

(Type 5 carbon copies)

April 23, 1935

NATIONAL ASBESTOS MANUFACTURING CO.

The following summary reflects ^{adjusted} net profits of National Asbestos Manufacturing Co. after adjustments necessary to give effect to consistent provisions for depreciation, bad debts, plant maintenance and federal income taxes, and also indicates the approximate net profit that might have been expected from U.S.G. Co. operations, assuming comparable sales, costs and overhead, except for the items of overhead that are indicated as savings to U.S.G.:

PLAINTIFF'S EXHIBIT

USG-1516

Year ended August 31st

	1929	1930	1931	1932	1933	1934
National Asbestos adjusted net profits	\$45,660	34,932	49,493	26,894	34,027	35,600
% of sales	3.4	2.8	3.5	2.6	4.0	3.5

Add:

Officers' salaries	50,400	50,400	50,400	37,067	29,100	33,631
Adjustment of depreciation	19,000	19,000	19,000	19,000	19,000	19,000
Interest	10,448	8,239	5,924	223	181	30
Life insurance	2,623	2,606	2,588	5,184	5,320	5,341
Add'l income tax	10,600	10,800	10,500	7,200	5,500	3,111

Net profit under U.S.G.

operations	117,531	104,377	116,905	81,168	81,766	19,064
% of net sales	8.8	8.2	8.3	7.7	9.6	1.9

The profit and loss items are set forth in more detail in statement attached.

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The trend of gross sales during recent years is indicated in the following -

Years ended August 31 -

1926	1,427,025
1927	1,372,906
1928	1,394,123
1929	1,382,248
1930	1,312,102
1931	1,453,688
1932	1,106,194
1933	904,131
1934	1,089,725
7 mos. ended 3/31/35	909,929

The trend of monthly gross sales for the two fiscal years ended March 31 1935, classified as to roofing and covering sales, is shown in the following summary.

		<u>Roofing</u>	<u>Covering</u>	<u>Total</u>	
1933	April	*46,321	*11,743	*58,064	
	May	77,874	18,540	96,414	
	June	58,823	18,495	77,318	
	July	70,481	26,655	97,136	
	August	69,771	52,911	122,682	
	Sept.	77,023	42,216	119,239	
	Oct.	99,569	46,355	145,924	
	Nov.	61,980	36,062	98,042	
	Dec.	39,910	37,793	77,703	
1934	Jan.	33,454	26,349	59,803	
	Feb.	17,297	17,764	35,061	
	March	32,558	12,520	45,078	
	Total	<u>685,061</u>	<u>347,403</u>	<u>1032,464</u>	
					<u>Percent</u>
					<u>change from</u>
					<u>same month</u>
					<u>of previous</u>
					<u>year</u>
1934	April	74,041	13,553	87,594	+ 51 %
	May	59,972	19,372	79,344	- 18
	June	80,226	21,426	101,652	+ 31
	July	70,534	20,461	90,995	- 6
	Aug.	119,792	29,496	149,288	+ 22
	Sept.	125,860	50,900	176,760	+ 48
	Oct.	148,429	61,606	210,035	+ 44
	Nov.	110,906	57,286	168,192	+ 72
	Dec.	65,586	39,317	104,903	+ 35
1935	Jan.	48,290	22,503	70,793	+ 18
	Feb.	58,075	23,597	81,672	+ 133
	March	79,611	17,958	97,574	+ 116
	Total	<u>1,041,327</u>	<u>377,475</u>	<u>1,418,802</u>	
	% Increase	52%	97%	37%	

The most recent tax bill indicates a current real estate tax of \$5,961.09 on an assessed valuation of the improvements of \$146,500, and a personal property tax of \$3,051.75 on an assessed valuation of \$75,000. This total tax of \$9,012.84 represents an increase of approximately \$800 over the 1933 taxes.

The decline in profits for 1934 as compared with 1933, even tho net sales increased \$176,550, is attributable entirely to the decline in gross profit ratio caused by ^{materially} higher material costs. The variations in the items of cost of sale for the two years in relation to net sales, is shown below:

	% of net sales	
	1933	1934
Material	37.4	46.8
Labor	11.0	10.9
Plant operation	13.2	13.3
Plant maintenance	4.9	4.4
Warehouse expense	.2	.2
Total	66.7	75.6

Due to the utterly inadequate cost and other accounting records kept by National, it is impossible to segregate the gross profits as between roofing and covering products. A rough calculation indicates that the gross profit on covering business probably ranges from 30% to 35% of net sales, and on roofing business from 20% to 25% of net sales.

expense incurred in connection with covering sales is relatively greater than the roofing products sales expense. For 1934 the covering sales represented 30% of the total gross sales, but the ^{covering} sales expense was approximately 40% of the total sales expense. This ^{variation} represents a difference of approximately 10% in ratio of sales expense to net sales.

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a list of the first one-hundred customers, from the standpoint of volume of sales during the period from April 1, 1934 to March 31, 1935, showing the amount of sales to each customer, is attached:

The National Asbestos Manufacturing Co. entered into a settlement agreement with The Flintkote Company on April 13, 1935, under which the suit against National by Flintkote was settled, the conditions of settlement being as follows:

1. National to pay Flintkote \$100,000, \$40,000 immediately in cash, and \$30,000 in cash on May 20th and June 20th.
2. National to pay Flintkote \$25,000, at the rate of \$1,000 on the first of each month from May 1935 to May 1937, inclusive. These monthly payments to be credited against royalties payable by National to Patent and Licensing Corporation under all licenses from P & L to National. If National sells business, any balance due is to become immediately payable.

CS003 0822

3. National agrees to become a licensee of Patent and Licensing Corporation under the comprehensive or blanket license.

4. National agrees to accept license for Square Butt Strip Shingles under Patent No. 1,340,402, which shall include specifications to have new license cover "Cross Cut Square Butt Shingle Strips."

5. National agrees to accept license for Square Butt Strip Shingles under Patent No. 1,345,099, including specifications necessary to have the new license cover "Lengthwise Cut Square Butt Shingle Strips."

6. It is agreed that a specification shall be issued by P & L to National, ^{under one of the licenses} for the manufacture by National of the turned - under Square Butt Strip Shingle of the type now being made by National and designated "Dobl-Butt."

7. National agrees that it will make no Square Butt Strip Shingles and no Hexagonal Strip Shingles other than in the form covered by these patents

8. National agrees to discontinue manufacture and sale of "Stefast" and "Keroofer" shingles.

Next → Mr. Scharwath is prepared to dispose of the Limroth and Rejaunier contract of employment by a settlement with them, with no liability to the purchaser of the National Properties.

A satisfactory amendment to the present form of lease, ~~appears to be~~ accepted by the city of Jersey City, appears difficult to forecast. Without Mayor Hague's ^{initial} approval and support it would probably take a long time to accomplish, but with him sponsoring the amendment it might be accepted by the city in a few days. ~~Without~~ the right steps ~~being~~ ^{were} taken toward presenting the situation to Mayor Hague it seems reasonable to anticipate that a proposition for the outright purchase of the land might receive favorable action.

⑩ Under this new set-up the price advantage heretofore enjoyed by National will not be effective after the end of April 1935. Mr. Scharwath anticipates some loss of volume as a result, a to the excess of loss of customers over the additional price to be received when the present 5% price differential drops.

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 1068.71
 15,331.63
 1,404.05
 2,212.71
 12,090.54
 34,276.94
 28,276.72
 2,019.11
 16,383.43
 8,272.75
 11,363.93
 5,591.95
 2,500.00
 36,219.84
 8,194.33
 2,248.72
 1,701.20
 4,390.71
 15,418.71
 14,427.63
 14,045.65
 49,193.71
 15,173.33
 3,561.83
 5,792.26
 4,757.00
 2,347.83
 2,629.15
 4,381.56
 3,652.80
 2,196.56
 19,253.72
 13,803.44
 5,343.01
 38,480.01
 4,108.94
 19,533.28
 6,503.22
 1,329.20
 3,128.48
 12,165.24
 7,996.73
 19,795.12
 51,522.25
 8,374.20
 19,312.66
 3,430.74
 12,238.27
 4,584.75
 3,890.10
 2,629.50
 6,525.43
 3,081.94
 2,846.30
 9,694.80
 8,092.23
 2,162.50
 8,118.89
 13,490.05
 5,490.09
 2,269.73
 12,837.55
 2,385.42
 2,342.82
 13,535.66
 7,972.00
 12,438.44
 19,792.99
 13,374.44
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1700.55
 1428.43
 3,215.21
 3,448.73
 1531.10
 4002.55
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 5092.28
 1240.98
 2456.04
 1726.23
 1442.03
 854.91
 6,371.21
 1075.80
 1732.63
 3,652.30
 2490.31
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quality
 keeping 170,000
 1,093,500
 about 300 to
 350 a/c's

300,000
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 a/c's

✓ Copy Exhibit I, adding these
two columns and dropping 1947, 1948 and 11 mos. 1949.

	1933	1934
Gross sales	704,131.18	1,089,748.5
Less - Returns and allowances	28,914.59	29,741.20
Freight	4,088.71	32,306.09
Net sales	530,033.7	620,477.29
Cost of sales:		
Material	318,241.69	481,337.61
Labor	93,870.56	112,028.97
Plant operation	112,638.80	136,469.20
Plant maintenance	41,736.64	45,293.06
Warehouse expense	15,149.1	17,291.7
Total	567,994.60	776,858.01
% of net sales	66.7	75.6
Gross profit	283,133.21	250,819.55
% of net sales	33.3	24.4
Sales and administrative expenses:		
Sales expense	94,364.00	130,589.58
Officers' salaries	29,100.00	33,633.30
Management salaries	15,944.70	14,319.07
Office expense	20,602.34	22,946.29
Legal expense	8,947.65	5,095.16
Total	168,958.69	206,563.40
% of net sales	19.8	20.1
Operating profit	114,174.52	44,256.15
% of net sales	13.4	4.3
Add: Purchase discount	37,986.0	28,115.0
Total profits	117,995.12	47,137.65
Deductions from profits:		
Sales discount	11,899.16	14,993.45
Provision for depreciation	45,000.00	45,000.00
Provision for bad debts	11,064.66	13,359.81
Royalties paid	4,365.23	4,354.87
Interest	18,074	3,000.00
Officers' life insurance	5,320.10	5,340.20
Total	77,468.41	82,748.31
Net profits before income tax	40,526.71	35,608.66
Federal income tax	6,500.00	-
Net profits	34,026.71	35,608.66
% of net sales	4.0	3.5