PLAINTIFF'S EXHIBIT
USG-111
PENGAD-Bayonne, N.J.

cc: #980 - Mr. K. L. Busch
#131-4 - Mr. H. R. Dardaman
#475 - Mr. D. M. Diersen
#961 - Mr. F. M. Hall

#961, Atlanta - Mr. C. J. Atwood

#470-1 - Mr. C. C. Thiel

AC 404
261-3180

SPRAYDON

June 30, 1970

Please excuse my delay in answering your memo in regards to SprayDon. Your reaction is certainly normal when you consider the conditions as you state them. I believe, however, a projection of the future and what we have in the fire now would make it advantageous for us to continue to at least have preliminary discussions with you on SprayDon.

Profit on SprayDon has been low due to a combination of reasons. One drastic reason has been increased cost of raw materials; for instance, coke increased more than 50%. Operations at the South Plainfield plant have been poor based upon past performance but are in the process of being improved.- The price on SprayDon has been increased. The present contract in reality gives SprayDon customers a six month price protection, therefore, the increased price which goes into effect now was actually announced six months ago. By July 15, another price increase will be announced. Furthermore, products of the future will have a less costly formulation. The total results of this are to recapture the anticipated profitability on these products and it will be done. Incidentally, and in total, since we have had SprayDon it has generated over $250,000 of gross profit with an average gross profit per year of $76,000 or a 36% return on investment. I should have mentioned above that the anticipated percent gross profit to sales after the above is accomplished will be in the order of 30%.

The mentioned Knoxville complaint has been settled as far as we are concerned in that the United States Gypsum Company does not have a responsibility for this supposed claim. Quite probably, the cause of these difficulties was due to misapplication. If the principals in Sprayon elect to make a settlement, it will be for their account and will have to be on a policy basis.

I agree with you that whether, in fact, the present formula is a health hazard is beside the point. Frankly, from all I have been able to read on the subject and through discussions with other people, I suspect that asbestos may be a health hazard. SprayDon fireproofing made under the present formula does contain asbestos. SprayDon Research has a fire test presently being conducted on a product which will have no asbestos in it. They have every reason to believe that this fire test will pass. In addition to this, they have another formula at an advanced stage of development that would be an improvement over that product now being tested. Obviously, it would not include asbestos. Further than this, we have researched the literature, have visited various hygiene foundations, have conferred with experts in the field which will allow us with our lawyers to prepare a statement to the effect that Rockwool is harmless and non-toxic. This latter is being done for obvious reasons to allay any fear in our own employees minds and, of course, to convince the various people and bodies involved that Rockwool cannot be tarred by the same stick that asbestos has been.

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PLAINTIFF
EXHIBIT
1594(2)

As far as distribution is concerned, I should think that your concern of jeopardizing relationships with other good customers could be handled in some manner. In various areas of the country we have different degrees of sensitivity and as far as I know they are not jeopardizing other business.

I would hope that the above brings into better focus the possibility of adding profits to the Southern Division. I am convinced that it has good potential. I also know that with the people involved the road at times can be rocky but certainly not intolerable.

I would like us to plan a promotional meeting but have suggested to Mr. Ehrsam that it would be more appropriate after we have the results of the present fire test. You will hear from him in case you agree.

CCT

CCT/cjs