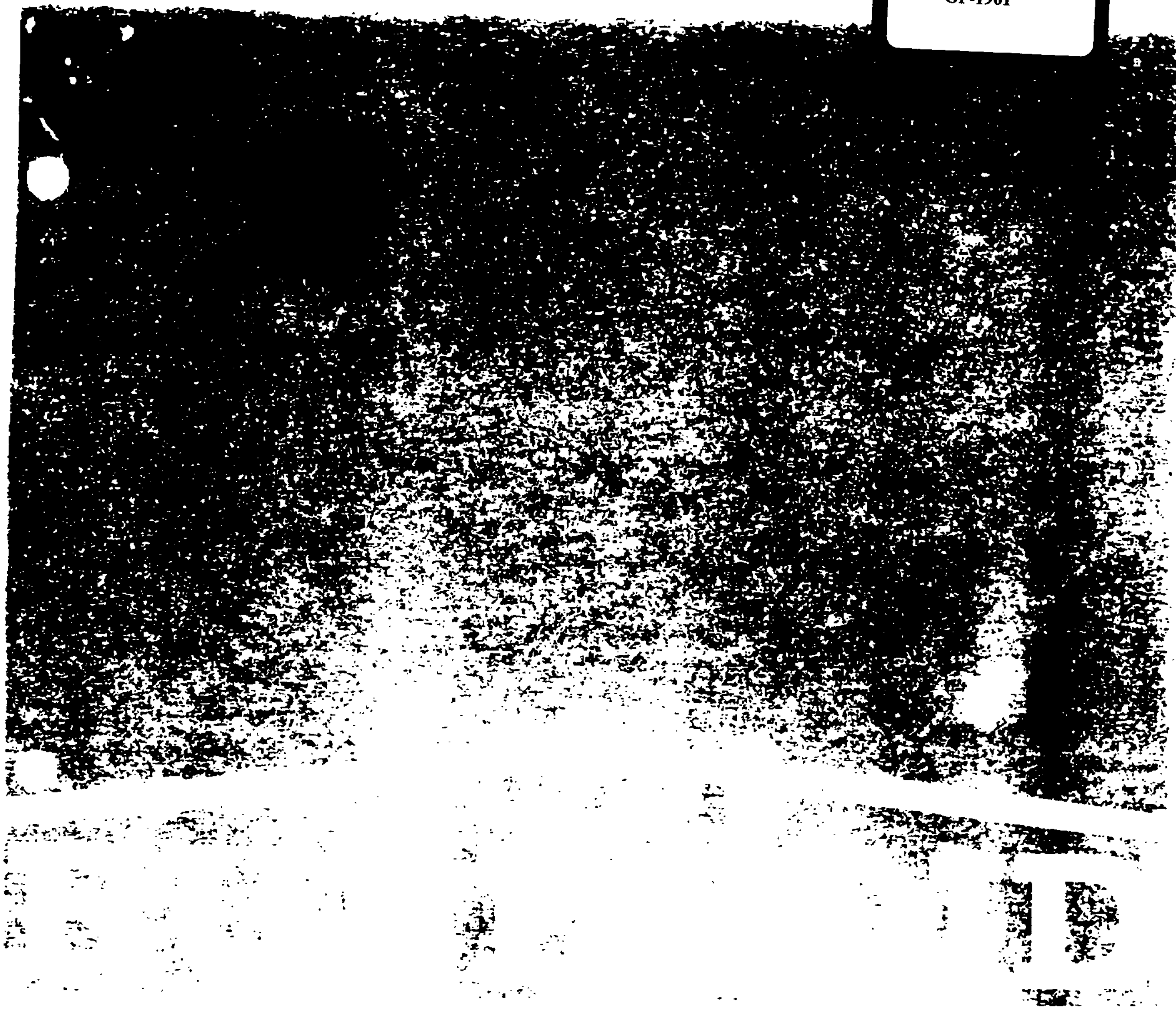

80th ANNUAL REPORT / The RUBEROID Co. / 1966

FINANCIAL HIGHLIGHTS

	1966*	1965*
Net Sales	$183,804,821	$168,428,410
Net Income	$ 8,496,459†	$ 6,768,169
Net Income Per Share	$ 2.05†	$ 1.65
Cash Dividends	$ 3,775,223	$ 3,307,036
Dividends Per Share	$ .925	$ .80
Working Capital	$ 45,147,127	$ 41,686,038
Stockholders' Equity	$ 81,187,512	$ 80,592,749
Equity Per Share	$ 19.54	$ 19.65
Shares Outstanding at Year End	4,153,262	4,102,388

*Adjusted for pooling of interests of The Ruberoid Co. with American Felt Company and for the two-for-one stock split in 1966

†Exclusive of special charge of $4,800,000 equivalent to $1.16 per share

Transfer Agent . . . . The Bank of New York, New York
Registrar . . . . . . The Chase Manhattan Bank, N.A., New York
General Counsel . . . . Austin, Burns, Smith & Walls, New York
Auditors . . . . Price Waterhouse & Co., New York

Annual Meeting of Ruberoid stockholders will be held in the Holiday Inn, Jersey City, N. J. on April 28, 1967. All stockholders are cordially invited to attend. A notice of meeting, a proxy statement and a proxy solicited by the management will be mailed to each holder of capital stock.

THE PRESIDENT'S MESSAGE

To Our Stockholders

It is a special pleasure to report that 1966 was the best year in the Company's 80 year history. Ruberoid earned more, sold more and produced more than in any previous year. It is our strong feeling that the foundation has now been established for achieving some of the important goals we have been working toward in recent years.

Net income showed an advance for the third straight year and attained record levels, rising 26% over 1965 results. Sales reached a new high for the third successive year, increasing 9% over the 1965 total.

These significant advances are all the more encouraging for they dramatize Ruberoid's diversified strength in a year that experienced reduced business growth and a sluggishness in new housing construction activities.

During 1966, Ruberoid achieved some key milestones in its long range plans. In addition to the steadily-increasing benefits we are realizing on our recent capital improvements, we continued to experience better sales coverage and deeper customer and industry penetration with our broadened product lines of building materials, floor coverings and industrial products.

The year's encouraging performance also gave our Board of Directors the opportunity to enact two increases in the quarterly dividend rate to our stockholders.

Last year, an important step was taken with the acquisition of American Felt Company. This outstanding concern is a major and fully-diversified manufacturer of natural and synthetic fiber felts, industrial fabrics, filter devices and custom-designed fabricated products

Some of the more important considerations in the acquisition of this Company were the strengthening of our marketing capabilities in the industrial world and the opportunity to expand into areas related to American Felt's activities.

As we view the coming year, we are both confident and optimistic about the future and its promise. At the outset, we will be challenged by the present economic circumstances However, as the year progresses we have every expectation that it will turn out to be one where we will realize favorable results.

The Company is in a strong financial position. We intend to pursue our policy of fully reviewing all possibilities for expansion and internal growth

On behalf of our Directors and Officers, I acknowledge with gratitude the valuable contributions of our customers, stockholders and employees Without their support, the year's record achievements would never have been realized.

Sincerely,

E. J O'Leary
Chairman and President

January 23, 1967

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OPERATIONS IN 1966

The financial statements for 1966 and 1965 shown in this report have been adjusted to reflect the pooling of interests of The Ruberoid Co. and those of its subsidiary. American Felt Company and also for the 2-for-1 split of the Company's capital stock in December.

SALES AND INCOME

Net sales in 1966 aggregated $183.804,821. to mark the third successive year of record performances for the Company. This signified a 9% advance over the 1965 total of $168,428.410.

Net income in 1966 attained the highest level in the Company's 80 year history. These earnings rose 26% to $8,496,459, equal to $2.05 a share on the 4,140,296 average shares outstanding. These totals are exclusive of a special charge of $4.800,000 or $1.16 a share set up as a reserve against a possible loss on the bearer promissory notes relating to the Cabot Titania Corporation.

FINANCIAL CONDITION

The Company again ended the year in a strong financial position. Working capital at the year-end amounted to $45,147,127, an 8% rise over the 1965 total of $41,686.038.

Current assets to current liabilities showed a 3.2 to 1 ratio. This corresponds to the 1965 proportion of 4.0 to 1.

At the end of 1966, cash and marketable securities amounted to $14,615,314, as opposed to the year-earlier $5,267,571.

At 1966's close, stockholder equity was $81,187,-512 or $19.54 a share as opposed to the 1965 amount of $80,592,749 or $19.65 per share.

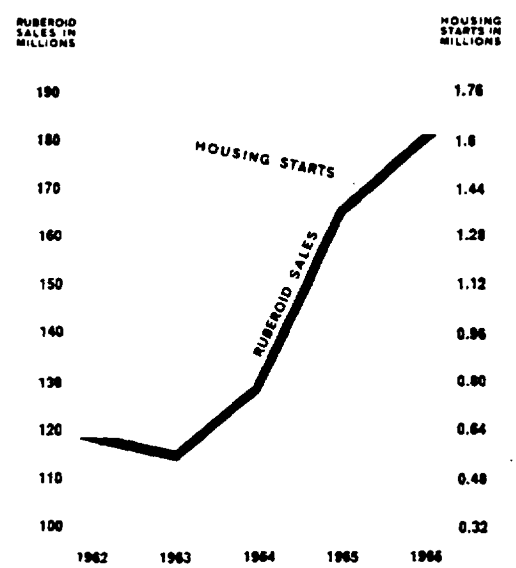
On October 31, 1966, our Company secured more than 99 per cent of the 192,750 outstanding common shares of American Felt Company through an exchange offer for an equal number of shares of Ruberoid's capital stock. The financial statements of this company, which is operated as a subsidiary, have been pooled with those of Ruberoid in this report for the years of 1966 and 1965.

Two significant changes were made with regard to our investment in Cabot Titania Corporation at Ashtabula, Ohio.

Early in the year, Ruberoid exchanged its equity holdings of 20,000 shares of 5% cumulative convertible voting preferred stock and $2,650,000 in notes receivable of this concern for a 5½% subordinated bearer promissory note in amount of $4,-650,000 due January 3, 1973. Subsequent to this, an

RUBEROID SALES AND HOUSING STARTS

Company sales show an upward trend versus declining housing starts



GAF 12357

additional $150,000 of the same class of notes was received in exchange for a cash advance of a similar amount.

As this report went to press, Ruberoid approved in principle an agreement with Cabot Corporation, the parent of this concern, whereby the Cabot Titania 5½% bearer notes would be replaced by subordinated bearer notes of Cabot Corporation having special extended payment terms. This was undertaken to induce Cabot to guarantee a five year supply contract of Cabot Titania to furnish increased quantities of titanium tetrachloride to a major customer, and to advance further operating capital to Cabot Titania.

The Company is providing a reserve in 1966 of $4,800,000 against the bearer notes receivable, which is reflected as a special charge after net income.

These transactions are explained in greater detail in Note 2 to the Consolidated Financial Statements on Page 10.

DIVIDENDS

Our Board of Directors voted two increases in dividend payments during the year. Dividends per share in 1966 totaled 92½ cents, adjusted for the 2-for-1 stock split, which compares with the 1965 adjusted amount of 80 cents. Dividends are now being paid at the rate of 25 cents per share per quarter.

In adopting these increases our Board took into consideration 1965's sharp sales and earnings rise plus the expectations of record sales and earnings during 1966. These payments also marked the Company's 78th uninterrupted year of cash dividend payments.

PLANT & EQUIPMENT

Our capital expenditure program, that has totaled over $40 million for the past five years, continued according to our intended plan of bringing our plant and equipment to its proper capacity and to a higher level of efficiency, as well as to improving our product quality and customer service.

In 1966 these expenditures totaled $5,208,471. The chief outlays were for substantial production innovations at our Gloucester City, N. J. and Erie, Penna. facilities for the manufacture of new types of flooring felts, and, for the first stages of an expansion program at our Fullerton, Penna. sheet vinyl flooring plant.

The net value of property, plant and equipment at the end of the year aggregated $59,656,385 as compared with the 1965 year-end amount of $60,122,711.

Expenditures for repairs and maintenance amounted to $10,073,199 in 1966. This compares with $8,976,649 expended in the previous year.

ANNUAL & SPECIAL MEETINGS OF STOCKHOLDERS

The Company held two meetings for its stockholders during the year. These were the Annual Meeting on April 29 and a Special Meeting on December 14.

Both these meetings were underlined by a larger-than-usual attendance and a participation of approximately 93 per cent of the outstanding shares of capital stock.

At the December 14 meeting, stockholders gave their approval to an increase in the Company's authorized capital stock to 10 million shares from the previous 3 million and a 2-for-1 split of the outstanding capital stock.

ORGANIZATION

Board of Directors

During the year, two new Directors were elected to the Ruberoid Board. The new members are Archie E. Albright, Executive Vice President of Stauffer Chemical Company and Samuel H. Wolcott, Jr., President of Consolidated Investment Trust, headquartered at Boston. Mr. Wolcott had served as Chairman of the Board of American Felt Company prior to its acquisition by the Company on October 31.

These new Directors fill the vacancies created by the retirements of LeRoy A. Petersen and William J. Van Akin. The Company wishes to express its deep appreciation for being the beneficiary of the countless contributions and invaluable counsel that were advanced by these gentlemen during their tenure of service.

Executive Changes

Wm. Howard Lehmberg was elected a Vice President of the Company. He also serves as President of American Felt Company, a post he has held since 1956.

Paul W. Garrett was elected Assistant Secretary. He also serves as Staff Legal Counsel. Prior to joining Ruberoid in 1965, he was Assistant Secretary for Sandura Company.

Remodeling and Redecorating

BUILDING MATERIALS

During 1966 the inherent strength our Company enjoys in the home remodeling and replacement markets was emphatically demonstrated by the sales growth of Ruberoid's line of building products in the face of a sharp drop in housing starts.

Historically when new housing starts decline, repair expenditures show an increase thus assuring a relative degree of stability to Ruberoid's sales. This was amply demonstrated last year. Although the tight money situation of 1966 prompted a decline in new housing starts, financial institutions made ample money available for home improvement loans.

Over the past three decades, Ruberoid has welded a strong association with the home improvement contractor and specialist. As in the past, our Company devoted a considerable portion of its energies to the needs of these contractors and specialists. Some of these centered on the manufacture of specialty items for their exclusive use, specialized sales promotional features and publications offering technical and administrative guidance.

FLOOR COVERINGS

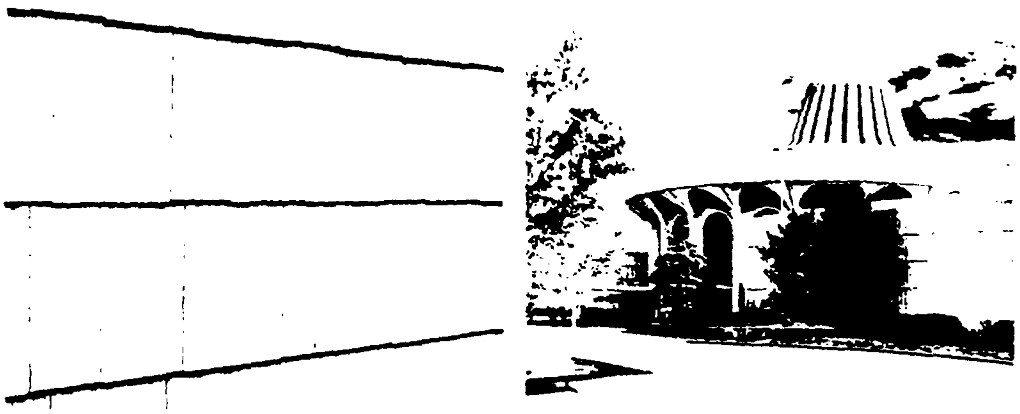
One of the most impressive features of our 1966 performance was the sales growth of the Company's resilient floor tile and sheet vinyl floor coverings among consumers, builders, architects and decorators. While both these product lines are used in new construction, a large proportion found its way into remodeling and decorating programs. This growth is credited to several factors. These principally are the increasing levels of income, the higher rates of family formation, the multiplication of households, the economical purchase price, the ease of installation and the low cost of maintenance.

In addition to residences, more resilient floor coverings are being applied in hotels, motels, mobile homes, offices, public buildings, hospitals, educational institutions, manufacturing establishments, stores and libraries.

Perhaps the most significant change was noted in the increased floor tile sales to the "do-it-yourself" trade. This strong showing is affirmed by a recent survey, undertaken by a leading national consumer publication, revealing that 54% of consumer sales of resilient floor coverings, mainly floor tiles, are ultimately applied by the customers themselves.

DIVERSIFICATION OF MARKETS

On facing page: The swirling stone pattern of Carmel—the premiere introduction in Ruberoid's new Luran "100 plus" Airtred sheet vinyl flooring—serves as the focal point for its impressive surroundings. Shown below is Stone Mosaic, a new vinyl-asbestos floor tile that captures the appearance of time-weathered broken stone set into an artist's random pattern.



Left The deep shadowlines of Ruco, Ruberoid's new siding, accent the product's natural wood-grain texture. Right: T/NA 200, revolutionary roofing membrane, serves as the attractive cover for this unusually contoured building

Spearheading the sheet vinyl flooring line is a new Luran® "100 plus" Airtred® that offers a thicker wearing surface plus heavier properties of foamed interlayers and asbestos backing. Airtred can be used in any specialized commercial situation where style, underfoot comfort, quietness and ease of maintenance are primary considerations.

In the marketing of vinyl asbestos floor tile, our Company continued to note sizable advances. Because style is the key factor in this growth, the Company placed greater emphasis on the "natural look" in both its embossed and smooth surface patterns. Since its introduction in the early 1950's, vinyl asbestos floor tile has steadily risen in popular acceptance to a position where today it surpasses asphalt tile by wide margins.

New Construction

Despite occasional dips, new construction activity for both residential and non-residential structures has increased steadily since the end of World War II. As the nation's population centers continue to increase and enlarge, a corresponding need develops for residences, educational facilities, hospitals, public utility buildings, shopping centers, religious institutions, office buildings, governmental agencies and manufacturing establishments.

Although a sharp slowdown in the rate of housing starts developed in late 1966, all other segments of construction for commercial, institutional, public and industrial structures as well as urban renewal programs reflected favorable advances.

Ruberoid is well equipped to capitalize on the more than $50 billion new construction market through its nationwide sales force, its spread of plants and a st[...]ng distribution network.

Now makin[...] its entry in the Northeast and Middle Atlantic S[...]es is a new siding, RUCO®, which is a product of R[...]beroid's research. This new siding which is unlik[...] any other sidewall product offers a built-in resistancy to chipping, peeling, buckling, warping, decay, termites and most important, fire. RUCO® which projects a deep wood-textured design has a factory-applied finish in a distinctive array of colors to blend with any decorating scheme.

Industrial Products

The Company made deeper inroads into industrial markets during 1966 when it added to its established industrial product line the products of American Felt Company, a leading manufacturer of wool and synthetic fiber felts and fabricator of custom-designed specialty products.

Ruberoid's product line serves among others, the automotive, utility, chemical, gasketing, electrical, petrochemical, petroleum and packaging industries. Comprising this product array are automotive sound-deadening and insulation felts and boards, asbestos papers and pipe coverings, molded high temperature insulations, flat and corrugated asbes-

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tos cement sheets electrical insulating tapes. high purity mica and inert fillers

Major activities of American Felt Company center on AFCO* industrial fabrics for filtration, glass polishing and automotive applications. wool felts for clothing, footwear, fashion and interior design; and synthetic fiber felts for use in the manufacture of paper asbestos cement pipe and wallboard products.

American Felt's products serve a broad cross section of the economy incorporating the versatile features of wool and synthetic fibers in materials and fabricated products designed to meet specific customer requirements

Wool felt is one of the oldest fabrics known to man. Because it is non-aging and highly resilient with predictable permanent set, it serves important scientific, industrial and artistic uses.

Synthetic fiber felts, pioneered by American Felt, represent the most advanced fiber technology and provide materials with greater strength, chemical resistance, temperature resistance and biological stability, to meet the increasing demands of modern industry Through continuing research and development, markets for AFCO products are continually expanding, finding new uses ranging from thermal-ballistic liners for astronaut's space suits to widely used industrial products such as micron-rated filter bags and cartridges.

*Registered Trademark of American Felt Company

Micron-rated industrial filter cartridges, utilizing synthetic fibers at right, and fine wool felts for piano hammers, below, highlight American Felt Company's diversified product line

RUBEROID

FINANCIAL STATEMENTS

CONSOLIDATED INCOME AND INCOME RETAINED IN THE BUSINESS

	1966	1965
	(See Note 1 on page 10)	
Revenues:		
Net sales	$183,804,821	$168,428,410
Other income, net	274,895	347,865
	184,079,716	168,776,275
Costs and Expenses:		
Cost of goods sold	139,158,462	132,849,138
Selling and administrative	22,080,055	19,299,409
Interest	1,389,943	912,598
Depreciation and depletion	5,674,797	4,949,961
Federal income taxes (Note 6)	7,280,000	3,997,000
	175,583,257	162,008,106
Net Income for the Year	8,496,459	6,768,169
Special Charge:		
Provision for possible loss on Cabot Titania Corporation bearer notes (Note 2)	4,800,000	
Net Income for the Year Less Special Charge	3,696,459	6,768,169
Income Retained in the Business at Beginning of the Year:		
The RUBEROID Co.	39,997,976	36,928,189
American Felt Company	4,521,211	4,129,865
Cash Dividends Paid:		
Ruberoid capital stock—$.925 per share in 1966 and $.80 per share in 1965 (annual rate adjusted for stock split)	(3,574,004)	(2,971,671)
American Felt common stock (prior to acquisition)	(201,219)	(335,365)
Income Retained in the Business at End of the Year	$44,440,423	$ 44,519,187

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CONSOLIDATED FINANCIAL POSITION AT DECEMBER 31

	1966	1965
	(See Note 1 on page 10)	
Current Assets:		
Cash	$10,555,520	$ 5,178,366
Marketable securities, at cost (which approximates market value)	4,059,794	89,205
Receivables, less allowances for doubtful accounts of $581,000 in 1966 and $586,000 in 1965	24,149,201	26,562,766
Inventories, at lower of average cost or market:		
Raw materials and supplies	9,733,607	9,300,308
Finished products and work in process	16,389,993	13,409,432
Prepaid expenses	1,204,509	1,098,945
Total current assets	66,092,624	55,639,022
Less—Current Liabilities:		
Accounts payable	5,730,141	6,753,479
Current portion of long-term debt	1,570,000	1,755,267
Accrued expenses	4,689,195	3,596,986
Federal income taxes	6,749,761	1,847,252
Deferred income from sale of production payment, net of federal income taxes (Note 5)	2,206,400	
Total current liabilities	20,945,497	13,952,984
Working Capital	45,147,127	41,686,038
Investment and Advances:		
Cabot Titania Corporation (Note 2)		4,300,000
Advance on raw material supply contract	1,500,000	
Property, Plant and Equipment, at cost, less accumulated depreciation and depletion of $57,427,489 through 1966 and $53,079,783 through 1965 (Note 3)	59,656,385	60,122,711
Working Capital and Other Assets:	106,303,512	106,108,749
Less:		
Notes payable (Note 4)	13,885,000	15,225,000
Obligation under long-term lease (Note 3)	4,605,000	4,805,000
Preferred stock of subsidiary	447,400	452,400
Reserve for bonded roofs	1,030,000	1,200,000
Deferred federal income taxes (Note 6)	5,148,600	3,833,600
	25,116,000	25,516,000
Stockholders' Equity	$81,187,512	$80,592,749
Represented by:		
Capital stock—authorized 10,000,000 shares of $1 par value—issued 4,214,638 shares (Notes 7 and 9)	$37,602,363	$37,638,057
Income retained in the business	44,440,423	44,519,187
	82,042,786	82,157,244
Less — Capital stock held in the treasury, at cost — 61,376 shares (1966) and 112,250 shares (1965) (Notes 7 and 9)	855,274	1,564,495
	$81,187,512	$80,592,749

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—POOLING OF AMERICAN FELT COMPANY AND PRINCIPLES OF CONSOLIDATION: Effective October 31, 1966 the Company acquired 99% of the common stock of American Felt Company in exchange for capital stock of The Ruberoid Co. This transaction was treated as a pooling of interests for accounting purposes. Accordingly, the consolidated financial statements for 1966 and 1965 reflect the accounts of American Felt Company and its wholly owned subsidiary, Drycor Felt Company.

NOTE 2—INVESTMENT IN AND ADVANCES TO CABOT TITANIA CORPORATION: The Company's investment in Cabot Titania Corporation (Titania) at December 31, 1965 consisted of $2,000,000 of 5% cumulative convertible voting preferred stock (20,000 shares) and $2,300,000 of 5½% notes receivable due in 1973.

On March 31, 1966 the Company exchanged its preferred stock interest and option and notes receivable of $2,650,000 for a Titania 5½% subordinated bearer promissory note in the amount of $4,650,000 due January 3, 1973. Subsequent advances amounting to $150,000 were made to Titania for two additional notes under these same terms to bring the total to $4,800,000.

Titania's financial position at September 30, 1966, the close of its fiscal year, was as follows:

Working capital and prepayments	$2,330,006
Property, plant and equipment, less accumulated depreciation of $4,288,195	22,520,108
Working capital and other assets	24,850,114
Less:	
Long-term notes payable to banks	12,000,000
Subordinated bearer promissory notes	14,450,000
Accrued interest on subordinated bearer promissory notes	1,108,807
	27,558,807
Net deficit	$2,708,693

No principal or interest is payable on the subordinated notes as long as any amounts are owing on the bank debt.

Titania produces and sells titanium tetrachloride and titanium dioxide. The tetrachloride plant is operating satisfactorily while the oxide plant, which is using a new chloride process, has experienced certain technical and production difficulties since it became operational in January 1965. Although further losses are anticipated in 1967, Cabot Corporation (Cabot), which now owns 100% of the stock of Titania and has invested $19,650,000 in this project as of September 30, 1966, has provided working capital as needed and its management has indicated that an active development program will be continued to improve the quality and quantity of production.

The Company is contingently liable as a guarantor of notes payable of Titania in the amount of $2,500,000.

On March 10, 1967, in order to induce Cabot to guarantee a five year supply contract to furnish increased quantities of titanium tetrachloride to a major customer and to advance further operating capital to Titania, the Company approved in principle an agreement with Cabot whereby the 5½% bearer notes of Titania due January 3, 1973 will be replaced by subordinated bearer notes of Cabot. The terms of the new arrangement provide for repayments beginning January 3, 1973 measured by the Company's purchases of titanium dioxide from Titania. Repayment is also contingent upon Cabot continuing to control and operate the titanium dioxide plant of Titania. As of December 31, 1966, the Company provided a reserve of $4,800,000 against its bearer notes receivable.

NOTE 3—PROPERTY, PLANT AND EQUIPMENT: On October 1, 1963 the Company entered into an agreement with the City of Annapolis, Missouri to lease, for a period of twenty years ending on September 30, 1983, a roofing granule plant located in Annapolis. The City raised the funds for construction of this facility through the issuance of 20-year Industrial Revenue Bonds, with interest rates of 3¾% to 4¼%. The bonds mature in annual instalments from 1966 through 1983. Construction of the plant was completed in September 1965.

Annual rentals under the lease are approximately $385,000, plus certain other costs and expenses. The lease is noncancellable and is renewable, at the Company's option, for fifteen five-year periods at reduced rentals. The Company has an option to purchase the plant and property at any time after August 1, 1973 for an amount sufficient to redeem all outstanding Industrial Revenue Bonds.

The Company has treated this transaction as an instalment purchase of the facilities and has recorded the property, plant and equipment so acquired at the amount of the related liability for the Industrial Revenue Bonds. The portion of this indebtedness due in 1967, amounting to $200,000, has been included in current liabilities in the Statement of Consolidated Financial Position at December 31, 1966.

NOTE 4—NOTES PAYABLE: Notes payable at December 31, 1966 consist of:

Notes payable to banks	$14,200,000
6% note payable due in semiannual instalments of $85,000 to April 1, 1974 (assumed in connection with acquisition of Sandura Company)	1,055,000
	15,255,000
Less—Portion due within one year, shown in current liabilities	1,370,000
	$13,885,000

The notes payable to banks are payable in quarterly instalments through June 30, 1972 and bear interest at the rate of 4¾% per annum until June 30 1969 and 4⅞% thereafter. The quarterly instalments mature in amounts ranging from $250,000 to $1,000,000 during the final year. The loan agreement contains certain restrictive provisions none of which are significant under present conditions.

NOTE 5—SALE OF PRODUCTION PAYMENT: In December 1966 the Company sold as a production payment, a portion of its interest in certain asbestos deposits for $3,500,000 Income net of federal income taxes from the sale of this payment has been deferred and will be reflected in income as the asbestos is mined, processed and sold.

NOTE 6—FEDERAL INCOME TAXES: Investment credits of $316,000 in 1966 and $1,020,000 in 1965 have been reflected as a reduction of the provision for federal income taxes.

Depreciation has been recorded for financial statement purposes under straight-line methods, whereas for federal income tax purposes the Company has used

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accelerated methods and guideline lives. Estimated amounts of federal income taxes deferred to future years as a result of this practice have been charged to the provision for federal income taxes ($1,315,000 in 1966 and $1,004,000 in 1965) and credited to deferred federal income taxes.

NOTE 7—CAPITAL STOCK: Pursuant to action by the stockholders on December 14, 1966, the authorized capital stock of the Company was increased from 3,000,000 shares to 10,000,000 shares and each issued share of the capital stock was split into two shares.

NOTE 8—EMPLOYEES' RETIREMENT PLAN: The Company has pension plans on a contributory and non-contributory basis covering substantially all its employees. The total pension expense for past and future service benefits for 1966 and 1965 was approximately $1,228,000 and $1,158,000, respectively. The Company's policy is to fund pension costs accrued.

As a result of certain amendments to the plans in 1965 and 1966, there are unfunded past service costs of approximately $4,000,000 at December 31, 1966 which are being amortized over 10 to 30 years.

NOTE 9—STOCK OPTION PLAN: The Company's incentive stock option plan for officers and key employees, as amended in 1965, provides for the granting of options to purchase capital stock, with the stipulation that no one employee be granted an option for more than 20,000 shares. Prior to January 1, 1965, option prices had to be not less than 95% of fair market prices at the dates the options were granted and options had to be exercised within ten years from the date of grant. All options granted subsequent to December 31, 1964 must be at not less than 100% of fair market prices and the options must be exercised within five years from the date of grant. The optionee may exercise up to 40% of the shares subject to option in each of the first two years following the date of grant and the remainder at any time thereafter. Options become cumulative, if not exercised, for the duration of the option period.

Particulars relating to shares of capital stock issuable under options granted under the plan after adjusting for the two-for-one stock split are as follows:

Option date and price per share	Exercised or terminated during 1966	Shares under option December 31, 1966	Shares exercisable December 31, 1966
June 1957—$14.25	12,534	8,640	8,640
Feb. 1958— 17.13		4,800	4,800
Feb. 1959— 20.00	1,300	7,300	7,300
Jan. 1960— 19.38	12,050	18,450	18,450
Oct. 1960— 15.88	7,250	18,950	18,950
Apr. 1962— 17.75	2,280	5,720	5,720
May 1963— 13.50	16,060	18,320	18,320
Jan. 1966— 18.38	2,000	41,600	15,800
	53,474*	123,780	97,980

*Includes 2,600 shares under options terminated during the year.

The above option prices represent 95% of the market price of the stock on the dates the options were granted except for the 1966 grant which is at 100% of the market price. At December 31, 1966 there were 147,450 shares available under the plan for the granting of additional options.

Options covering 50,874 shares were exercised during the year and such shares were issued from the treasury. The net result of these transactions was credited to the capital stock account.

5 YEAR REVIEW - 1962-1966

ALL DOLLAR FIGURES EXCEPT THOSE PER SHARE ARE EXPRESSED IN THOUSANDS

	1962	1963	1964	1965*	1966*
NET SALES	$120,972	117,393	131,415	168,428	183,805
MATERIALS AND OTHER COSTS – NET	$ 80,021	77,008	86,778	110,512	117,574
WAGES AND SALARIES	$ 31,374	30,247	32,576	42,201	44,780
INCOME BEFORE TAXES	$ 6,265	6,476	8,220	10,765	15,776
FEDERAL INCOME TAXES	$ 2,541	2,714	3,121	3,997	7,280
NET INCOME — AMOUNT	$ 3,724	3,762**	5,099	6,768	8,496**
NET INCOME — PER SHARE†	$ .98	1.01**	1.38	1.65	2.05**
NET INCOME — % TO SALES	3.1	3.2	3.9	4.0	4.6
DIVIDENDS — AMOUNT	$ 3,796	2,977	2,963	3,307	3,775
DIVIDENDS — PER SHARE	$ 1.00	.80	.80	.80	.925
AVERAGE NO. OF SHARES†	3,796,192	3,721,600	3,702,786	4,096,402	4,140,296
STOCKHOLDERS' EQUITY — AMOUNT	$ 68,851	68,689	70,877	80,593	81,188
STOCKHOLDERS' EQUITY — PER SHARE	$ 18.47	18.56	19.14	19.65	19.54
PROPERTY, PLANT AND EQUIPMENT	$ 42,245	42,324	43,047	60,123	59,656
DEPRECIATION AND DEPLETION	$ 3,312	3,662	3,841	4,950	5,675
CURRENT ASSETS	$ 37,429	39,641	46,630	55,639	66,093
CURRENT LIABILITIES	$ 12,055	8,894	11,800	13,953	20,946
WORKING CAPITAL	$ 25,374	30,747	34,830	41,686	45,147

†Average number of shares outstanding during year adjusted for two-for-one stock split in 1966.
**Adjusted for pooling of interests of The Ruberoid Co. with American Felt Company*
***Exclusive of special charges of $576,919, equivalent to $.15 per share in 1963 and $4,800,000, equivalent to $1.16 per share in 1966.*

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CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS - 1966

Additions to Working Capital:	
Net income for the year	$8,496,459
Charges to income for depreciation and depletion, not requiring a cash outlay	5,674,797
Increase in deferred federal income taxes	1,315,000
Sales of capital stock held in treasury to officers and employees under stock option plan	799,053
	16,285,309
Deductions from Working Capital:	
Net additions to property, plant and equipment	5,208,471
Cash dividends	3,775,223
Decrease in long-term notes payable	1,340,000
Advance on raw material supply contract	1,500,000
Increase in advances to Cabot Titania Corporation (Note 2)	500,000
Reduction in obligation under long-term lease	200,000
Other	300,526
	12,824,220
Increase in Working Capital	$3,461,089

PRICE WATERHOUSE & CO.

60 BROAD STREET, NEW YORK, NEW YORK

To the Board of Directors and Stockholders of
The RUBEROID Co.

In our opinion, the accompanying statement of consolidated financial position, the related statement of consolidated income and income retained in the business and the consolidated statement of source and application of funds present fairly the financial position of The RUBEROID Co. and its subsidiary at December 31, 1966, the results of their operations and the supplementary information on funds for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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.

January 23, 1967, except
as to Note 2, which is
as of March 10, 1967.

Price Waterhouse & Co.

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Senior Vice President-Finance

Seymour Milstein
Senior Vice President Corporate Development

Frederick K. Sweeney
Senior Vice President Group Divisions

J. Stokes Clement
Vice President-General Manager Sandura Division

Thomas A. Dent
Vice President-Operations

Leonard B. Farrell
Vice President-Industrial and Public Relations

Richard N. Funkhouser
Vice President-General Manager Roofing Granule Division

Joseph G Hall
Vice President-General Manager Building Products Division

Julien O Heppes
Vice President-General Manager Floor Tile Division

Wm. Howard Lehmberg
Vice President & President. American Felt Company

Warren Darrell
Assistant Vice President Operations

Oscar A. Maggia
Secretary-Treasurer

Robert N. Ettlinger
Comptroller

Paul W. Garrett
Assistant Secretary

Lauren M. Richmond
Assistant Comptroller

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President, Consolidated Investment Trust

*Chairman of the Executive Committee
†Member of Executive Committee

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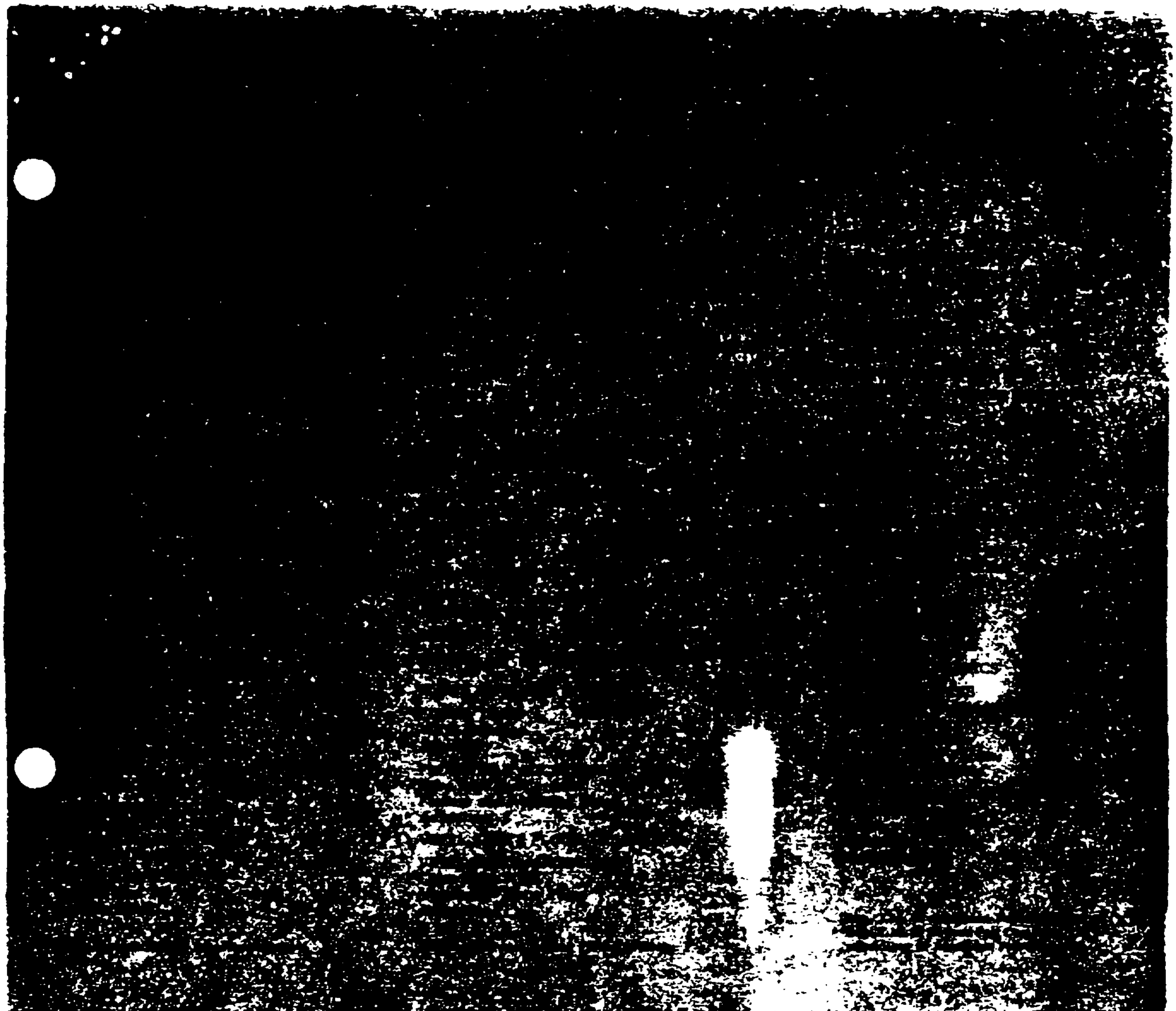

The RUBEROID Co.

EXECUTIVE OFFICES: 733 THIRD AVENUE, NEW YORK, N.Y. 10017

MANUFACTURERS OF BUILDING MATERIALS, FLOOR COVERINGS & INDUSTRIAL PRODUCTS