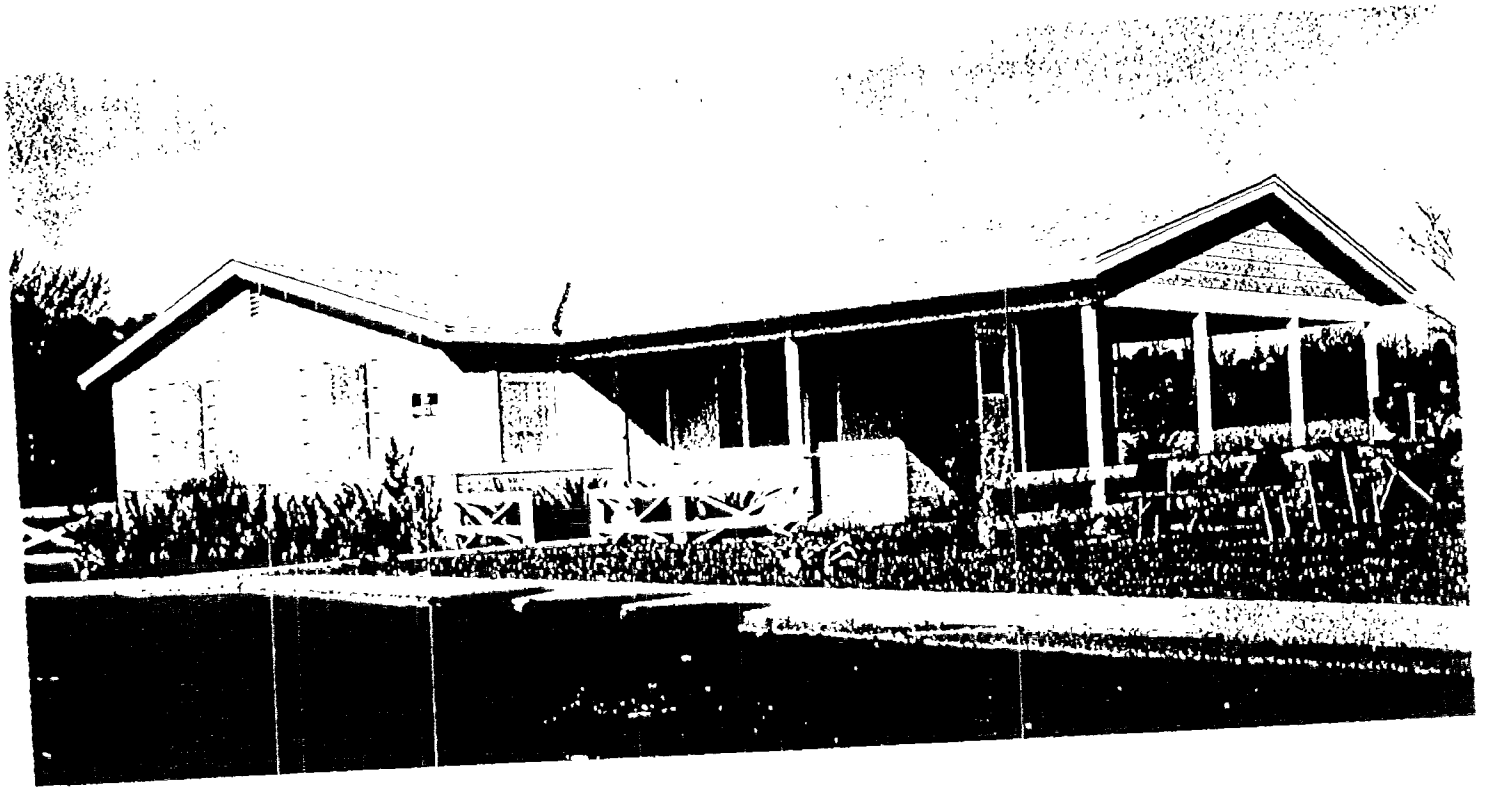
PLAINTIFF'S EXHIBIT

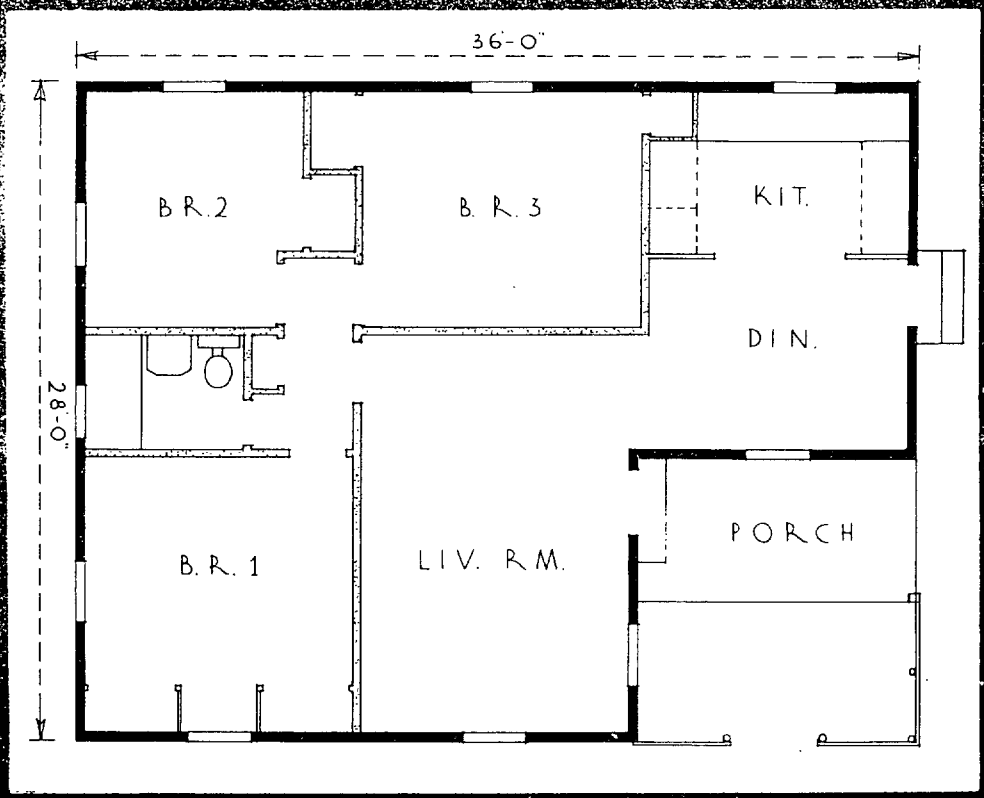
CT-186

1960 ANNUAL REPORT



CERTAIN-TEED PRODUCTS CORPORATION

CTD036129



The Hemlock Hill, illustrated on our front cover, is representative of the full line of IFH homes. The floor plan, above, shows the arrangement of the large living room, private dining room, U-shaped kitchen, bath, porch, and three ample bedrooms which open on to a private hall. One of the Institute's medium-priced houses, The Hemlock Hill, is available for construction on the buyer's lot, currently at monthly payments ranging from about $62.00 to $75.00 a month, depending upon stage of completion. Prices of more moderate IFH homes start at approximately $40 a month.

See "New Horizons: Institute for Essential Housing" section of this report for further details.

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To Our Shareholders:

This report contains the income statement for the year ended December 31, 1960 and balance sheet at December 31, 1960, as well as comparative figures for the preceding year.

Sales and Earnings

The year 1960 was marked by an overall reduction in demand for the type of products manufactured and distributed by the Company, as well as lower and more competitive prices than prevailed in 1959. Our net sales for 1960 were $93,194,983 compared with $100,767,206 in 1959. Earnings available for Common Stock in 1960 were equivalent to $1.23 per share compared with $1.69 per share in 1959.

Dividends and Capitalization

It has been the Company's policy to purchase its own Capital Stock from time to time. These purchases are determined by the Directors based upon the price at which the shares are available in the open market. In the year 1960, the Company expended $1,672,501 for the purchase of 129,900 shares at an average cost of $12.87 per share. As of December 31, 1960, the Company had purchased a total of 290,000 shares at an average cost of $11.12 per share, which are held as Treasury Stock. The net book value of the Company's shares in the hands of the public at December 31, 1960, was equivalent to $21.58 per share compared with $20.60 per share at December 31, 1959. Dividends of 25 cents per share were paid on January 4, 1960, and thereafter in 1960 dividends aggregating 60 cents were declared and paid, making a total of 85 cents per share paid in 1960.

Working Capital

As of December 31, 1960, the Company's working capital was $22,721,193. This compared with $23,364,918 as of December 31, 1959. As previously reported, the Company expended $1,672,501 for the purchase of its Capital Stock, increased its investment in notes and mortgages receivable by $964,035, and declared $1,146,043 in dividends. The working capital per share at December 31, 1960 amounted to $11.99. The Company has no funded debt.

Outlook for 1961

It is difficult to appraise the outlook for the year 1961. However, we have had some improvement in the selling prices of our products starting in January of this year, and the management believes the chances are favorable for increased earnings in 1961.

The Company in 1960 was burdened with increased costs in all phases of the business with no increase in selling prices, and despite the ingenuity and efficiencies developed by our manufacturing department and the strictest supervision in all items of cost and expense, our return on sales and capital invested is not considered satisfactory by the management. If we are to maintain our competitive position, provide jobs for thousands of employees and provide our share of tax revenue for the Federal Government, as well as protect the investment of those who have entrusted us with their capital, it is essential that the business make a reasonable profit and progress.

Institute for Essential Housing, Inc.

A special section of this report is devoted to our new subsidiary, Institute for Essential Housing, Inc. We believe this subsidiary, which has financing available up to $100,000,000 by virtue of an agreement with Universal C. I. T. Credit Corporation, can greatly serve our thousands of customers and our nation as well, and that it opens a new field of profit to Certain-teed and those connected with the program, new opportunities for Certain-teed employees, and the possibility of an increasing reward for the owners of this enterprise. We urge you to read that section.

The Board of Directors expresses its appreciation for the continued confidence of our many customers, our loyal employees and our many stockholders throughout the nation.

Respectfully submitted,

Warren G. Lizars

Chairman of the Board

Malcolm Meyer

President

Ardmore, Pennsylvania
March 3, 1961

CTD036131



NEW HORIZONS

INSTITUTE FOR ESSENTIAL HOUSING

CTD036132

Home ownership is, of course, a fundamental source of security for all men everywhere. In the United States it is a particular part of our heritage. Once a nation of tenants, within two generations we have emerged as a nation of owners; and therein rests our greatest source of strength.

It is against this background that we would like to present to you the Institute for Essential Housing — a fresh new concept that gives every working man in this country the opportunity to buy his home. We feel that this cooperative venture on the part of private enterprise demonstrates how American business, although motivated by profit, is also motivated by other, deeper values: by the wisdom of making it possible for every working man of every income level, of every race and in every locality to own his home; and by the knowledge that through these accomplishments we make our nation even stronger. These are the hidden profits of private enterprise in which each American shares.

During 1960 your Company completed a study to determine the trends in residential house construction and the areas of weakness in our nation's housing program. This study indicated that at least five million families across the country were unable to buy homes.

It is estimated that almost half of the United States' population lives in rural or semi-rural areas where land is plentiful and relatively inexpensive. In these areas, however, builders have not been able to function freely because of the lack of financing and the high overhead costs of constructing homes on an individual basis. Thus, adequate low cost housing has not been made available to a very significant segment of our population.

A large percentage of the American people falls into the low income group. For them housing must be low both in monthly cost and in down payment requirements. There are also many people who desire a second house at seashore, mountain, lakeside or other resort areas. And, too, there are those potential home buyers who would be willing and able to perform part of the labor required to build their homes if they could find suitable financing. Unfortunately, an incomplete house is usually not considered eligible for financing under existing practices.

The Institute for Essential Housing was formed to provide the American people with the nation's first complete service for building low cost homes. Its Board of Advisors is comprised of representatives from major manufacturers of building materials, building research associations, financing companies, architects and individuals interested in the development of low cost homes for the public.

The importance of the IEH concept is that its program is concerned with low cost housing only. Its purpose is to provide essential housing at the lowest possible cost to the customer. To accomplish this, IEH offers its line of houses at a "basic" stage of construction. This "basic" house has a completely finished exterior — including doors, windows, roofing, siding, paint and other necessities — and a partially finished interior, with framing for partitions and closets and oak flooring installed.

This "basic" house is also available with a materials package. Containing all the materials necessary for completion — interior doors, kitchen cabinets, plumbing and electrical fixtures, water heater, gypsum wallboard, trim and paint — it allows the owner to finish his home himself, at substantial savings in labor costs.

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For the family who wants immediate occupancy, IEH houses can be purchased at the "livable" stage, in which all basic installations have been made — plumbing, electricity, interior walls and ceilings, necessary interior doors, kitchen sinks and cabinets.

And, finally, for those who can meet slightly higher equity and monthly payments, IEH offers its line of homes in the completely finished stage. It is important to note that although these homes are low in cost, they contain many modern features of much higher-priced houses. A serving bar between the kitchen and dining room, vaulted ceilings, and family rooms are some examples.

IEH is not a construction company. Rather, it is a company formed to organize all the many elements required to bring essential housing to the public. Regarding construction, IEH looks to those people in the industry who are most qualified to supply materials and supervise building. Its program gives them the opportunity to expand in the home building business without major capital investment and without fear of being unable to find adequate financing.

The firms appointed by IEH operate as Authorized Dealer-Builders under IEH supervision, supply materials and construction at costs set up by IEH, offer houses at prices established by IEH formula and then build them according to IEH designs and specifications.

IEH has also made arrangements for the financing of its line of houses. A variety of plans are available to meet the buyer's individual needs, with monthly payments based on loan terms ranging from six years to more than ten years. For example, a down payment is not usually required if a customer owns his own land.

In brief, IEH offers its Authorized Dealer-Builders a complete housing program which includes complete financing services, improved house designs, plans and specifications, detailed material and labor cost analyses, sales training and supervision, construction training and inspection, creative advertising and sales promotion services, legal documents required to do business, builder's risk insurance, customer hazard insurance, services for passing customer credit, loan servicing and all other essential services. In addition to working closely with its Authorized Dealer-Builders, IEH also maintains direct contact with the home buyer, with whom it has a sales contract. In this way, the customer is assured of the complete backing of IEH and the sound financial position of Certain-teed Products Corporation.

Before embarking on this program, our management devoted more than two years of study, consideration, consultation and research to the feasibility of IEH. Substantial sums of money and man hours were invested before our final decision was made. Certain-teed is not inexperienced in providing homes for the American public. Indeed we have an historical background in house construction. In the last five years alone, our Company has provided housing with a value of approximately ten million dollars to home owners. We are fortunate in being able to launch this new program with the experience and talents of scores of people within our organization who have special knowledge of land acquisition and evaluation, construction and construction costs, mortgage financing and all the other technical aspects of housing the American family.

We are pleased to report to you that our new program, which we expect to operate on a national basis, has already met with the most enthusiastic response of dealer-builders throughout the country. In the short period up to February 24, 1961 in which we have been introducing IEH to the industry, we have accepted Authorized Dealer-Builders representing 225 sales locations. There are indications that the program will continue to expand at the same rate, and that it will reach and perhaps exceed its objectives before the conclusion of 1961.

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Certain-teed PRODUCTS CORPORATION
AND SUBSIDIARIES

COMPARATIVE CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Year Ended December 31 1960	1959
NET SALES	$ 93,194,983	$100,767,206
COSTS AND EXPENSES:		
Cost of goods sold	76,397,686	81,231,394
Selling and administrative	12,359,163	13,055,710
	88,756,849	94,287,104
	4,438,134	6,480,102
OTHER INCOME, less other deductions of $101,900 in 1960 and $124,913 in 1959	253,914	188,447
	4,692,048	6,668,549
FEDERAL INCOME TAXES, less, in 1959, $142,444 refund (net) of prior years' taxes	2,346,000	3,294,000
NET INCOME	2,346,048	3,374,549
RETAINED EARNINGS AT BEGINNING OF YEAR	23,536,952	23,058,096
	25,883,000	26,432,645
DIVIDENDS ON COMMON STOCK — including, in 1959, a special dividend of 331,556 shares of The Valspar Corporation common stock (carrying amount $2,395,922—aggregate market quotation at date of distribution $2,921,008)	1,146,043	2,895,693
RETAINED EARNINGS AT END OF YEAR	$ 24,736,957	$ 23,536,952

Total depreciation amounted to $1,477,261 in 1960 and $1,450,435 in 1959.

The accompanying Notes to Financial Statements are an integral part of this statement and should be read in conjunction herewith.

CTD036135

Certain-teed PRODUCTS CORPORATION
AND SUBSIDIARIES

COMPARATIVE CONSOLIDATED BALANCE SHEET

ASSETS

	At December 31 1960	1959
CURRENT ASSETS:		
Cash	$ 4,340,350	$ 4,359,958
United States Government securities, at cost and accrued interest (approximate market)	129,000	2,251,084
Accounts and notes receivable, less estimated uncollectibles of $499,976 in 1960 and $405,829 in 1959	11,107,289	10,272,956
Inventories — Note 1	13,832,058	17,277,072
Total current assets	29,408,697	34,161,070
NOTES AND MORTGAGES RECEIVABLE	2,537,369	1,573,334
PROPERTY, PLANT AND EQUIPMENT — Note 2	15,638,829	16,077,983
DEFERRED CHARGES AND OTHER ASSETS	441,994	476,549
INTANGIBLE ASSETS, at nominal amount	1	1
	$48,026,890	$52,288,937

LIABILITIES

CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 5,120,211	$ 6,024,197
Dividends payable		499,771
Final installment on promissory notes		1,625,000
Federal income taxes	1,567,293	2,647,184
Total current liabilities	6,687,504	10,796,152
RESERVE FOR PRODUCT GUARANTEES	430,000	350,000
STOCKHOLDERS' EQUITY — Notes 3, 4 and 5	40,909,386	41,142,785
	$48,026,890	$52,288,937

The accompanying Notes to Financial Statements are an integral part of this statement and should be read in conjunction herewith.

CTD036136

NOTES TO FINANCIAL STATEMENTS

At December 31, 1960

The financial statements as at December 31, 1959 and for the year then ended 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. Inventories:

Inventories are classified as follows:

	1960	1959
Merchandise inventories at lower of cost or market:		
Raw materials and supplies	$ 2,239,637	$ 2,664,132
Finished goods and work in process	10,813,634	13,862,005
	13,053,271	16,526,137
Improved real estate and land at cost	778,787	750,935
	$13,832,058	$17,277,072

2. Property, Plant and Equipment:

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

	1960	1959
Land	$ 1,081,478	$ 1,131,106
Buildings and equipment (less depreciation of $14,030,108 in 1960 and $13,539,862 in 1959)	14,557,351	14,946,877
	$15,638,829	$16,077,983

3. Stockholders' Equity:

Stockholders' Equity consists of the following:

	1960	1959
Capital assigned to shares:		
4½% Cumulative Prior Preference Stock, $100 par value, authorized and unissued 50,000 shares.	—	—
Common Stock, $1 par value, authorized 3,000,000 shares, issued 2,184,985 shares in 1960 and 2,156,385 shares in 1959	$ 2,184,985	$ 2,156,385
Capital in excess of par value	17,212,556	17,002,059
	19,397,541	19,158,444
Retained earnings	24,736,957	23,536,952
	44,134,498	42,695,396

(Cont'd.)

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3. **Stockholders' Equity (Cont'd.)**

	1960	1959
Less: Common Stock held in treasury, at cost—290,000 shares in 1960 and 160,100 shares in 1959	3,225,112	1,552,611
	$40,909,386	$41,142,785

Pursuant to a stock option incentive plan for officers and key employees adopted in 1957, there were reserved as at December 31, 1959, 64,050 shares of the Company's Common Stock, including 53,600 shares covered by options previously granted. During the current year, options for 5,500 shares lapsed, options for 15,950 shares were granted and options for 28,600 shares were exercised, leaving options to purchase 35,450 shares (at option prices ranging from $8.08 to $12.35 a share) outstanding as at December 31, 1960. Of those outstanding as at December 31, 1960, options for 19,500 shares were exercisable at that date and options for 15,950 shares become exercisable in 1962. Shares issued in connection with options exercised during the year resulted in an increase of $210,497 in capital in excess of par value.

On November 18, 1960, the Board of Directors adopted another stock option incentive plan whereby 50,000 shares of the Company's Common Stock were reserved for options to be granted to officers and key employees at prices equal to 95% of the fair market value of the stock on the date granted. Options shall be exercisable not earlier than one year or later than five years from the date granted. Under this plan, options to purchase 20,000 shares at $12.35 a share were granted and remain outstanding as at December 31, 1960.

The restriction of capital in excess of par value and retained earnings relating to Common Stock held in treasury is less in amount than that imposed by covenants in the agreement referred to in Note 4.

4. **Financing Agreement:**

The Company entered into an agreement, as of November 1, 1960, with Universal C.I.T. Credit Corporation which makes available to the Company, as required through December 31, 1965, up to $100,000,000 in connection with the financing of customer deferred-payment notes arising from the erection and sale of housing through a wholly-owned subsidiary, Institute for Essential Housing, Inc. As at December 31, 1960, no amounts had been borrowed by the Company under the agreement.

With respect to the aforementioned agreement, amounts borrowed (limited to 90 per cent of principal amount of related customer deferred-payment notes) shall be collateralized by the deferred-payment notes and shall be repaid parallel with scheduled collections from the notes, which generally are to run for five-year, six-year or ten-year periods, or longer periods if extended. During the term of the agreement and until all borrowings thereunder shall be repaid, the agreement further provides, among other things, for the maintenance of specific minimum amounts of consolidated net current assets (as defined) and consolidated net worth (as defined), and restrictions on the declaration of dividends, other than stock dividends, and the acquisition of shares of the Company's capital stock. As at December 31, 1960, the agreement limits the aggregate amount of dividends, other than stock dividends, and the acquisition of the Company's capital stock to approximately $10,000,000.

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5. Contingencies and Other Comments:

The Company, along with twelve other companies, is a defendant in a pending lawsuit, under the anti-trust laws of the United States, in which the plaintiff seeks damages aggregating approximately $1,000,000, to be trebled under court rules. In the opinion of Company counsel, the Company's liability is doubtful and, in the event of an adverse decision, damages against the Company would be substantially less than claimed. The Company denies any liability in this and in other less significant litigation pending as at December 31, 1960.

As at December 31, 1960, the unfunded cost of past service benefits under existing pension plans amounted to approximately $610,000.

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

ACCOUNTANTS' REPORT

S. D. LEIDESDORF & CO.
CERTIFIED PUBLIC ACCOUNTANTS
NEW YORK, N. Y.

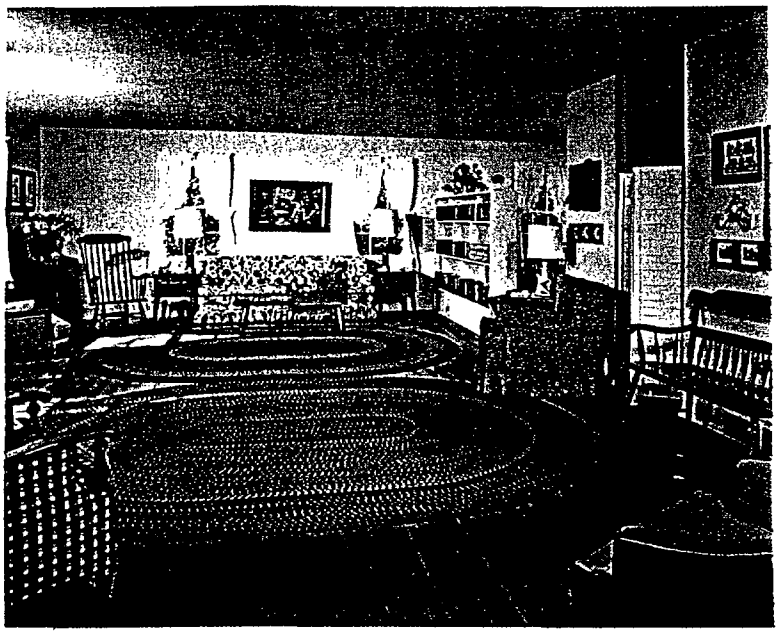
TO THE BOARD OF DIRECTORS
CERTAIN-TEED PRODUCTS CORPORATION
ARDMORE, PENNSYLVANIA

We have examined the consolidated balance sheet of Certain-teed Products Corporation and subsidiaries as at December 31, 1960, and the related consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and consolidated statement of income and retained earnings, together with the notes to financial statements, present fairly the consolidated financial position of Certain-teed Products Corporation and subsidiaries at December 31, 1960, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LEIDESDORF & CO.

New York, N. Y.
February 21, 1961





Spacious, cross-ventilated living room above extends the full 28′ width of the house. At right, movable bookcase wall converts part of this living room area into a functional family room which is open to bedrooms, kitchen and bath.

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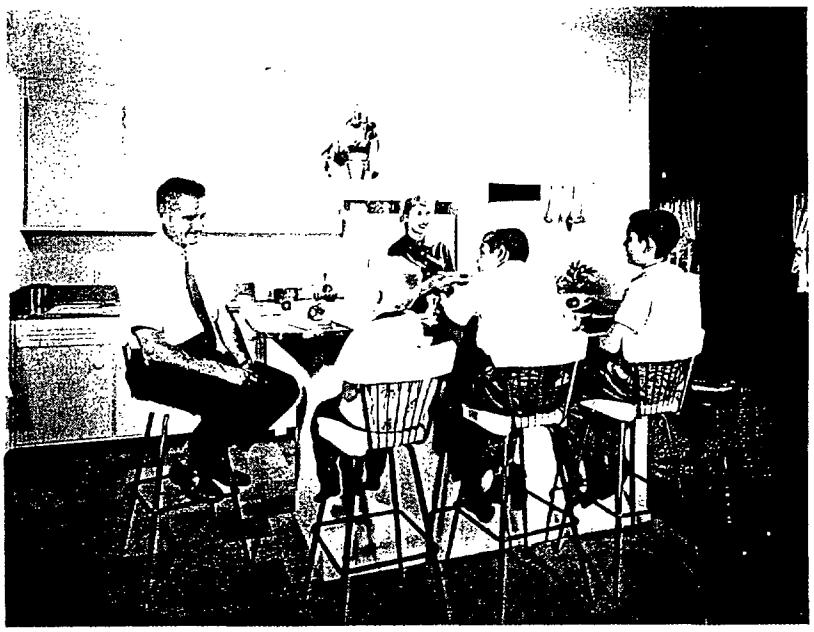
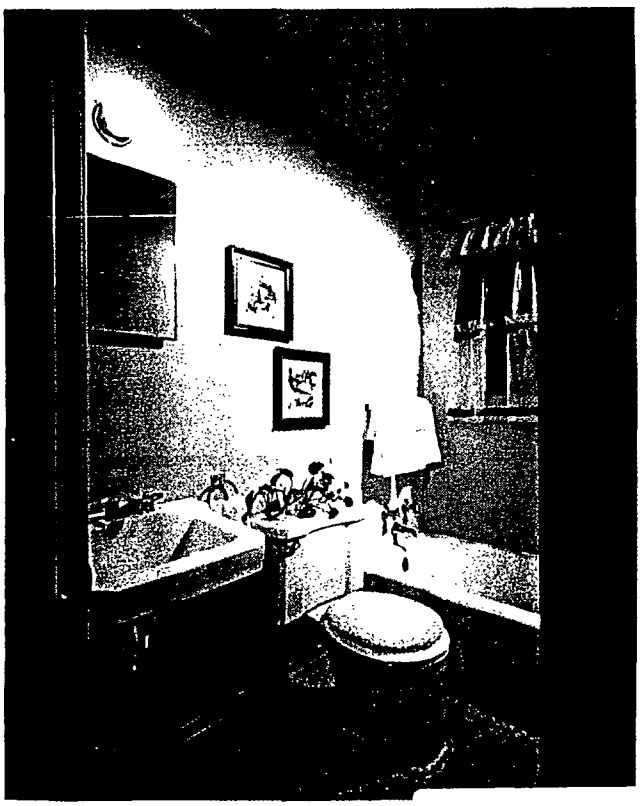


Dinette divider, above, is usable from the kitchen, serves as extra counter space or snack bar, saves steps and reduces cleanup time. Bathroom, below, is conveniently located for privacy, features deluxe fixtures and sliding door entrance.



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GENERAL OFFICES

Ardmore, Pennsylvania

Waco, Texas
Cameron Division

Wayne, Pennsylvania
Institute for Essential Housing, Inc.

RESEARCH LABORATORY

Paoli, Pennsylvania

SALES OFFICES

Arlington, Virginia
Atlanta, Georgia
Brunswick, Georgia
Buffalo, New York
Evanston, Illinois
Cincinnati, Ohio
Cleveland, Ohio
Dallas, Texas
Des Moines, Iowa
Detroit, Michigan
East St. Louis, Illinois
Houston, Texas
Indianapolis, Indiana
Kansas City, Missouri
Minneapolis, Minnesota
New Orleans, Louisiana
New York, N. Y. (Export Sales)
El Cerrito, California
Salt Lake City, Utah
Summit, New Jersey
Seattle, Washington
Wilmington, Delaware

PLANTS

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

BOARD OF DIRECTORS

Rawson G. Lizars, *Chairman*
William C. Baird
Thomas F. Brown
Donald N. Clausen
Albert J. Hettinger, Jr.
John R. Johnston
I. S. Kampmann, Jr.
Malcolm Meyer

EXECUTIVE COMMITTEE

Thomas F. Brown, *Chairman*
Rawson G. Lizars
Malcolm Meyer

OFFICERS

Rawson G. Lizars ..... *Chairman of the Board*
Malcolm Meyer ..... *President*
John R. Johnston ..... *Vice President, Treasurer and Comptroller*
Dan LeBow ..... *Vice President*
Harold Barnard ..... *Vice President*
Manuel F. Harris ..... *Vice President*
Arthur O. Graves ..... *Secretary*
James L. Strickland ..... *Assistant Secretary and Assistant Treasurer*
O. E. Tasker ..... *Assistant Secretary and Assistant Treasurer*
J. E. Schulze ..... *Assistant Secretary and Assistant Treasurer*

TRANSFER AGENT

Bankers Trust Company, New York

GENERAL COUNSEL

Clausen, Hirsh, Miller & Gorman, Chicago

REGISTRAR

The Chase Manhattan Bank, New York

AUDITORS

S. D. Leidesdorf & Co., New York

CTD036142

Certain-teed

BUILDING PRODUCTS

ASPHALT SHINGLES AND SIDINGS

ASPHALT ROLL ROOFINGS AND SIDINGS

SATURATED FELTS AND BUILDING PAPERS

INSULATING SIDINGS

ASPHALT ROOF COATINGS AND CEMENTS

"IDEAL" MILLWORK

FIBERGLAS BUILDING PRODUCTS

ASBESTOS SHINGLES AND SIDINGS

INSULATING BOARD PRODUCTS

HARDBOARD PRODUCTS

IEH

INSTITUTE FOR ESSENTIAL HOUSING

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