INTER/OFFICE COMMUNICATION — Armstrong CONTRACTING

To A. C. Richardson

From C. Q. Livingston

Subject Limpet Operation
Year End Status Report

February 17, 1964

PLAINTIFF'S EXHIBIT ACS-132

The following represents a summary and analysis of important information and figures developed by year end concerning the Limpet operation's 1963 performance and 1964 forecast.

A. 1963 Performance and 1964 Forecast

The following is based on the full twelve months report rather than the year end report but is expected to change very little. This breakdown is being given since the format of the regular company reports does not include the entire picture:

	1963 Actual	1963 Forecast	1964 Forecast
Sales - BM	$542,000	$250,000	$270,000
" - Ind.	220,000	250,000	500,000
Total	762,000	500,000	770,000
Cost of Sales	671,000	407,000	627,000
Gross Margin	91,000 (12%)	93,000	143,000
Total Expense	41,000	48,000	73,000
Profit B. T.	50,000	45,000	70,000

1. 1963 Performance

a. Sales Analysis - Total sales for 1963 were substantially above the $500,000 forecast. These total sales include approximately $16,000 machine rental and $14,000 worth of machine parts purchased by AC&S offices. Note that the industrial sales fell slightly short of the $250,000 forecast, whereas the building material sales more than doubled the forecast figure. Of the building materials sales, all but $120,000 (approximately) were sales of price protected Limpet fibers where we enjoyed a profit of only a half cent per pound rather than the regular $.02.

For comparison also, the $762,000 worth of sales in 1963 compares with the next-highest year of $400,000 in 1962; $268,000

in 1961; $255,000 in 1960; and nothing more than $100,000 in previous years.

Also, it is of interest to note that our sales in terms of pounds of Limpet amounted to approximately 6-1/2 million pounds. In the industrial area alone, the equivalent board feet of insulation amounted to almost 1-1/2 million board feet. In terms of calcium silicate block costs at $.30/ board foot, this represented $450,000 worth of materials.

b. Cost of Sales - This figure of $671,000 shown here was developed based on the difference between the sales of $762,000 and the gross margin of $91,000 shown on the December, 1963, Performance Report. It naturally has no bearing on the forecast cost of sales, since the latter figure was based on a substantially smaller amount of sales.

c. Gross Margin - The figure of $91,000 gross margin compares favorably with the $93,000 forecast, even though it was gained on a substantially larger amount of actual sales. This is explained by reference to the larger amount of price protected orders.

d. Total Expense - The $42,000 total expense compares favorably to the $48,000 forecast. The only overage in this category was, roughly, $3,300 under Source 22, Pure Advertising, but this was due to the fact that your travel expense was included under Advertising rather than under Source 25, Travel, where we were, roughly, $3,000 under our budget. The other major deviation from our budget figure in the category of total expense was the approximate $8,000 expenses under Source 33, Services Outside Firms, compared with the forecast of $18,000 which gave us a gain of, roughly, $10,000. This, as you know, resulted from lower than anticipated warehouse costs.

e. Profit Before Tax - The $50,000 profit actually enjoyed compared with the $45,000 forecast is the real key to a successful year.

2. 1964 Forecast

a. Sales Analysis - While our company forecast shows only $150,000 forecast sales, we anticipate as well the sale of $120,000 worth of price protected orders already on our books, and together this represents sales of $270,000 in the building material market. In addition, based on reports from our various managers at the ROCK meetings, the $500,000 sales represented a realistic

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figure for sales to our offices. All this totalled $770,000.

b. Cost of Sales - As in the case of the 1963 performance, the cost of sales figure was developed merely by subtracting the forecast gross margin from the total billed sales.

c. Gross Margin - This figure being substantially higher than 1963, even though total Limpet dollar sales are expected to be about the same, is explained due to the greater amount of material to be sold at the new higher prices.

d. Total Expense - This figure of $73,000 is up appreciably over the previous year's expenses, and this, as you know, is due to the amount charged the Limpet operation based on other departments' personnel costs. Altogether we are absorbing the equivalent of four men's salaries, including your own. In addition, advertising costs are up $10,000 to an actual of $20,000, representing an increase of $10,000. Otherwise, all costs remain essentially the same as last year.

e. Profit Before Tax - The $70,000 forecast, even in consideration of the increased Lancaster burden, speaks for itself.

B. Market Analysis

1. Building Material Market

Of the original forty applicators inherited from Keasbey and Mattison, twenty-nine are now signed up and officially in a position to perform contracts. Of these, only three or four seem to be really active. Over-all, 83 machines are in the hands of these applicators, although a number of these are still being made available on a free of charge basis due to price protection.

Of the $550,000 worth of Limpet purchased by these applicators in 1963, all but $120,000 was price protected material.

The present order backlog amounts to about $129,000, the majority of which is price protected orders.

Competition seems to be becoming more severe daily with materials like Asbestospray, Cafco, etc., selling for as low as $.07 to $.08 per pound in large quantities compared with our C.I.F. figure of $.135 per pound. In this connection, for the last several months we special priced seven jobs covering the equivalent of about 5 million pounds of material. The greatest concession made by J.W.R. was $.0075 per pound. To this we added $.0075 which in some cases reduced our applicator's cost by as much as $.015 per

pound. No jobs were closed on this basis.

Based on the above, the future looks hopeless except for specialty products, and because of this, our forecast sales for 1964 amount to only ~~$150,000~~ 130,000

2. Industrial Market

The year 1963 represented the first ~~really~~ big year in the heat insulation market. The ~~$220,000~~ 220,000 sales compared with approximately $60,000 in 1962 and essentially nothing in previous years. All district offices enjoyed some experience with Limpet during 1963, and by far the majority of all district and branch offices performed some work.

Presently ~~20~~ 13 machines are in service by our offices.

13 Nine major industrial maintenance and O.E.M. accounts have been signed. These include Du Pont, currently leasing ten machines, and which company purchased $50,000 worth of fiber in 1963. Others include Foster Wheeler, Westinghouse, and Ethyl Corporation, Union Electric, Humble Oil, American Oil, and Nordberg Manufacturing Company.

The contract value of jobs involving Limpet during 1963 exceeded 3 million dollars. These jobs ranged from a $72 all Limpet contract to Charlotte's $138,000 cement plant. It is quite likely, although not provable, that one-third of this is new business resulting from Limpet. Typical of this is all the turbine work that we would not ordinarily enjoy.

As far as the ~~$500,000~~ 350,000 forecast sales for 1964 is concerned, this seems readily obtainable based on the activity early in 1964. Several sizable Limpet contracts have already been closed, including two Brown Boveri turbines, a pulp mill, and a paper plant in the Portland branch, etc. In addition, we have verbal commitment from Aetna Steel Products for a $24,000 order of Limpet on an O.E.M. basis.

C. 1964 Plans

To assure success in 1964, the following program is planned:

1. Promotion

Based on J. W. Roberts' approval of our proposed ~~$40,000~~ 40,000 advertising budget, we will proceed immediately with (a) the trailer project at about $13,000 (b) publications at about $9,000 (c) direct mail at ~~$2,000~~ (d) trade shows at $8,000

(e) colored movie at $6,000 (f) field tests at $1,000 and (g) meetings at about $1,000.

2. Application Specifications

An attempt will be made to maintain a more competitive position by reducing our installed costs, taking into consideration (a) the superior adhesive qualities of Limpet, (b) the possibility of eliminating a weatherproof finish, and (c) a less expensive sprayed-on finish like Flintkote's FR-100.

3. The Feeder Hopper

Reduce labor costs by mechanizing the feeding of the Limpet machine. This is being investigated by J. E. Z.

4. Spray Training

With Maco available upon request, the only additional training planned is that furnished by J. W. Roberts. It is understood that you will co-ordinate this activity with Roberts in connection with their interest in having one of their representatives spend some time with our field offices.

5. A. C. R. Travel

It is agreed that the $4,000 budgeted for your travel will provide for substantial promotional work at the branch office level in the form of district office meetings and sales calls.

6. New Industrial Markets

Expand the use of Limpet in the areas of (a) fireproofing, (b) condensation control, (c) pipe covering manufacturing, and (d) sales through competition.

1964

D. Miscellaneous

1. J. W. R. Service

The majority of our problems in this area have been resolved during 1963, and presently I believe it is agreed by all concerned that we are in an excellent service position. Certainly, we have no immediate complaints concerning our supplier on this count. Further, the Lancaster Purchasing Department must be commended on their handling of our Limpet activity.

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2. Import Duty

It is understood that we are no longer liable for any import duty on orders received in the past and that all our legal expenses in resolving this issue will be to the J. W. Roberts account.

3. Machines

Recent count shows ~~83~~ machines in service by our building material applicators, ~~30~~ machines by AC&S offices, ~~11~~ by maintenance and O.E.M. accounts, and ~~30~~ in stock at Gloucester. These total ~~194~~ machines of which approximately 35 are the "X" type. In 1963 we paid Roberts approximately ~~$16,000~~ rent of which about half or ~~$8300~~ was paid on behalf of the ~~AC&S~~ offices. Lancaster ~~enjoyed~~ 10% of this or, roughly, ~~$1,600~~.

While some problems still exist as far as the operation of the machines is concerned, for the most part our improved shop service under Maco's supervision has improved this. Also, "X" machines are becoming more acceptable on the part of all our offices which is a real step forward.

4. Machine Parts

During 1963, our offices purchased machine parts both for stock and replacement totalling approximately ~~$14,000~~. As of this writing, no figure has been developed for parts sold to our building material applicators. This figure for 1963, however, is quite small since practically all the parts were used on price protected jobs which cost was backcharged to J. W. Roberts.

RJE

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