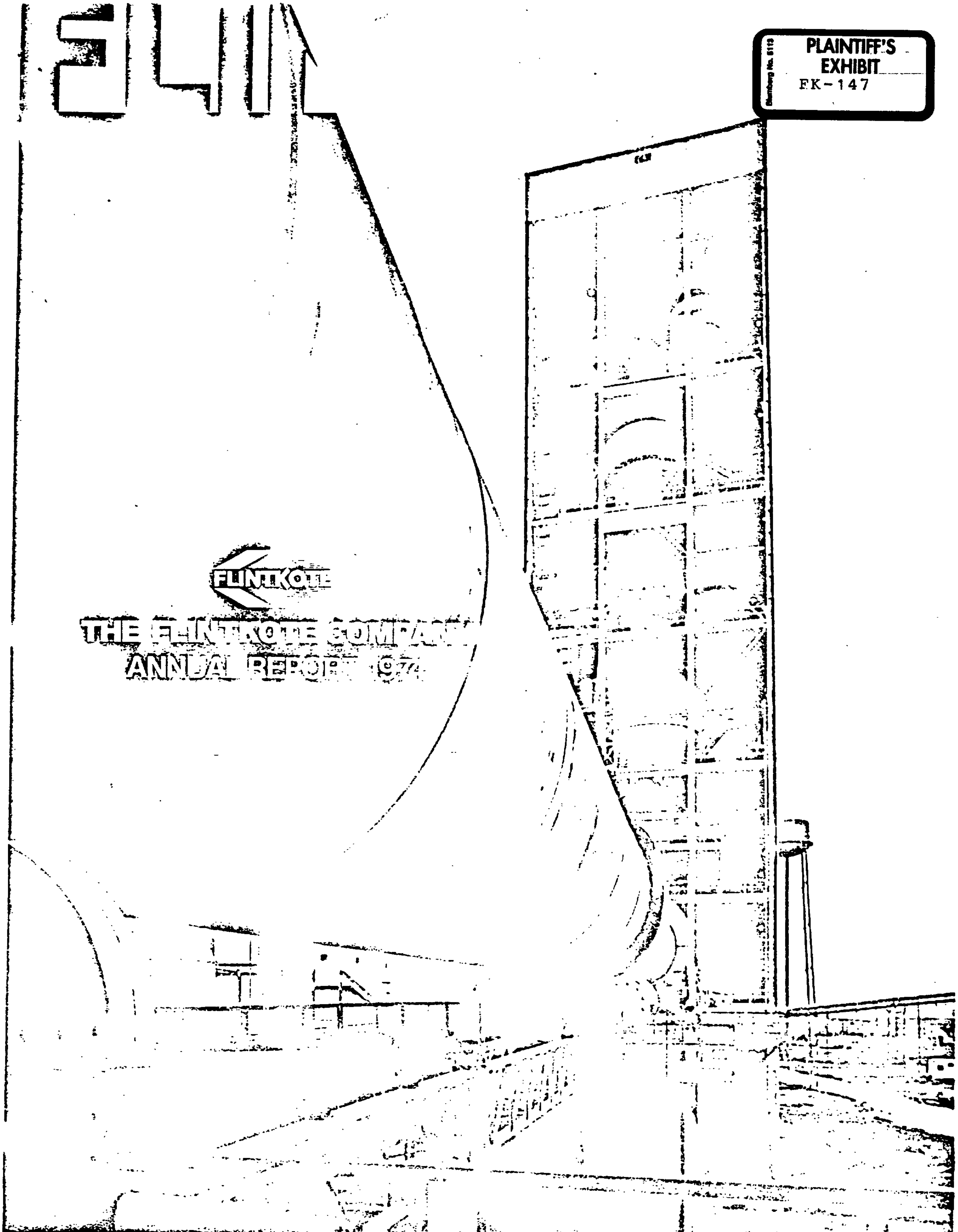
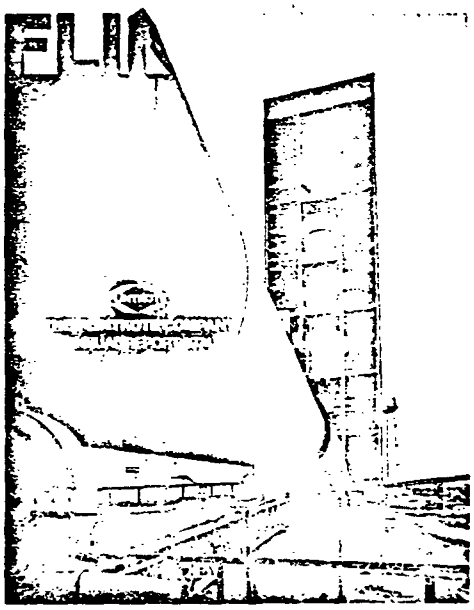
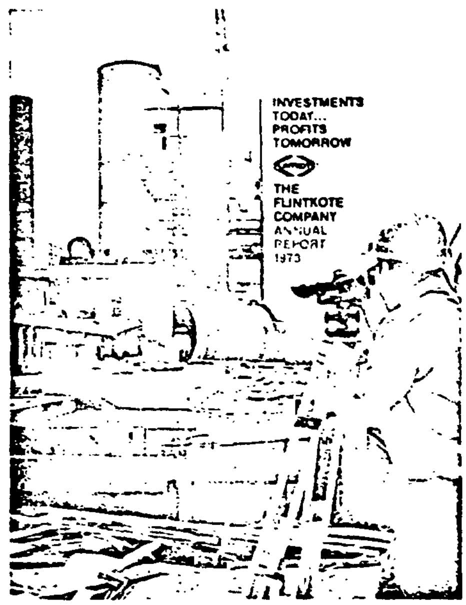
PLAINTIFF'S EXHIBIT FK-147



FLINTKOTE

THE FLINTKOTE COMPANY
ANNUAL REPORT 1974





Tne covers of the 1974 and the 1973 annual reports are pictured above. The current report cover (above left) shows the completed rotary cement kiln and the 230 foot preheater tower at the Kosmosdale, Kentucky cement plant one year after the 1973 annual cover photo (above right) was taken during construction. For a detailed description of the preheater system and how it conserves energy, see page 11.

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ANNUAL MEETING

The annual meeting of stockholders will be held at 10:00 AM, April 9, 1975 at the corporate headquarters, White Plains, N.Y.

THE COMPANY:

THE FLINTKOTE COMPANY IS A MAJOR PRODUCER OF BASIC MATERIALS AND PRODUCTS FOR THE BUILDING AND CONSTRUCTION INDUSTRIES IN THE UNITED STATES AND CANADA. THE COMPANY IS ALSO ENGAGED IN PAVING CONTRACT CONSTRUCTION IN CERTAIN GEOGRAPHIC AREAS OF BOTH COUNTRIES. WITH SOME 100 PRODUCTION AND DISTRIBUTION LOCATIONS, FLINTKOTE IS AN IMPORTANT FACTOR IN THE CONSTRUCTION INDUSTRY WHICH IS SO VITAL TO BOTH NATIONAL ECONOMIES.

THE MARKETS WE SERVE:

The table below shows the estimated percentages of total Flintkote sales derived from the categories which make up the building and construction industry. The important point made by these percentages is that Flintkote's major product lines gain from construction activity in any of these categories, and the same production facilities which supply materials for one category can generally be utilized to supply materials for the others.

	1974	1973
NEW NON-RESIDENTIAL BUILDING CONSTRUCTION (Schools, hospitals, churches, shopping centers, motels, office buildings, industrial buildings, government buildings, etc.)	**35%**	31%
NEW RESIDENTIAL BUILDING CONSTRUCTION (One and multi-family units, apartments, etc.)	**22%**	26%
NEW NON-BUILDING CONSTRUCTION (Heavy construction such as highways, airports, dams, etc.)	**18%**	20%
REPAIR AND MODERNIZATION	**17%**	14%
OTHER MARKETS (Products such as calcium carbonate and lime, sold to industry for use in processes such as metals, plastics, paint, glass and paper, or for agricultural uses, etc. which do not fit the building and construction categories above.)	**8%**	9%

FINANCIAL HIGHLIGHTS

(In thousands of dollars except per share amounts)

FOR THE YEAR	1974	1973
Net sales	**$480,148**	$442,292
Income before income taxes	**18,022**	26,402
Federal, state and foreign taxes on income	**3,297**	8,395
Net income	**14,725**	18,007
as a percentage of sales	**3.1%**	4.1%
Per common share(1)	**$2.34**	$2.91
Net income applicable to common stock	**13,145**	16,427
as a percentage of common shareholders' equity beginning of year	**7.2%**	9.3%
Dividends paid:		
Preferred stock, all classes	**1,580**	1,580
Common stock	**6,405**	5,994
per common share	**$1.14**	$1.06
Depreciation and depletion	**20,573**	18,995
per common share	**$3.66**	$3.36
Expenditures for property, plant and equipment	**43,114**	51,780
Number of employees	**8,343**	9,050

AT DECEMBER 31st		
Common shareholders' equity	**$188,801**	$182,033
per share	**$33.60**	$32.40
Working capital	**107,893**	81,504
per common share	**$19.20**	$14.51
current ratio	**3.1:1**	2.6:1
Long-term debt	**114,154**	88,724
Common shareholders of record	**17,721**	17,535
Common shares outstanding (in thousands)	**5,619**	5,619

(1) After preferred dividends and based on average shares outstanding.

Mr. James D. Moran, President and Chief Executive Officer.

TO OUR SHAREHOLDERS:

The year 1974 was a year of important progress for The Flintkote Company as the results of the Company's heavy investments in new plants and equipment took shape and several major facilities began producing. It was also a frustrating year as the problems of our national economy, a severe slowdown in certain segments of the construction industry and the unpredictable construction delays and start-up costs of new facilities, proved a tough testing ground for the Company's management.

Sales continued to grow in 1974, up $37,856,000 to $480,148,000 compared with $442,292,000 in 1973. Earnings declined to $14,725,000 or $2.34 per common share from $18,007,000 or $2.91 per common share last year.

The Company changed from the average cost method of costing inventories to the LIFO method for certain of its product line inventories which were particularly affected by inflation, to avoid an overstatement of profits resulting from use and replacement of inventories at substantially higher prices during the year. The effect of the change was to decrease earnings $.32 per common share to the aforementioned $2.34 per share.

The decline in earnings was primarily due to the leveling out in the physical volume of shipments caused by the slowdown in construction activity which made it difficult to pass through inflation-related cost increases, and start-up costs of new plants and equipment which were higher than expected.

During most of 1974, Flintkote's diversification among the non-building construction, non-residential building, repair and modernization segments of the industry helped counter some of the negative impact of depressed homebuilding activity.

Capital expenditures in 1974 were $43 million compared with $52 million in 1973. A large part of these expenditures represent investments in the capital intensive cement, lime, and stone products areas of the Company's operations.

The largest of these projects, the $25 million modernization and expansion program at the Kosmosdale, Kentucky cement plant, began operating in December. Although it is not yet at full production, it is expected to contribute significant sales and earnings in 1975. In addition to increased and more efficient production capability, the new plant is expected to reduce energy consumption more than 50% through the use of a preheater process, similar to the one in use at the Company's new Glens Falls, New York plant which began production in 1973. The preheater is explained in the Cement Group Discussion on page 11 of this report.

The Company's U.S. Lime Division completed construction on its $11 million lime plant at Nelson, Arizona and began initial operations in December. This plant is one of the largest lime plants in the country and also utilizes a preheater system which reduces energy consumption. The plant's production capacity is 800 tons of lime per day and has enough high grade raw material to last many years beyond its expected production life.

The Company's product distribution system was extended to three important market areas in the Southern United States with centers at San Antonio, Atlanta and Charlotte. A new center was also completed in Los Angeles which consolidated distribution facilities already located in that area. A total of 12 such centers are now in operation adding more strength to our building products marketing efforts.

In 1974, construction was begun on a new roofing plant near Atlanta. This new plant, scheduled for completion early in 1976, was made possible by the felt and paperboard production flexibility provided by the Cornell, Wisconsin paper plant acquired in 1973 and adapted for roofing felt production.

Environmental control has been a high priority in the Company's capital expenditures for several years. Although it is difficult to isolate precisely the costs of environmental control, because many new facilities have both operational and environmental functions, we estimate the Company's expenditures for clearly environmental purposes to exceed $24 million for the past five years.

The policy of acquiring only such operations that complement the Company's present operations and management capabilities is being pursued. One such operation was acquired in 1974: Limestone Quarries, Ltd. north of Toronto. While it is not a large one, it does add important stone reserves and production capacity to the King Paving Division which serves the important Toronto market. The acquisition was financed through long-range borrowing arranged in Canada.

The Company continues to divest itself of properties and operations which do not meet growth and profit goals. The floor tile plant in Ohio was closed during the year on a permanent basis due to shortages and costs of raw materials as well as market conditions. The other three floor tile plants have the production capabilities to efficiently serve customer needs.

Early in 1975, the Company completed the sale of timberlands in Mississippi which were not needed in our insulation board operations there. At the end of 1974, the Southern California concrete and aggregate operations were sold and in January of 1975 the Campanella Corporation subsidiary in New England was sold. Management concluded that the capital employed in these operations could be used more productively in other areas of the Company.

The timing of capital improvement programs has been good and the Company's financial condition continues strong and flexible. Early in the year, the Company arranged $20 million in new financing which involves a 10-year bank loan at 8¼% interest. Also, $5.3 million of bonds for pollution control facilities at its two northern California cement plants were sold in 1974. In June, the Company announced the call of the remaining $1,500,000 outstanding of the 4⅜% Sinking Fund Debentures due April 1, 1977, to provide additional long-term borrowing flexibility.

The Company's funded debt repayment schedule has been carefully planned to fit long-range goals, and the Company is positioned to take advantage of new growth opportunities which management is actively seeking.

The effects of energy availability and costs have been reviewed at all the Company's operations. As already noted, the use of preheaters at the two new cement facilities, and the Arizona lime plant will reduce energy consumption significantly. The Kentucky cement plant and the Arizona lime plant are designed for coal as the primary fuel. At all plants, where feasible, alternate fuel burning equipment has either been planned or installed, which should keep the key plants operating under any reasonable government emergency allocation program. At all Company plants and offices energy conservation is being pushed on a continuing basis.

Organizationally, several changes were made to strengthen the Company. Mr. A. Richard Perry was elected vice president and controller. The Diamond/Kosmos and Glens Falls cement operations were combined to form the Eastern Region and Mr. Raymond T. Capp was appointed general manager of the new region. Mr. Robert A. Rabatsky returned to Flintkote as vice president and general manager of the Pipe Products Division. He previously headed the Hankins Container Division which the Company sold in 1972.

At the Annual Stockholders Meeting held April 10, 1974, Mr. William C. Birdsey was elected to the Board of Directors. Mr. Birdsey's broad experience and talents as a line operator in the building and construction industry provide additional strength to the Board.

Flintkote's Board of Directors, at its February 5, 1975 meeting, elected me to the additional post of Chairman of the Board succeeding George J. Pecaro who has chosen to give up the position of Chairman but who, I am pleased to report, will continue to serve as a Director.

For the second consecutive year, Flintkote increased the quarterly dividend on its common stock.

As we look ahead and attempt to assess the impact on Flintkote of the shifting variables in the building and construction industry as well as those in the nation's economy, planning becomes difficult indeed. Some relief for the construction industry should come from the anticipated government stimulation of the economy through programs for new public works as well as residential construction. The current inflow of funds to our savings institutions and the downward trend of interest rates portend a revitalization of the homebuilding business. These factors, with strength in repair and modernization, should help offset some of the decline, already in evidence, in non-residential building during 1975.

On January 16, 1975, the Federal District Court at Pittsburgh, in a case involving a number of gypsum producers charged with violation of the Sherman Act in the pricing and establishment of terms and conditions of sale for gypsum wallboard, accepted the nolo contendere pleas of the Company, George J. Pecaro and myself. The Court thereupon pronounced sentence, including a fine of $50,000 upon the Company, thus disposing of this litigation.

The Flintkote Company is in good condition financially, operationally and organizationally as we enter 1975. We will get our share of the business available and with the major capital investments contributing to earnings, we feel confident that 1975 will be another good year for the Company.

In times such as these, I am particularly appreciative of the support I have received from our customers, shareholders, directors and my fellow employees. Together we look forward to the challenge of 1975, and beyond.

James D. Moran

James D. Moran
President and
Chief Executive Officer

February 20, 1975

THE FLINTKOTE COMPANY and its CONSOLIDATED SUBSIDIARIES

SALES & INCOME BY PRODUCT GROUP

	1974	1973	1972	1971	1970
NET SALES		*(In Thousands of Dollars)*			
Building Products Group	**$245,637**	$218,791	$199,043	$173,748	$135,541
Stone Products Group	**183,011**	175,990	163,278	147,652	124,620
Cement Products Group	**51,500**	47,511	41,238	41,637	34,824
Total	**$480,148**	$442,292	$403,559	$363,037	$294,985
CONTRIBUTION TO OPERATING INCOME					
Building Products Group	**$ 11,422**	$ 13,499	$ 17,074	$ 13,319	$ 2,640
Stone Products Group	**14,476**	18,154	13,557	12,777	12,776
Cement Products Group	**5,924**	4,846	2,563	4,299	3,569
Total	**31,822**	36,499	33,194	30,395	18,985
Unallocated Corporate Interest	**8,670**	6,285	4,609	3,637	2,406
Unallocated Corporate Expenses	**5,130**	3,812	4,304	5,117	3,174
Income Before Income Taxes	**$ 18,022**	$ 26,402	$ 24,281	$ 21,641	$ 13,405

NET SALES BY PRODUCTS AND SERVICES

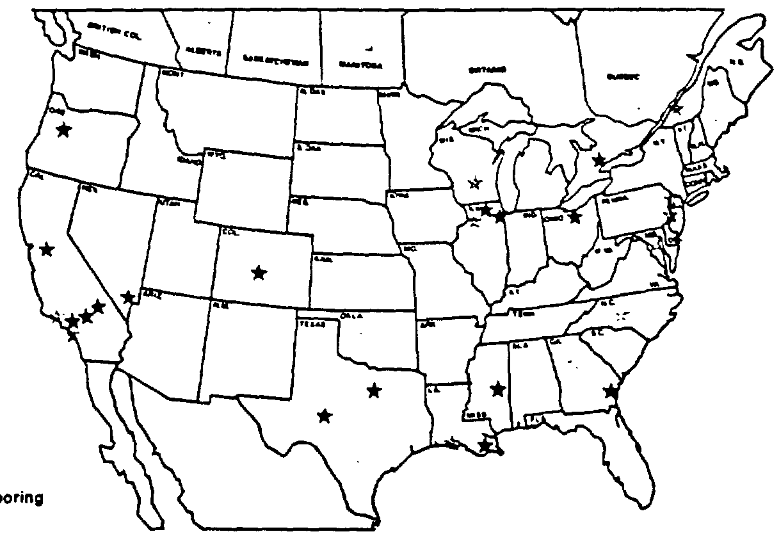
	1974	1973	1972	1971	1970
		(In Thousands of Dollars)			
Aggregates and Concrete Products	**$107,002**	$ 97,007	$ 82,755	$ 72,121	$ 60,847
Contract and Construction Services	**62,575**	66,644	68,117	64,133	52,523
Roofing and Insulation Products	**94,769**	79,564	74,539	61,700	40,663
Gypsum Products	**54,985**	54,363	47,081	33,884	23,548
Flooring Products	**54,964**	52,527	46,805	44,073	38,456
Cement Products	**51,500**	47,511	41,238	41,637	34,824
All Others	**54,353**	44,676	43,024	45,489	44,124
Total	**$480,148**	$442,292	$403,559	$363,037	$294,985

BUILDING PRODUCTS GROUP

Monte C. Carpenter, *Executive Vice President*, 400 Westchester Avenue, White Plains, New York 10604

- ★ **Gypsum Products Plants**
- ★ **Floor Tile Plants**
- ★ **Pipe Products Plants**
- ★ **Roofing Products**
- ★ **Insulation Board Products**
- **Distribution Centers** (ones indicated in Canada are flooring distribution centers)
- ☆ **Paperboard Plants**
- ☆ **Liquid Products** (coatings, adhesives, etc.)

Note: Because of limited space, several plants and flooring store locations are not shown in Canada.



This Group as a whole had an increase in sales dollar volume and earnings (before LIFO adjustment) in 1974 despite the housing crisis and several raw material shortage problems.

The Group contributed 51% of total Company sales. Assuming a reasonable market, the growth trend in sales and earnings is expected to continue in 1975.

The 1974 sales for this Group came from the following sources: non-residential building, 35%; residential building, 30%; non-building construction, 6%; repair and modernization, 26%; and miscellaneous, 3%.

GYPSUM & BUILDING MATERIALS DIVISION

Edward R. Stainback,
Vice President and General Manager,
480 Central Avenue,
E. Rutherford, New Jersey 07073

This Division produced a substantial increase in sales volume in 1974, but had a decrease in earnings, resulting primarily from the softening of demand for gypsum products. Roofing products held up well in most areas because of the strength in the re-roofing segment of the repair and modernization market.

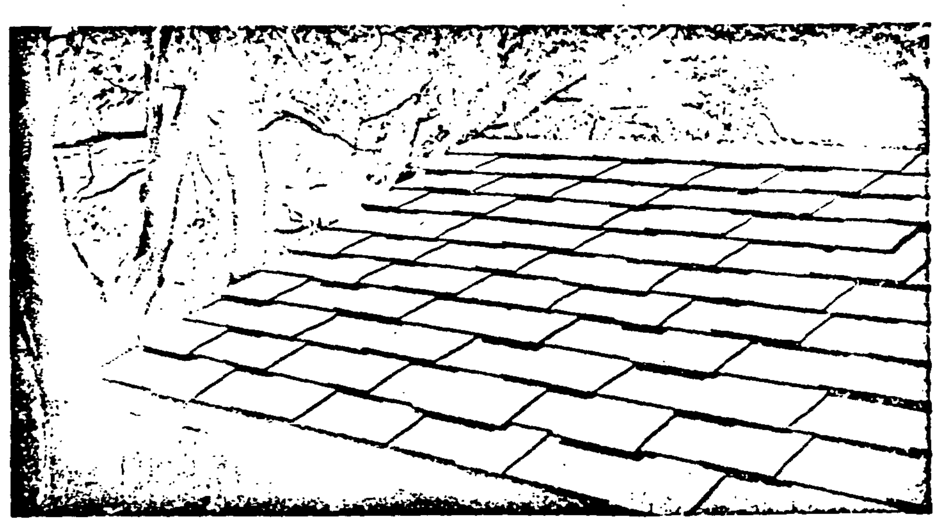
The twelve building product supply centers now in operation provided strong support for marketing as competition in all areas stiffened in 1974. Four new centers were opened in 1974—Los Angeles, San Antonio, Charlotte and Atlanta. Three more are scheduled for construction in 1975.

Construction has begun on a new roofing plant near Atlanta. It is expected to be ready to produce early in 1976. This will strengthen Flintkote's competitive position in the Southeast. The Cornell, Wisconsin paper plant, acquired in 1973, is now producing dry roofing felt which has been in short supply.

PIONEER DIVISION

Wilson Harvey,
Vice President and General Manager,
5500 S. Alameda Street,
Los Angeles, California 90051

The Pioneer Division had another excellent year with both sales and earnings up considerably over the previous year. Asphalt roofing, the principal product of this Division, was in good demand throughout the year due mostly to the repair and modern-



The Flintkote SIERRA shingle pictured here was introduced during 1974 and has been well received in the marketplace. This long-life asphalt shingle with its handsome blend of nature colors and deep shadow lines is designed to add a look of quality and drama to the home roof.

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Monte C. Carpenter, *Executive Vice President*, 400 Westchester Avenue, White Plains, New York 10604

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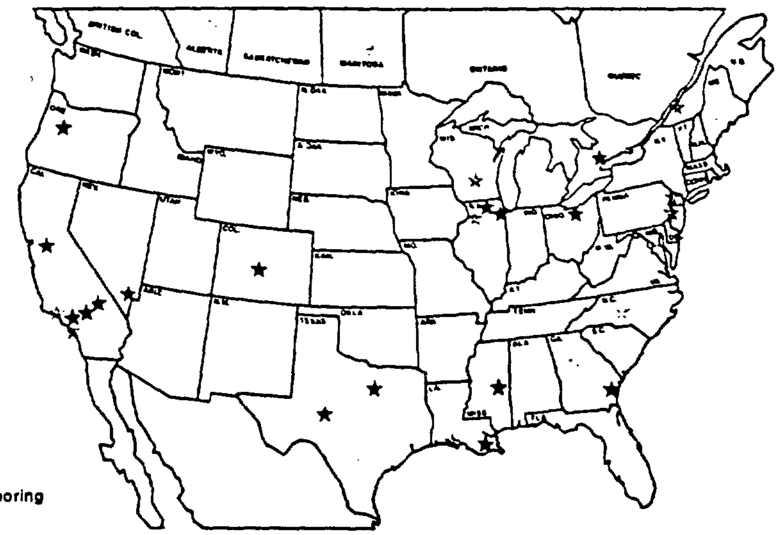

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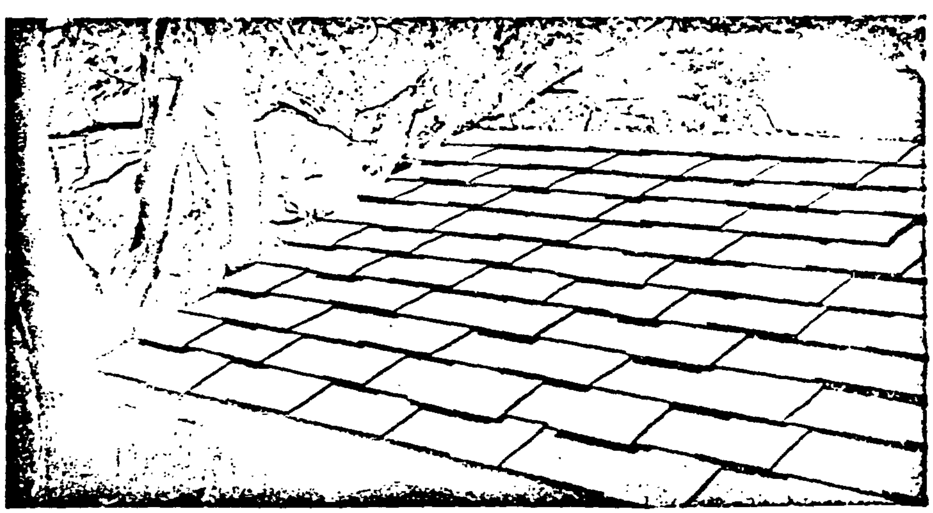

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ization market activity. The Division also produces paper for gypsum board and dry felt for roofing products. These operations also ran at maximum capacity all year. The operation recycles waste paper for its paper products and consumed over 120,000 tons in 1974. One of the paper machines is being rebuilt to increase its capacity in 1975 to cover anticipated growth in demand.

FLOORING AND INDUSTRIAL PRODUCTS DIVISION
M. L. Johnson,
Vice President and General Manager,
480 Central Avenue,
E. Rutherford, New Jersey 07073

The year 1974 was not a satisfactory year for this Division as flooring raw materials costs increased far more rapidly than could be recovered through product price increases. Shortages of resin also restricted production throughout the year.

The continued emphasis in flooring products is on VINYLCRAFT® and PEEL and STICK® where market opportunities are less affected by new construction.

Tennis court construction and maintenance is proving an important market for the Industrial Products Division, and FLINTKOTE DECORALT® surface coatings is a leading product line in the field. In 1974, DECOTURF® resilient tennis court base was introduced and several trial installations produced extremely encouraging results. In 1975 this line is expected to improve in both sales and earnings.

PIPE PRODUCTS DIVISION
Robert A. Rabatsky,
Vice President and General Manager,
One Cascade Plaza, Akron, Ohio 44308

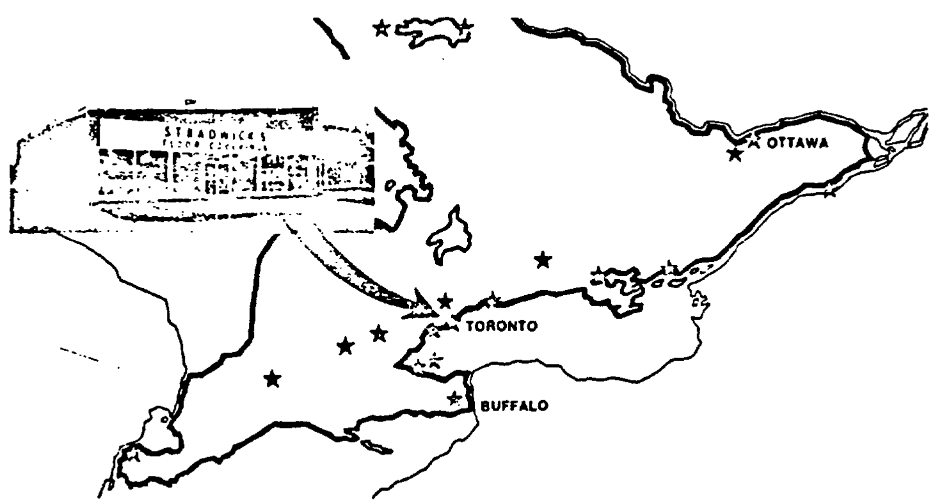
The year 1974 was a turn-around year for the Pipe Products Division as sales climbed and earnings improved. The tripled capacity of the PVC (polyvinyl chloride) pipe operations and increased production capacity of the SP (polyethylene) pipe along with improved prices for these and A/C (asbestos cement) pipe, contributed to the improved results in 1974.

A new plastic pipe product, polybutylene, is being developed and is expected to become an important product in this Division. It has the same lightweight and strength advantages as PVC plus greater resistance to the ultra-violet rays of the sun, making it attractive to the growing irrigation markets.

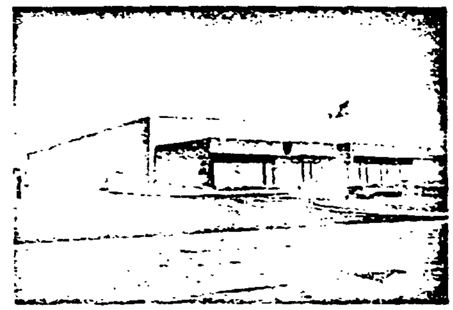
THE FLINTKOTE COMPANY OF CANADA LIMITED
Gerald C. Edwards,
Executive Vice President and General Manager,
30th Street, Long Branch, Postal Box 160,
Stn. N. Toronto, Ontario, Canada M8V3T4

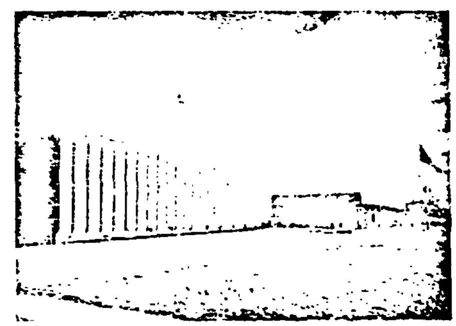
The Flintkote Company of Canada Limited and Stradwick Industries both continued the strong upward trend in sales and earnings reported last year. All products and services contributed to the improved performance.

An important part of this growth is due to an excellent product distribution system which has been developed by this Subsidiary over the past few years. These facilities enable Flintkote to be competitive in virtually all the important markets of Canada. The Montreal flooring distribution center recently moved to larger premises permitting increased growth in that important market area.



The 19 Stradwick Retail Flooring Stores such as the one pictured above are located in Ontario. They represent a further refinement of Flintkote's Canadian distribution system which makes flooring products available to both small and large volume users.





Three new Flintkote Supply Centers are pictured above . . . from the top: Atlanta, Charlotte and San Antonio. Another was opened in Los Angeles which consolidated distribution facilities already located in that area. Most product centers now in operation are located in growth areas of the southern United States and provide strength to Flintkote's marketing efforts through more efficient customer service.

STONE PRODUCTS GROUP

J. L. Gordon, *Senior Vice President and General Manager*, 400 Westchester Avenue, White Plains, New York 10604

- **Contract Construction**
- **Lime Products**
- **Ready Mix Concrete Locations** (star represents more than one plant in these markets)
- **Bituminous Concrete Locations** (star represents more than one plant in these markets)
- **Sand and Gravel Locations**
- **Limestone and Limestone Products** (includes dolomite and calcium carbonate plants)
- **CAMPBELL® and SAKRETE® Products**

This Group as a whole did not perform as well in 1974 as anticipated. It produced an increased volume of sales dollars but considerably less in earnings. The ·rnings decline, for the most part, ˍsulted from problems in the start-up of new facilities, increases in raw material costs and weakened markets in some areas.

The Group's sales amounted to 38% of total Company sales.

It is virtually impossible to project construction activity for 1975, but given reasonable markets for our products, it should be a year of considerable improvement for the Group.

As noted earlier in this report, the Campanella subsidiary was sold early in 1975. For the last several years this operation has not been an earnings contributor.

The 1974 sales for this Group came from the following sources: non-residential building, 29%; residential building, 10%; non-building construction, 38%; repair and modernization, 8%; and miscellaneous, 15%.

WESTERN STONE PRODUCTS

·din Stephens,
sident
John C. MacDonald,
Vice President and General Manager,
U.S. LIME DIVISION

This product grouping includes the U.S. Lime Division and the Western Concrete Materials Division. The U.S. Lime Division had a record year in sales and earnings and with the contributions of the new $11 million lime plant now in operation at Nelson, Arizona, the trend should continue in 1975. The Western Concrete Materials operations in the northern California area had a good year but those in the southern California area had a disappointing year with lower earnings on a higher dollar volume of sales, compared with 1973.

As reported in the President's Letter, certain assets of the concrete materials operations in Southern California were sold. The transaction included only those concrete and stone operations located in Los Angeles, Riverside, San Bernardino and Orange counties. Similar operations in the Stanislaus and San Joaquin County areas of Northern California were not affected.

M. J. GROVE LIME DIVISION

Montagu Hankin, Jr.,
Vice President and General Manager,
Lime Kiln, Maryland 21763

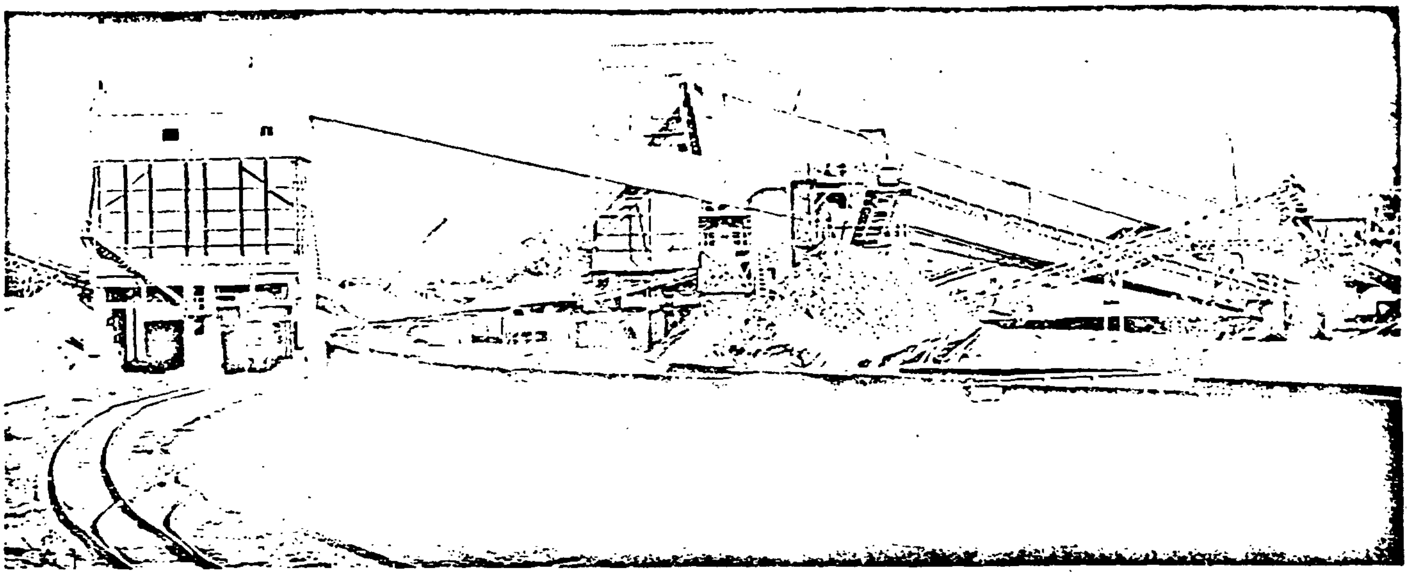
This Division had an increase in sales volume but a moderate decline in earnings. Stone products for construction lime and contract construction services did reasonably well in 1974 but the chemical limestone, ready mix concrete, bituminous concrete and masonry cement lines ended the year with decreases in volume and earnings. Due to projected decreases in construction activity for most of the areas served by this Division, 1975 will be a difficult year for growth.

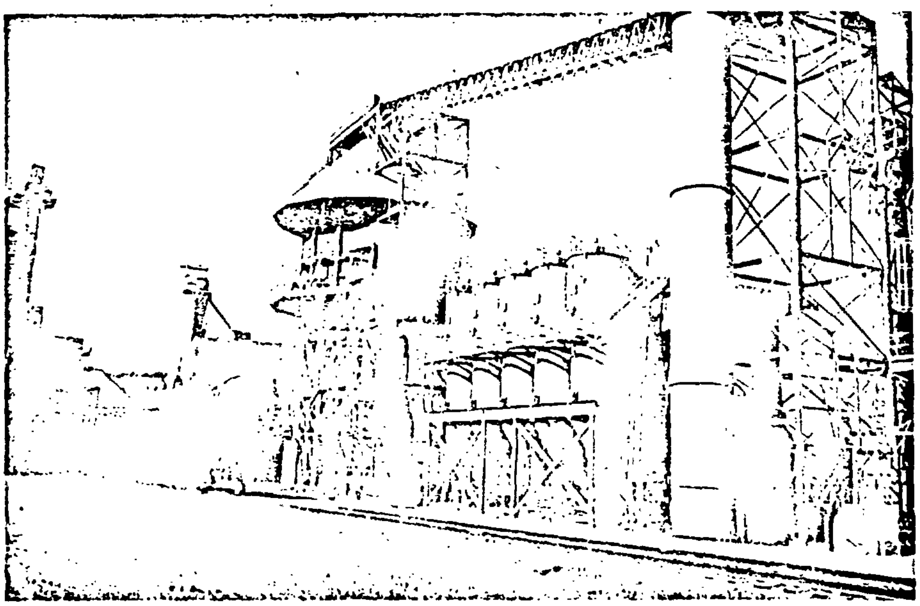
THE HARRY T. CAMPBELL SONS' DIVISION

Robert B. Hamill,
President,
100 W. Pennsylvania Avenue,
Towson, Maryland 21204

The Campbell Division had an increase in sales in 1974 compared with 1973 but a decline in earnings. The earnings decline was due to a number of factors including the continuing start-up costs of the calcium carbonate facilities, major repairs on stone crushers and tube mills at the Texas, Maryland quarry, and the inability to pass along increased energy and material costs through product price increases. Most of these costs and problems are non-recurring, the Division should have a considerably improved performance in 1975.

The CAMPBELL® products operations continued to grow in sales and earnings, reflecting the good level of activity in the repair and modernization segment of the industry





The newly acquired limestone quarry operation located some 80 miles north of Toronto is pictured above. Entire train-loads of limestone are shipped to the Toronto markets during the evening periods.

The photo at left shows a part of the new lime plant at Nelson, Arizona. The octagonal-shaped structure at the center is the preheater which utilizes waste heat from the kiln (which can be seen at the left) to preheat the raw materials entering the kiln, thus reducing considerably the consumption of energy. The structures to the right are part of the dust collection system.

during 1974. At the largest of the 7 CAMPBELL products facilities located at White Marsh, Maryland, a special bagging installation and a warehouse expansion were completed in 1974 which provide room for growth in this important product line.

In the market areas served by the Campbell Division, an improved level of total construction activity is anticipated in 1975 despite a decline in the residential and non-residential building segments. There has also been a decline in demand for calcium carbonate as major users in the paint and plastics industries suffer from the curtailed automobile and housing production. Looking ahead to 1976 and beyond, however, the demand for calcium carbonate products looks excellent.

KING PAVING AND MATERIALS
Division of The Flintkote Company of Canada Limited
M. David Boyd,
Executive Vice President and General Manager
P.O. Box 550,
Oakville, Ontario, Canada L6J5B7

This Division continued its excellent uptrend in sales and earnings with significant increases over the 1973 results. The newly acquired Limestone Quarries, Ltd. (see photo) made very encouraging contributions to these results, considerably higher than projected.

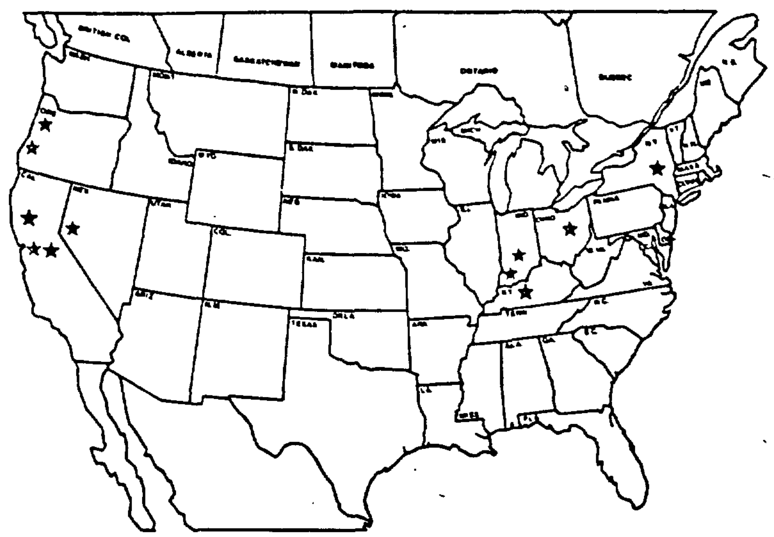
Sales in this Division come from three major product and service categories—ready mix concrete, stone and contract construction. Ready mix concrete is particularly sensitive to cycles in building construction and was hurt by the downtrend in residential building which began in 1974 and expected to continue to at least mid-1975. However, other marketing opportunities are expected to offset much of this negative impact to make 1975 another good year for these Canadian operations.

. CEMENT PRODUCTS GROUP

Harold F. Stepanek; *Senior Vice President and General Manager*, 400 Westchester Avenue, White Plains, New York 10604

★ Cement Plants

★ Cement Distribution Terminals



The Cement Products Group produced an increase in volume of sales dollars and earnings but the increases were not as great as projected at the beginning of the year. The Group accounted for 11% of total Company sales in 1974.

Anticipated contributions from the new production facilities at Glens Falls, New York and Kosmosdale, Kentucky did not materialize as expected. The production problems and construction delays should be behind us in 1975, and both new facilities will contribute substantially to sales and earnings in 1975.

Price increases in most areas have helped offset some of the increases in fuel and other production costs. Shipments for the cement industry declined about 8% from 1973. This Group must get an increase in volume by improving its share of market in 1975.

Labor contracts at all cement operations expire in 1975 and negotiations will begin early in the year.

The 1974 sales for this Group came from the following sources: non-residential building, 51%; residential building, 29%; non-building construction, 9%; repair and modernization, 5%; and miscellaneous, 6%.

CALAVERAS CEMENT DIVISION
Mel J. London,
President,
215 Market Street,
San Francisco, Calif. 94105

Both plants of this Division in California operated at near capacity during 1974 and the Division showed a substantial increase in earnings on a modest increase in sales. Pollution control facilities at the Redding plant are completed and operating successfully. As previously reported, the cost of pollution control projects at both California plants is about $6 million and $5.3 million of the amount is being financed with proceeds from pollution control bonds which were successfully marketed by the California Pollution Control Financing Authority in 1974. No other such major expenditures are anticipated at either plant.

The primary fuel at both California plants is gas. Both are equipped for oil as an alternate fuel, which provides the necessary flexibility to cope with fuel shortage problems. Studies continue toward the use of other fuels as well as improved efficiency of kiln operations.

EASTERN CEMENT REGION
Raymond T. Capp,
Vice President and General Manager
Kosmosdale, Kentucky 40272

During 1974, the Diamond/Kosmos Division and the Glens Falls Cement Division were combined to form the Eastern Cement Region. The change was made to improve management efficiency as the new facilities at Kosmosdale, Kentucky and Glens Falls, New York begin to produce.

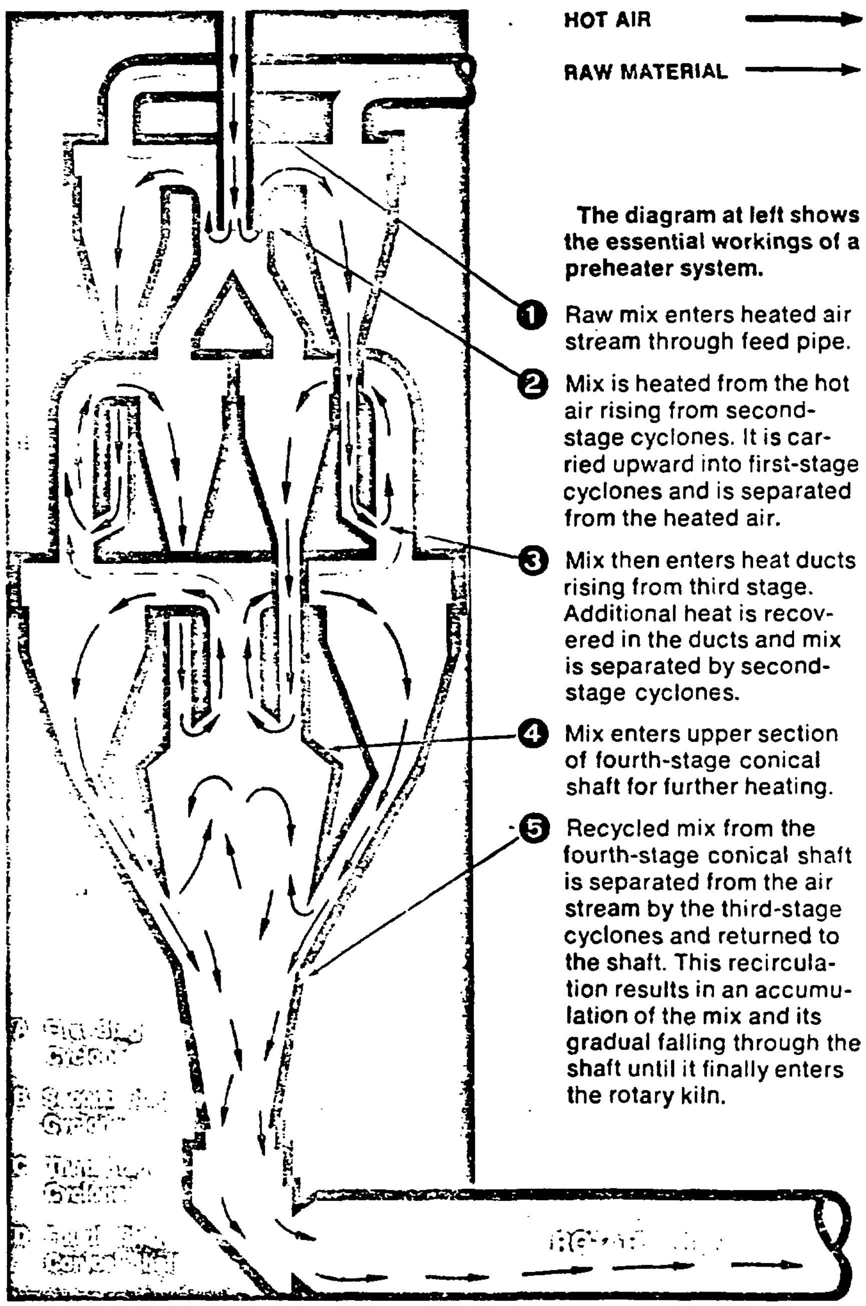
It is difficult to relate sales and earnings statistics for 1974 to those in 1973 because of the start-up costs at the New York and Kentucky plants, but it is important to note that the Region showed improved sales and earnings in 1974 compared to 1973.

With the Glens Falls plant operating problems substantially corrected and the Kosmos plant in its start-up phase and full production expected before the heavy shipping season, these two facilities are expected to add considerably to Company sales and earnings in 1975. The fuel burning efficiency of both plants thus far has been most encouraging. Fuel usage per production unit has been reduced by more than 50% at the two plants. These savings are primarily due to the new preheater process (see illustration).

The third plant in this Region at Middlebranch, Ohio is faced with meeting local and state air pollution standards. Engineering studies on pollution control equipment and a new kiln are now underway. Meanwhile, we expect to shut down two old kilns but this will not have a material effect on the Division's operating results.

THE PREHEATER SYSTEM

Cement clinker from which portland cement is ground is made by fusing finely ground raw material, which is primarily limestone, at about 2800° Fahrenheit. This is accomplished in a rotary kiln which is shown at the bottom of this schematic diagram. Normally much of the heat used in this process is wasted, but the preheater systems used at Flintkote's Glens Falls, New York and Kosmosdale, Kentucky cement plants and the new lime plant at Nelson, Arizona, utilize waste heat to preheat raw material feed. This way, the raw material is well on its way to fusion when it enters the rotary kiln.



The diagram at left shows the essential workings of a preheater system.

1. Raw mix enters heated air stream through feed pipe.
2. Mix is heated from the hot air rising from second-stage cyclones. It is carried upward into first-stage cyclones and is separated from the heated air.
3. Mix then enters heat ducts rising from third stage. Additional heat is recovered in the ducts and mix is separated by second-stage cyclones.
4. Mix enters upper section of fourth-stage conical shaft for further heating.
5. Recycled mix from the fourth-stage conical shaft is separated from the air stream by the third-stage cyclones and returned to the shaft. This recirculation results in an accumulation of the mix and its gradual falling through the shaft until it finally enters the rotary kiln.

FINANCIAL REVIEW

Sales Up, Earnings Down

Consolidated net sales increased $37,856,000 or 8.6% over the 1973 sales of $442,292,000, reaching a level of $480,148,000 in 1974. Consolidated net income for 1974 was $14,725,000, down $3,282,000 or 18.2% from 1973 net income of $18,007,000.

During this year of rapidly increasing material purchase prices and considering that some prices will continue to escalate in some degree, the Company decided that a change in its method of costing certain product line inventories from average cost to the last-in, first-out (LIFO) method would more clearly reflect the results of operations. The effect of the change was to reduce inventories and net income by approximately $3,590,000 and $1,792,000, respectively.

Net income per share of common stock for 1974 was $2.34 compared with $2.91 for 1973. The change to LIFO had the effect of reducing net income per share by $.32.

Lower Taxes Resulting from Increased Investment Tax Credit

During 1974, Flintkote completed and placed on stream several new facilities which enabled the utilization of significant investment tax credits to reduce the Company's tax expense. Investment tax credits for 1974 amounted to $3,831,000 of which $406,000 related to prior years tax credit amortization and $3,425,000 related to flow-through of investment tax credit eligible with the 1971 Revenue Act. This compares with investment tax credit for 1973 of $3,109,000 of which $734,000 was prior years' tax credit amortization and $2,375,000 flow-through tax credit. The large investment tax credit coupled with continued use of percentage depletion from mining resulted in a 1974 effective tax rate of 18.3% on income before taxes. The effective tax rate in 1973 was 31.8%.

Dividends Again Increased

Common stock dividends were increased for the second year in a row by the Board of Directors in May of 1974 and quarterly dividends of $.29 per share were paid to holders of common stock for three quarters of the year 1974. This resulted in common stock dividends for the year 1974 of $1.14, an increase over 1973 of $.08 per share. Total dividends paid to all stockholders, including the holders of preferred stock, totaled $7,985,000 in 1974 and $7,574,000 in 1973.

High Level of Investment in Properties and Facilities Continued

During 1974, Flintkote spent $43,000,000 on property, plant and equipment, including those of facilities acquired. In addition, new capital projects were authorized in amounts approximating $29,000,000. At the close of 1974, authorized but uncompleted additions to property, plant and equipment indicated that approximately $19,000,000 remained to be spent.

Company's Capital Structure Strengthened

Several changes to long-term debt took place during the year 1974. The 4⅜% sinking fund debentures due 1975-1977 were redeemed during 1974. The amount outstanding at the close of 1973 was $3,476,000. The 4⅞% notes due 1975-1977 were paid in 1974. The amount outstanding at the close of 1973 was $350,000. Additional reduction of long-term debt amounted to $2,438,000. Major new long-term debt was undertaken as follows:

- $5,300,000—5.9% California Pollution Control Revenue Bonds
- $20,000,000—8¼% Bank Notes Payable—1981-1984
- $4,429,000—Prime + ¾% Canadian Bank Notes Payable—1976-1983

At the close of 1974 long-term debt amounted to $114,154,000 compared with $88,724,000 at the end of 1973.

During 1974, 455 shares of the Company's $4 cumulative preferred stock was purchased at market or approximate market prices and held in treasury at the close of 1974. The 294,500 shares of common stock held in the treasury at the close of 1973 remains as treasury stock.

Effects of Change in Inventory Costing Practices

As noted earlier in the financial review, the Company changed, in the fourth quarter, its method of inventory costing. The effect of this change on the fourth quarter and year to date results of operations and comparative information for similar periods of 1973 is as follows:

	Three Months Ended December 31	
	1974	1973
Net income (note A)	**$ 2,747,000**	$ 3,393,000
Net income per common share (note A)	**$.42**	$.54

	Year Ended December 31	
	1974	1973
Net income (note A)	**$14,725,000**	$18,007,000
Net income per common share (note A)	**$2.34**	$2.91

Note A—Change to LIFO Method of Inventory Costing:

In the fourth quarter of 1974, the Company changed its method of inventory costing of certain product lines from average cost used previously to the LIFO method because the LIFO method (which charges current earnings with current costs) minimizes the inflation-induced inventory profit in respect of those inventories and thus, more clearly reflects the results of operations. There is no cumulative effect of the change on earnings reinvested in the business for prior years, since the December 31, 1973 inventory as previously stated is also the amount of the beginning inventory on a LIFO basis. The effect of the change on the three months and the year ended December 31, 1974 was to decrease net income $452,000 or $.08 per share and $1,792,000 or $.32 per share, respectively. The effect of the change in the first quarter was to increase net loss $373,000 or $.07 per share to a net loss of $1,401,000 or $.32 per share. The effect of the change on the second and third quarters of 1974 was to decrease net income $473,000 or $.08 per share to $6,182,000 or $1.03 per share and $494,000 or $.09 per share to $7,197,000 or $1.21 per share, respectively.

Financial Condition Very Strong

At year end, Flintkote's current ratio was at a strong 3.1 to 1.0 position. Cash and funds receivable amounted to $13,000,000, offset by $2,000,000 of short term notes payable. At the close of 1973, cash amounted to $5,000,000 with short term notes payable of $9,000,000. Inventories increased significantly to $66,000,000 during the year, but were at the low level of $46,000,000 at the close of 1973. Accounts payable increased $7,000,000 reflecting amounts owed on several major construction projects. To meet its seasonal and short term needs, the Company has unused lines of credit with various banks aggregating $80,000,000. The lines of credit are attractive in that no commitment fees are required, and unsecured financing is generally available for about 90 days at prevailing prime interest rates. Flintkote expects that it can meet its short term needs through its strong current position and its lines of credit.

For the past several years, Flintkote's investments in new capital and growth have been unusually heavy, and have required new sources of long-term debt and some finance leasing for heavy duty mobile equipment. Investments for new capital and growth will remain strong in 1975, but will not be at the levels of 1974. The Company has placed special emphasis upon a program in which it expects to dispose of excess assets that are unproductive, but which assets can provide funds to finance its future growth. As a consequence, the Company believes that it can meet its immediate capital investment needs through operations and other internally generated sources, and through the prudent use of equipment leasing at attractive rates. The year 1975 will benefit from the very recently completed disposition of the operations of the Campanella Corporation and the sale of excess timberlands in Mississippi.

Flintkote Stock Prices and Dividends 1973-1974

HIGH AND LOW STOCK PRICES, EACH QUARTER OF 1973 AND 1974

	$4.50 Series A Convertible Second Preferred Stock		$2.25 Series B Convertible Second Preferred Stock		Common Stock	
1973	**HIGH**	**LOW**	**HIGH**	**LOW**	**HIGH**	**LOW**
1st Quarter	$75½	$65½	$37⅞	$31	$25¾	$19
2nd Quarter	68	58½	34	28¾	20½	15⅛
3rd Quarter	62	56	32	27½	19⅞	16⅜
4th Quarter	63¾	50¼	30	23⅝	21	14
1974						
1st Quarter	$60¾	$52¾	$29½	$26¼	$19½	$14¾
2nd Quarter	60	50½	30	23½	18⅜	13⅝
3rd Quarter	52¾	39¾	24	20	14⅜	10⅛
4th Quarter	46	40½	23	18	12¾	9⅛

THE ABOVE STOCKS ARE LISTED ON THE NEW YORK STOCK EXCHANGE. THE STOCK SYMBOL IS FO.

DIVIDENDS

($ per share)

1973-1974

$4.50 Series A Convertible Second Preferred— $1.12½ per quarter

$2.25 Series B Convertible Second Preferred— $.56¼ per quarter

Common Stock

	1973	1974
1st Q	$.25	$.27
2nd Q	$.27	$.29
3rd Q	$.27	$.29
4th Q	$.27	$.29

AUDITORS' REPORT

To the Board of Directors and Shareholders,
The Flintkote Company:

We have examined the balance sheet of THE FLINTKOTE COMPANY and its CONSOLIDATED SUBSIDIARIES as of December 31, 1974 and the related statements of income and earnings reinvested in the business and changes in financial position 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. We previously examined and reported upon the consolidated financial statements of the Company for 1973.

In our opinion, the aforementioned financial statements present fairly the financial position of The Flintkote Company and its Consolidated Subsidiaries at December 31, 1974 and 1973, and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods except for the change, with which we concur, in the method of costing inventory as described in the notes to the financial statements.

One North Broadway, White Plains, N.Y.
January 31, 1975

Coopers & Lybrand

THE FLINTKOTE COMPANY and its CONSOLIDATED SUBSIDIARIES

STATEMENTS of CHANGES in FINANCIAL POSITION

for the years ended December 31, 1974 and 1973

(In Thousands of Dollars)

	1974	1973
Funds provided by:		
Net income	**$14,725**	$18,007
Charges (credits) not requiring working capital:		
Depreciation and depletion	**20,573**	18,995
Deferred income taxes and investment tax credits	**2,650**	(1,170)
Provided by operations	**37,948**	35,832
Increase in long-term debt	**31,694**	24,479
Disposal of property, plant and equipment	**11,565**	6,986
	81,207	67,297
Funds used for:		
Additions to property, plant and equipment	**43,114**	51,780
Reduction in long-term debt	**6,264**	3,253
Dividends paid	**7,985**	7,574
Common stock purchased for treasury		4,259
Funds held by Trustees for construction	**(3,188)**	6,184
Other, net	**643**	1,581
	54,818	74,631
Net increase (decrease) in working capital	**$26,389**	($ 7,334)
Changes in working capital:		
Cash and marketable securities	**($ 958)**	($16,877)
Funds receivable	**9,486**	
Accounts receivable	**(330)**	6,815
Inventories	**20,351**	576
Prepaid expenses	**(1,686)**	3,025
Accounts payable and accrued liabilities	**(7,061)**	7,410
Notes payable and current installments on long-term debt	**6,587**	(8,283)
Net increase (decrease) in working capital	**$26,389**	($ 7,334)

The accompanying notes are an integral part of the financial statements.

THE FLINTKOTE COMPANY and its CONSOLIDATED SUBSIDIARIES

STATEMENTS of INCOME and EARNINGS REINVESTED in the BUSINESS

for the years ended December 31, 1974 and 1973

	(In Thousands of Dollars Except Per Share Amounts) 1974	1973
Net sales	**$480,148**	$442,292
Other income	**4,710**	4,246
	484,858	446,538
Cost of goods and services sold	**409,367**	369,999
Selling, administrative and general expense	**47,753**	43,133
Interest expense	**9,152**	6,515
Other charges	**564**	489
	466,836	420,136
Income before income taxes	**18,022**	26,402
Federal, state and foreign income taxes:		
Currently payable	**530**	9,523
Deferred taxes and investment tax credits	**2,767**	(1,128)
	3,297	8,395
Net income	**14,725**	18,007
Deduct, Cash dividends on: Preferred stocks	**1,580**	1,580
Common stock (1974, $1.14 per share; 1973, $1.06 per share)	**6,405**	5,994
	7,985	7,574
Net income reinvested	**6,740**	10,433
Earnings reinvested, January 1, as previously reported		128,374
Adjustment of prior years tax liability		1,242
As restated	**137,565**	127,132
Earnings reinvested, December 31	**$144,305**	$137,565
Net income per share of common stock after provision for preferred dividends	**$2.34**	$2.91
Net income per share of common stock assuming conversion of preferred stocks	**$2.28**	$2.78
Average number of common shares outstanding	**5,618,864**	5,652,543

The accompanying notes are an integral part of the financial statements.

THE FLINTKOTE COMPANY and its CONSOLIDATED SUBSIDIARIES

BALANCE SHEETS, December 31, 1974 and 1973

	(In Thousands of Dollars) 1974	1973
ASSETS:		
Cash	**$ 3,986**	$ 4,944
Funds receivable	**9,486**	
Accounts receivable, less allowance for doubtful items and cash discounts: 1974, $4,356; 1973, $4,377	**73,394**	73,724
Inventories:		
Finished goods and work in process	**39,976**	27,210
Raw materials and operating supplies	**25,986**	18,401
	65,962	45,611
Prepaid expenses	**6,080**	7,766
Total current assets	**158,908**	132,045
Property, plant and equipment:		
Land	**9,366**	8,460
Mine lands and rights	**19,515**	15,900
Buildings and land fixtures	**91,121**	87,757
Machinery and equipment	**304,548**	281,009
Furniture and fixtures	**5,495**	5,354
Construction in progress	**9,220**	27,349
	439,265	425,829
Less, Allowances for depreciation and depletion	**189,810**	187,350
	249,455	238,479
Funds held by Trustees for construction	**2,996**	6,184
Other assets including intangibles	**11,516**	10,893
	$422,875	$387,601

The accompanying notes are an integral part of the financial statements.

	(In Thousands of Dollars) 1974	1973
LIABILITIES:		
Accounts payable and accrued expenses	**$ .44,363**	$ 36,990
Notes payable	**2,004**	8,750
Current installments on long-term debt	**1,479**	1,320
Accrued federal, state and other taxes	**3,169**	3,481
Total current liabilities	**51,015**	50,541
Long-term debt	**114,154**	88,724
Deferred income taxes and investment tax credits	**31,574**	28,924
	196,743	168,189
Contingencies and commitments		
SHAREHOLDERS' EQUITY:		
Preferred stocks (aggregate involuntary and voluntary liquidation (or redemption) amounts $35,528 and $37,379, respectively at December 31, 1974)	**18,759**	18,759
Common stock, $5 par:		
Authorized 10,000,000 shares, issued 5,913,364 shares: 1974, at par value; 1973, at stated value	**29,567**	69,003
Capital surplus (no change in 1973)	**40,137**	701
Earnings reinvested in the business	**144,305**	137,565
	232,768	226,028
Less, Cost of stock held in treasury: 1974, 294,500 common and 455 preferred ($4 cumulative, no par) shares; 1973, 294,500 common shares	**6,636**	6,616
	226,132	219,412
	$422,875	$387,601

NOTES to FINANCIAL STATEMENTS

(all dollar amounts except per share amounts expressed in thousands of dollars)

Summary of Significant Accounting Policies

The Company's accounting policies conform to generally accepted accounting principles. Significant policies are described below:

Consolidation:

The consolidated financial statements include the accounts of the Company and all of its wholly-owned domestic and foreign (Canadian) subsidiaries after elimination of intercompany accounts and transactions, and include the results of operations of purchased businesses from the date of acquisition including, from May 15, 1970, the accounts of Campanella Corporation, all of the capital stock of which was acquired on that date. The option granted to the former owner of Campanella to repurchase the capital stock has been conditionally waived by him in contemplation of the sale of the business in 1975 to a corporation of which he is a principal. Sales and net income of Campanella for 1974 and 1973 did not exceed 10% of the Company's sales and net income, respectively, for such years.

The accounts of foreign subsidiaries are translated into U.S. dollars at appropriate rates of exchange. Current assets and current liabilities are translated at rates prevailing at the end of each year. Other balance sheet accounts are translated at rates prevailing when acquired or incurred. Income and expense accounts are translated at average exchange rates, except that depreciation is translated at historical rates. Gains or losses resulting from translation are not material and are reflected in earnings.

Inventories:

Inventories are stated at the lower of cost (principally average and in 1974, last-in, first-out) or market. Approximately $13,750 of inventories at December 31, 1974 were stated on the last-in, first-out (LIFO) basis. These same LIFO inventories at current average costs amounted to approximately $17,340 at December 31, 1974. Adequate provision is made for slow-moving and obsolete inventories.

Property, Plant and Equipment and Depreciation:

Property, plant and equipment are stated at cost. Annual depreciation is provided on the group composite method using the straight-line method generally at the following rates: Land fixtures, 4 and 5%; Buildings, 2½ to 5%; Machinery and equipment, 4 to 12½%; Furniture and fixtures, 8 and 10%. Depletion and depreciation of mining plant assets are based on units of production or on a straight-line basis over the estimated life of the deposits. When significant properties are retired or sold, the asset values and related reserves are eliminated from the accounts and any resultant gain or loss is included in earnings.

Intangible Assets:

Patents resulting from internal development and trademarks are valued at nominal amounts. Purchased patents, processes, and goodwill and other intangibles are amortized over appropriate periods of time. Goodwill and intangibles acquired prior to 1970 are not being amortized because, in the opinion of the Company, there has been no diminution in the value of such assets.

Recognition of Income and Expense:

The Company records income and expense from major heavy and highway and nonresidential construction contracts on the percentage-of-completion method.

Advertising and promotion expenses are charged to income during the year in which they are incurred or during the period of the promotional campaign.

Start-up and preoperating expenses are charged to income as incurred or amortized over a period not exceeding twelve months following commencement of operations.

Income Taxes:

Provisions for income taxes are based on the tax effects of transactions which are included in the determination of pretax accounting income, and appropriate provision is made for deferred income taxes. This latter item consists principally of amounts resulting from the use of accelerated depreciation methods for tax purposes and the straight-line method for book purposes and from the use for construction contracts of percentage-of-completion for book purposes and completed contract for tax purposes.

United States Investment Tax Credit applicable under the Revenue Act of 1971 is accounted for using the flow-through method. Investment Tax Credit applicable to previous regulations is being amortized ratably over ten-year periods.

The Company has consistently reinvested the earnings of its foreign subsidiaries in foreign facilities and businesses. In the foreseeable future, the Company expects that its foreign investment demands will require a continuation of this policy. Accordingly, the Company does not recognize the tax effects on the undistributed earnings of foreign subsidiaries. At December 31, 1974, there were approximately $28,269 of such undistributed earnings.

Funds Receivable

The Company sold, effective December 31, 1974, certain assets of the Concrete Materials division. The portion of the cash proceeds which were received on January 3, 1975 have been classified as 'Funds Receivable' in the accompanying financial statements.

Change in Accounting Policy

Effective with the year ended December 31, 1974, the Company changed its method of costing certain inventories from average cost to the last-in, first-out (LIFO) basis. This change was made because the LIFO method (which charges current earnings with current costs) minimizes the inflation-induced inventory profit in respect to these inventories and thus more clearly reflects the results of operations. The effect of the change was to reduce inventories and net income by approximately $3,590 and $1,792 ($.32 per share), respectively. There is no cumulative effect of the change on earnings reinvested in the business for prior years, since the December 31, 1973 inventory as previously stated is also the amount of the beginning inventory on a LIFO basis.

Short-Term Borrowing Arrangements

At December 31, 1974, notes payable to banks ($2,000) under the Company's lines of credit consisted of 90-day unsecured notes with an average interest rate of 10.4%. During 1974 the maximum amount of aggregate short-term bank borrowings outstanding at any month end were $22,000, and the average aggregate short-term borrowings were $13,200 with a weighted average interest rate of 10.1% (based on number of days each borrowing was outstanding during the year).

At December 31, 1974, the Company's unused lines of credits with various banks aggregated $80,000. The lines of credit are renewable annually with no commitment fees and provide for unsecured financing for generally 90 days at the prevailing prime interest rate.

Long-Term Debt

Long-term debt at December 31, 1974 and 1973 comprised:

	1974	1973
4½% debentures, due 1975-1977	$ 178	$ 325
Sinking fund debentures:		
8¼%, due 1977-1996	40,000	40,000
4⅝%, due 1975-1981	17,484	19,040
4⅜%, due 1975-1977 (Redeemed in 1974)		3,476
4⅞% notes, due 1975-1977 (Paid in 1974)		350
Other, due various dates through 1998	3,813	2,583
Capitalized leases:		
Pollution control revenue bonds:		
5½%, due 1984-1998	15,250	15,250
5¾%, due 1984-1998	5,000	5,000
5-9/10%, due 1985-1999	5,300	
6¼% Industrial development revenue bonds, due 1984-1998	2,700	2,700
Notes payable—banks:		
8¼%, due 1981-1984	20,000	
11¾% (¾% above the Canadian bank's prime), due 1976-1983	4,429	
	$114,154	$88,724

Certain of the long-term debt instruments and the Company's Articles of Organization contain restrictive provisions including the payment of cash dividends and the purchase or redemption of Company stocks. Under the most restrictive of these provisions, the amount of earnings reinvested in the business available for cash dividends on common stock at December 31, 1974 was approximately $41,985.

Repayment requirements of the sinking fund debentures have been met.

The Company has guaranteed the repayment of pollution control and industrial revenue bonds issued

THE FLINTKOTE COMPANY and its CONSOLIDATED SUBSIDIARIES

FIVE-YEAR SUMMARY OF OPERATIONS

(In thousands of dollars except per share amounts)

	1974	1973	1972	1971	1970
Net sales	$480,148	$442,292	$403,559	$363,037	$294,985
Other income	4,710	4,246	3,646	1,965	2,747
	484,858	446,538	407,205	365,002	297,732
Costs and other operating expenses	457,684	413,621	377,944	339,157	281,403
Interest expense	9,152	6,515	4,980	4,204	2,924
	466,836	420,136	382,924	343,361	284,327
Income from continuing operations before income taxes	18,022	26,402	24,281	21,641	13,405
Federal, state and foreign taxes on income	3,297	8,395	7,770	8,344	4,522
Income from continuing operations before extraordinary items	14,725	18,007	16,511	13,297	8,883
Income from discontinued operations, net of income taxes	—	—	217	507	1,250
Income before extraordinary items	14,725	18,007	16,728	13,804	10,133
Extraordinary items, net of income taxes	—	—	3,255	—	—
Net income	14,725	18,007	19,983	13,804	10,133
Provision for cumulative preferred dividends	1,580	1,580	1,783	1,896	1,897
Net income applicable to common stock	$ 13,145	$ 16,427	$ 18,200	$ 11,908	$ 8,236
Average number of shares outstanding	5,618,864	5,652,543	5,749,552	5,666,517	5,654,242
Per share of common stock					
Income from continuing operations	$2.34	$2.91	$2.56	$2.01	$1.24
Income from discontinued operations	—	—	.04	.09	.22
Extraordinary items	—	—	.57	—	—
Net income	$2.34	$2.91	$3.17	$2.10	$1.46
Net income per share of common stock assuming conversion of dilutive preferred stocks and exercise of dilutive stock options	$2.28	$2.78	$3.01	$2.05	$1.45
Cash dividends paid per share of common stock	$1.14	$1.06	$1.00	$1.00	$1.00

MANAGEMENT DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

Sales growth has been steady during the recent period 1970-1974, increasing from $295,000,000 in 1970 to $480,000,000 in 1974. This has resulted from increases in building products, stone products and cement. Increases in selling prices of products accounts for a major part of the increased sales in 1974. Sales of businesses discontinued or sold in 1972 are not included. **Other income** increased in the five year period, except for 1971, generally as a result of increased interest income from investments of debt capital held during construction periods and gains on the sale of excess land and unproductive fixed assets.

Costs have increased significantly in the five year period in spite of increased volume of business. This reflects the rapidly increasing costs of materials, services and labor.

Interest expense has increased from $2,900,000 in 1970 to $9,200,000, reflecting the increase in long-term debt from $38,000,000 in 1970 to $114,000,000 in 1974. The long-term debt increase has been used principally to finance modernization and expansion of the Company's plants and equipment, and to install air and water pollution control facilities in cement, stone and building product plants. In addition, short term borrowing to meet seasonal working capital demands was required in all years but seasonal demands were higher in 1973 and 1974.

Federal, state and foreign taxes on income have varied during the five year period, mostly because of the influence of investment tax credits applicable under the Revenue Act of 1971. Investment tax credit applicable to previous regulations was amortized ratably over ten year periods. Commencing with 1971, investment tax credits flow through income and reduce tax expense accordingly. In 1974, 1973, 1972, and 1971 flow through investment tax credits were $3,425,000, $2,375,000, $1,223,000 and $312,000, respectively. These credits to tax expense were the direct result of the heavy investments in new plant and equipment during the recent years.

Effective with the year ended December 31, 1974, the Company changed its method of **costing certain inventories** from average cost to the last-in, first-out (LIFO) basis. This change was made to more clearly reflect the results of operations during periods of rapidly rising inventory costs. The effect of this change was to reduce 1974 inventories $3,590,000 and net income by $1,792,000.

Net income for 1974 was down because of the leveling out of physical volume of shipments caused by the slowdown in construction activity and the inability to pass through inflation-related cost increases. In addition, net income was down also from higher-than-expected start up costs of new plants.

In 1972, **extraordinary income,** net of income taxes, was $3,255,000. This was the result of the sale of the packaging operations and the discontinuance of the fiber pipe and Insulrock businesses. In connection with this sale and discontinuance of these businesses, income from discontinued operations, net of taxes, was as shown in the Five Year Summary of Operations.

Income per share of common stock, before income from discontinued operations and extraordinary items, has shown a steady growth from $1.24 per share in 1970 to $2.91 in 1973. The downturn in earnings per share of common stock in 1974 was the result of the construction activity slowdown and the high start up costs. The effect of the change in costing certain inventories to the LIFO method was to decrease earnings by $.32 per share of common stock.

Cash dividends paid per share of common stock were $1.00 per share for the years 1970-1972, $1.06 per share in 1973 and $1.14 per share in 1974.

CONDENSED BALANCE SHEET	**1974**	1973	1972	1971	1970
Working capital	**$107,893**	$ 81,504	$ 88,838	$ 74,485	$ 52,120
Property, plant and equipment—gross	**439,265**	425,829	405,712	415,434	393,681
Allowance for depreciation and depletion	**189,810**	187,350	193,032	206,408	192,691
Net property, plant and equipment	**249,455**	238,479	212,680	209,026	200,990
Other assets	**14,512**	17,077	9,312	8,773	8,522
Long-term debt	**114,154**	88,724	67,498	60,836	38,328
Deferred taxes	**31,574**	28,924	30,094	28,658	27,158
Shareholders' equity	**226,132**	219,412	213,238	202,790	196,146
Per share of common stock	**33.60**	32.40	30.19	27.86	26.77
Common shares outstanding	**5,618,864**	5,618,864	5,825,664	5,674,332	5,655,117
Total dividends paid—cash	**7,985**	7,574	7,535	7,563	7,552
Capital expenditures	**43,114**	51,780	39,066	29,644	43,579
Depreciation and depletion	**20,573**	18,995	19,234	20,570	17,657
Operating cash flow	**35,298**	37,002	39,217	34,374	27,790

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DIRECTORS

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Assistant to the President

Monte C. Carpenter
Executive Vice President of the Company

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Former Vice President of the Company

W. L. Davis
Investor
Former Vice President of the Company

Allen O. Eaton
Partner, Ropes & Gray
Attorneys-at-Law, Boston

Jack L. Gordon
Senior Vice President of the Company

Wm. Wallace Mein
Director of various corporations
Former Vice President of the Company

James D. Moran
President and Chief Executive Officer of the Company

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Chairman of the Board of The General Tire and Rubber Company and of RKO General, Inc.

George J. Pecaro
Chairman of the Board of the Company

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