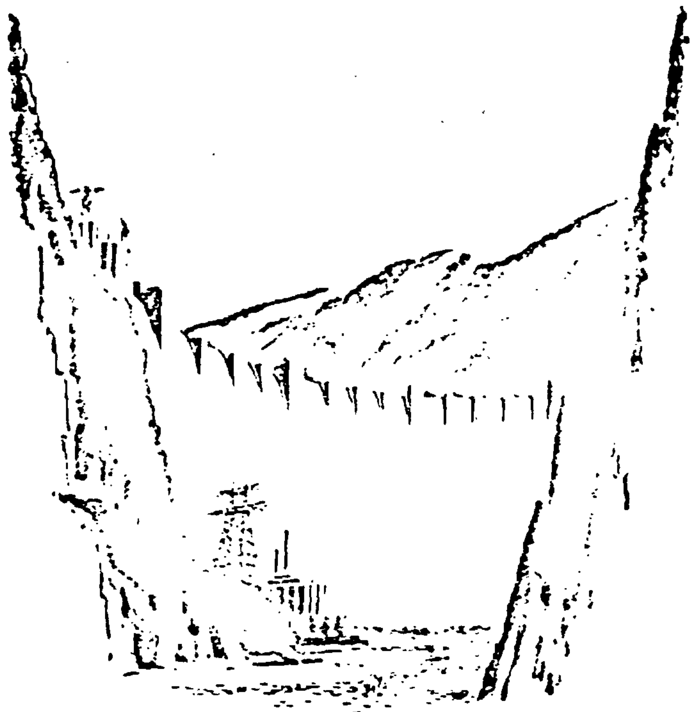
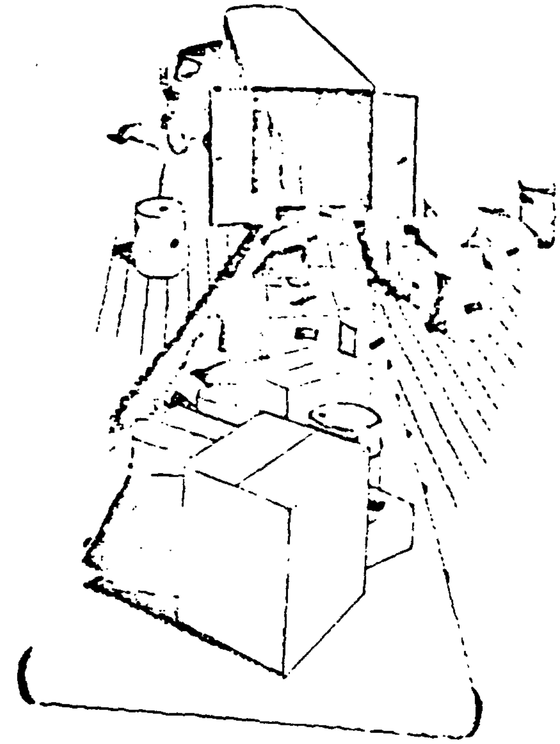
FLINTKOTE®

Annual Report·1965

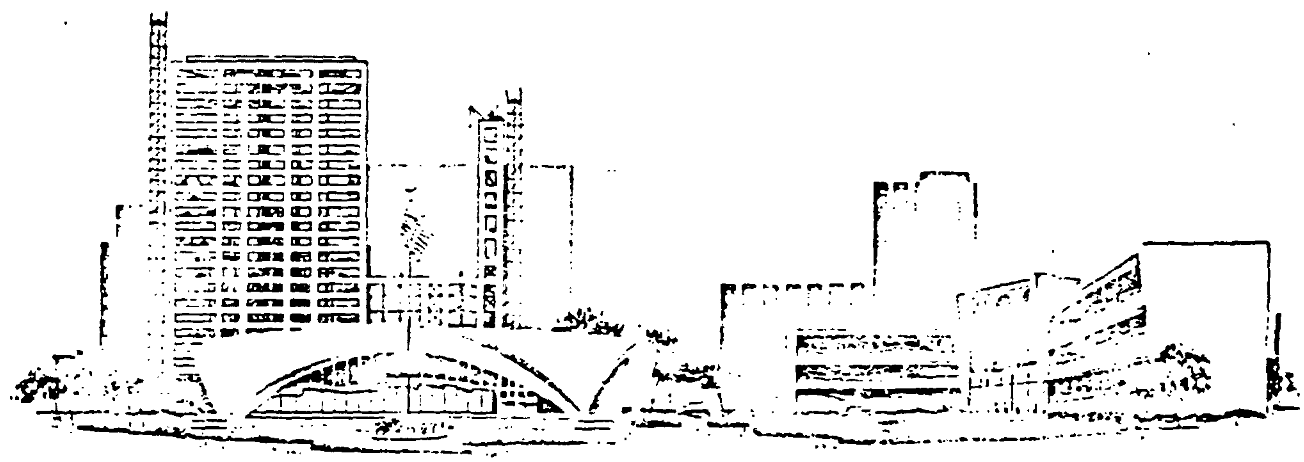
THE FLINTKOTE COMPANY



Cement, Aggregates and Concrete Products

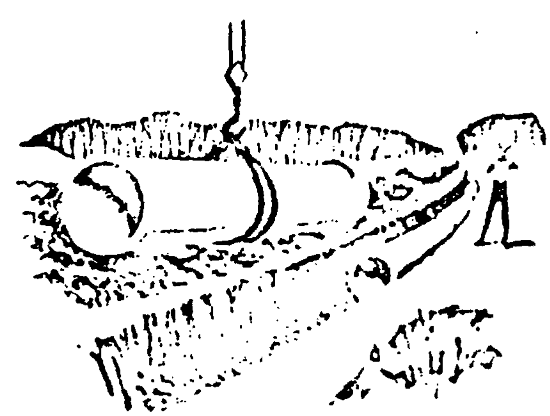


Paper and Containers

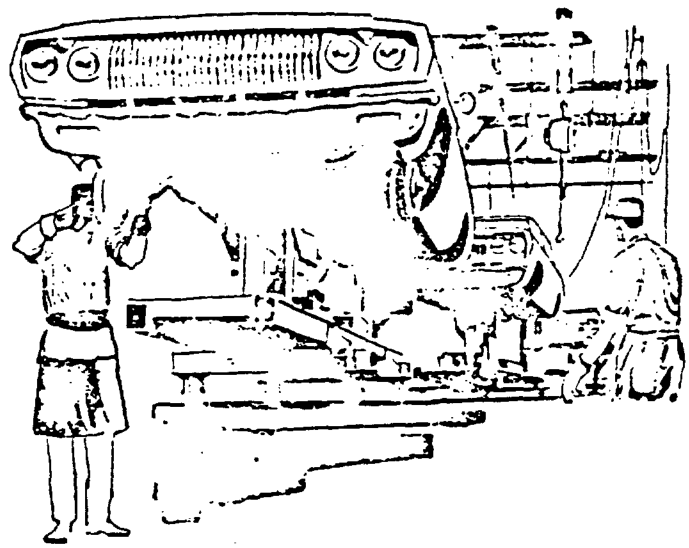


Structural Building Products

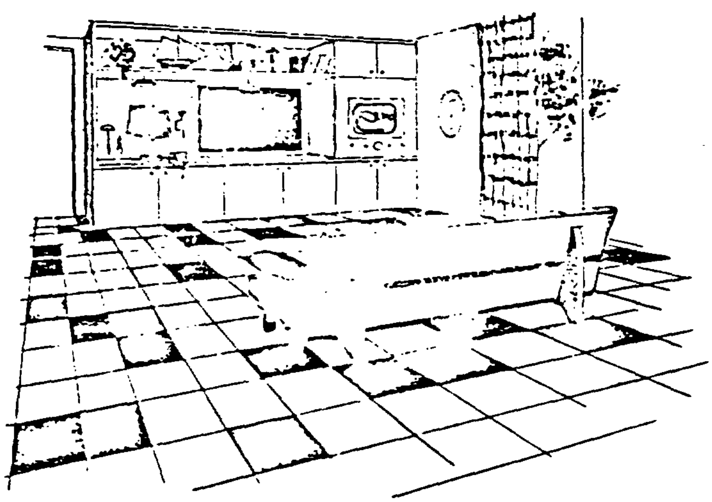
Roofings and Sidings



Pipe and Conduit



ommercial and Industrial Products



Floor Coverings and Adhesives

REBUILDING AMERICA

Government and construction industry authorities have publicly stated that America must be rebuilt in the next several decades.

To do so, more houses, apartments, schools, hospitals, commercial and industrial buildings, as well as dams and roads, will need to be constructed than have been put in place since the first settlers colonized Virginia in 1607.

Flintkote, because of its expansion and diversification, is well prepared to play a major role in this gigantic job of building and remodeling so essential to the nation's burgeoning economy.

FLINTKOTE

DIRECTORS

R. McLEAN CAMPBELL
W. L. DAVIS
ALLEN O. EATON
WILSON HARVEY
CHARLES HORNER
JAMES E. McCAULEY
WM. WALLACE MEIN, JR.
JAMES D. MORAN
GEORGE J. PECARO
NOEL J. REDMOND
J. A. THOMAS
B. A. TOMPKINS
HARRY F. VICKERS

EXECUTIVE AND FINANCE COMMITTEE

J. A. THOMAS, Chairman
R. McLEAN CAMPBELL
WILSON HARVEY
GEORGE J. PECARO
NOEL J. REDMOND
B. A. TOMPKINS
HARRY F. VICKERS

OFFICERS

GEORGE J. PECARO, President
W. L. DAVIS, Vice President
THOMAS L. DONOGHUE, Vice President
WILSON HARVEY, Vice President
JOHN LEGH-JONES, Vice President
JAMES E. McCAULEY, Vice President
WM. WALLACE MEIN, JR., Vice President
JAMES D. MORAN, Vice President
HAROLD F. STEPANEK, Vice President
R. G. WACE, Vice President
R. McLEAN CAMPBELL, Vice President and Treasurer
GENE G. CURRY, Secretary and Legal Counsel
WILLIAM L. KAUFFMAN, Controller
ALLEN O. EATON, Clerk
DONALD E. TRIMBLE, Assistant Treasurer
JAMES A. MAIN, Assistant Secretary
JOHN E. IGOE, Assistant Controller

THE FLINTKOTE COMPANY Annual Report 1965

The Facts in Brief

	December 31 1965	1964
	(In Millions)	
Sales	$286.9	$278.3
Net Income	12.8	14.9
Cash Dividends (Common and Preferred)	7.5	6.7
Working Capital	54.5	56.8
Net Assets	172.8	167.5
Depreciation and Depletion of Plant and Property	13.2	12.8
Common Shares Outstanding (Less Treasury Stock)	5,551,037	5,550,745
Common Shareholders of Record	22,738	22,657
Per Common Share (Based on Average Number of Shares Outstanding— 5,550,934 shares 1965— 5,537,415 shares 1964)		
Net Income (After Preferred Dividends)	$1.96	$2.34
Cash Dividends	1.00	.85

Further details are shown on the financial statements to be found on pages 17 through 21.

Contents

Report to the Stockholders

George J. Pecaro, President

To the Stockholders of The Flintkote Company:

In 1965 sales rose to $286,917,507, largely due to sustained demand for our products in the non-residential construction market.

Consolidated earnings were $12,843,013, a decrease in income from the preceding year primarily caused by two unanticipated developments beyond our reasonable control: a serious decline in the West Coast housing market for building materials and a substantial reduction in prices of gypsum products in all markets.

Dividends paid on the common stock were $1.00 per share, compared with $0.85 per share in 1964.

A major consolidation of Flintkote operations, drawing our acquisitions and additions of the last decade closer together, should have favorable immediate and long-range effects on the profitability of the Company.

Product group organizations were formed and management realigned to better coordinate the multiple activities in which the Company is engaged.

The diversification of our product groups and the expansion of our manufacturing facilities were thoroughly tested, with promising results. Since the activities of your Company are now spread over a wide spectrum of the nation's economy, its operations will be less vulnerable to individual market fluctuations.

Capital expenditures were primarily made to reduce operating costs. Facilities and resources not contributing to profitable growth were sold and proceeds used to support working capital.

In line with our continuing research programs, we have developed new products with substantial sales and profit potential, which we plan to market in 1966. During the year we look forward to higher sales, reduced operating costs, lower start-up expenses and improved prices. Furthermore, our manufacturing and marketing efforts can be concentrated on increasing our penetration of the markets in which we are presently competing, freed largely from the pressures of designing, constructing and starting new operations.

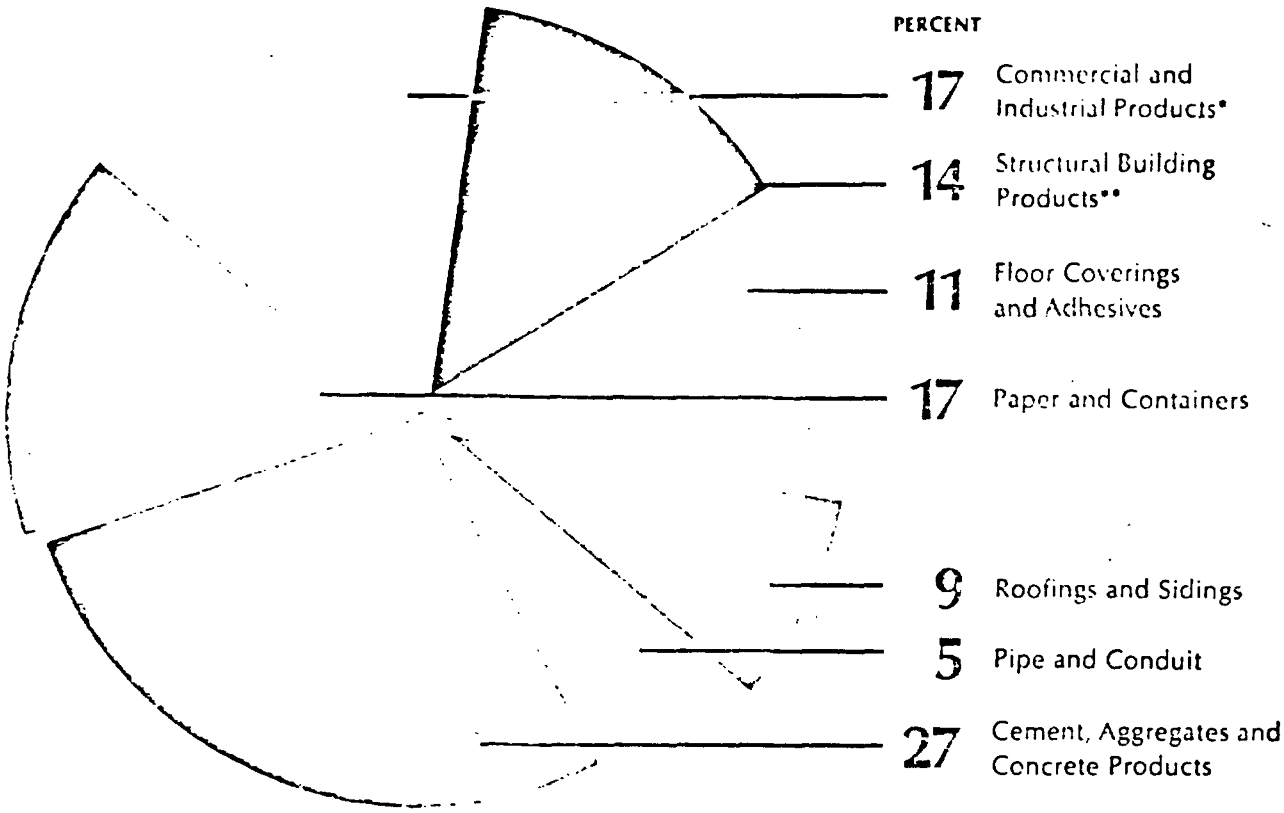
I am thankful for the efforts of the loyal and able employees who contribute so much to our performance. The important role your directors take in working with management to attain greater profitability for the Company is also appreciated. I am heartened by the many comments and letters of encouragement sent me by stockholders of the Company, and gratefully acknowledge this support.

George J. Pecaro

February 15, 1966

George J. Pecaro,
President

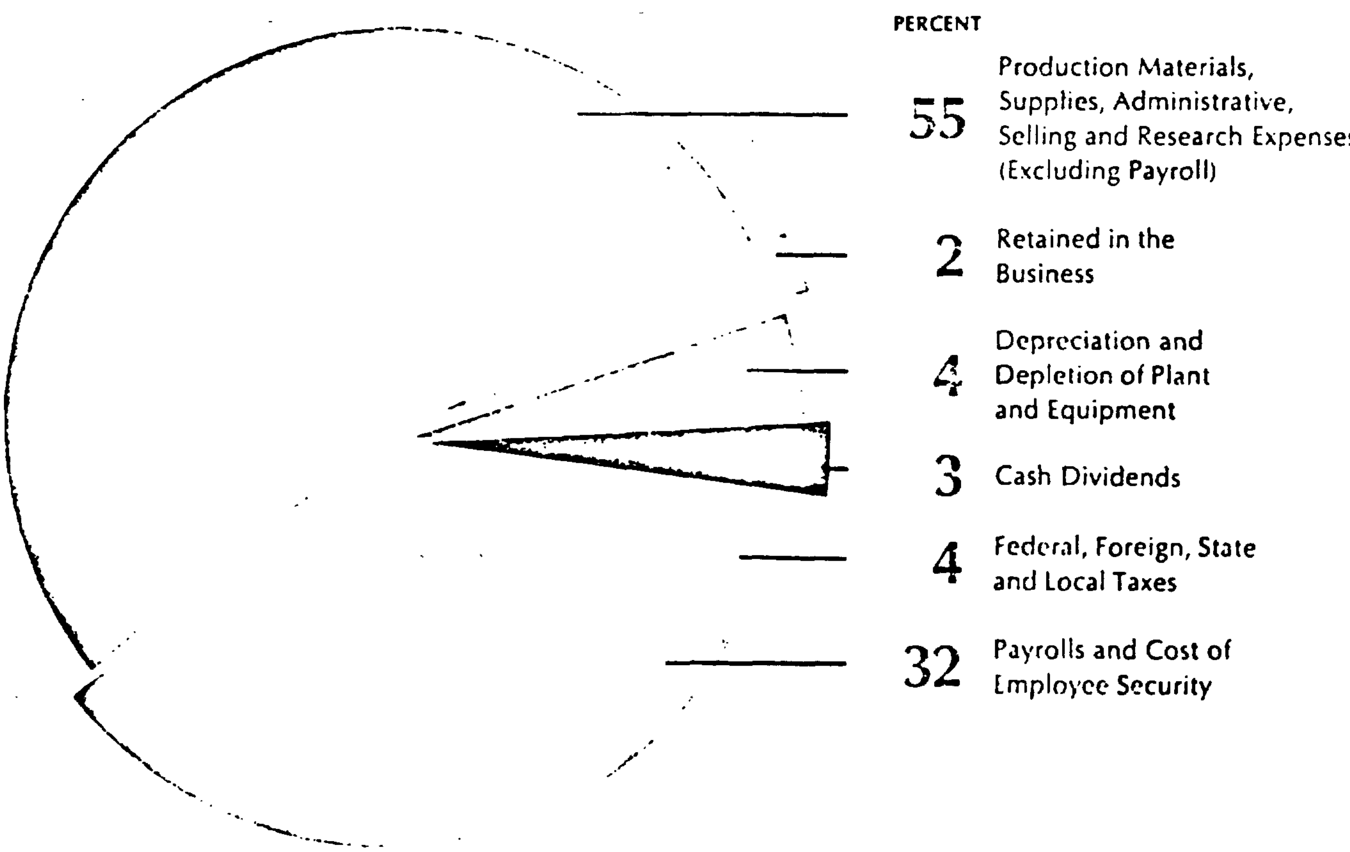
SOURCES OF THE 1965 SALES DOLLAR



*Lime Products, Asbestos, Road Materials, Protective Coatings, Sound Deadening Felts & Sealers, Joint Sealer-Driveway Coatings, Airport Surfaces, Chemical Compounds, Insulating Materials

efabricated Roof Deck, Decorative and Acoustical Ceiling Tiles, Gypsum Products, Insulating Boards, Construction & Steel Products, MIRACLE® Lime

DISTRIBUTION OF THE 1965 INCOME DOLLAR



1965—A Year of Consolidation

SALES

Net sales for the fiscal year ended December 31, 1965 increased to a record high of $286,917,507 from $278,279,704 for the preceding year.

Approximately 75 per cent of total volume stemmed from sales to all segments of the construction industry, and more than half of such sales were in the non-residential market. In the residential market, approximately 25 per cent of sales were for modernization and repair.

Packaging products accounted for 17 per cent of total sales. Sales to the industrial processing and agricultural markets approximated 8 per cent of overall volume.

The manifold end uses of Flintkote's products create a well-balanced distribution pattern, providing stability and profit potential not previously available to the Company before its operations were diversified.

EARNINGS

Net income was $12,843,013, equivalent to $1.96 per common share, compared with $14,944,884, or $2.34 per common share a year earlier. The earnings per share are after provision for preferred dividends and are based on the average number of shares outstanding during each year.

DIVIDENDS

Quarterly dividends of $0.25 per common share were declared during 1965. The total paid for the year, $1.00 per common share, is an increase over the $0.85 per common share declared during the previous year.

FINANCIAL POSITION

The Company's financial position continues sound. Accounts receivable increased due to expanded sales and competitive marketing practices. Capital additions for 1965 were $21,587,000, and are estimated at approximately $19,000,000 for 1966. Depreciation and depletion, which were $13,240,000 in 1965, are estimated at $13,925,000 for 1966. Working capital stood at $54,511,047 on December 31, 1965, compared to $56,798,453 as of December 31, 1964, and was subsequently enhanced by a sale of certain timberlands.

On January 12, 1966, the Company completed the sale of approximately 82,000 acres of timberlands in Alabama and Mississippi for approximately $14,000,000, retaining all mineral rights in the land. These timber reserves exceeded the potential requirements of the Company's wood fiber board plant at Meridian, Mississippi. The Company retains 14,000 acres of timberland to support this plant. The proceeds of the sale, which are not reflected in the year end figures for 1965, will produce an after tax credit to surplus of approximately $9,600,000.

Management expects an improvement in working capital in 1966, and believes that necessary growth in the foreseeable future can be adequately financed by internally generated cash without recourse to outside financing.

DOMESTIC OPERATIONS

New production facilities were placed in operation, and existing ones modernized during 1965. These facilities are expected to improve the Company's market coverage and penetration, improve products and services and reduce costs.

A new container plant at Centerville, Ohio, went into production in September, replacing an older plant at Miamisburg, Ohio. The Company also assumed management of the Engineered Container Corporation, Houston, Texas, with an option to acquire the company at a later date.

Two gypsum plants were placed in production, a FLINTROCK* products plant at Savannah, Georgia, in February, and a BLUE DIAMOND* gypsum products plant at Fremont, California, in September.

A new CALAVERAS* cement storage and distribution terminal at Sparks, Nevada, began operations in October.

Installation of a new finish mill department, central control room and a complete conveying system was completed for the DIAMOND* cement plant in Ohio.

A distribution terminal for KOSMOS* cement at Indianapolis is under construction, and a site for the relocation of a similar terminal in Cincinnati has been purchased.

Near Baltimore, the Company is completing a facility for the production of industrial sands. In the same area, an existing plant is being expanded to produce calcium carbonate products for the paint, paper and plastics industries.

A new plant is nearing completion at Richmond, California, to produce hydrated lime for soil stabilization and for the construction industry.

Major processing changes, including installation of automatic fabricating and finishing equipment, were completed in our wood fiber board plant at Meridian, Mississippi. Smartly styled acoustical and decorative ceiling tiles have been given superior washable surface and strength characteristics.

Significant advances in floor tile manufacturing techniques have improved quality and trimmed production costs, and have provided greater flexibility of product design and improved styling.

A major new flooring product, FLINTKOTE* Peel and Stick floor tile, will be marketed in 1966. This product can be quickly, easily and neatly installed by peeling a protective paper from the adhesive backing. It should appeal particularly to the do-it-yourself market.

WALK·EASE*, a new sheet vinyl floor covering with exceptional cushioning characteristics, which we presently manufacture in Canada, is now being introduced in certain regions of the United States. This unique, patented product is reinforced with fiber glass, imparting superior strength and stability to the vinyl foam backing and the thick, inlaid vinyl surfacing. Because of its construction, the product has outstanding recovery from indentation.

Initial market acceptance of WALK·EASE floor covering has been encouraging. Production facilities are being engineered for construction of the first plant in the United States in 1966.

Despite a 7-week strike in the asbestos-cement pipe plant at Ravenna, Ohio, and some weakness in prices of bituminized fibre pipe and conduit during the first half of 1965, sales gains were made in all products of the Pipe and Conduit Group. A current shortage of copper piping and tubing materials provides a market opportunity for our plastic pipe. Improved production efficiency will provide additional volume for sales increases anticipated in 1966.

The Sealzit Contracting unit, in its first full year of business, found increasing market acceptance for its monolithic job-applied protective and insulating membranes, a concept pioneered by your Company under the MONOFORM brand name.

Flintkote's asphalt roofing operations demonstrated improved performance over previous years, reflecting the elimination of marginal plants during 1964.

The profitability of Flintkote automotive products kept pace with the increased production of the automobile industry in 1965.

ORGANIZATION

The internal organization of your Company was consolidated into major product groups, and management responsibilities assigned to maintain maximum operating efficiency.

James D. Moran, a vice president and director, was assigned national responsibility for the Building Products Group. Monte C. Carpenter, who joined the Company in 1965, was appointed general manager of Flintkote Building Products. W. L. Seitz was designated general manager of Blue Diamond Gypsum Products.

W. L. Davis, a vice president and director, was assigned national responsibility for the Packaging Group. W. L. Bapst and P. F. Paul were named general managers of Hankins Container and Pioneer Packaging Products, respectively.

James E. McCauley was elected a vice president and member of the board of directors, succeeding James R. Connell, who has retired. Mr. McCauley has been given national responsibility for the Pipe and Conduit Group.

Harold F. Stepanek, who has had extensive management experience in the cement industry, joined Flintkote at year's end. He was elected a vice president and given national responsibility for the Cement Group. G. J. Buckley was appointed general manager of Glens Falls Cement, succeeding Stanley H. MacArthur, who has retired.

Thomas L. Donoghue was elected a vice president, succeeding Noel J. Redmond, who will retire in 1966, but will continue as a director. Mr. Donoghue was named to head the Western Stone Products Group. Richard L. Allen was designated general manager of Blue Diamond Concrete Materials.

FOREIGN OPERATIONS

The Flintkote Company of Canada Limited continued to contribute to the overall corporate profit.

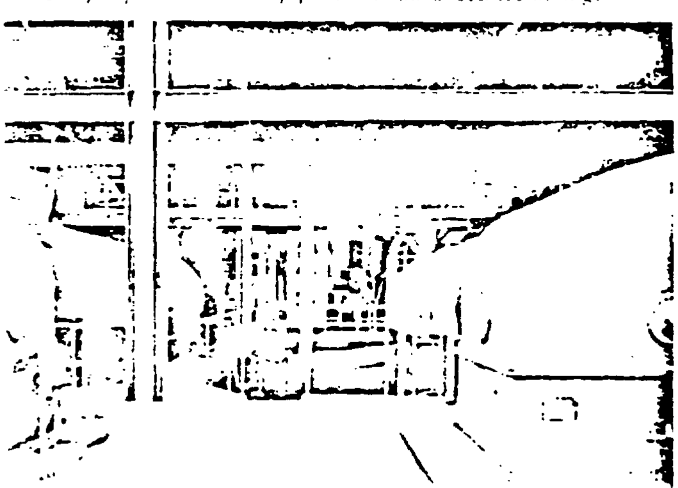
Through this Canadian subsidiary, your Company acquired last April the Granby, Quebec plant of Evertex Co. Ltd., and the exclusive right to manufacture and distribute WALK·EASE floor coverings in both Canada and the United States.

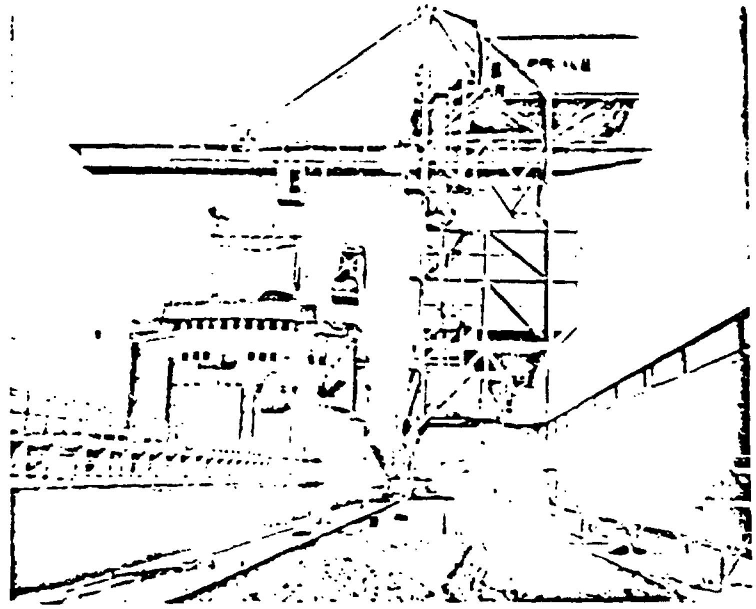
At year's end, Stradwick Industries Limited was acquired. This company manufactures economy vinyl-coated sheet flooring at London, Ontario, and operates 15 outlets in Ontario for the sale and installation of a full line of flooring products.

King Paving & Materials Limited, a Canadian subsidiary, a construction contractor and a producer of ready-mixed concrete and crushed stone, enjoyed increased sales and profits.

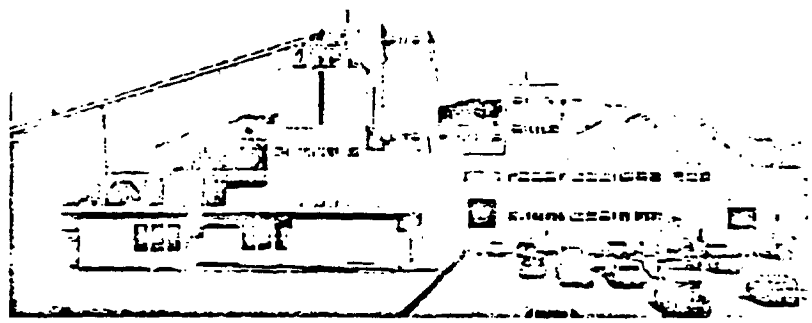
Our British subsidiary, The Flintkote Company Limited, increased both sales and profits in 1965. Operating on a world-wide basis, this London-based subsidiary accounts for the majority of The Flintkote Company's business overseas. Early last year, its new plant in Durban, operated by Flintkote South Africa (Pty.) Limited, began production of adhesives and liquid products.

The modernization of our Ohio cement plant typifies your Company's ability to keep pace with advanced technology

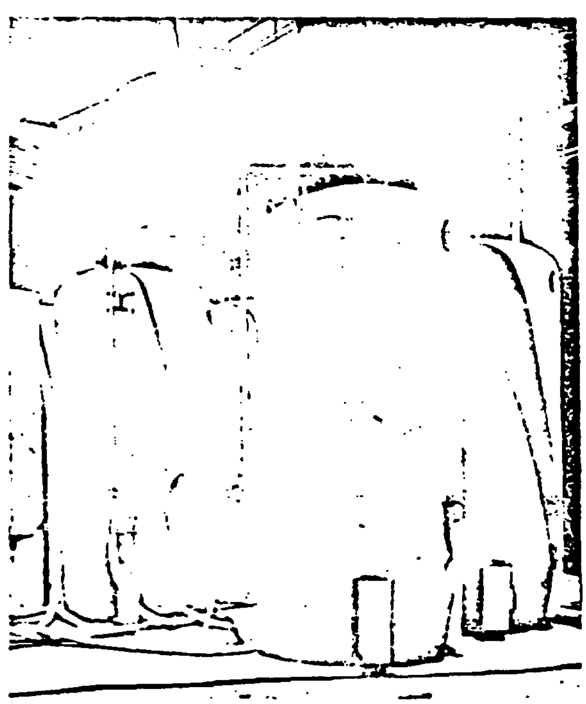




Gypsum rock from the Company's quarry in Newfoundland is unloaded at the deep-water terminal adjacent to Flintkote's gypsum plant at Savannah

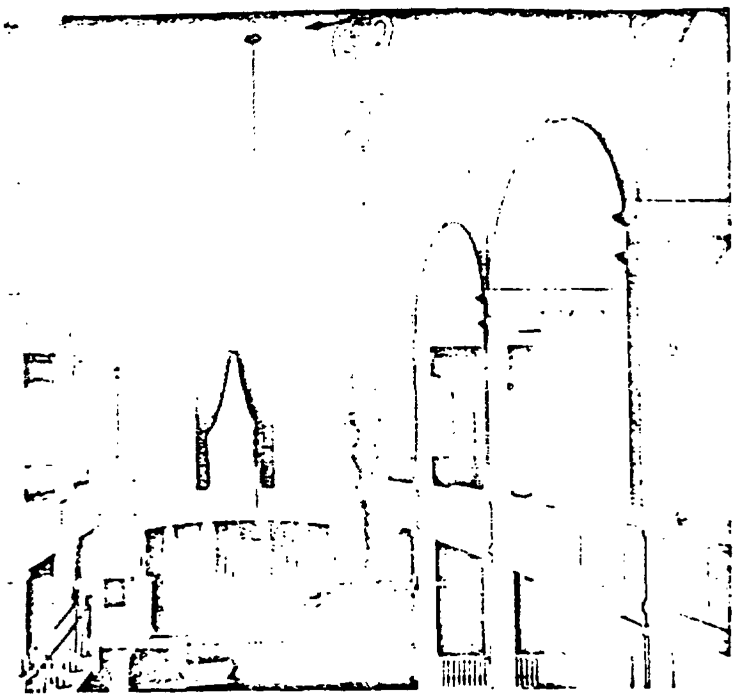


Automated Well designed Attractive Like all new Flintkote plants, this California gypsum facility was welcomed as a good industrial neighbor.



Our Sealzit Contracting unit insulated these champagne storage tanks, using the MONOFORM® Insulation System.

Domestic Product Groups



Gypsum lath and plaster by Flintkote lend lasting beauty and dignity to the interior of this church at Forest Lawn Cemetery in Los Angeles.

BUILDING PRODUCTS GROUP

Building Materials
Architectural Products
Industrial, Paving and Automotive Products
Flooring and Adhesive Products

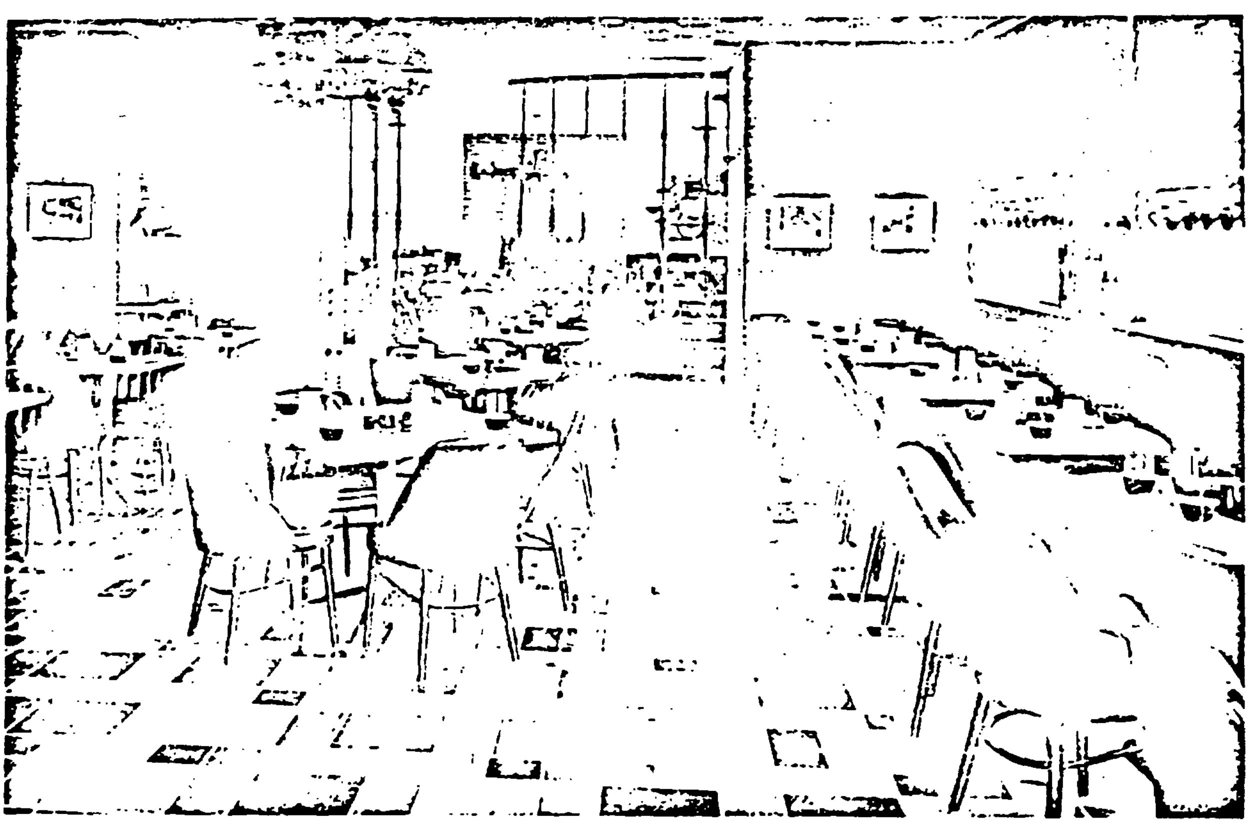
The Building Products Group embraces Flintkote and Pioneer Building Products, Blue Diamond Gypsum Products and Sealzit Products.

This Group operates 34 facilities at 22 locations, with sales offices in principal cities across the country.

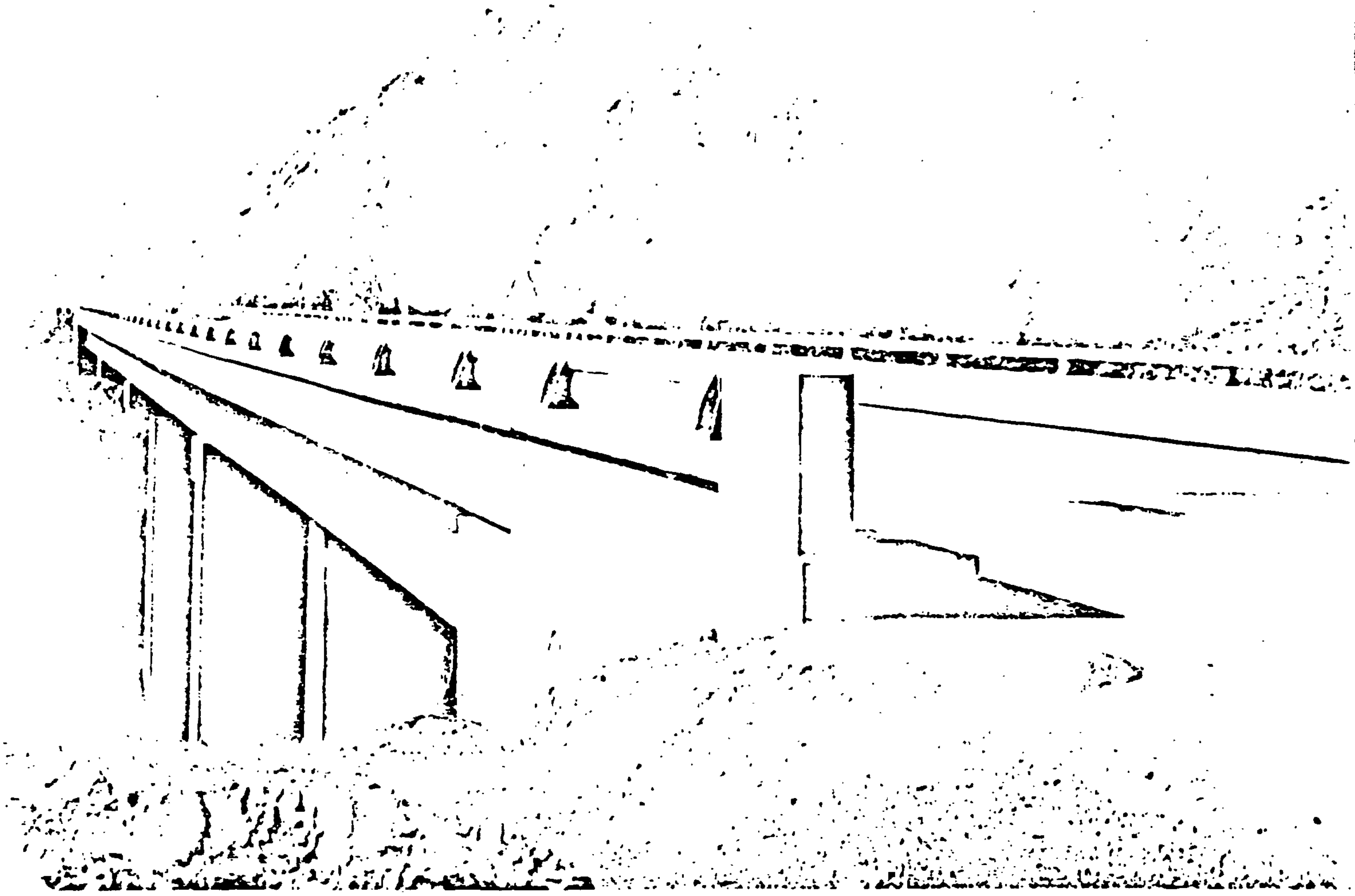
Its products are widely used in residential, industrial, commercial, and public construction and in the automotive industry.

Main office locations are:

Flintkote Building Products	480 Central Avenue East Rutherford, New Jersey
Pioneer Building Products	5500 South Alameda Street Los Angeles, California
Blue Diamond Gypsum Products	1650 South Alameda Street Los Angeles, California
Sealzit Products	3640 Chicago Avenue Riverside, California



FLEX-SLATE™ vinyl asbestos floor tile creates a handsome decorative effect in this Holiday Inn of America, Wilmington, Delaware.



Flintkote cement was used in constructing this award-winning prestressed concrete bridge.

CEMENT GROUP

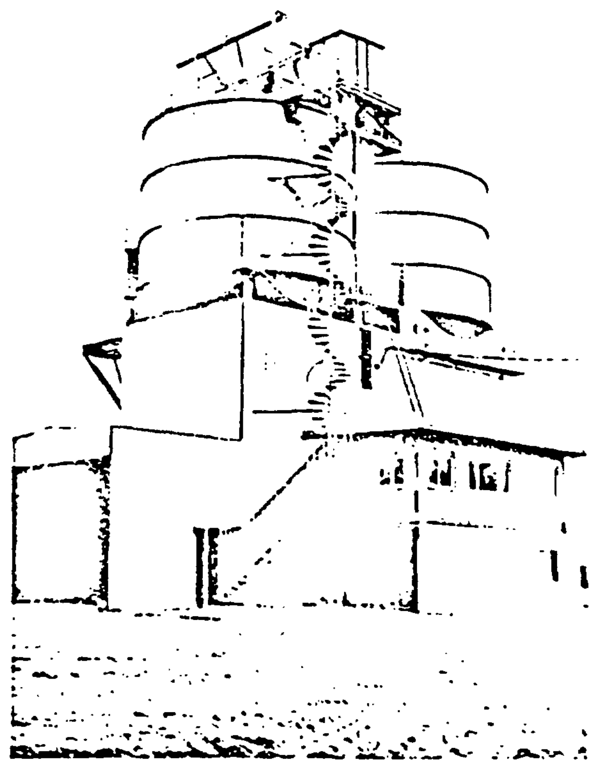
Portland Cement Products

Included in the Cement Group are the Calaveras, Diamond and Glens Falls organizations, and the Kosmos Portland Cement Company.

This Group operates 5 cement plants and 10 distribution terminals. Its products are an integral part of practically all types of commercial, industrial and residential construction. They are also widely used in the construction of dams, highways and other public projects.

Main office locations are:

Calaveras Cement	315 Montgomery Street San Francisco, California
Diamond Cement	Middle Branch, Ohio
Glens Falls Cement	313 Lower Warren Street Glens Falls, New York
Kosmos Cement	1529 Starks Building Louisville, Kentucky



This new Flintkote cement storage and distribution terminal built in Nevada is among the most modern in the industry.

PACKAGING GROUP

Corrugated Packaging Products, Displays and Folding Cartons

The Hankins Container and Pioneer Packaging Products organizations comprise the Packaging Group.

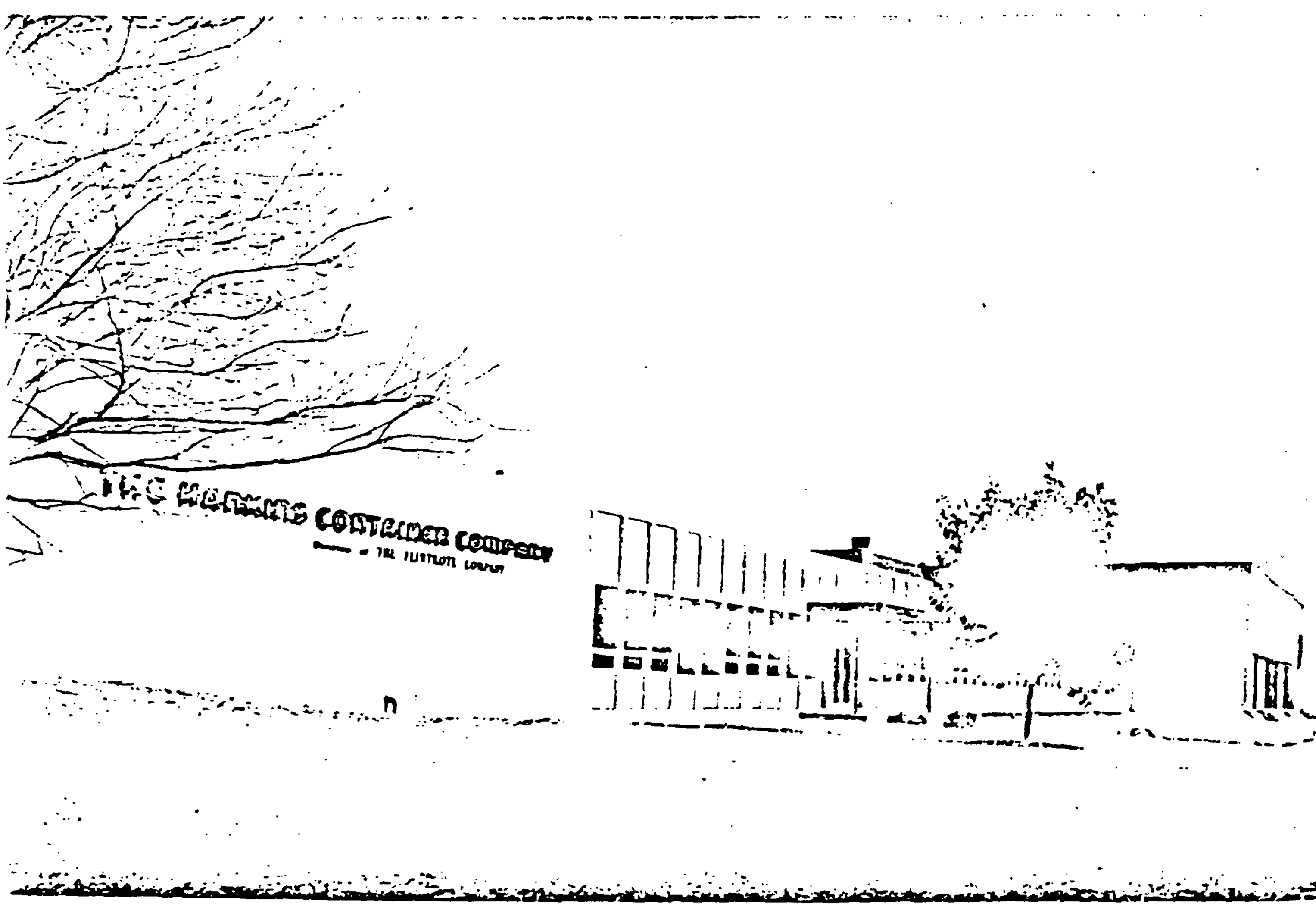
They supply American enterprises, large and small, with a wide variety of expertly designed packaging to promote and protect products of all shapes and sizes.

These products are produced at 11 plant locations throughout the nation.

Main office locations are:

Hankins Container	14801 Emery Avenue Cleveland, Ohio
Pioneer Packaging Products	5500 South Alameda Street Los Angeles, California

This new Flintkote container plant, replacing an older facility, exemplifies the Company's progress in meeting growing demands for its corrugated packaging products, displays and folding cartons.



PIPE AND CONDUIT GROUP

FLINTITE® Asbestos Cement Pipe
ORANGEBURG Bituminous Fibre Pipe and Conduit
ORANGEBURG Plastic Pipe
Underfloor Duct Systems

The Company's pipe and conduit products are made and marketed by the Orangeburg Manufacturing organization.

These products are widely known and well received by the trade in both public and private construction markets for use in water and sewerage systems, irrigation projects, and electrical and air duct installations.

The 3 manufacturing plants of this Group are located in California, Ohio and New York.

Main office location is:

Orangeburg Products	**Orangeburg, New York**

ORANGEBURG® brand bituminous pipe, adaptable to many applications, is here being installed for the drainage of an underground parking lot on Michigan Boulevard in Chicago.

STONE PRODUCTS GROUP

Ready-Mixed Concrete
Rock, Stone, Sand and Gravel
Limestone, Lime and Calcium Carbonate Products
SAKRETE® Mixes
Steel Fabrication

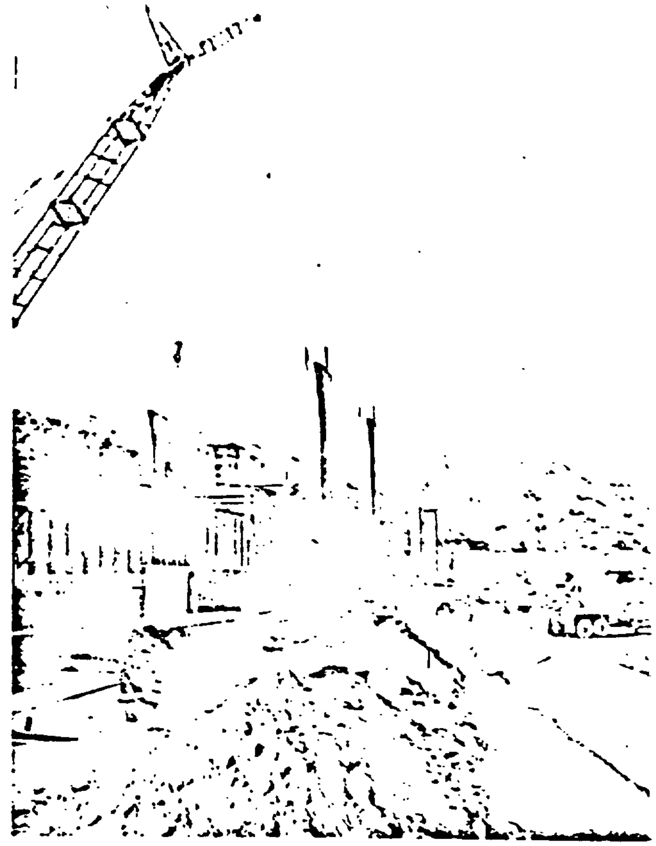
The Company's Eastern Stone Products Group includes Grove Lime Products and the Harry T. Campbell Sons' Corp. The Western Stone Products Group includes U.S. Lime Products and Blue Diamond Concrete Materials.

The Eastern and Western Stone Groups operate 71 manufacturing and processing facilities at 47 locations.

These products have a wide variety of end uses in all phases of construction. They are also used extensively in agriculture and in industrial processing.

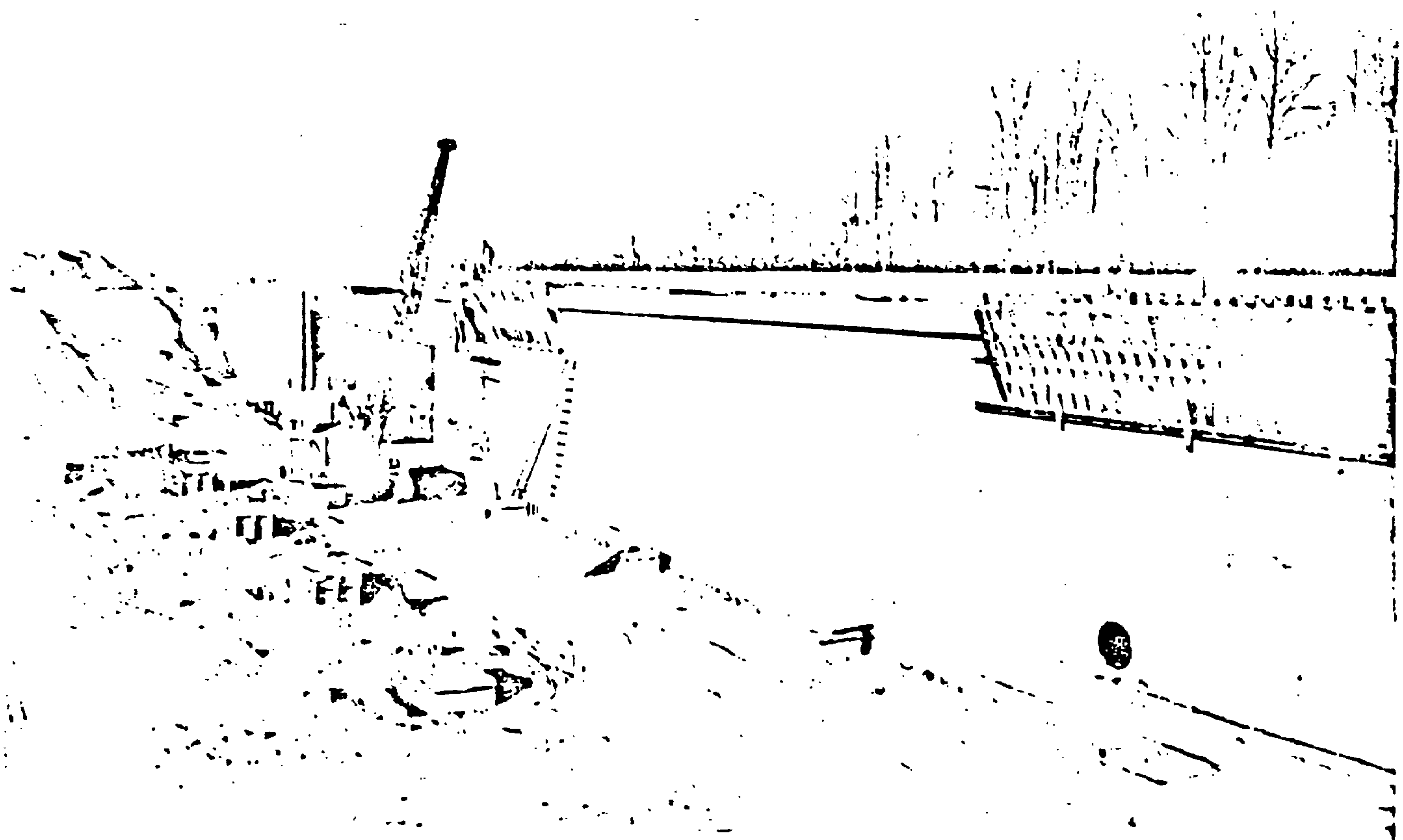
Main office locations are:

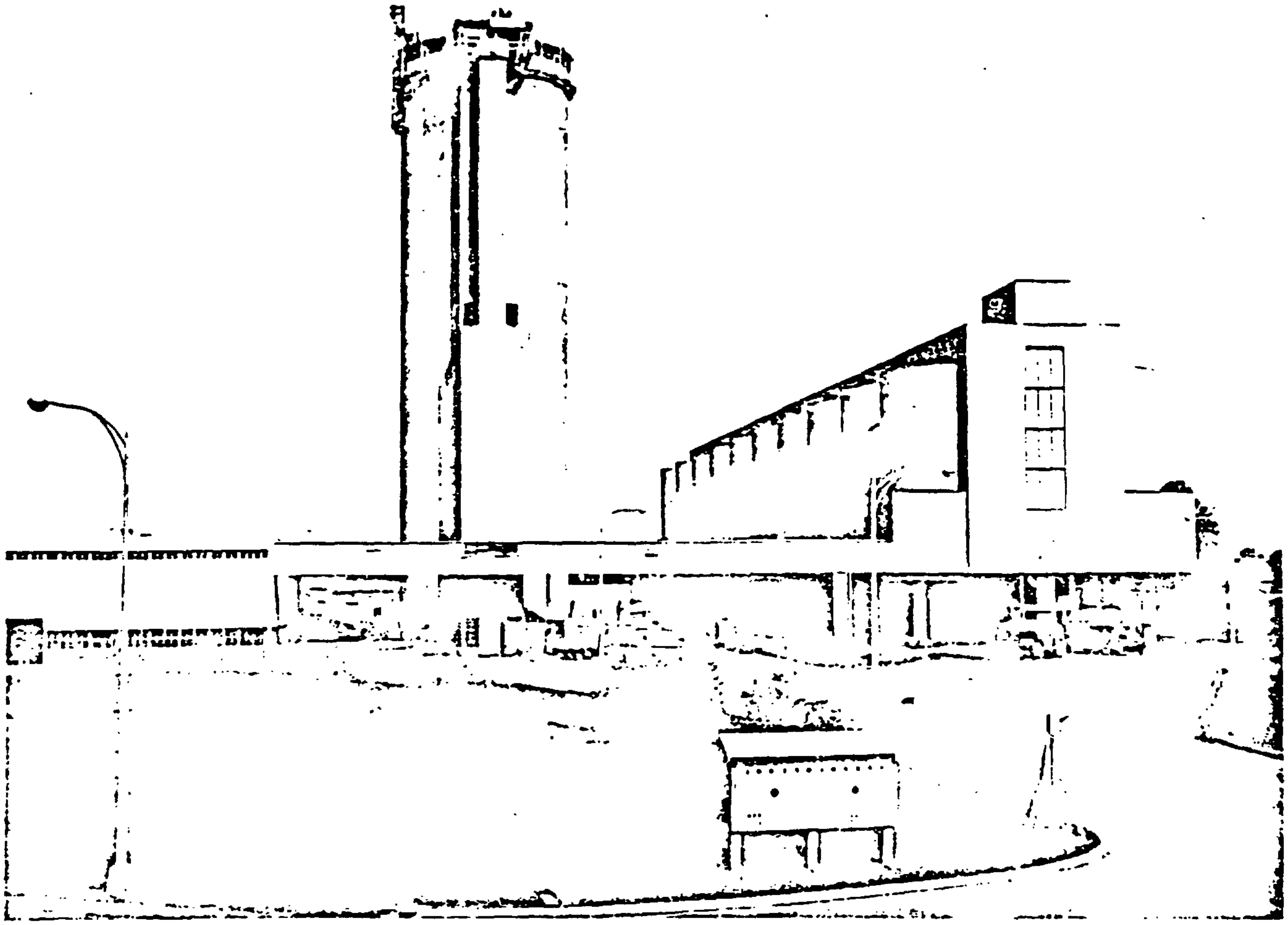
Harry T. Campbell Sons' Corp.	Towson, Baltimore, Maryland
Grove Lime Products	Lime Kiln, Maryland
U.S. Lime Products	2244 Beverly Boulevard Los Angeles, California
Blue Diamond Concrete Materials	1650 South Alameda Street Los Angeles, California



Large quantities of ready-mixed concrete and road base aggregates were supplied by Flintkote for this highway.

Flintkote concrete was used to build this reservoir.





Over 4,000 cubic yards of concrete were supplied by Flintkote to construct this slip form silo, believed to be the highest in Canada.

Foreign Product Groups

CANADIAN GROUP

Flooring and Adhesive Products
Building Materials
Protective Coatings
Road Emulsions
Asbestos Fibres
Ready-Mixed Concrete
Stone, Sand and Gravel

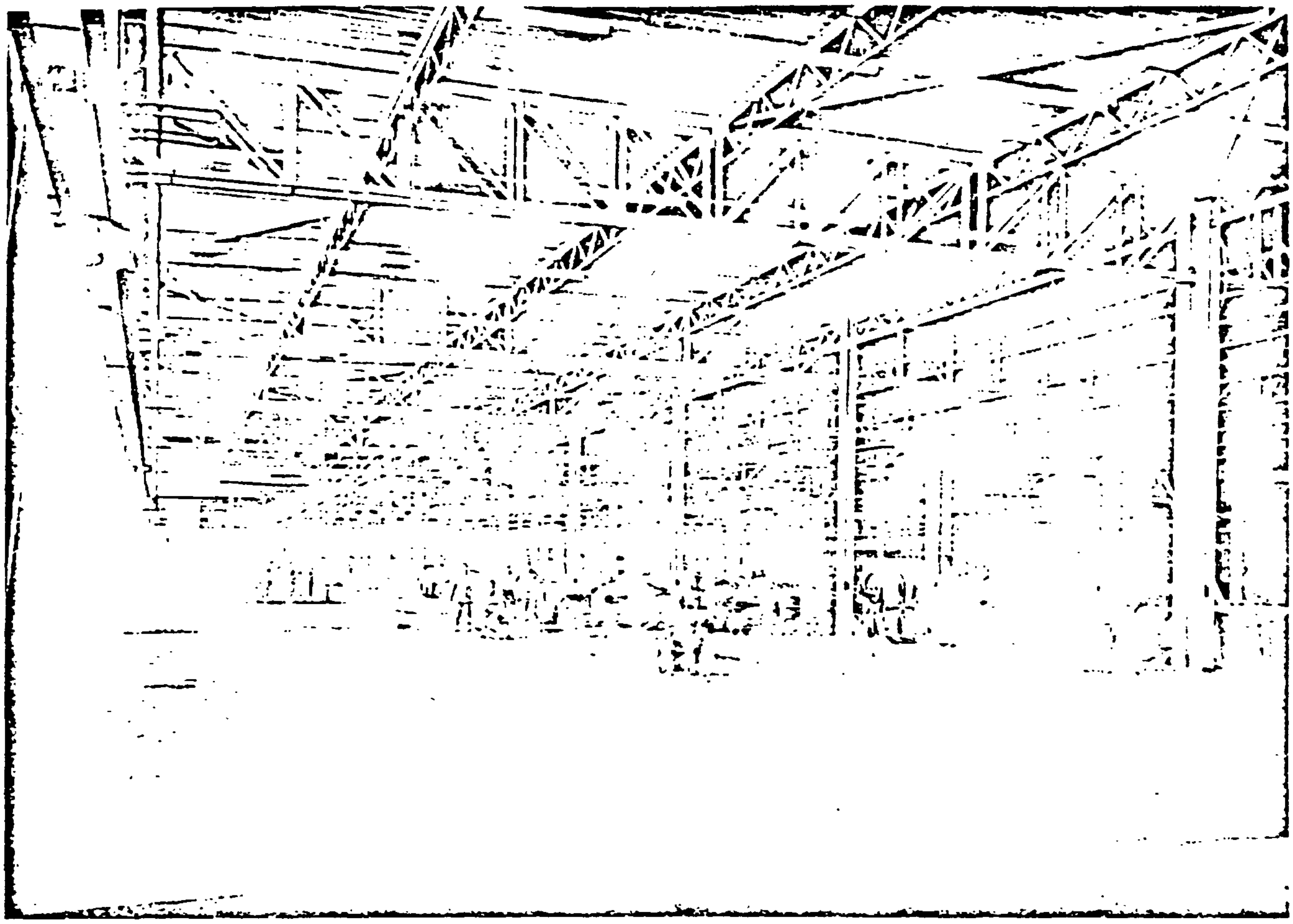
The Canadian Group of subsidiaries includes The Flintkote Company of Canada Limited, King Paving & Materials Limited, Flintkote Mines Limited and Stradwick Industries Limited.

Your Company operates 38 manufacturing and processing facilities, depots and warehouses in 23 Canadian cities and communities.

The wide variety of products marketed by our Canadian Group are used in virtually all types of construction.

Main office location is:

The Flintkote Company of Canada Limited
30th Street, Long Branch
Toronto, Ontario



Flintkote industrial flooring was applied to an area of 400,000 sq. ft. in this plant in Belgium.

OVERSEAS GROUP

Protective Coatings
Adhesives
Automotive Products
Industrial Paints
Roofing, Flooring and Insulation Systems

Your Company operates overseas through its subsidiary, The Flintkote Company Limited, London, England. Foreign subsidiaries of the London-based Company include Enfield Chemicals, Limited, Flintkote France S.A.R.L., Flintkote (New Zealand) Limited and Flintkote South Africa (Pty.) Limited.

The Overseas Group operates 14 manufacturing and warehouse facilities in 5 cities. Its products are sold in construction and industrial markets throughout the world.

Main office location is:

The Flintkote Company Limited
Adam House, One Fitzroy Square
London W. 1, England

Consolidated Statements of Income and Earned Surplus

for the years ended December 31, 1965 and 1964

	1965	1964
Sales	$286,917,507	$278,279,704
Cost of goods sold	221,567,784	207,249,901
Gross profit on sales	65,349,723	71,029,803
Selling, administrative and general expenses	40,307,809	37,723,960
	25,041,914	33,305,843
Other income	2,674,127	1,687,983
	27,716,041	34,993,826
Other charges:		
Cash discounts on sales	4,671,945	4,779,602
Interest	3,241,201	2,652,024
Miscellaneous	700,896	829,078
	8,614,042	8,260,704
Income before federal and foreign taxes on income	19,101,999	26,733,122
Federal and foreign taxes on income:		
Currently payable:		
United States	2,272,210	6,196,248
Foreign	1,072,165	1,347,732
Deferred *(Note 3)*	2,306,903	3,785,580
Charge equivalent to investment tax credit, net *(Note 4)*	607,708	458,678
	6,258,986	11,788,238
Net income	12,843,013	14,944,884
Earned surplus, January 1	80,772,676	72,518,703
	93,615,689	87,463,587
Less, Cash dividends on:		
Preferred stocks	1,982,163	1,982,163
Common stock: 1965, $1.00 per share; 1964, $.85 per share	5,550,939	4,708,748
	7,533,102	6,690,911
Earned surplus, December 31 *(Note 8)*	$ 86,082,587	$ 80,772,676

Provision for depreciation and depletion amounted to $13,240,000 for 1965 and $12,778,000 for 1964.

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

Consolidated Balance Sheets

December 31, 1965 and 1964

ASSETS:	1965	1964
Cash	$ 7,790,135	$12,758,103
Marketable securities, at cost *(approximates market)*	1,671,150	3,330,174
Accounts and notes receivable:		
Customers, less allowance for doubtful items: 1965, $4,044,938; 1964, $3,126,085	48,379,726	38,558,080
Other	1,586,751	1,509,980
	49,966,477	40,068,060
Inventories, at the lower of average cost or market:		
Finished goods and work in process	21,732,851	20,188,591
Raw materials and operating supplies	17,344,499	16,469,947
	39,077,350	36,658,538
Total current assets	98,505,112	92,814,875
Property, plant and equipment *(Note 1)*	169,422,819	163,526,583
Investments, at cost, and long-term receivables	3,871,928	2,312,032
Good will, patents and other rights, at cost	7,744,425	7,414,515
Prepaid and deferred expenses and other assets	5,992,107	6,093,402
	$285,536,391	$272,161,407

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

LIABILITIES:	1965	1964
Accounts payable and accrued expenses	$ 23,080,965	$ 18,509,641
Notes payable	11,995,159	
Current instalments on long-term debt	965,672	2,341,939
Accrued federal, state and other taxes	5,760,385	10,153,464
Reserves for product guarantees and self-insurance	1,688,318	2,071,878
Production payment, net of taxes	503,566	2,939,500
Total current liabilities	43,994,065	36,016,422
Long-term debt *(Note 2)*	46,537,168	49,395,813
Reserve for product guarantees	1,900,000	1,950,000
Deferred taxes on income *(Note 3)*	17,328,711	14,946,089
Deferred investment tax credits *(Note 4)*	2,995,734	2,388,025
	112,755,678	104,696,349
Commitments *(Note 5)*		
CAPITAL:		
Capital stock *(Notes 2, 6 and 7)*:		
Preferred stocks	27,977,635	27,977,635
Common stock, $5 par: Authorized 10,000,000 shares; issued, 1965, 5,571,067 shares; 1964, 5,570,775 shares, stated at	59,179,476	59,173,732
Issuable under stock option plan purchase contracts (3,397 shares)	75,911	75,911
Earned surplus, statement annexed *(Note 8)*	86,082,587	80,772,676
	173,315,609	167,999,954
Less, Common stock in treasury, 20,030 shares, at cost	534,896	534,896
	172,780,713	167,465,058
	$285,536,391	$272,161,407

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

Notes to Financial Statements

1. Property, plant and equipment are stated at cost, less:

	1965	1964
Allowance for depreciation and depletion	$135,445,327	$129,944,118
Allowance for estimated losses on disposal of certain plants	893,281	1,149,694

At December 31, 1965, properties carried at a depreciated cost of approximately $6,300,000 were pledged under long-term debt agreements.

2. Details of long-term debt at December 31, 1965 are as follows:

Description	Current Portion	Due Subsequent to 1966 Total	Due Subsequent to 1966 Annual Instalments
Sinking fund debentures:			
$4^{5}/_{8}\%$, due April 1, 1981	—	$33,250,000	$1,750,000 through 1980, balance 1981
$4^{3}/_{8}\%$, due April 1, 1977	—	7,478,000	$478,000 for 1967, $500,000 through 1976, balance 1977
$4^{1}/_{2}\%$ debentures, due October 1, 1980	$147,000	1,499,000	$147,000 through 1976 except each fourth instalment beginning 1968 shall be $146,000, balance 1977
Notes:			
5%, due December 1, 1970	200,000	900,000	$200,000 through 1969, balance 1970
$4^{7}/_{8}\%$, due April 1, 1977	300,000	2,400,000	$300,000 for 1967, with lesser amounts thereafter
Other long-term debt	318,672	1,010,168	Varying through 1988
	$965,672	$46,537,168	

The $4^{1}/_{2}\%$ debentures are convertible into common stock at the rate of one share for each $45 principal amount of debentures. At December 31, 1965, 36,578 shares of common stock were reserved for conversion of such debentures.

3. Depreciation for book purposes is provided on the straight-line method and for certain assets is less than depreciation claimed for income tax purposes. Further, certain mine development costs are claimed for income tax purposes as incurred but for book purposes are deferred and amortized on a per-ton-mined basis. The resulting current tax benefits are deferred to subsequent periods when book provisions for depreciation and amortization will exceed the amounts allowable for income tax purposes.

4. Investment tax credits are being amortized ratably over ten-year periods.

5. At December 31, 1965, the Company had authorized future additions to plant and property of which the estimated cost to complete was $10,700,000.

The companies have long-term lease obligations involving annual rentals of approximately $1,100,000 through 1967 and reduced amounts thereafter through 2000.

6. Preferred stocks comprise:

	Shares Authorized	Shares Outstanding	Amount
$4 cumulative, no par	53,877	53,877	$ 5,714,329
$4^{1}/_{2}\%$ convertible second, $100 par	72,965	72,965	7,296,500
$4.50 Series A convertible second, $100 par	120,225	120,225	12,022,500
$2.25 Series B convertible second, no par	648,000	398,800	2,944,306
			$27,977,635

Certain provisions of the preferred stocks follow:

	Involuntary	Voluntary (and Redemption)
Amounts to which each share is entitled in liquidation (in each case plus accrued dividends):		
$4 cumulative	$100.00	$107.00
$4^{1}/_{2}\%$ convertible second	100.00	105.00
$4.50 Series A convertible second	100.00	105.00
$2.25 Series B convertible second	50.00	52.50

At December 31, 1965, the aggregate stated value of the $2.25 preferred stock was less by $16,995,694 and $17,992,694 than the aggregate involuntary and voluntary liquidation amounts, respectively.

The $4 preferred stock has a sinking fund provision requiring the annual redemption of 2,000 shares, with the privilege of applying any excess redemptions to subsequent periods. Shares have been acquired and retired to meet the sinking fund requirements through 1968.

Conversion features:

	Shares of Common Stock for Each Share of Preferred Stock
$4^{1}/_{2}\%$ Series	3.000
$4.50 Series	2.678
$2.25 Series	1.111

Common stock reserved for conversion of preferred stocks aggregated 983,925 shares at December 31, 1965.

7. At December 31, 1965, there were outstanding exercisable stock options, granted to certain officers and employees, to purchase 98,949 shares of common stock at prices ranging from $22.00 to $36.872 per share. During 1965, no options were granted or exercised and options for 2,586 shares were canceled.

In addition, there were outstanding at December 31, 1965, exercisable options for 320 shares at $29.567 per share, issued in 1958 in substitution for options issued by an acquired company. During 1965, options for 292 shares were exercised at $19.669 per share and options for 2,330 shares were canceled.

The afore-mentioned option prices are not less than 95 per cent of the fair market value of the stock at the time the options were granted. Such prices have not changed, except as affected by normal operation of antidilution provisions of the stock option plan.

Shares reserved for future options at the beginning and end of 1965 were 55,752 and 58,338, respectively.

8. The indentures covering the sinking fund debentures, the long-term note agreements and the Company's Articles of Consolidation contain restrictive provisions as to the payment of cash dividends on, and the purchase or redemption of, Company stocks. Under the most restrictive of these provisions, the amount of earned surplus available for cash dividends on common stock at December 31, 1965 was approximately $34,400,000.

9. The Company on January 12, 1966 sold certain timberlands for a gain, after estimated taxes, of approximately $9,600,000. Such gain will be credited to earned surplus during 1966.

Statement of Source and Application of Funds

for the year ended December 31, 1965

Source of funds:	
Net income	$12,843,000
Provision for depreciation and depletion	13,240,000
Increase in deferred taxes and investment tax credits	2,990,000
Other, net	618,000
	$29,691,000
Application of funds:	
Additions to property, plant and equipment	$21,587,000
Reduction in long-term debt	2,859,000
Dividends paid on preferred and common stocks	7,533,000
	31,979,000
Decrease in working capital *(Note 9)*	2,288,000
	$29,691,000

Auditors' Report

To the Board of Directors and Stockholders,
The Flintkote Company,
New York, N.Y.

We have examined the consolidated balance sheet of THE FLINTKOTE COMPANY and its WHOLLY OWNED SUBSIDIARIES as of December 31, 1965 and the related consolidated statement of income and earned surplus 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 1964.

In our opinion, the afore-mentioned financial statements present fairly the consolidated financial position of The Flintkote Company and its Wholly Owned Subsidiaries at December 31, 1965 and 1964, and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

We have made a similar examination of the accompanying statement of source and application of funds which, in our opinion, when considered in relation to the basic financial statements, presents fairly the sources and application of funds of The Flintkote Company and its Wholly Owned Subsidiaries for the year ended December 31, 1965.

New York, January 29, 1966.

Lybrand, Ross Bros. & Montgomery

Ten Year Comparison

CONDENSED CONSOLIDATED BALANCE SHEET*

		1965	1964	1963
ASSETS:	Cash	$ 7,790,135	$ 12,750,103	$ 10,360,366
	Marketable securities	1,671,150	3,330,174	1,465,391
	Accounts and notes receivable (less allowances)	49,966,477	40,068,060	37,999,768
	Inventories	39,077,350	36,658,538	35,147,408
	Total current assets	98,505,112	92,814,875	84,972,933
	Property, plant and equipment:			
	Gross	305,761,427	294,620,395	291,120,031
	Allowance for depreciation and depletion	136,338,608**	131,093,812**	129,436,067**
	Net	169,422,819	163,526,583	161,683,964
	Investments and long term receivables	3,871,928	2,312,032	2,070,335
	Good will, patents and other rights	7,744,425	7,414,515	7,507,103
	Prepaid and deferred expenses and other assets	5,992,107	6,093,402	5,957,666
		$285,536,391	$272,161,407	$262,192,001
LIABILITIES:	Accounts payable and accrued expenses	$ 23,080,965	$ 18,509,641	$ 20,525,122
	Notes and current instalments on long-term debt	12,960,831	2,341,939	2,059,877
	Accrued federal, state and other taxes	5,760,385	10,153,464	10,725,986
	Reserves for product guarantees and self-insurance	1,688,318	2,071,878	1,972,637
	Production payment, net of taxes	503,566	2,939,500	—
	Total current liabilities	43,994,065	36,016,422	35,283,622
	Long-term debt	46,537,168	49,395,813	52,353,014
	Reserve for product guarantees	1,900,000	1,950,000	2,300,000
	Deferred taxes on income	17,328,711	14,946,089	10,982,866
	Deferred investment tax credits	2,995,734	2,388,025	1,929,347
	Total liabilities	$112,755,678	$104,696,349	$102,848,849
CAPITAL:	Capital stock:			
	Preferred	$ 27,977,635	$ 27,977,635	$ 27,977,635
	Common, issued and subscribed	59,255,387	59,249,643	59,381,710
		87,233,022	87,227,278	87,359,345
	Earned surplus	86,082,587	80,772,676	72,518,703
		173,315,609	167,999,954	159,878,048
	Less, Treasury stock, at cost	534,896	534,896	534,896
		$172,780,713	$167,465,058	$159,343,152
		$285,536,391	$272,161,407	$262,192,001

CONDENSED STATEMENT OF CONSOLIDATED INCOME*

	1965	1964	1963
Sales	$286,917,507	$278,279,704	$278,789,673
Cost of goods sold	221,567,784	207,249,901	209,690,645
Gross profit on sales	65,349,723	71,029,803	69,099,028
Selling, administrative and general expenses	40,307,809	37,723,960	37,269,865
	25,041,914	33,305,843	31,829,163
Other income	2,674,127	1,687,983	1,438,305
	27,716,041	34,993,826	33,267,468
Other charges	8,614,042	8,260,704	8,724,598
	19,101,999	26,733,122	24,542,870
Federal and foreign taxes on income	6,258,986	11,788,238	11,163,950
Net income	$ 12,843,013	$ 14,944,884	$ 13,378,920
Provision for depreciation and depletion included above	$ 13,240,000	$ 12,778,000	$ 12,753,000

**Orangeburg Manufacturing Co., Inc., and The Hankins Container Company included only in years 1957 through 1965. Blue Diamond Corporation, Calaveras Cement Company and Glens Falls Portland Cement Company included only in years 1958 through 1965. Harry T. Campbell Sons' Corporation, The Diamond Portland Cement Company and M. J. Grove Lime Company included only in years 1959 through 1965*

***Includes reserve for property losses net of federal taxes*

1962	1961	1960	1959	1958	1957	1956
10,859,820	$ 14,339,093	$ 12,683,534	$ 15,597,009	$ 14,021,674	$ 10,074,915	$ 6,981,881
385,268	772,460	1,987,123	2,706,901	2,683,370	4,666,898	2,640,825
37,595,021	36,676,791	35,044,172	30,164,111	23,842,258	14,476,833	11,169,716
33,161,561	32,406,637	32,134,753	30,279,908	26,252,860	19,405,848	13,664,044
82,001,670	84,194,981	81,849,582	78,747,929	66,800,162	48,624,494	34,456,466
275,648,078	254,891,914	229,804,208	206,549,925	160,851,720	118,664,121	84,847,370
117,606,145	109,887,814	102,338,266	90,619,004	71,980,904	46,417,493	34,777,645
158,041,933	145,004,100	127,465,942	115,930,921	88,870,816	72,246,628	50,069,725
2,360,338	2,350,552	6,588,310	2,893,028	3,398,910	489,227	266,755
7,595,325	7,669,815	7,512,063	2,962,004	2,962,004	2,878,109	2,878,108
5,709,781	5,629,737	4,954,549	4,517,803	3,664,967	2,758,667	1,837,983
$255,709,047	$244,849,185	$228,370,446	$205,051,685	$165,696,859	$126,997,125	$ 89,509,037
$ 19,507,217	$ 17,322,268	$ 16,969,637	$ 15,649,567	$ 12,688,910	$ 9,335,977	$ 5,664,245
2,966,732	1,813,549	13,219,037	1,380,742	1,007,403	3,332,856	943,612
10,669,531	11,551,461	17,087,518	17,964,317	8,045,384	5,685,530	5,432,474
1,361,670	1,099,480	880,537	759,554	630,879	532,377	627,090
—	—	—	—	—	—	—
34,505,150	31,786,758	48,156,729	35,754,180	22,372,576	18,886,740	12,667,421
53,831,097	55,941,097	27,869,976	22,496,666	16,874,862	12,850,000	3,150,000
—	—	—	—	—	—	—
7,552,996	3,935,597	2,344,322	990,382	582,930	—	—
483,430	—	—	—	—	—	—
6,372,673	$ 91,663,452	$ 78,371,027	$ 59,241,228	$ 39,630,368	$ 31,736,740	$ 15,817,421
27,977,635	$ 27,977,635	$ 28,190,526	$ 28,433,567	$ 26,931,315	$ 27,760,214	$ 15,346,962
59,249,647	59,297,193	58,991,644	56,503,084	51,685,977	35,216,281	29,836,765
87,227,282	87,274,828	87,182,170	84,936,651	78,617,292	62,976,495	45,183,727
72,643,988	66,445,801	63,055,838	61,062,704	47,483,657	32,999,161	29,369,214
159,871,270	153,720,629	150,238,008	145,999,355	126,100,949	95,975,656	74,552,941
534,896	534,896	238,589	188,898	234,458	715,271	861,325
$159,336,374	$153,185,733	$149,999,419	$145,810,457	$125,866,491	$ 95,260,385	$ 73,691,616
$255,709,047	$244,849,185	$228,370,446	$205,051,685	$165,696,859	$126,997,125	$ 89,509,037

1962	1961	1960	1959	1958	1957	1956
$272,357,365	$248,758,325	$252,171,900	$253,054,691	$194,071,638	$155,131,213	$113,655,116
205,906,404	187,461,261	189,324,957	189,197,174	147,434,190	119,208,638	86,156,251
66,450,961	61,297,064	62,846,943	63,857,517	46,637,448	35,922,575	27,498,865
36,499,500	34,675,922	34,071,915	31,733,440	23,626,000	19,344,124	14,198,613
29,951,461	26,621,142	28,775,028	32,124,077	23,011,448	16,578,451	13,300,252
2,002,002	1,683,553	1,708,915	1,821,245	1,605,160	1,530,516	1,553,213
31,953,463	28,304,695	30,483,943	33,945,322	24,616,608	18,108,967	14,853,465
8,705,172	7,252,686	6,578,318	5,636,682	4,549,608	3,363,769	2,285,087
23,248,291	21,052,009	23,905,625	28,308,640	20,067,000	14,745,198	12,568,378
10,646,119	9,573,269	10,941,998	13,240,222	9,078,862	6,647,195	5,434,266
$ 12,602,172	$ 11,478,740	$ 12,963,627	$ 15,068,418	$ 10,988,138	$ 8,098,003	$ 7,134,112
11,470,000	$ 10,504,000	$ 10,434,000	$ 10,499,000	$ 7,720,000	$ 5,210,000	$ 3,628,000

EXECUTIVE OFFICES

30 Rockefeller Plaza
New York, N.Y. 10020

DOMESTIC PRODUCT GROUPS

Building Products Group
Blue Diamond Gypsum Products
Flintkote Building Products
Pioneer Building Products
Sealzit Products

Cement Group
Calaveras Cement
Diamond Cement
Glens Falls Cement
*Kosmos Cement**

Packaging Group
Hankins Containers
Pioneer Packaging Products

Pipe and Conduit Group
Orangeburg Pipe and Conduit
Flintite Pipe

Eastern Stone Products Group
*Campbell Products**
Grove Products

Western Stone Products Group
Blue Diamond Concrete Materials
U.S. Lime Products

FOREIGN GROUPS

Canadian Group
The Flintkote Company of Canada Limited
King Paving & Materials Limited
All-Weather Asphalt Mix Limited
Flintkote Mines Limited
Stradwick Industries Limited

Overseas Group
The Flintkote Company Limited
Enfield Chemicals Limited
Flintkote France S.A.R.L.
Flintkote (New Zealand) Limited
Flintkote South Africa (Pty.) Limited

TRANSFER AGENTS

Bankers Trust Company
485 Lexington Avenue, New York 17, N.Y.

Bank of America Nat'l Trust and Savings Assoc.
111 West 7th Street, Los Angeles 14, Calif.

Old Colony Trust Company
45 Milk Street, Boston 6, Mass.

REGISTRARS

The Manufacturers Hanover Trust Company
The First National Bank of Boston
United California Bank

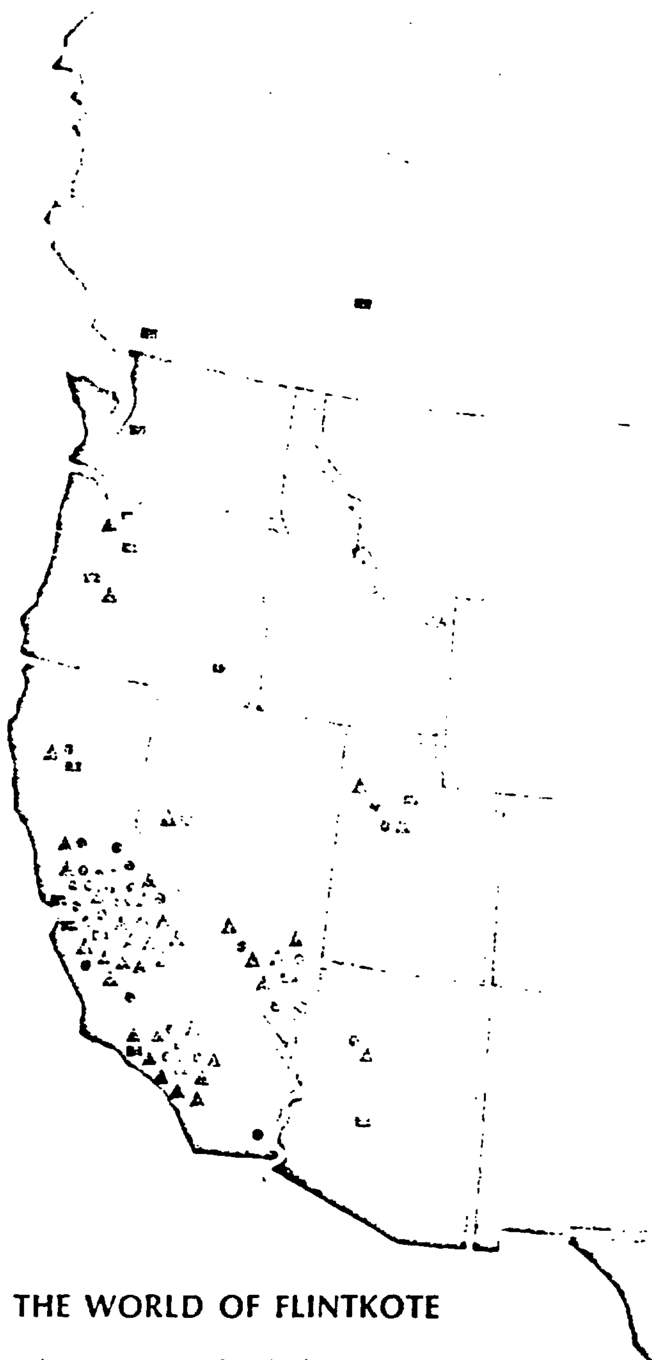
AUDITORS

Lybrand, Ross Bros. & Montgomery

COUNSEL

White & Case, New York, N.Y.
Ropes & Gray, Boston, Mass.

*Subsidiaries—Kosmos Portland Cement Company and Harry T. Campbell Sons' Corporation and their respective subsidiaries.

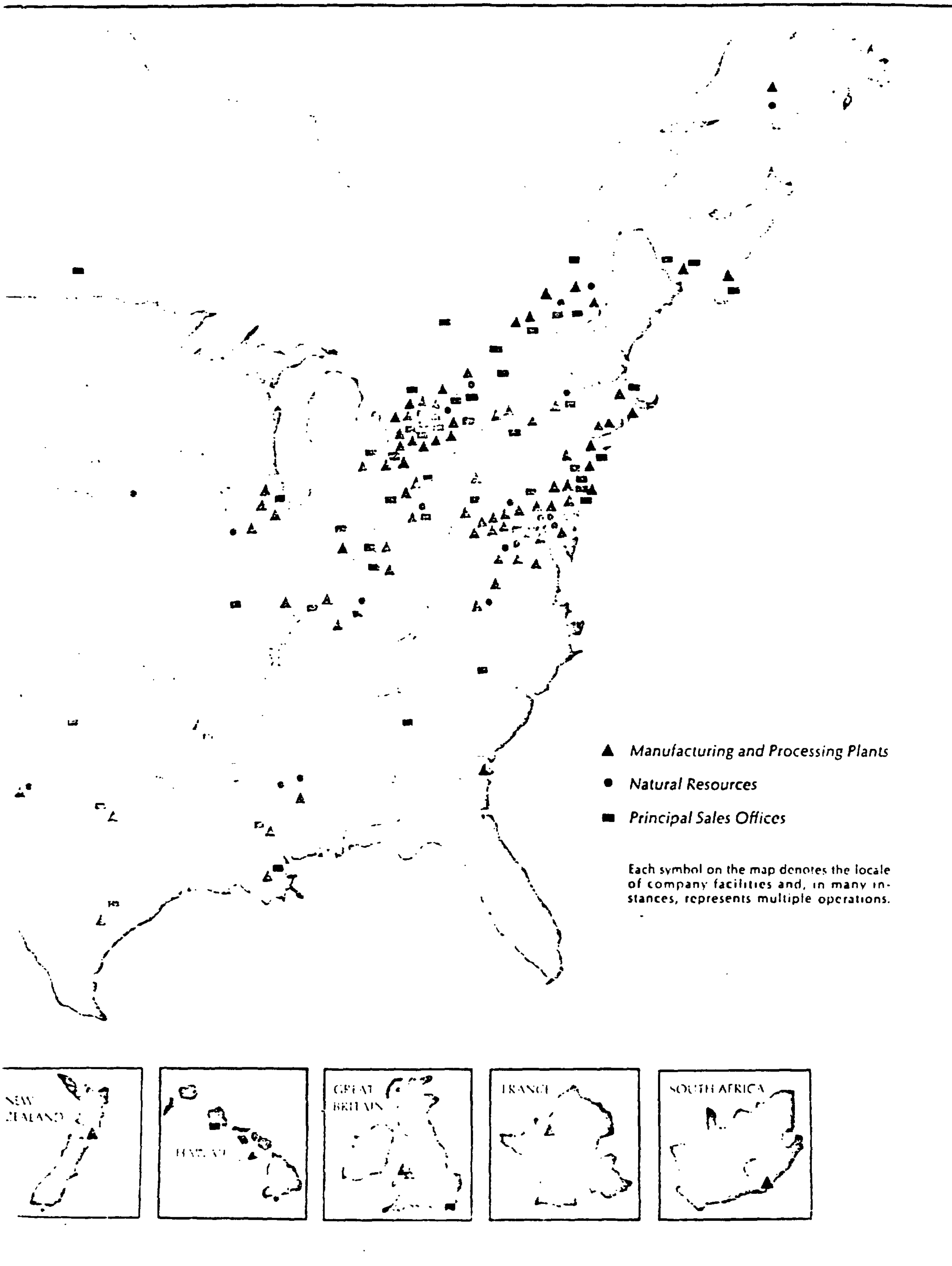


THE WORLD OF FLINTKOTE

In advertising and news stories, The Flintkote Company is often described as a "... leading U.S. and world-wide manufacturer of diversified building and construction materials, containers, and paperboard products...."

The map above vividly illustrates why. Flintkote operates 186 manufacturing and processing plants in 126 localities in the U.S.A., Canada, and overseas, drawing on company-held raw material sources at 48 different sites. Serving our customers in diverse and expanding markets are principal sales offices in 75 cities in this country and Canada. Additionally, there are sales outlets for Flintkote products in some 115 countries around the world.

Numbers, and symbols on a map, compose only part of a company's picture but they do indicate how Flintkote is growing and why its potential is so promising.



Each symbol on the map denotes the locale of company facilities and, in many instances, represents multiple operations.