CERTAIN-TEED PRODUCTS CORPORATION • ANNUAL REPORT 1968

the challenge of the seventies

contents

COVER: Freddy and Drarrell Butler live in Montopolis, a low-income area on the outskirts of Austin, Tex. The housing plight of the Butler family and of millions of families like theirs is what "The Challenge of the Seventies" is all about.

the challenge of the seventies

In the decade ahead, the greatest single challenge facing industry and government is to find, within the profit-centered framework of the free enterprise system, solutions to the growing maze of social and economic problems with which we are now faced. For American industry generally, and for Certain-teed particularly, this is the "Challenge of the Seventies."

While these problems take numerous forms—and their eventual solutions will depend heavily upon the imaginative application of our talents and resources — the mounting need for more and better housing is at the heart of many. The passage through Congress of the 1968 Housing and Urban Development Act corroborates the firm belief of concerned citizens everywhere that slums can no longer be tolerated.

This Act, one of the most ambitious housing laws in the nation's history, has set as a national goal the construction or rehabilitation of 26 million dwellings over the next 10 years.

To accomplish this mammoth undertaking, private involvement in housing must be motivated on an unprecedented scale, stimulating the development of new construction materials and building techniques, changing antiquated building codes, increasing the supply of trained manpower, providing new sources of mortgage capital, and enlarging our sense of social responsibility.

Certain-teed's management has focused on the impending crisis that we now face, and has done considerable study and planning toward mobilizing the Company's research and development, plant expansion and acquisition programs to prepare for our vital role in meeting the challenge.

Late last year, in Austin, Tex., we were privileged to participate in a ceremony that highlights the nation's search for a solution to the problem of housing the poor. On that day, then President Johnson dedicated an experimental low-income housing project, Austin Oaks '68, supervised by the University of Texas in cooperation with the U.S. Department of Housing & Urban Development. One of the 10 prototype homes in the experiment was built by Certain-teed.

Austin Oaks '68 involves one of the most complete studies of its type ever made, and is aimed at developing guidelines for low-income housing. The two-year project will include intensive research of the engineering, architectural and even the sociological features of each home, as well as a detailed cost analysis of its construction, operation and maintenance.

The one-story, two-bedroom Certain-teed House, aimed at the low-income market, employs a new system of masonry construction created by the Company. It consists of extruded asbestos cement components which fit together like a giant Erector Set to make a flexible, modular system that reduces field construction costs and may be applied to a wide variety of shelter sizes and styles, including two-story townhouses.

The Certain-teed House is a product of the resources and imagination of the Company's many divisions and demonstrates the ever-

". . . we have all the restlessness and disorder in the cities because people who cannot eat in a decent place, cannot sleep in a decent place and cannot grow up in a decent place are just not going to be decent citizens . . ."—Former President Lyndon B. Johnson at the dedication of Austin Oaks '68.

widening role of Certain-teed in the building and construction industry. The architectural components, for example, were developed in cooperation with the Pipe Division with its technical skill in the production of extruded asbestos cement materials. The Wm. Cameron Division supplied the doors, windows, kitchen cabinets, decorative blinds and the interior and exterior trim. Fiberglass insulation and ductwork came from Certain-teed Saint Gobain Insulation Corp., while the asphalt shingles for the roof were produced by the Building Materials Division. Future models of the house will include all-plastic plumbing produced by the Plastics Division.

The Certain-teed House is one step in the company's continuing search for the materials and products that will answer the "Challenge of the Seventies." But it is but a part of our involvement in the task which lies ahead.

Rehabilitation of our cities and rural poverty areas, as well as the construction of totally new cities to accommodate a burgeoning population, will need to include new and improved hospitals, schools, colleges, libraries, shopping centers, neighborhood recreation facilities, job training centers, hotels and motels. It will also need to include the modernization and expansion of water, sewage, gas, electric, telephone and municipal services as well as transportation arteries. And along with this explosive growth will be an accompanying increase in industrial construction to meet the rising demands of a more and more affluent consumer.

Certain-teed, through its divisions serving a large and growing

"In pursuing our goals of full employment, better housing, excellence in education; in rebuilding our cities and improving our rural areas; in protecting our environment and enhancing the quality of life; in all these and more, we will and must press urgently forward."
—President Richard M. Nixon in his Inaugural Address.

segment of the construction industry, is uniquely equipped to be a significant part of this venture.

Paralleling the construction pace of the Seventies will be unusual growth in the market for home furnishings as a result of the combined increase in population and consumer income. In anticipation of this, agreements have been made for the acquisition by Certain-teed of KOB Carpets, Inc., of Cartersville, Ga., which produces tufted broadloom carpeting distributed through a nationwide network of distributors and dealers.

The "Challenge of the Seventies" clearly calls for an undertaking requiring all of the economic wisdom and industrial skills at our command, as well as new and as yet undevised partnerships between government and private enterprise. Certain-teed Products Corporation has a large and growing stake in the outcome, and is poised to play a leading role in answering the challenge.

We are pleased to announce that during 1968 the Board of Directors elected Geoffrey S. Sutcliffe, deputy chairman of Turner & Newall, Ltd., a director, and E. L. Melton, Byron C. Radaker, and Fred N. Vinson as vice presidents of the company. Mr. Ronald G. Soothill, former chairman of Turner & Newall, Ltd., and a director of the company, retired during the year. We also regret that Mr. Donald N. Clausen, who served for many years as a director and counsel, has retired from the board. We sincerely appreciate the fine services of these gentlemen.

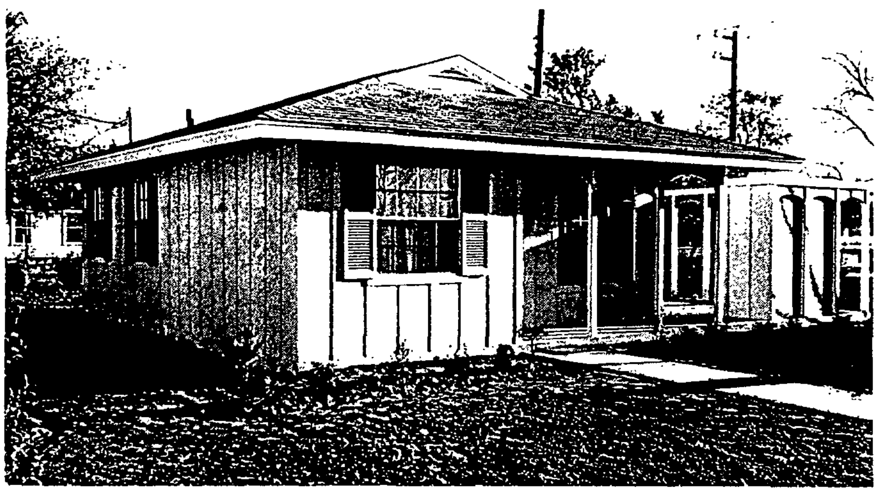
We wish to express our appreciation for the cooperation of our stockholders, customers and friends; and to commend the efforts of our employees, all of whom have contributed much in 1968, and whose continued cooperation is essential to our success in the future.

Respectfully submitted,

Rawson G. Lizars
Chairman of the Board

Malcolm Meyer
President

Ardmore, Pennsylvania
February 20, 1969



The Certain-teed House at Austin Oaks '68

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operations in 1968

The year 1968 produced a sharp recovery for the Company as housing activity in the country began its move toward the levels required to meet the housing needs of the Seventies. Sales climbed to $177,580,550, from $167,176,426 in 1967, reflecting an improvement in both volume and prices for our major product lines. Net earnings after taxes for the year were $6,904,254, as compared with $3,034,156 for 1967. Earnings per share of Common Stock (stated before and after conversion of Series A Convertible Preferred Stock) were $1.65 and $1.45, based on the average number of shares outstanding, as compared with 53¢ and 64¢ for 1967. Results of operations for 1967 reflect the inclusion for the first six months of certain sales, costs and expenses arising from activities which, effective June 30, 1967, were transferred to a 50 percent-owned company, Certain-teed Saint Gobain Insulation Corporation (CSG).

During 1968, CSG invested more than $10 million in capital improvements to utilize patents and processes acquired from Compagnie de Saint Gobain. During the year, CSG incurred a loss of $2,665,712 (see note 8(d) to Notes to Financial Statements) resulting from curtailment in production of its insulation products during the shut-down of plant facilities for the conversion program. This phase of CSG's expansion program should be completed in 1969, and a profitable base established for further expansion to meet anticipated market demands (see page 6).

The Company acquired in 1968 a controlling interest in Commercial Acceptance Corporation (CAC) through the conversion of Subordinated Notes into Common Stock (see page 5), and is entering the home furnishings market through the acquisition of KOB Carpets, Inc. (see page 7).

The financial position of the Company was further strengthened during 1968 through the sale of 150,000 shares of Common Stock upon the exercise of outstanding stock purchase warrants. Working capital at the year end rose to $48,185,089, from $44,848,665 at the close of 1967.

As a result of the exercise of conversion rights by the holders of the Series A Convertible Preferred Stock, Common Stock increased during the year by 487,107 shares. Dividend payments on the Common Stock during 1968 amounted to $2,857,253, or 80¢ per share. Dividend payments on the Series A Convertible Preferred Stock during 1968 amounted to $1,071,845, or 90¢ per share.

The level of capital expenditures is being stepped up to provide new plant capacity, and in 1969 are likely to more than double those of 1968. A new roofing plant in Ohio, three PVC pipe plants to serve the Southeast, the Southwest and the West Coast, along with a number of improvements to our existing facilities to increase capacity and reduce costs are presently planned.

Prices of the Company's major building products showed improvement in 1968 over the levels experienced in 1967, but generally failed to return to the levels of prior years. With continuing increases in costs, it is clear that additional price increases are necessary to fully restore adequate profit margins. Recent price increases have been announced for certain of the Company's principal products.

As this report goes to press, a new Administration in Washington is seeking effective solutions to the housing problems of our nation. Our Company believes that a unified effort by industry, labor, government and the general public will be required in the decade ahead to make significant inroads into this most difficult area. Success in this undertaking will bring great rewards for our country, our industry and our Company.

commercial acceptance corporation

A majority of the Common Stock of Commercial Acceptance Corporation was acquired during the year by Certain-teed. This company, whose history of operations has been in the fields of construction, mortgage financing and real estate, is expanding rapidly into motel operations and new commercial and residential construction techniques.

A new plant is now under construction in Alabama and will be utilized by the Modular Sciences Division of the company to manufacture modular motel rooms. The modular units will be completed in the plant and shipped as a finished product, including equipment and furnishings such as air conditioning, heating, wiring, plumbing, ceramic tile bathrooms, and even carpeting. The units will be delivered to a motel site, set in place on a foundation by cranes and will need only connection of utilities.

Immediate plans are to limit production to the manufacture of such units for the company's Matador Motor Inns Division. However, long term plans may include use of the company's skill and technology in producing modular residential units and certain types of commercial buildings.

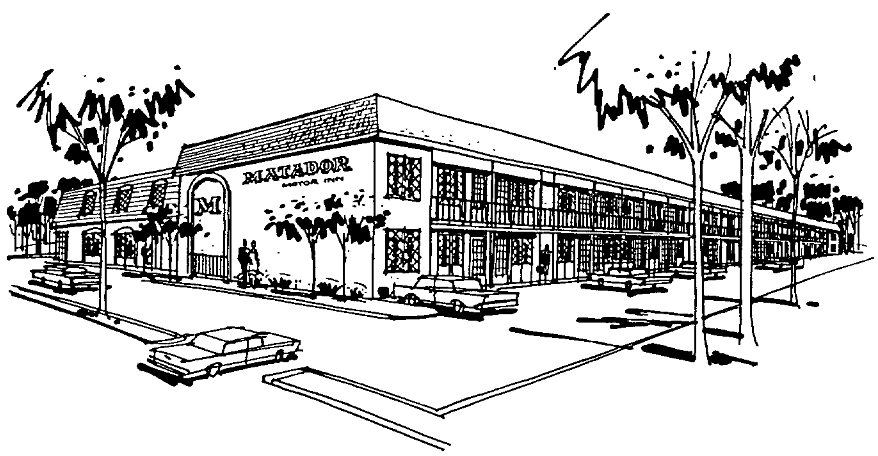
The Matador Motor Inns Division of CAC has been established for the purpose of owning and operating motor inns which will be built of modular units. They are designed for use primarily by commercial and family travelers.

Each Matador Motor Inn will include a restaurant, "The Cape and Sword," and a swimming pool. Heating and air conditioning, with individual room controls, will be provided and there will be a variety of room sizes, including family rooms. The first Matador Motor Inn is now under construction in Atlanta adjacent to a large amusement complex, "Six Flags Over Georgia." Plans call for ownership and operation of additional motel units and, at a later date, establishment of a franchising program.

Vencedor Development Corporation, another division, is engaged in real estate development and residential and commercial construction in Puerto Rico. Approximately 2,500 houses, with a price range of $14,000 to $20,000, are planned for construction on three company-owned tracts in suburban San Juan, two of which are presently being developed.

This Division also operates a manufacturing facility for production of asbestos cement products. In addition to various types of pipe, the plant produces extruded components used in a modular system of masonry construction. The parts can be quickly assembled on a concrete slab foundation and provide housing at a low cost with a wide flexibility in design.

Vencedor will construct some modular homes of this type in its present projects, and is planning to use the system for low-cost housing elsewhere in Puerto Rico and in the Caribbean area. The modular masonry house also has great potential in the continental United States for commercial applications and for low- and medium-priced residences.

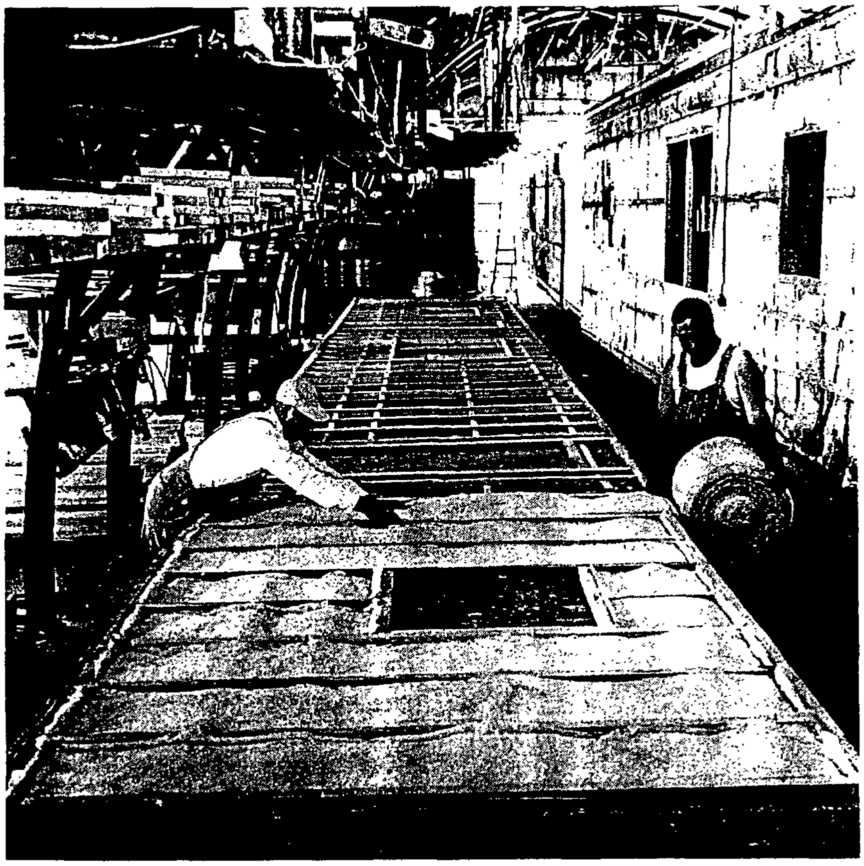


certain-teed saint gobain insulation corporation (csg)

Certain-teed Saint Gobain Insulation Corporation (CSG), headquartered in Bala-Cynwyd, Pa., was a company undergoing change in 1968 as two of the company's three manufacturing facilities, in Mountaintop, Pa., and Berlin, N.J., were completely rebuilt. The third facility, in Kansas City, Kan., received a partial conversion to the advanced fiberglass manufacturing processes developed by Compagnie de Saint Gobain, Paris, France.

Compagnie de Saint Gobain, which owns CSG jointly with Certain-teed, has been a world leader in glass manufacture for more than 300 years. One of its first projects was making glass for the famed Hall of Mirrors at Versailles. Since then, Saint Gobain has grown to be the largest glass-works in Europe and one of the largest in the world, and has pioneered many of the technological developments in the manufacture of glass fiber and related products. The right to use its patents and advanced technology for the production of fiberglass and other insulation products has been granted to CSG, forming the basis for the company's rebuilding program.

As a result of its plant conversions, Certain-teed Saint Gobain is the second largest producer of fiberglass insulations in the country. CSG today manufactures and markets fiberglass home insulation, residential and commercial ceiling panels, and fiberglass insulations for industrial and commercial construction, mobile homes, appliances, equipment, and the transportation industry.

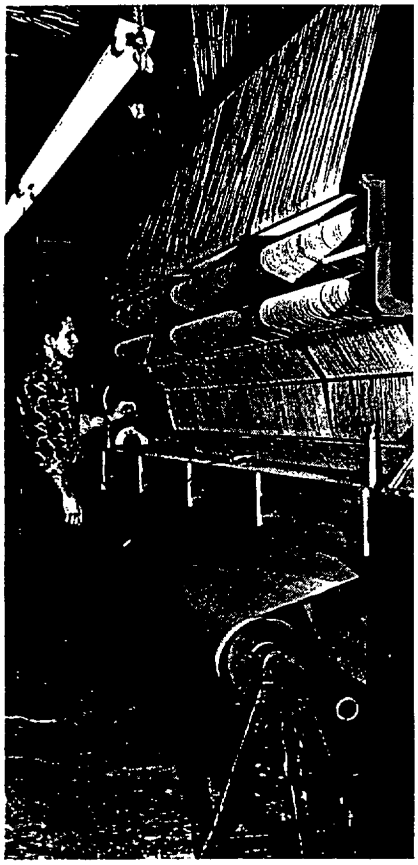


CSG fiberglass insulation is finding wide acceptance among mobile home manufacturers

CSG sales offices are located throughout the United States, and the Company operates distribution centers in Chicago, Ill.; Long Island, N.Y.; La Mirada, Calif.; and Baltimore, Md. A new distribution center is now under construction in Atlanta, Ga.

With its plant conversions to the Saint Gobain processes, with capabilities to produce a complete line of insulating materials, and with a marketing network throughout the United States, Certain-teed Saint Gobain is laying the foundation for a period of rapid expansion.

kob carpets, inc.



Certain-teed has entered the rapidly expanding broadloom carpeting market through its recent acquisition of KOB Carpets, Inc., of Cartersville, Ga., which produces a line of plush, scroll and shag carpeting using modern synthetic yarns of nylon, acrylics and polyester for the new residential construction, household replacement, vacation, and mobile home markets.

KOB has demonstrated its ability to successfully serve a market that is steadily climbing. Soft flooring's dramatic growth in recent years is attributable to new technologies and the introduction of versatile, man-made fibers which together have brought wall-to-wall carpeting price levels within the reach of most family budgets.

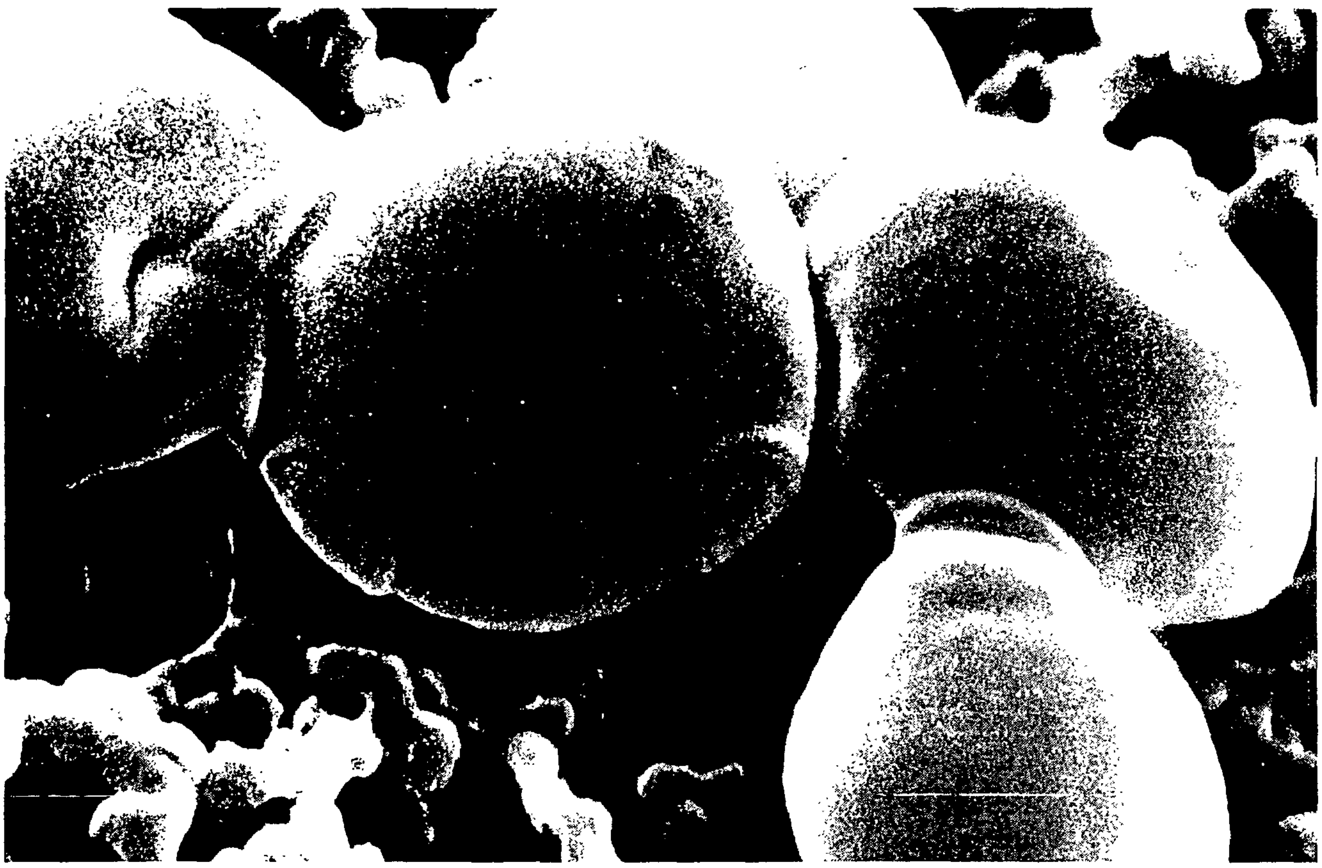
Carpeting sales in the next decade are expected to receive a strong boost from the population explosion, particularly among young families; the attendant rapid increase in personal income; changing consumer tastes evidenced by greater home-oriented interest and individuality of expression; the strong upsurge in housing starts; and FHA's recent authorization to include carpeting under its mortgage insurance programs.

To meet projected demand requirements, KOB in 1969 plans to expand its Cartersville production facility and to add new tufting and finishing equipment.

Part of this program calls for KOB's entry into the contract (commercial and institutional) carpeting market which has substantial growth prospects. As labor continues to be in shorter supply and increasingly more costly, architects, commercial sponsors, and contract buyers are relying more heavily on carpeted floors that, in most applications, cost less to maintain than those that are uncarpeted. They are also becoming more aware of carpeting's other features, including acoustical, safety, sanitation and thermal insulation, as well as design aesthetics.

Certain-teed's channels of distribution in the building materials field are expected to significantly supplement KOB's national distribution network, while the new partnership will provide a base from which Certain-teed can further extend its interests into the household furnishings market.

alpha research & development, inc.



Certain-teed Products Corporation this year acquired controlling interest in Alpha Research & Development, Inc. The privately-owned research firm, located in Blue Island, Ill., is engaged in a wide variety of research, development, engineering and testing programs for both industrial and governmental clients.

In recent years, Alpha Research & Development's many research projects, utilizing the company's extensive background in surface chemistry and its stereoscanning electron microscope facilities, have resulted in the development of a number of commercial products. Among these were studies in corrosion and corrosion inhibitors, coatings, adhesives, detergents and dental restorations.

The company's outstanding technical capabilities are expected to add a new dimension to Certain-teed's research and development of new and improved products, materials and techniques in all of its divisions.

Yeast cells magnified thousands of times by scanning electron photomicrograph techniques at Alpha Research & Development laboratories in Blue Island, Ill.

building materials division

This year, the Building Materials Division acquired a new felt mill at Avery, Ohio, to meet the rising demand for the Division's roofing materials in the homebuilding and home improvement markets.

In the coming year, the Avery facilities will undergo rehabilitation and a new roofing plant will be built adjacent to it. The total complex is expected to go into full production by 1970, and will add substantially to the Division's total output. The eight other plants throughout the country are also being studied in anticipation of increasing their production capacities.

The Hallmark asphalt shingle, also known as the "Shangle", continues to capture the attention of architects, builders and homeowners throughout the country, and is the result of the Division's continuing program to design roofing products of high style and quality that will appeal to discriminating buyers of homes as well as apartment house builders.

In 1968, the Research Department launched a program to devise new roofing application methods that will reduce on-site labor which is an increasingly acute problem as the labor market shrinks. Successful results from this program will give Certain-teed another advantage for its roofing materials.

By this time next year, primed hardboard siding will be added to the Division's product line, and is expected to double sales of fiberboard materials. Also slated for introduction by 1970 is fiberglass roof insulation and fiberglass acoustical ceiling panels.

In the year ahead, the Building Materials Division's capabilities for manufacturing roof coatings and cements will be expanded, making it possible to increase the sales volume of waterproofing products.

The market for fiberglass insulation, distributed through the Building Materials Division, continues to grow at a rapid rate as people demand greater home comfort, winter and summer, and become more and more aware of the economies of fiberglass home insulation. Modern heating and air conditioning, requiring more and heavier insulation to increase their efficiency, are an added factor in the rising demand for this product.

This Division is also giving careful consideration to the handling of carpeting made by KOB Carpets, Inc., Certain-teed's newest subsidiary. There is a growing trend among building materials distributors to market this product, offering an excellent opportunity for additional profit.

pipe division

In the decade ahead, installation of new pipelines will be the first step in growth of industrial construction, in expansion of communities, in urban redevelopment, and in the huge new programs for redistribution of the nation's water supplies, as well as for irrigation and flood control. The methods to be used for water pollution control also depend upon pipelines as their most essential ingredient.

Certain-teed's Pipe Division is challenged to play an important role in this growth.

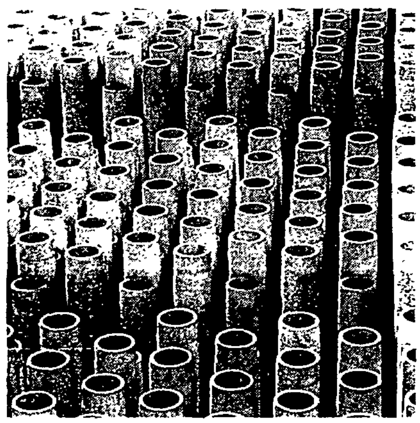
The continuing goal of modernizing and automating all six asbestos-cement plants to increase capacity and lower costs is progressing as scheduled, with several plants increasing production capability in 1968. Quality control is at an all-time high as a result of a continuing program of personnel training and technical innovation. Facilities for improving customer service have been installed in each of the plants.

In changing to a total marketing concept, the Pipe Division has organized its sales force to cover the broad markets of oil and gas distribution systems, salt water disposal systems, various industrial piping applications, contractors and municipalities, and plumbing supply houses.

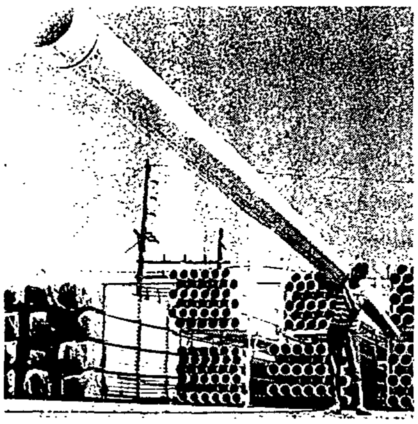
The Pipe Division, which markets the polyvinyl chloride (PVC) pipe products of the Plastics Division, recently introduced the FLUID-TITE joint for PVC pipe. With this new product and an expanded production capability and marketing program, PVC pipe sales were dramatically increased. On many projects, combinations of PVC and asbestos-cement pipe are sold. This link-up of two materials permits transmission not only of water and wastes, but oil, gas, and nearly anything suitable for transportation via pipe or conduit.

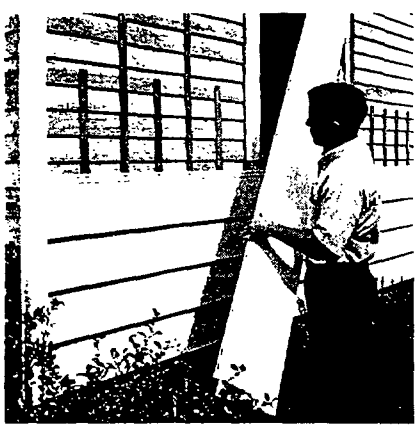
Progress has also been made in sales of Certain-teed's new asbestos-cement fluid transmission pipe, developed to meet present and future requirements for soil conservation programs and for long-distance transport of water. In 1968, the Division custom-designed and sold F-T pipe for use in major projects in the West and Southwest.

The Pipe Division expects that its capacity, which has been greatly increased, will provide an excellent source of profits in the years ahead.



plastics division





The Plastics Pipe Institute has estimated that by 1976 plastics will have 37 percent of the market for sewers, 30 percent for drain, waste and vent systems and 28 percent for potable water. Plastic pipe also now accounts for about 16 percent of gas utility lines in the United States, and is expected to increase at least 25 percent annually in the next few years, according to a recent report in the Wall Street Journal.

This optimistic outlook has placed Certain-teed's Plastics Division, the leading polyvinyl chloride (PVC) pipe producer in the nation, at the brink of an unprecedented period of growth.

The Division's modern plant in McPherson, Kan., has undergone substantial expansion in recent years to meet the mounting demand for its products. In 1968, additional steps were taken to increase production of pipe as well as solid vinyl siding, gutters and downspouts for the growing home construction market.

Late in 1968, PVC pipe production began at the Division's new plant in Waco, Tex., to meet the rapidly expanding market in the South and Southwest. The McPherson plant was enlarged to include 53 acres, and ground was broken early in 1969 for a new manufacturing building. Property has also been acquired near Atlanta, Ga., for construction of a third PVC pipe extrusion plant. Additional plant locations are also under consideration.

Ten years ago the operation consisted of one extruder capable of making pipe up to four inches in diameter. Today, numerous extruders turn out pipe in sizes ranging from half an inch to 15 inches in diameter, much of it in 40-foot lengths.

The accepted use of large diameter vinyl pipe has opened the new and productive markets in rural and municipal water distribution, private and municipal gas distribution, farm and turf irrigation, electrical conducting, oil field process lines and residential plumbing.

Sales of the Division have tripled in the last three years. In 1968, the company supplied on one job alone the pipe and fittings for 780,000 feet of gas distribution lines connected to nearly 5,000 services in 20 Central Missouri communities.

A recent technological breakthrough enables the company to produce siding at lower costs than those generally experienced in the industry. In the years ahead, it is anticipated that the market for the Division's new vinyl siding may equal and possibly surpass the spiraling demand for its pipe products.

wm. cameron & co. division

This year marks a century of growth for the Wm. Cameron & Co. Division, one of the nation's largest distributors of building materials and a leading manufacturer of millwork for the growing residential and industrial construction industry.

Headquartered in Waco, Tex., the Division has 19 wholesale branch offices and warehouses serving the building materials market throughout the Southwest. It also operates a plant in Waco that produces a complete line of millwork, including doors, windows, frames, entrances, mantels and decorative blinds. Cameron products, marketed under the name IDEAL Qualitybilt Woodwork, are distributed through 400 jobbers in 44 states including Alaska, and in Canada.

Substantial investments have been made recently to enlarge a number of warehouses in order to provide ever-improved service to the Division's dealers during an era of growing construction activity in the Southwest. Studies are also being made on the future construction of additional warehouses in various parts of the country.

Two major steps taken in the past year—construction of a new metal products plant and installation of a priming operation for millwork—will add greater depth to the IDEAL product line.

The metal products plant is housed in a new building located in Waco, Tex. Production of a quality line of aluminum windows began in August, and plans call for expansion

of the line to include sliding patio doors, storm doors and other aluminum products for homes and commercial buildings. Most of the equipment in the new plant was designed and built by the company.

IDEAL aluminum windows carry the Quality Certified Seal of the Architectural Aluminum Manufacturers Association and meet or exceed strict FHA Minimum Property Standards.

The priming operation is also housed in a new building with modern facilities for applying a prime coat to a wide range of products, including windows, frames and blinds. The demand for factory-primed millwork has increased dramatically in recent years, and IDEAL's new, ultra-modern facility will enable the company to capitalize on this expanding market.

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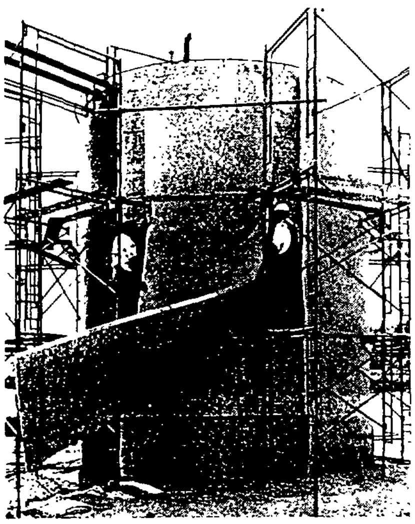
gustin-bacon division



The Gustin-Bacon Division in 1968 showed a substantial increase in sales and operating profits for its wide range of products used in the construction, automotive, transportation, mining, petroleum and reinforced plastics industries. Generally, these industries have shown consistent, above-average growth and offer both immediate and long range opportunities for the introduction of new products and profitable expansion of the Division's production capacity.

Much of Gustin-Bacon's success this year is attributable to the higher sales volume of Amberlite sound deadening felts and safety padding for the growing automotive market; to increased sales of an expanding line of fiberglass specialty products for the transportation industry; and of piping products used primarily in construction and mining.

The demand for Gustin-Bacon's quality line of Ultralite fiberglass thermal and acoustical insulations continues at a very high level.

Plans for the coming year will be aimed at increasing production capacity and providing additional manufacturing facilities to meet the growing demand for fiberglass used in the production of reinforced plastics products.

Recent surveys show that by 1976 one out of every three, or more than 300,000 bathrooms installed in the U.S. will include fiberglass reinforced plastic components. Similar favorable conditions exist in the market for fiberglass reinforced plastic tanks and vessels.

In order to capitalize on this growing market, Gustin-Bacon is increasing its manufacturing capacity for Ultrastrand fiberglass reinforcements and expanding its research and development activities in this area. A complete facility will soon be placed into operation for the production of highly specialized products, including fiberglass reinforced plastic bathroom components and storage tanks and vessels.

Long range forecasts continue to reflect increasing new car sales reaching toward the 10 million per year level, with added emphasis on sound deadening felts and safety padding. Automobile design changes also continue to dictate greater use of plastic parts. Plans are being formulated for an expansion of manufacturing facilities for the production of Amberlite felts and paddings and, during the coming year, Gustin-Bacon will begin production of certain plastic products for the automotive market.

New items such as the Wedgetite safety brake for trucks and the Plain Grip pipe coupling are expected to bring added sales volume in the year ahead.

Certain-teed Products Corporation and Consolidated Subsidiaries

consolidated statement of income and retained earnings

Years ended December 31, 1968 and 1967

	1968	1967
NET SALES	$177,580,550	$167,176,426
COST AND EXPENSES:		
Cost of goods sold	143,454,793	140,752,897
Selling and administrative	20,140,436	20,369,911
	163,595,229	161,122,808
	13,985,321	6,053,618
OTHER INCOME /(Deductions)—net	167,933	(192,462)
	14,153,254	5,861,156
FEDERAL INCOME TAXES (net of investment credit of $298,000 and $163,000)—Note 7	7,249,000	2,827,000
NET INCOME	6,904,254	3,034,156
RETAINED EARNINGS AT BEGINNING OF YEAR	52,414,416	53,257,696
	59,318,670	56,291,852
DIVIDENDS:		
Preferred Stock	1,071,845	1,336,286
Common Stock	2,857,253	2,541,150
	3,929,098	3,877,436
RETAINED EARNINGS AT END OF YEAR	$ 55,389,572	$ 52,414,416
Net income per share on average shares outstanding	$1.65	$.53
Pro forma net income per share (reflecting conversion of outstanding preferred stock)	$1.45	$.64

Depreciation of plant and equipment amounted to $4,528,684 in 1968 and $5,132,502 in 1967.

The accompanying notes are an integral part of this statement.

consolidated statement of funds

Years ended December 31, 1968 and 1967

SOURCE OF FUNDS:	1968	1967
Net income	$ 6,904,254	$ 3,034,156
Depreciation of fixed assets and amortization of intangible assets	4,866,839	5,570,481
Deferred Federal income taxes	387,643	413,589
Increase in long-term debt	—	6,619,954
Stock issued under stock option plans and exercise of stock purchase warrants	3,202,352	17,371
Decrease in other assets and deferred charges	—	1,871,205
	$15,361,088	$17,526,756

APPLICATION OF FUNDS:		
Increase in property, plant and equipment, net	$ 4,830,542	$ 4,106,366
Dividends	3,929,098	3,877,436
Decrease in long-term debt	302,177	—
Investments in associated company and unconsolidated subsidiaries	2,181,838	949,108
Increase in other assets and deferred charges	560,999	—
Other, net	220,010	420,193
Increase in working capital	3,336,424	8,173,653
	$15,361,088	$17,526,756

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Certain-teed Products Corporation and Consolidated Subsidiaries

consolidated balance sheet

at December 31, 1968 and 1967

ASSETS	1968	1967
CURRENT ASSETS:		
Cash	$ 1,699,016	$ 1,139,665
Short-term investments, at cost	16,700,205	14,500,000
Accounts and notes receivable, less allowance for uncollectibles of $1,095,053 and $837,573—Note 8d	24,632,638	23,421,285
Inventories, including raw materials and supplies amounting to $7,374,494 and $7,576,484—at lower of cost or market	28,753,277	25,643,095
Total current assets	71, 785,136	64,704,045
INVESTMENTS IN AND RECEIVABLES FROM ASSOCIATED COMPANY AND UNCONSOLIDATED SUBSIDIARIES—Notes 1 and 8d	17,162,414	13,421,025
PROPERTY, PLANT AND EQUIPMENT, at cost, less depreciation of $36,621,568 and $33,060,460—Note 2	48,611,943	48,405,312
OTHER ASSETS AND DEFERRED CHARGES	3,180,409	4,083,734
INTANGIBLE ASSETS, at amortized cost	2,208,926	2,547,081
	$142,948,828	$133,161,197

The accompanying notes are an integral part of this statement.

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LIABILITIES

	1968	1967
CURRENT LIABILITIES:		
Accounts payable and accrued expenses—Note 8d	$ 18,194,994	$ 17,053,634
Current installments on long-term debt—Note 3	304,805	296,467
Federal income taxes	5,100,248	2,505,279
Total current liabilities	23,600,047	19,855,380
LONG-TERM DEBT—Note 3	11,231,938	11,534,115
DEFERRED FEDERAL INCOME TAXES	2,734,002	2,346,359
OTHER NONCURRENT AND DEFERRED ITEMS	2,458,283	2,678,293
STOCKHOLDERS' EQUITY—Notes 3, 4, 5, and 8:		
Preferred Stock, $1 par value, authorized 2,000,000 shares; 1,024,428 shares designated as Series A Convertible, issued 1,010,328 and 1,487,535 shares (liquidation preference $25,258,200 and $37,188,375)	1,010,328	1,487,535
Common Stock, $1 par value, authorized 7,500,000 shares, issued 3,890,232 and 3,389,948 shares	3,890,232	3,389,948
Capital in Excess of Par Value	43,171,537	41,551,034
Retained Earnings	55,389,572	52,414,416
Less: Common Stock held in treasury, at cost—51,686 and 201,686 shares	(537,111)	(2,095,883)
Total stockholders' equity	102,924,558	96,747,050
	$142,948,828	$133,161,197

notes to financial statements

AT DECEMBER 31, 1968

The financial statements at December 31, 1967, and for the year then ended (as reclassified) are shown for comparative purposes only. Reference should be made to the previously issued Annual Report for the Accountants' Report and notes pertaining to those financial statements.

1. On March 1, 1968, the Company exchanged the shares held in a wholly owned consolidated subsidiary, Vencedor Manufacturing Company, Inc., for 50% of the voting stock and a debenture of a newly organized company, Vencedor Development Corporation. The Company's equity in the results of operations of Vencedor Development Corporation from March 1, 1968 to November 29, 1968 (date of disposition to an unconsolidated subsidiary) is not material.

On July 1, 1968, the Company exchanged subordinated notes of Commercial Acceptance Corporation ("CAC") for shares of CAC's common stock, as a result of which the Company's holdings in CAC's common stock increased from 13% to over 50%. On November 29, 1968, CAC acquired all of the capital stock of Vencedor Development Corporation and in connection therewith issued additional shares of its common stock, subject to possible future adjustment, to the Company. As at December 31, 1968, the Company, after including shares acquired during the year for cash, owns 60% of the outstanding common stock of CAC. The accounts of CAC have not been consolidated because CAC is not a significant subsidiary and its operations from date of acquisition of majority ownership to December 31, 1968 (which are not material) relate principally to the mortgage finance business. The carrying amount of the investment in CAC ($1,998,862) represents cost less a reserve and approximates the underlying equity thereof as computed on the basis of CAC's audited consolidated financial statements as at December 31, 1968.

Subsequent to December 31, 1968, the Company entered into an agreement to acquire, in a pooling of interests, the outstanding stock of KOB Carpet Manufacturing Co. and KOB Carpets, Inc., in exchange for a maximum of 130,000 shares of the Company's Common Stock. On a combined basis these two companies are not deemed to be significant.

2. Property, Plant and Equipment consists of:

Land	$ 2,251,895
Buildings and land appurtenances	24,569,167
Equipment	56,649,943
Construction in progress	1,762,506
	$85,233,511

Depreciation on plant and equipment is computed principally by the straight-line method on the basis of annual rates ranging generally from 2% to 12½% in the case of buildings and land appurtenances, and 5% to 20% in the case of equipment.

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

5.55% Notes payable to insurance company, requiring payments of $550,000 annually from 1970 to 1986, the remaining unpaid balance becoming due in 1987	$10,000,000
Contract payable, requiring payments of $206,650 annually through 1972	619,950
Other	611,988
	$11,231,938

The note agreement relating to the notes payable to insurance company provides, among other matters, for prepayment options, the maintenance of a prescribed amount of consolidated working capital, and certain limitations on the declaration of dividends, other than stock dividends. At December 31, 1968, consolidated Retained Earnings of approximately $12,100,000 were not restricted as to the payment of Common Stock dividends.

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

In connection with the exercise of Stock Purchase Warrants, capital in excess of par value was increased during the year by $1,229,728, representing the excess of the proceeds received on the issuance of 150,000 shares of Common Stock held in the treasury over the average cost thereof.

At December 31, 1968, there was outstanding a transferable Stock Purchase Warrant for 20,000 shares of Common Stock exercisable prior to June 22, 1972, at a per share price of $23.05. The Company has reserved a sufficient number of shares of treasury stock for issuance against the warrant.

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

	Common Stock			Preferred Stock	
	Issued Shares	Treasury Shares	Warrants Shares	Issued Shares	Capital in Excess of Par Value
Balance at January 1, 1968	3,389,948	201,686	170,000	1,487,535	$41,551,034
Exercise of stock options—Note 5	13,177			9,900	390,775
Conversion of preferred stock	487,107			(487,107)	
Exercise of warrants		(150,000)	(150,000)		1,229,728
Balance at December 31, 1968	3,890,232	51,686	20,000	1,010,328	$43,171,537

5. Pursuant to stock option plans for officers and key employees, options for the purchase of 59,750 shares of Common Stock were outstanding at December 31, 1968, at per share prices ranging from $13.75 to $38.38, and options for 55,600 shares are subject to future grant. During the current year options for 1,700 shares were granted, options for 13,177 shares were exercised and options for 2,913 shares lapsed.

At December 31, 1968, options granted to certain officers and key employees for the purchase of 500 shares of Series A Convertible Preferred Stock were outstanding at per share prices of $17.875 and $19.125. During the current year options for 9,900 shares were exercised and options for 4,000 shares lapsed.

6. Charges to income for costs incurred under existing pension plans maintained by the Company amount to approximately $465,000. Current service cost is funded as accrued. Unfunded prior service cost is being amortized over a ten-year period and is being funded over a twenty-year period. The actuarially computed value of vested benefits is less than the pension plan assets at December 31, 1968.

7. The provision for Federal income taxes includes a deferred amount of $344,000.

8. **(a)** The Company is contingently obligated to reimburse a finance company or an affiliate thereof for losses incurred prior to January 1, 1975, on certain installment or term receivables acquired by them, up to a maximum of $3,000,000, and for losses arising from risks against which the Company is carrying insurance. In addition, the Company has outstanding guarantees aggregating approximately $1,247,000, and contingent obligations under assigned long-term leases which provide annual rentals aggregating approximately $190,000.

(b) As at December 31, 1968, approved additions to and replacements of fixed assets approximate $10,400,000.

(c) Federal income tax returns of certain prior years of the Company and subsidiaries (including one subsidiary since liquidated) are being examined by the Internal Revenue Service. The Company has been advised orally that a draft of a Revenue Agent's Report, which is now under review by the Review Staff of the District Director's Office, proposes assessments of approximately $13,400,000, exclusive of interest; however, since no formal report has been received by the Company, it is impossible to know what the Internal Revenue Service's final position will be. With respect to the significant matters discussed by the agent, the Company believes that it has meritorious defenses to the assessments under consideration, and intends to vigorously contest them; consequently, no provision has been made therefor in the accompanying financial statements.

(d) The Company owns 50% of the voting stock, together with 4,500 shares of $60 Cumulative First Preferred Stock ($1,000 per share liquidating preference) and 10,372 shares of $60 Cumulative Second Preferred Stock ($1,000 per share liquidating preference), of Certain-teed Saint Gobain Insulation Corporation ("CSG"); in addition, the Company holds a $1,400,000 subordinated note receivable from CSG, due in 1974. The investment in the capital stock is carried at cost ($13,521,025), which exceeded the Company's equity in the net assets of CSG by $4,513,203 at December 31, 1968. The Company's equity declined during the year ended December 31, 1968, by $2,665,712, the amount of CSG's net loss for that period, which amount includes an extraordinary loss of $171,913 incident to the demolition of certain manufacturing equipment. In the opinion of the Company's management, CSG's accumulated net losses of $5,429,682 subsequent to June 1967 (the last month CSG's accounts were consolidated with those of the Company and the last full month ownership of all classes of CSG stock was held by the Company) represent only a temporary impairment of the Company's investment since it is the opinion of CSG's management that significant future profitable operations are expected to result from a conversion of various manufacturing facilities which is taking place in order to utilize patent and process rights acquired in 1967 by CSG from a French company (also the owner of the other 50% of CSG's voting stock). The opinion of the independent public accountants reporting on the financial statements of CSG as at and for the year ended December 31, 1968, has been made subject to the contingency with respect to such future profitable operations. The 1968 financial statements of CSG will be included in the Company's Annual Report on Form 10-K to be filed with the Securities and Exchange Commission.

Current accounts receivable and accounts payable include balances of $2,347,858 and $1,294,695, respectively, with CSG.

ACCOUNTANTS' REPORT

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

We have examined the consolidated balance sheet of Certain-teed Products Corporation and consolidated subsidiaries as at December 31, 1968 and the related consolidated statement of income and retained earnings and the supplemental consolidated statement of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the effect, if any, of the matters discussed in Notes 8 (c) and 8 (d), the accompanying consolidated balance sheet and consolidated statement of income and retained earnings present fairly the consolidated financial position of Certain-teed Products Corporation and consolidated subsidiaries at December 31, 1968, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year, and the accompanying consolidated statement of funds for the year ended December 31, 1968, presents fairly the supplemental information shown therein.

S.D. Leidesdorf & Co.

New York, N. Y.
January 27, 1969, except for Note 1 which is as of February 7, 1969.

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CERTAINTEED

Board of Directors

Rawson G. Lizars, Chairman
Ralph M. Bateman
M. S. Davis, Jr.
E. A. Diefenbach
J. R Johnston
I. S. Kampmann, Jr.
Harold McNabb
Malcolm Meyer
N. W. Pearson
G. S. Sutcliffe

Executive Committee

Rawson G. Lizars, Chairman
Malcolm Meyer
Harold McNabb
E. A. Diefenbach
N. W. Pearson

Officers

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

Transfer Agent

Bankers Trust Company, New York

Registrar

The Chase Manhattan Bank,
New York

Executive Offices
Ardmore, Pennsylvania

Division Offices
[illegible], Pennsylvania
[illegible]
[illegible]
Cartersville, Georgia
Kansas City, Kansas
McPherson, Kansas
Waco, Texas

Research Laboratories
[illegible]
Blue Island, Illinois
Kansas City, Kansas
McPherson, Kansas
Savannah, Georgia
Waco, Texas

Sales Offices
Ambler, Pennsylvania
Anaheim, California
Atlanta, Georgia
Bryn Mawr, Pennsylvania
Cartersville, Georgia
Chicago, Illinois
Chicago Heights, Illinois
Cleveland, Ohio
Dallas, Texas
Detroit, Michigan
East St. Louis, Illinois
Houston, Texas
Kansas City, Missouri
Kirkwood, Missouri
Marlton, New Jersey
McPherson, Kansas
La Mirada, California
New York, New York
Oakland, California
Phoenix, Arizona
Richmond, California
San Francisco, California
Savannah, Georgia
Tacoma, Washington
Washington, District of Columbia
Westfield, New Jersey

Plants
[illegible]
East St. Louis, Illinois
[illegible]
Kansas City, Kansas (2)
[illegible] (8)
[illegible]
[illegible], Pennsylvania
[illegible]
[illegible], California
Santa Clara, California
Savannah, Georgia
St. Louis, Missouri
Tacoma, Washington
Vega Alta, Puerto Rico
Waco, Texas (3)
York, Pennsylvania

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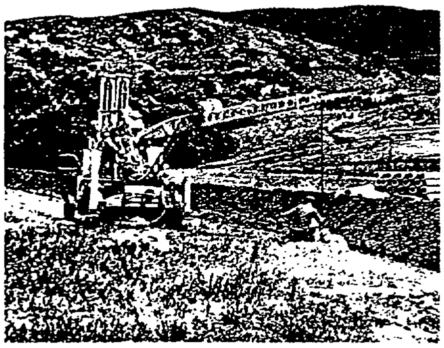
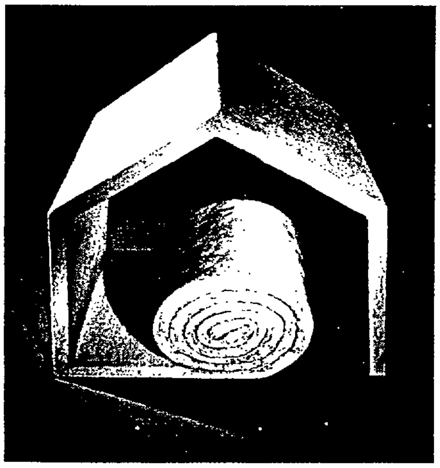
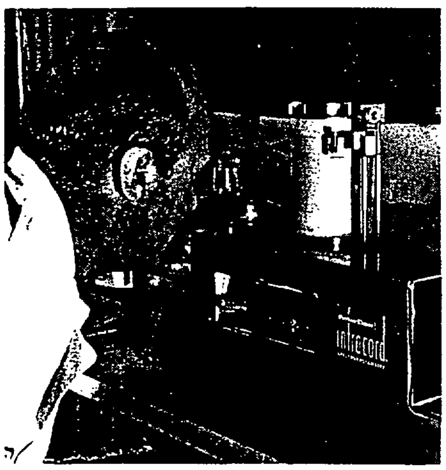
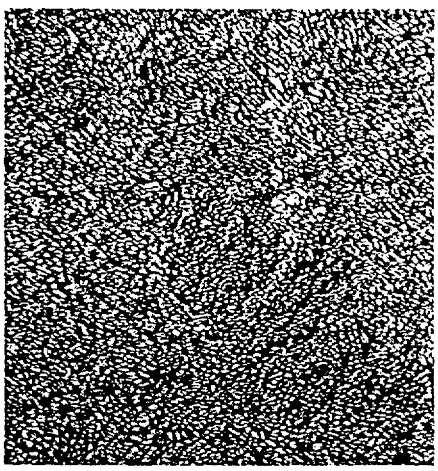
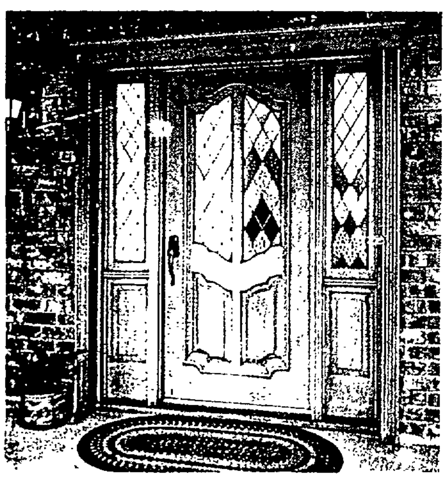
CERTAIN-TEED PRODUCTS CORPORATION Ardmore, Pennsylvania 19003



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