PLAINTIFF'S EXHIBIT

USG-1515

REPORT ON

NATIONAL ASBESTOS MANUFACTURING COMPANY

163 HENDERSON STREET, JERSEY CITY, N.J.

SEPTEMBER 11, 1933

GENERAL

As the location and construction of the plant have been covered by previous reports, this detail is omitted.

Location is excellent for truck distribution in the Metropolitan area and New Jersey because of nearby ferries and the vehicular tunnel. 80% of shipments now move by truck but good facilities and rates are available for rail shipment into the eastern states. Raw materials are readily available at low cost and freight.

Merchandising - The present roofing merchandising plan of selling to dealers, jobbers, applicators and even consumers has resulted in building no establishment which would be of advantage to our company. Sales are mostly small in amount and the few large sales found in August were at special discount prices. There are no well-established brands of products and no one name except that of the company is associated with all products. A complete new plan of sales would be necessary and our own dealer establishment built up the same as if a new plant were built. Pipe covering sales are to hardware stores and plumbing supply houses and would not interfere with our dealer establishment if continued on present lines.

Plant buildings and equipment are excellent and storage space is ample, though poorly used. Plant capacity is ample for present output of about 1600 roll squares per 9 hour day. Roof machine capacity can be increased to 4500 roll squares per day by double shift and to 6000 roll squares per day by additional cooling equipment and double shift. The paper machine has 36 ton capacity, 50% used for roofing felt, 30% for building paper and 20% for pipe covering papers. This allows only enough felt for 1200 squares per day and occasional Sundays are run to make additional quantity needed for present roofing business. By eliminating manufacture of building papers (which is expensive) there would be enough felt paper for 1920 roll squares per day and by speeding paper mill with additional equipment to 60 ton per day rate enough paper for 3200 roll squares per day could be made. Sales beyond this would require purchase of felt paper. This plant could not be counted on to produce felt paper for our other roofing plants as its capacity is not great enough.

Quality of products appears good but is controlled by rule of thumb methods. Recently reductions in the weight of products have been made to reduce costs and weights now barely equal requirements of the underwriters.

Patents - No patents of a major character would be obtained with this property. Patent for full dubl-butt shingles has been assigned to Seharmath, but royalties of 5¢ per square with a minimum of $1000 per year are paid to the former owner, Mr. Whitmore. Hexagon and multi-color shingles and brick siding are manufactured under license from the FAL Corp. All other roofing products are non-patented goods. Mr. Scharwath owns 2 patents on his Pyrobestos pipe covering, all other pipe coverings are non-patented items.

Management is of very low grade. All direction is in the hands of the owner and the department heads and foremen have little knowledge of or interest in costs and control except to meet requirements laid down by owner. There is no man capable of directing this plant in the organization and in event of acquisition by USG a manager would have to be obtained.

Costs - No cost figures were available but data were gathered and costs calculated. These figures indicate costs to be abnormally high in spite of low wage rates and the reason is found in poor management, high handling costs and improper use of storage facilities. Roofing conversion costs are fully 50% higher than at South Bend, but are possible of reduction to that level under proper management and with the expenditure of several thousand dollars for handling equipment. Paper conversion is not high but is a composite of felt and asbestos paper costs which is difficult to break down. Under proper management this conversion cost should be reduced from $12.97 to $11.00 per ton but an increase in percentage of felt paper would offset this reduction. Costs of pipe covering and liquid roofing are also somewhat high and could be reduced 10 to 15%. Because of the high cost of materials labor constitutes only about 20% of final costs and therefor substantial cost reductions would require careful use of raw material and proper buying. Prices paid at present appear in line with market conditions. Waste at present is high.

Valuation - A gross plant value of approximately $1,400,000 was arrived at. This at present costs could probably be replaced for $1,100,000 to $1,200,000. Based on Mr. Scharwath's idea of selling for 1/3 less than replacement value (as determined by outside appraisers) would fix a price on above values at $750,000 to $800,000. It is doubtful if a paper mill and roofing plant with stills and adequate storage could be built in the Metropolitan area for less than $750,000 and Mr. Nold estimates $1,000,000.

Summary

In the consideration of the acquisition of this plant the following should be borne in mind. We would acquire only a good manufacturing plant without dealer establishment or good will and with little or no manufacturing and management ability and experience.

It becomes then a question of the relative merits and economy of this plant versus a new one. Since it appears the construction of a new plant would cost nearly as much as the acquisition of this one and since this plant appears to have the merits of good buildings and equipment such as we would place in a new plant the acquisition of this plant is desirable. It would give us practically everything we would have in a new plant and would permit us to start building our own eastern roofing establishment immediately rather than be delayed for the construction of a new plant. Further, it is possible that under the roofing code we would not be permitted to erect a new plant.

If this plant could be purchased for $750,000 the amount of money invested in the pipe covering business would be relatively small and this line could be discontinued without great capital loss if it were found to be unprofitable. If found profitable, its sale could be expanded through additional specialty men without confliction with roofing or other building material sales.

CONCLUSIONS

From the above it would appear economic to purchase this plant for its location and manufacturing facilities and to expedite USG entry into the eastern roofing field, provided the purchase could be made for $750,000 or less.

It is suggested that such an offer be made to the owners rather than resort to use of outside appraisers.

Detailed exhibits of costs, prices and other information are attached.

Report by J. R. Davis.

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