carrier	79½	2.85	28.0	1.00	1.3	35
U. S. Gypsum	88	3.88	22.7	3.20E	3.6E	82E
Flintkote	34½	1.64	21.2	1.00	2.9	61
Johns-Manville	71½	4.09	17.5	2.20	3.1	54
TYLER PIPE	40	2.54	15.7	.80	2.0	31
Central Foundry	25½	1.61	15.7	.40	1.6	25
Woodward	43	3.16	13.6	1.60	3.7	41
U. S. Pipe & Foundry	26½	1.97	13.5	1.20	4.5	61
Clow	35 ^c	2.96	11.8	1.25	3.6	42

MARKET VALUE VERSUS BOOK VALUE

	Primary Market	Shares Outstanding ^d (000's)	Market 8-26-68 ^a	Book Value Per Share ^d	Market As % of Book
Kaiser Cement	NYSE	5,743	31½	\$ 7.65	415%
TYLER PIPE	O-C	1,066	40	11.10	360
Carrier	NYSE	7,557	79½	25.05	318
Armstrong Cork	NYSE	10,729	78½	25.15	311
U. S. Gypsum	NYSE	8,108	88	43.20	204
Johns-Manville	NYSE	8,341	71½	42.15	170
Central Foundry	NYSE	731	25½	18.05	140
Flintkote	NYSE	5,574	34½	25.70	135
Woodward	NYSE	3,219	43	32.40	133
Clow	O-C	1,370	35 ^c	29.40	119
U. S. Pipe & Foundry	NYSE	3,538	26½	30.80	86

a DJIA = 896.13.

b Twelve months ended June 30, 1968 except Carrier (July 31, 1968) and Tyler Pipe (July 20, 1968).

c Bid price.

d As of latest fiscal yearend (adjusted).

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We conclude that Tyler's earnings multiple, based on Saturn's purchase price of \$40 per share, is very conservative giving recognition to its leading performance among the total eleven company group. Granted, the six broader based building products companies are larger and better known. At the same time, the differential between Tyler's P/E of 15.7 and the median multiple for the six larger companies (25.4 times) is too broad, in our opinion. An equally strong case can be made relative to the four pipe foundry companies with lower price-earnings ratios (13.6 median) where Tyler at 15.7 is only slightly above average despite its far superior operating record.

Yields on the eleven companies range from a low of 1.6% for Central Foundry to a high of 4.5% for United States Pipe and Foundry. Tyler's yield at 2% is somewhat below average, largely due to its 31% payout ratio which is the second lowest on the list. In terms of market to book value, all of the stocks but United States Pipe and Foundry (at 36% of book) sell at premiums ranging from a low 10% for Clow to a high of 315% for highly leveraged Kaiser Cement & Gypsum. As a result of its very high return on book value, Tyler ranks second in this measure as opposed to its seventh place showing in price earnings ratio. We regard the book value measure to be of secondary importance; the more important test is management's ability to generate profit on the assets employed.

As mentioned earlier, Tyler Pipe common stock was first offered to the public in September, 1964 at an adjusted price of 12 $\frac{1}{2}$. As shown in the table following, the common traded in a relatively narrow range of 10-14 from 1964 through 1966; during this period, the price-earnings ratio (based on yearend prices) varied from 6.3 to 8.6 times. The stock rose dramatically in 1967 to a high of 18 but the multiple was still a modest 7.3 times due to the excellent earnings gain (over 50%) in the fiscal year ended February 3, 1968.

We feel that Tyler common's generally poor market performance through last year was largely due to two factors -- lack of marketability and what investors then regarded as a generally unattractive industry. With 42% of the stock in the hands of the Harvey family and another 28% held closely (Company officers, employees, etc.), the remaining 300,000 shares represented an extremely thin floating supply. Also we understand that trading was largely confined to the Dallas area. As to the general attractiveness of the soil pipe business to the investment community at that time, we have already detailed the very modest growth pattern registered in this industry. However, since then building stocks have registered substantial market gains reflecting renewed investor expectations of improvement in construction activity.

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Tyler common showed a dramatic upward trend in 1968 -- from 17 $\frac{1}{2}$ at yearend 1967 to 39 following the August 26 announcement of the tender by Saturn Industries. (More specifically, the stock climbed from 18 to 24 in April, to 29 in June, and to 30 in July.) While a portion of this upgrading was undoubtedly due to earnings improvement, we would strongly suspect that the rise also reflected the possibility of sale of Tyler, particularly in light of acquisition negotiations then in process involving both United States Pipe and Foundry and Woodward.

	Market Price			Earnings Per Share ^a	Closing P/E	Dividends Per Share	% Payout	Closing Yield
	High	Low	Close					
1964	12 $\frac{1}{2}$	10 $\frac{1}{4}$	10 $\frac{1}{4}$	\$1.27	8.1	\$.34	27%	3.3%
1965	14 $\frac{1}{4}$	10 $\frac{1}{2}$	13	1.43	8.8	.54	36	4.2
1966	14 $\frac{1}{4}$	10	10	1.59	6.3	.80	50	8.0
1967	18 $\frac{1}{4}$	10	17 $\frac{1}{2}$	2.43	7.3	.80	33	4.5
1968	39	17 $\frac{1}{4}$	39 ^b	2.75E	14.22	.80E	29E	2.1E

a Fiscal year ending: October 31 through 1966, following
February 3 in 1967 and 1968.

b To August 26.

Conclusion Considering all factors, it is our opinion that the fair market value of a share of Tyler common if actively traded would be around \$45, equal to about 18 times most recent 12 months earnings. This multiple is well above those of the four other pipe foundry companies but, in our opinion, is fully justified giving recognition to Tyler's outstanding profitability record. On the other hand, it is well below the median price-earnings ratio of 25 for the six large and better recognized broad-based building materials companies used in our analysis for background information purposes.

For the purpose of our Valuation Report, however, we are not concerned with a value of a share of stock as actively traded in the market but rather with the value of Tyler Pipe Industries, Inc. as a total entity as acquired by Saturn. Premiums above fair market value are invariably required when effective control results from the acquisition and, in our judgement, a premium of not less than 10% for Tyler is fully justified. This would provide a total value for the Company of around \$53 million, with Saturn's 98.6% equity interest therefore worth \$52 million. Such a valuation works out to around 20 times earnings.

Further verification of the fairness of such a valuation is found in a review of two other recent acquisition developments involving Woodward and United States Pipe and Foundry. The acquisition of Woodward by Mead Corporation, a paper company, has been approved by stockholders and involves the exchange of .9 shares of a newly issued Mead \$2.80 convertible preferred for each Woodward share of common stock issued and outstanding. The published value of the acquisition was set at \$160 million, equivalent to about 16 times most recent Woodward earnings. Jim Walter Corporation is now proposing acquisition of United States Pipe and Foundry through an exchange of one share of \$1.60 convertible preferred for each U. S. Pipe common share. The total consideration based on published information works out to over \$140 million or around 19 times U. S. Pipe's latest twelve months earnings. While these indicated acquisition P/E ratios are below those we ascribe to Tyler, we note Tyler's far superior earnings record and profitability.

Therefore, considering all factors we deem relevant to an evaluation of this type and purpose, we determine the fair value of Saturn's 98.6% equity in Tyler Pipe Industries, Inc. to be \$52 million.

RCLG/ATH/WHB:cm
November 13, 1968

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APPENDIX

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TYLER PIPE INDUSTRIES, INC.

COMPARATIVE DATA

SALES INDEXES 1958-1967

(1958-59 = 100)

	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>	<u>1960</u>	<u>1959</u>	<u>1958</u>
TYLER PIPE INDUSTRIES, INC.	309	299	258	220	183	151	136	125	117	83
Woodward Corporation	308	303	265	245	210	184	174	101	108	92
Clow Corporation	171	154	143	136	119	101	105	110	110	90
Carrier Corporation	170	155	136	126	116	105	103	100	102	98
Armstrong Cork Company	170	144	139	133	127	119	112	108	108	92
The Flintkote Company	157	161	152	147	147	144	132	134	117	83
United States Pipe and Foundry	145	147	138	134	121	105	96	92	107	93
Johns-Manville Corporation	144	145	135	129	117	111	107	103	106	94
United States Gypsum Company	132	103	107	111	107	102	96	96	106	94
Kaiser Cement & Gypsum	130	136	135	126	119	103	103	100	107	93
Central Foundry Company	124	132	94	95	101	103	105	105	108	92

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TYLER PIPE INDUSTRIES, INC.

COMPARATIVE DATA

NET EARNINGS PER SHARE INDEXES 1958-1967
(1958-59 = 100)

	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958
TYLER PIPE INDUSTRIES, INC.	540	353	329	282	251	229	269	131	142	58
Carrier Corporation	248	246	204	140	104	98	93	59	105	95
Armstrong Cork Company	159	186	201	191	162	126	111	98	117	83
Clow Corporation	144	123	150	147	102	87	89	104	110	90
Woodward Corporation	134	150	152	153	113	108	98	102	108	92
Johns-Manville Corporation	119	137	123	112	99	86	86	95	114	86
Central Foundry Company	73	41	27	69	96	84	100	127	117	83
United States Pipe and Foundry	70	83	84	69	66	52	62	73	120	80
United States Gypsum Company	68	67	79	98	92	85	84	88	106	94
Kaiser Cement & Gypsum	66	72	86	102	94	66	80	76	105	95
The Flintkote Company	60	85	89	107	94	87	78	92	113	87

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TYLER PIPE INDUSTRIES, INC.

COMPARATIVE DATA

RETURN ON AVERAGE INVESTED CAPITAL 1958-1967

	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958
TYLER PIPE INDUSTRIES, INC.	19.4%	13.5%	13.2%	12.9%	14.2%	16.0%	22.2%	13.0%	15.5%	6.2%
Clow Corporation	9.9	9.0	11.4	11.5	8.5	7.5	7.8	9.4	10.6	8.7
Armstrong Cork Company	9.6	12.5	14.4	14.8	13.6	11.5	10.7	9.9	12.4	9.4
Johns-Manville Corporation	9.5	11.5	10.8	10.2	9.4	8.3	8.5	9.7	12.2	9.9
Carrier Corporation	9.1	10.2	8.5	5.8	4.5	4.3	4.0	2.7	4.5	4.2
Woodward Corporation	8.2	9.5	10.2	10.8	8.3	8.0	7.4	7.6	8.4	ND
United States Gypsum Company	7.6	8.0	9.5	12.3	12.0	11.6	11.9	13.0	16.8	16.1
Kaiser Cement & Gypsum	6.6	7.1	8.3	8.5	8.5	6.8	8.1	8.5	12.8	12.1
United States Pipe and Foundry	4.9	6.4	7.0	5.9	5.7	4.5	5.5	6.6	11.4	7.9
Central Foundry Company	4.7	2.9	2.0	5.3	8.1	7.0	8.6	11.0	10.5	7.6
The Flintkote Company	4.1	5.5	5.9	7.0	6.3	6.0	5.9	7.5	9.6	6.8

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TYLER PIPE INDUSTRIES, INC.

COMPARATIVE DATA

RETURN ON AVERAGE COMMON EQUITY 1958-1967

	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958
TYLER PIPE INDUSTRIES, INC.	23.6%	17.6%	18.1%	18.3%	19.1%	20.5%	29.6%	18.0%	25.1%	11.7%
Kaiser Cement & Gypsum	12.6	14.6	18.7	15.2	15.1	11.0	14.0	14.1	21.3	21.3
Carrier Corporation	11.8	13.3	11.8	8.4	6.4	6.1	5.9	3.8	6.9	6.6
Clow Corporation	10.3	9.3	11.8	12.5	9.5	8.6	9.3	11.7	13.5	9.8
Armstrong Cork Company	10.2	13.0	15.1	15.7	14.5	12.2	11.4	10.6	13.5	10.1
Johns-Manville Corporation	9.5	11.5	10.8	10.3	9.5	8.4	8.5	9.8	12.3	10.1
United States Gypsum Company	8.5	8.2	9.6	12.4	12.1	11.7	12.0	13.1	17.1	16.4
Woodward Corporation	8.3	9.7	10.4	11.0	8.5	8.2	7.6	7.9	8.6	ND
Central Foundry Company	5.9	3.6	2.4	6.0	8.6	7.6	9.4	12.4	12.2	9.1
United States Pipe and Foundry	5.6	6.6	7.0	5.9	5.7	4.5	5.5	6.6	11.4	7.9
The Flintkote Company	5.2	7.7	8.7	10.9	9.9	9.5	8.9	10.7	12.5	8.9

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TYLER PIPE INDUSTRIES, INC.
COMPARATIVE DATA

PRETAX MARGINS 1958-1967

	<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>	<u>1961</u>	<u>1960</u>	<u>1959</u>	<u>1958</u>
United States Gypsum Company	15.2%	18.6%	21.0%	25.6%	25.7%	24.8%	25.9%	27.2%	29.8%	29.9%
Johns-Manville Corporation	11.8	14.1	13.2	12.7	12.7	11.2	11.4	13.7	14.3	12.7
TYLER PIPE INDUSTRIES, INC.	11.5	7.7	8.5	9.5	9.4	10.3	12.8	7.1	7.4	3.5
Clow Corporation	11.4	11.0	14.3	15.2	12.4	12.7	12.2	13.7	14.5	14.0
Kaiser Cement & Gypsum	11.0	12.1	13.9	15.3	15.0	13.1	14.9	13.9	20.1	20.4
Armstrong Cork Company	10.7	15.2	17.0	17.4	16.1	13.2	12.3	11.3	13.7	11.2
Woodward Corporation	10.1	11.3	12.6	14.5	12.6	13.7	13.4	19.2	19.5	ND
Carrier Corporation	9.7	10.5	9.2	6.9	5.7	6.1	6.0	4.3	6.7	6.3
United States Pipe and Foundry	5.2	6.2	8.8	7.4	7.8	7.6	9.8	12.6	17.9	13.8
The Flintkote Company	4.9	6.8	6.8	9.8	9.0	8.7	8.6	9.6	11.4	8.6
Central Foundry Company	3.9	2.3	2.2	4.7	8.5	7.3	9.0	11.3	10.4	8.4

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TYLER PIPE INDUSTRIES, INC.
COMPARATIVE DATA

CURRENT POSITION - DECEMBER 31, 1967

	<u>Current Assets</u>		<u>Current Liabilities</u> (000's)	<u>Current Ratio</u>	<u>Cash & Equiv. % to Current Liabilities</u>	<u>Working Capital % to Sales</u>
	<u>Cash & Equivalent</u> (000's)	<u>Total</u> (000's)				
Woodward Corporation	\$ 6,525	\$ 61,867	\$14,313	4.3	46%	31%
United States Gypsum Company	34,438	165,846	41,337	4.0	83	33
Carrier Corporation ^a	34,445	209,786	58,619	3.6	59	34
United States Pipe and Foundry	6,771	92,046	27,977	3.3	24	39
The Flintkote Company	19,859	104,463	32,900	3.2	60	25
TYLER PIPE INDUSTRIES, INC. ^b	709	10,373	3,441	3.0	21	17
Johns-Manville Corporation	48,384	204,037	70,456	2.9	69	26
Armstrong Cork Company	19,074	139,349	49,173	2.8	39	20
Clow Corporation	1,591	29,021	10,239	2.8	16	28
Central Foundry Company	1,395	14,000	6,153	2.3	23	26
Kaiser Cement & Gypsum	8,045	37,178	21,464	1.7	37	17

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1-55820

a October 31, 1967
b February 3, 1968

TYLER PIPE INDUSTRIES, INC.

COMPARATIVE DATA

CAPITALIZATION AT BOOK - DECEMBER 31, 1967

	Debt Over One Year (000's)	%	Preferred (000's)	Common Equity (000's)	Total (000's)
Johns-Manville Corporation	\$ 577	1	\$ 2,025	\$351,689	\$351,689
Woodward Corporation	1,045	2	391	104,214	106,816
Clow Corporation	6,956	3	12,143	40,305	41,741
Armstrong Cork Company				269,843	288,942
TYLER PIPE INDUSTRIES, INC. ^a	2,217	16	-	11,826	14,043
United States Pipe and Foundry	24,642	18	-	109,045	133,687
United States Gypsum Company	21,424	5	58,647	350,107	430,178
Central Foundry Company	3,050	19	-	13,189	16,239
Carrier Corporation	57,079	23	8,620	189,159	254,858
The Flintkote Company	41,189	18	44,473	143,281	228,943
Kaiser Cement & Gypsum	31,302	26	43,242	43,827	118,371

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T-55821

a February 3, 1968
b October 31, 1967

ARMSTRONG CORK COMPANY
COMPARATIVE FINANCIAL DATA
1958 - 1967
(In 000's)

Year Ended 12-31	Average Invested Capital ^a	Average Common Equity ^a	Net Sales	Pretax Income	Net Income	Pretax Margin	Effec. Tax Rate	Return on Capital	Return on Equity
1967	\$283,240	\$264,300	\$460,258	\$49,322	\$27,322	10.7%	45%	9.6%	10.2%
1966	250,404	237,728	388,821	53,912	31,312	15.2	47	12.5	13.0
1965	234,525	219,522	374,570	63,693	33,693	17.0	47	14.4	15.1
1964	216,671	200,075	360,768	62,637	32,037	17.4	49	14.8	15.7
1963	198,538	181,942	341,099	55,162	27,062	16.1	51	13.6	14.5
1962	184,329	167,733	322,749	42,721	21,121	13.2	51	11.5	12.2
1961	173,378	156,782	302,740	37,331	18,506	12.3	50	10.7	11.4
1960	164,088	147,492	291,539	32,825	16,225	11.3	51	9.9	10.6
1959	154,352	137,756	290,620	39,707	19,207	13.7	52	12.4	13.5
1958	145,438	128,842	249,959	28,007	13,607	11.2	51	9.4	10.1

a Average of beginning and ending balances for the year.

Per Share Data (Adjusted)^b

Year Ended 12-31	Net Income	Divi- dends	% Payout	Market High	Market Low	Close	Closing Price P/E	Price Yield	Indexes (1958-59=100) Salcs	Net Per Share
1967	\$2.50	\$1.40	56%	60 $\frac{1}{2}$	46 $\frac{1}{2}$	55	22.0	2.5%	170	159
1966	2.93	1.40	48	61 $\frac{1}{2}$	40	47 $\frac{1}{2}$	16.3	2.9	144	186
1965	3.16	1.375	44	73 $\frac{1}{2}$	53 $\frac{1}{4}$	60 $\frac{1}{2}$	19.2	2.3	139	201
1964	3.01	1.25	42	69	53 $\frac{1}{4}$	62 $\frac{1}{2}$	20.7	2.0	133	191
1963	2.55	1.05	41	55	33 $\frac{1}{2}$	55	21.6	1.9	127	162
1962	1.99	.95	48	36 $\frac{1}{2}$	23 $\frac{1}{4}$	33 $\frac{1}{2}$	17.0	2.8	119	126
1961	1.75	.85	49	37	25	35 $\frac{1}{2}$	20.3	2.4	112	111
1960	1.54	.80	52	26 $\frac{1}{2}$	19 $\frac{1}{2}$	25 $\frac{1}{2}$	16.6	3.1	108	98
1959	1.85	.80	43	24 $\frac{1}{2}$	17 $\frac{1}{4}$	21 $\frac{1}{2}$	11.6	3.7	108	117
1958	1.30	.70	54	19 $\frac{1}{2}$	11 $\frac{1}{2}$	19 $\frac{1}{2}$	14.8	3.6	92	83

b Adjusted for 2-for-1 stock split in 1964.

CONFIDENTIAL
T-55822

CARRIER CORPORATION
COMPARATIVE FINANCIAL DATA
1958 - 1967
(In 000's)

Year Ended 10-31	Average Invested Capitala	Average Common Equitya	Net Sales	Pretax Income	Net Income	Pretax Margin	Effec. Tax Rate	Return on Capital	Return on Equity
1967	\$240,466	\$181,687	\$438,515	\$42,707	\$21,907	9.7%	49%	9.1%	11.8%
1966	212,321	158,885	399,637	42,144	21,596	10.5	49	10.2	13.3
1965	193,701	133,262	350,807	32,445	16,485	9.2	49	8.5	11.8
1964	186,478	119,062	324,939	22,330	10,850	6.9	51	5.8	8.4
1963	182,623	114,692	299,038	17,164	8,139	5.7	52	4.5	6.4
1962	182,502	114,102	270,665	16,522	7,797	6.1	53	4.3	6.1
1961	183,701	112,297	266,283	16,033	7,433	6.0	54	4.0	5.9
1960	184,125	110,173	256,800	10,983	5,008	4.3	54	2.7	3.8
1959	183,496	107,461	263,434	17,596	8,266	6.7	53	4.5	6.9
1958	170,624	101,422	252,537	15,838	7,543	6.3	52	4.2	6.6

a Average of beginning and ending balances for the year.

Per Share Data (Adjusted)^b

Year Ended 10-31	Net Income	Divi- dends	% Payout	Market (Cal. Yr.) High Low Close	Closing Price P/E Yield	Indexes (1958-59=100) Sales Net Per Share
1967	\$2.85	\$1.00	35%	69 1/2 37 1/2 56 1/2	19.8 1.8%	170 248
1966	2.83	.90	32	44 1/2 26 1/2 38 1/2	13.7 2.3	155 246
1965	2.35	.65	28	38 1/2 18 36 1/2	15.4 1.8	136 204
1964	1.61	.53	33	20 1/2 14 18 1/2	11.2 2.9	126 140
1963	1.20	.53	44	14 1/2 12 13 1/2	11.5 3.9	116 104
1962	1.13	.53	47	14 1/2 10 1/2 12 1/2	10.8 4.3	105 98
1961	1.07	.53	50	16 1/2 10 1/2 14 1/2	13.6 3.7	103 93
1960	.68	.53	78	14 9 11	16.2 4.8	100 59
1959	1.21	.53	44	16 1/2 11 1/2 13 1/2	10.7 4.1	102 105
1958	1.09	.67	61	15 1/2 11 14 1/2	13.5 4.5	98 95

b Adjusted for stock splits of 3-for-2 in 1965 and 2-for-1 in 1967.

CENTRAL FOUNDRY COMPANY
COMPARATIVE FINANCIAL DATA
1950 - 1967
(In 000's)

Year Ended 12-31	Average Invested Capital ^a	Average Common Equity ^a	Net Sales	Pretax Income	Net Income	Pretax Margin	Effec. Tax Rate	Return on Capital	Return on Equity
1967	\$16,057	\$12,790	\$30,055	\$1,171	\$ 757	3.9%	35%	4.7%	5.9%
1966	15,202	12,161	32,087	728	434	2.3	40	2.9	3.6
1965	14,547	11,947	22,776	491	285	2.2	42	2.0	2.4
1964	13,534	11,934	23,169	1,085	720	4.7	34	5.3	6.0
1963	12,434	11,734	24,482	2,088	1,005	6.5	52	8.1	8.6
1962	12,519	11,619	25,052	1,827	880	7.3	52	7.0	7.6
1961	12,602	11,502	25,446	2,295	1,085	9.0	53	3.6	9.4
1960	12,414	11,014	25,424	2,876	1,366	11.3	53	11.0	12.4
1959	12,206	10,330	26,164	2,726	1,276	10.4	53	10.5	12.2
1958	11,975	9,724	22,375	1,876	906	8.4	52	7.6	9.1

a Average of beginning and ending balances for the year.

Year Ended 12-31	Net Income	Divi- dends	Payout %	Per Share Data (Adjusted) ^b			Closing Price P/E	Price Yield %	Indexes (1958-59=100)	
				High	Low	Market			Sales	Net Per Share
1967	\$1.04	\$ -	-%	14 1/4	7	12 1/2	12.0	-%	12 1/4	73
1966	.59	.27	46	14 1/4	7	7	11.9	3.9	132	41
1965	.39	.63	162	17 1/2	10 1/4	13 1/4	34.6	4.7	94	27
1964	.98	.91	93	17 1/2	12 1/4	13 1/4	13.5	6.9	95	69
1963	1.37	.89	65	17 1/2	13 1/2	16	11.7	5.6	101	96
1962	1.20	.89	74	21 1/4	13	13 1/4	11.3	6.6	103	84
1961	1.43	.98	69	30 1/4	16 1/4	20 1/4	14.3	4.8	105	100
1960	1.81	.98	54	22 1/4	15	16 1/2	9.1	5.9	105	127
1959	1.67	.68	41	18 1/4	11	16	9.6	4.3	108	117
1958	1.18	.55	47	11 1/4	7 1/4	11 1/4	10.0	4.7	92	83

b Adjusted for stock dividends of 5% in 1959, 1967 and 1968 and 2% in 1963.

CONFIDENTIAL
T-55824

CLOW CORPORATION
COMPARATIVE FINANCIAL DATA

1958 - 1967
(In 000's)

Year Ended 12-31	Average Invested Capital ^a	Average Common Equity ^a	Net Sales	Pretax Income	Net Income	Pretax Margin	Effec. Tax Rate	Return on Capital	Return on Equity
1967	\$41,086	\$39,138	\$66,305	\$7,586	\$4,068	11.4%	46%	9.9%	10.3%
1966	38,534	37,094	60,009	6,604	3,479	11.0	47	9.0	9.3
1965	36,319	34,785	55,443	7,937	4,152	14.3	48	11.4	11.8
1964	34,886	31,817	52,760	8,014	4,024	15.2	50	11.5	12.5
1963	33,016	29,175	46,303	5,738	2,808	12.4	51	8.5	9.5
1962	31,993	27,442	39,103	4,956	2,386	12.7	52	7.5	8.6
1961	31,463	25,894	40,881	5,001	2,456	12.2	51	7.8	9.3
1960	30,272	24,098	42,947	5,877	2,860	13.7	51	9.4	11.7
1959	28,559	22,087	42,938	6,209	3,022	14.5	51	10.6	13.5
1958	28,432	24,754	34,827	4,878	2,467	14.0	49	8.7	9.8

a Average of beginning and ending balances for the year.

Per Share Data (Adjusted)^b

Year Ended 12-31	Net Income	Divi- dends	% Payout	Market ^c			Closing Price		Indexes (1958-59=100)	
				High	Low	Close	P/E	Yield	Sales	Net Per Share
1967	\$2.95	\$1.25	42%	34	19½	34	11.5	3.7%	171	144
1966	2.52	1.25	50	27½	18	19½	7.8	6.3	154	123
1965	3.08	1.25	41	33	21½	22½	7.4	5.5	143	150
1964	3.01	1.11	37	25½	20¼	25¼	8.4	4.4	136	147
1963	2.10	.625	30						119	102
1962	1.78	.625	35						101	87
1961	1.83	.62	34						105	89
1960	2.14	.61	29						110	104
1959	2.26	.74	33						110	110
1958	1.84	.61	33						90	90

Privately Held

b Adjusted for 2-for-1 stock split in 1964 and 1% stock dividends in 1960 and 1961.
c Offered on 5/21/64 @ 23¼.

CONFIDENTIAL
T-55825

THE FLINTKOTE COMPANY
COMPARATIVE FINANCIAL DATA

1958 - 1967

(In 000's)

Year Ended 12-31	Average Invested Capitala	Average Common Equitya	Net Sales	Pretax Income	Net Income	Pretax Margin	Effec. Tax Rate	Return on Capital	Return on Equity
1967	\$228,864	\$141,842	\$291,727	\$14,164	\$ 9,335	4.9%	34%	4.1%	5.2%
1966	224,052	134,269	299,044	20,223	12,355	6.8	39	5.5	7.7
1965	218,090	125,476	282,246	19,102	12,843	6.8	33	5.9	8.7
1964	214,279	118,757	273,500	26,733	14,945	9.8	44	7.0	10.9
1963	212,432	114,693	273,856	24,543	13,379	9.0	45	6.3	9.9
1962	211,148	111,615	267,610	23,248	12,602	8.7	46	6.0	9.5
1961	193,499	106,916	245,521	21,052	11,479	8.6	45	5.9	8.9
1960	173,089	103,108	249,029	23,906	12,964	9.6	46	7.5	10.7
1959	148,472	105,724	218,075	24,874	14,286	11.4	43	9.6	12.5
1958	111,037	71,884	154,200	13,185	7,536	8.6	43	6.8	8.9

a Average of beginning and ending balances for the year.

Per Share Data (Adjusted)^b

Year Ended 12-31	Net Income	Divi-dends	% Payout	Market High	Market Low	Close	Closing Price P/E	Yield	Indexes (1958-59=100) Sales	Net Per Share
1967	\$1.32	\$1.00	76%	27 1/2	16 3/4	24 1/2	18.6	4.1%	157	60
1966	1.86	1.00	54	24 1/2	15	16 1/2	8.9	6.1	161	85
1965	1.96	1.00	51	26	18	20 1/2	10.6	4.8	152	89
1964	2.34	.85	36	28 1/2	21 1/2	23	9.8	3.7	147	107
1963	2.06	.80	39	24 1/2	17 1/2	24 1/2	11.8	3.3	147	94
1962	1.92	.80	42	26 1/2	14	17 1/2	9.2	4.5	144	87
1961	1.72	1.10	64	34 1/2	22 1/2	24 1/2	14.1	4.5	132	78
1960	2.01	1.29	64	36 1/2	23 1/2	28 1/2	14.3	4.5	134	92
1959	2.49	1.67	67	42 1/2	30 1/2	33 1/2	13.4	5.0	117	113
1958	1.90	1.52	80	39	23 1/2	36 1/2	19.3	4.1	83	87

b Adjusted for 3-for-2 stock split in 1959 and 1 1/2% stock dividend in 1960.

CONFIDENTIAL
T-55826

JOHNS-MANVILLE CORPORATION
COMPARATIVE FINANCIAL DATA

1958 - 1967

(In 000's)

Year Ended 12-31	Average Invested Capital ^a	Average Common Equity ^a	Net Sales	Pretax Income	Net Income	Pretax Margin	Effec. Tax Rate	Return on Capital	Return on Equity
1967	\$344,337	\$344,337	\$510,409	\$60,361	\$32,601	11.8%	46%	9.5%	9.5%
1966	331,365	330,740	512,496	72,288	38,038	14.1	47	11.5	11.5
1965	317,521	316,146	480,180	63,504	34,134	13.2	46	10.8	10.8
1964	305,096	303,471	458,879	58,265	31,185	12.7	46	10.2	10.3
1963	294,462	292,587	414,881	52,581	27,681	12.7	47	9.4	9.5
1962	287,555	285,430	392,345	43,777	23,927	11.2	45	8.3	8.4
1961	282,039	279,664	377,784	43,012	23,862	11.4	45	8.5	8.5
1960	273,164	270,539	365,175	49,949	26,508	13.7	47	9.7	9.8
1959	260,137	257,262	377,562	55,746	31,616	14.8	43	12.2	12.3
1958	234,945	231,640	331,743	42,224	23,374	12.7	45	9.9	10.1

^a Average of beginning and ending balances for the year.

Per Share Data

Year Ended 12-31	Net Income	Dividends	% Payout	Market High	Market Low	Close	Closing P/E	Price Yield	Indexes (1958-59=100)
1967	\$3.91	\$2.20	56%	66 $\frac{3}{4}$	47 $\frac{3}{4}$	54 $\frac{1}{4}$	13.9	4.0%	144
1966	4.50	2.20	49	61	45	48 $\frac{1}{4}$	10.7	4.6	145
1965	4.03	2.05	51	64	51 $\frac{1}{4}$	55 $\frac{1}{4}$	13.8	3.7	135
1964	3.67	2.00	54	62 $\frac{1}{2}$	48 $\frac{1}{2}$	53 $\frac{1}{2}$	14.6	3.7	129
1963	3.25	2.00	62	51 $\frac{1}{2}$	42	48 $\frac{1}{2}$	15.0	4.1	117
1962	2.81	2.00	71	59 $\frac{1}{2}$	38 $\frac{1}{2}$	43	15.3	4.7	111
1961	2.81	2.00	71	74 $\frac{1}{4}$	55 $\frac{1}{4}$	57	20.3	3.5	107
1960	3.12	2.00	64	62 $\frac{1}{4}$	44 $\frac{1}{4}$	57 $\frac{1}{4}$	18.3	3.5	103
1959	3.74	2.00	53	59 $\frac{1}{4}$	46 $\frac{1}{4}$	49 $\frac{1}{4}$	13.2	4.0	106
1958	2.83	2.00	71	52 $\frac{1}{2}$	34 $\frac{1}{4}$	52 $\frac{1}{2}$	10.6 10.6	3.8	94

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T-55827

KAISER CEMENT & GYPSUM CORPORATION

COMPARATIVE FINANCIAL DATA

1958 - 1967

(In 000's)

Year Ended 12-31	Average Invested Capitala	Average Common Equitya	Net Sales	Pretax Income	Net Income	Pretax Margin	Effec. Tax Rate	Return on Capital	Return on Equity
1967	\$118,083	\$43,381	\$93,774	\$10,324	\$7,764	11.0%	25%	6.6%	12.6%
1966	116,248	40,946	98,079	11,886	8,249	12.1	31	7.1	14.6
1965	113,685	37,943	97,327	13,524	9,384	13.9	31	8.3	18.7
1964	106,348	55,598	90,689	13,847	9,347	15.3	32	8.8	15.2
1963	102,357	51,607	85,984	12,871	8,711	15.0	32	8.5	15.1
1962	92,892	49,014	74,741	9,806	6,289	13.1	36	6.8	11.0
1961	82,390	46,977	74,376	11,110	6,640	14.9	40	8.1	14.0
1960	73,532	44,481	72,006	9,979	6,279	13.9	37	8.5	14.1
1959	67,979	40,965	77,164	15,507	8,710	20.1	44	12.8	21.3
1958	64,895	36,704	67,359	13,716	7,821	20.4	43	12.1	21.3

a Average of beginning and ending balances for the year.

Per Share Data

Year Ended 12-31	Net Income	Divi- dends	% Payout	Market High	Market Low	Close	Closing Price P/E	Yield	Indexes (1958-59=100) Sales	Net Per Share
1967	\$.95	\$.80	84%	19 1/2	12 1/2	16 1/2	17.6	4.8%	130	66
1966	1.04	.80	77	16	10 1/2	12 1/2	12.0	6.4	136	72
1965	1.24	.30	65	19 1/4	14 1/4	15 1/4	12.3	5.2	135	86
1964	1.47	.75	51	25	16	17 1/2	12.1	4.2	126	102
1963	1.36	.70	51	19 1/4	13 1/4	16	11.8	4.4	119	94
1962	.95	.70	74	19 1/4	12 1/2	13 1/2	14.2	5.2	103	66
1961	1.15	.70	61	21 1/2	18	19 1/2	17.0	3.6	103	80
1960	1.10	.70	64	23 1/2	13 1/2	19	17.3	3.7	100	76
1959	1.52	.70	46	30 1/2	21 1/4	22 1/4	15.0	3.1	107	105
1958	1.37	.715	52	24	13 1/4	24 1/4	17.7	2.9	93	95

B-7.

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T-55828

TYLER PIPE INDUSTRIES, INC.

COMPARATIVE FINANCIAL DATA

1958 - 1968

(In 000's)

Fiscal Year ^a	Average Invested Capital ^b	Average Common Equity ^b	Net Sales	Pretax Income	Net Income	Pretax Margin	Effec. Tax Rate	Return on Capital	Return on Equity
1968	\$13,334	\$10,942	\$41,009	\$4,736	\$2,584	11.5%	45%	19.4%	23.6%
1966	12,498	9,581	39,714	3,074	1,686	7.7	45	13.5	17.6
1965	11,863	8,653	34,230	2,911	1,566	8.5	46	13.2	18.1
1964	10,448	7,347	29,237	2,776	1,348	9.5	51	12.9	18.3
1963	8,116	5,974	24,370	2,290	1,152	9.4	50	14.2	19.1
1962	6,507	5,004	20,062	2,074	1,040	10.3	50	16.0	20.5
1961	5,422	4,014	18,102	2,321	1,201	12.8	48	22.2	29.6
1960	4,235	2,956	16,596	1,186	549	7.1	54	13.0	18.0
1959	3,679	2,258	15,563	1,154	569	7.4	51	15.5	25.1
1958	3,248	1,725	11,003	383	202	3.5	47	6.2	11.7

^a Years ended about October 31, 1958-1966 and year ended February 3, 1968.

^b Average of beginning and ending balances for the year.

Per Share Data (Adjusted)^c

Fiscal Year ^a	Net Income	Divi- dends	% Payout	Market ^d (Cal. Yr.)			Closing Price		Indexes (1958-59=100)	
				High	Low	Close	P/E	Yield	Sales	Net Per Share
1968	\$2.43	\$.80	33%	18 $\frac{1}{4}$	10	17 $\frac{3}{4}$	7.3	4.5%	309	540
1966	1.59	.80	50	14 $\frac{1}{4}$	10	10	6.3	8.0	299	353
1965	1.48	.54	36	14 $\frac{1}{4}$	10 $\frac{1}{4}$	13	8.8	4.2	258	329
1964	1.27	.34	27	12 $\frac{1}{4}$	10 $\frac{1}{4}$	10 $\frac{1}{4}$	8.1	3.3	220	282
1963	1.13	.27	24						183	251
1962	1.03	.26	25						151	229
1961	1.21	.13	11						136	269
1960	.59	-	-						125	131
1959	.64	-	-						117	142
1958	.26	-	-						83	58

Privately Held

^c Adjusted for 20-for-1 stock split in fiscal year 1961 and 3% stock dividends in fiscal years 1963-1966.

^d Offered 9/21/64 @ 13 $\frac{1}{2}$ (12 $\frac{1}{2}$ adjusted).

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UNITED STATES GYPSUM COMPANY
COMPARATIVE FINANCIAL DATA

Year Ended 12-31	Average Invested Capital ^a	Average Common Equity ^a	Net Sales	1958 - 1967 (In 000's)		Pretax Margin	Effec. Tax Rate	Return on Capital	Return on Equity
				Pretax Income	Net Income				
1967	\$427,461	\$347,173	\$372,759	\$56,637	\$32,487	15.2%	43%	7.6%	8.5%
1966	368,414	357,727	291,151	54,183	29,539	18.6	45	8.0	3.2
1965	363,443	355,621	304,152	63,739	34,646	21.0	46	9.5	9.6
1964	351,111	343,289	315,554	80,929	43,016	25.6	47	12.3	12.4
1963	334,969	327,147	303,216	77,846	40,145	25.7	48	12.0	12.1
1962	321,069	313,247	288,006	71,495	37,124	24.8	48	11.6	11.7
1961	308,823	301,001	272,668	70,578	36,702	25.9	48	11.9	12.0
1960	295,943	288,121	273,460	74,264	38,394	27.2	48	13.0	13.1
1959	276,019	268,197	301,026	89,686	46,343	29.8	48	16.8	17.1
1958	254,168	246,346	265,763	79,452	40,926	29.9	48	16.1	16.4

^a Average of beginning and ending balances for the year.

Year Ended 12-31	Net Income	Divi- dends	% Payout	Per Share Data			Closing Price P/E	Yield	Indexes (1958-59=100)	
				High	Low	Close			Sales	Net Per Share
1967	\$3.65	\$3.20	88%	82 1/4	56 1/4	65 1/4	18.0	4.9%	132	68
1966	3.62	3.20	88	67 1/4	43 1/4	56 1/4	15.6	5.7	103	67
1965	4.22	3.20	76	84 1/4	62 1/4	66 1/4	15.8	4.8	107	79
1964	5.26	3.20	61	99 1/4	76 1/4	80 1/4	15.3	4.0	111	98
1963	4.92	3.10	63	90 1/4	73 1/4	84	17.1	3.7	107	92
1962	4.55	3.00	66	105 1/4	65 1/4	73 1/4	16.1	4.1	102	85
1961	4.50	3.00	67	115	95 1/4	104 1/4	23.3	2.9	96	84
1960	4.71	3.00	64	116 1/4	75 1/4	103	21.9	2.9	96	88
1959	5.70	3.00	53	120	85 1/4	94 1/4	16.5	3.2	106	106
1958	5.05	2.85	56	102	65 1/4	98	19.4	2.9	94	94

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UNITED STATES PIPE AND FOUNDRY COMPANY

COMPARATIVE FINANCIAL DATA

1958 - 1967

(In 000's)

Year Ended 12-31	Average Invested Capitala	Average Common Equitya	Net Sales	Pretax Income	Net Income	Pretax Margin	Effec. Tax Rate	Return on Capital	Return on Equity
1967	\$122,649	\$108,155	\$162,464	\$ 8,379	\$ 6,027	5.2%	28%	4.9%	5.6%
1966	111,175	109,002	165,445	10,297	7,156	6.2	31	6.4	6.6
1965	109,144	109,144	154,401	13,541	7,606	8.8	44	7.0	7.0
1964	106,483	106,483	150,378	11,136	6,263	7.4	44	5.9	5.9
1963	104,665	104,665	135,480	10,581	5,945	7.8	44	5.7	5.7
1962	102,827	102,827	117,962	8,961	4,659	7.6	48	4.5	4.5
1961	101,139	101,139	107,370	10,471	5,596	9.8	47	5.5	5.5
1960	99,415	99,415	103,016	13,025	6,595	12.6	49	6.6	6.6
1959	95,032	95,032	119,866	21,479	10,864	17.9	49	11.4	11.4
1958	89,942	89,942	104,656	14,473	7,143	13.8	51	7.3	7.9

a Average of beginning and ending balances for the year.

Per Share Data

Year Ended 12-31	Net Income	Divi- dends	% Payout	High	Low	Market Close	Closing P/E	Price Yield	Indexes (1958-59=100)
1967	\$1.70	\$1.20	71%	30	17	29	17.5	4.0%	145
1966	2.02	1.20	59	23	17	17	8.5	7.0	147
1965	2.06	1.20	58	24	19	21	10.8	5.6	138
1964	1.69	1.20	71	22	18	20	11.8	6.0	134
1963	1.61	1.20	75	20	15	18	11.5	6.5	121
1962	1.26	1.20	95	23	14	15	11.9	8.0	105
1961	1.51	1.20	79	27	21	22	14.7	5.4	96
1960	1.78	1.20	67	26	20	23	12.9	5.2	92
1959	2.94	1.20	41	29	24	25	8.8	4.7	107
1958	1.94	1.20	62	28	18	27	13.9	4.4	93

WOODWARD CORPORATION
COMPARATIVE FINANCIAL DATA

1958 - 1967
(In 000's)

Year Ended 12-31	Average Invested Capitala	Average Common Equitya	Net Sales	Pretax Income	Net Income	Pretax Margin	Effec. Tax Rate	Return on Capital	Return on Equity
1967	\$105,499	\$102,897	\$155,302	\$15,647	\$8,659	10.1%	45%	6.2%	8.3%
1966	101,921	99,317	152,464	17,277	9,731	11.3	44	9.5	9.7
1965	91,722	89,058	133,665	16,858	9,351	12.6	45	10.2	10.4
1964	87,253	84,341	123,623	17,953	9,437	14.5	47	10.8	11.0
1963	84,766	81,470	105,765	13,333	7,028	12.6	47	8.3	8.5
1962	83,827	80,277	92,863	12,701	6,703	13.7	47	8.0	8.2
1961	83,031	79,174	87,479	11,716	6,144	13.4	48	7.4	7.6
1960	68,005	63,969	50,942	9,778	5,176	19.2	47	7.6	7.9
1959	65,543	62,370	54,205	10,548	5,486	19.5	48	8.4	8.6
1958	ND	ND	46,551	ND	4,687	ND	ND	ND	ND

a Average of beginning and ending balances for the year.

Per Share Data

Year Ended 12-31	Net Income	Divi- dends	% Payout	Market			Closing Price P/E	Yield	Indexes (1953-59=100)	
				High	Low	Close			Sales	Net Per Share
1967	\$2.65	\$1.60	60%	36	23 1/4	28	10.6	5.7%	308	134
1966	2.96	1.60	54	31 1/4	23 1/4	24	8.1	6.7	303	150
1965	3.00	1.60	53	33 1/4	29 1/4	31 1/4	10.4	5.1	265	152
1964	3.03	1.60	53	31 1/4	26 1/4	29 1/4	9.8	5.4	245	153
1963	2.24	1.60	71	29 1/4	24 1/2	27 1/4	12.2	5.9	210	113
1962	2.13	1.60	75	29 1/4	23	24 1/4	11.6	6.5	184	108
1961	1.93	1.60	83	31 1/4	22 1/4	28 1/4	14.6	5.7	174	98
1960	2.02	1.60	79	30 1/4	22 1/4	22 1/4	11.3	7.0	101	102
1959	2.13	1.60	75	36 1/4	28 1/4	28 1/4	13.5	5.6	108	108
1958	1.82	1.60	88	32 1/4	21 1/4	31 1/4	17.2	5.1	92	92

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