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intra-company correspondence

to C. E. Peck

from R. S. Grant

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cc:

subject CONSTRUCTION GROUP
MANUFACTURING MONTHLY REPORT
OCTOBER 1972

PLAINTIFF'S EXHIBIT K-696

The month of October was a very good month for manufacturing considering the mix of goods and the condition of M furnace in Santa Clara. We completed the month with net sales of $32,336M and 28.7% gross margin. The $9,269M gross margin was an all-time record. To date, the Construction Materials Plants have a gross margin of 27.8%. This is one-tenth of a per cent below the all-time record set in 1959.

We expect to be faced with a continued shortage of rail cars which will create some difficulty, but we do not expect it to interfere with a good sales month. M furnace is now up from rebuild and should contribute to profitability in November. The projections received from the plants are for a margin of 27.5%. We believe this to be conservative and we are striving to exceed 28% with a $9.2 million gross margin.

NEWARK

Net sales for October were $10,424M. Gross margin was 29.3% with resulting gross profit dollars at an all-time high of $3049M for the Newark Plant. Cost-out-of-inventory was 60.4%, which is an improvement of 1.0% over September results. In general, the plant performances were improved over September. The Wool Factory averaged a pack per day of 1.079 pounds. The productivity of #15 and #16 Aerocor machines and the three Boxboard Filter machines was the best year-to-date. The Marble factory completed its run and was shut down on schedule October 23. The Appliance Insulation manufacturing and service was improved over September experience as we continue to adjust and improve our overall effectiveness to this business as the JM strike continues. Shortage of rail equipment continues to be of major concern, forcing large scale conversion to truck shipping and in some cases causing delay in deliveries. We do not see any relief in the near future. The Molded Tile facility continues to be the most serious problem in the plant. The tile knockout section and deburring equipment is not feasible with the facility and present product definition. This equipment will have to be redesigned. We will attempt to operate the facility in a limited capacity as an interim measure. The magnitude and economics of this style of production will be determined this month. Trials with the D-5 high compression roll-up will continue as they have been encouraging to date. Major emphasis continues on completing 1972 profit improvement programs as we approach year-end.

WAXAHACHIE

Gross and net sales are an all-time record. The only other months that were close to October were June and December 1969 and June 1970. Building Insulation sales are the highest since December 1969 which was an all-time record. Duct board sales are an all-time record. Order backlogs are strong and delivery cycles on Duct Board are 56 days; Flexible Duct 45 days; Building Insulation continues on planned allocation.

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WAXAHACHIE (Cont'd)
Inventories are exceptionally low ever since the rebuild due to the heavy demand for each product line. Customer service has been excellent despite the low inventories which are planned to continue low during the major V-2 construction period.

Manufacturing gain and gross margin represent a record operating month. In addition to operations, the August rebuild actual costs have resulted in a reserve credit of approximately $165M. Projected manufacturing gain and margin (less the reserve credit) are $157M at 42.8%. Cost savings due to the rebuild and 8th fiberizer are excellent.

KANSAS CITY
The Kansas City plant had a manufacturing gain of $95M, based on a plant valuation of $3,613M. This valuation represents a record high for this year. All production facilities performed at record pack rates. With the high valuation, net sales total $6,191M, resulting in a gross margin for the month of 30.0%.

Along with high production during the month, the conversion of #71 Aerocor to Process 333 in 7 days contributed to the financial improvements for the month. This downtime was originally planned for 14 days. Another highlight for the month is the trend in quality complaints. The 12 complaints recorded for October represent the fourth consecutive month at this level. Another key profit improvement item was the continued improvement on machine "K". This contributed to improvement in weight job efficiency in the Wool Factory.

November's gross margins are projected at 26.7%. This drop is attributed to planned downtime on "K" furnace for major furnace repairs. K-3 machine is planned down for 4 days and K-4 machine is planned down for 10 days. During this time, both machines will be reconditioned. Along with this scheduled downtime, the plant will be down for approximately 12 hours November 7 for work on sub-stations and powerhouse. Financial improvements will be noted during the month of November as a result of #71 Process 333. Pack per day will depend on the product mix, but should approach experience on #72 Process 333 machine.

BARRINGTON
Plant gross billings again exceeded the $6100M level with net sales just below $6000M. Returns and allowances at $40M higher than September was the main implication in keeping the net sales figure down. Continued followup on our C.O.I. showed an adverse trend in the last half of the month with roof sales increasing by 10% of the total sales, and building reduced by a like amount. With present inventory levels, no immediate relief is seen from this situation.

Manufacturing performance, though not at September record levels, was very good. The wool area continued at a total building pack level of 400M lbs per day with roof well over 330M lbs. per day. Gross margin for October was 26.3% and 24.6% year-to-date. Optimistic results from the advanced resin trials indicate this will not be a problem, and high throughputs will continue on all lines.

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BARRINGTON (Cont'd)
We carry several cost implications into the month of November such as the holiday (44M); labor contract increase (28M); and maintenance consultation fees (20M). In addition, we will feel the penalty of considerably more fuel oil usage than previous months.

SANTA CLARA
October net sales of $3,851M for Construction and $225M for Aerospace were well below plan and below the year to-date average. The manufacturing gain of $82M and gross profit of 17.5% are also below the 1972 average. Mix of goods again was unfavorable due to "M" line being down for rebuild which produces low cost out of inventory products. Plant performances, except for "M" line, were above 100%.

November financial outlook is brighter as "M" line will be up and producing on the 6th. "M" line rebuild expenses, along with a holiday, will hurt November results. Continued emphasis is being placed on all other facilities to help offset these high costs by performing at peak efficiencies.

FAIRBURN
October was a difficult month. The decision late August to hold the ratios of our labor force, that is male-female, whites and blacks, proved to be a back breaker. Turnover continued at high level with two machine activity and the plant just plain ran out of applicants that met the criteria. As a result, they found themselves running lanes to blowing wool because they couldn't man the baggers. In addition, the people they had were inexperienced and poorly trained. This is a bad combination, to say the least. They started experiencing field problems with poor packaging, count, order quantities, etc. They temporarily abandoned hiring criteria and have hired enough people and are in daily training. They have put on auditors to assist in count and visual appearance correction. Also have added an hourly trainer per shift whose sole job is to work with the bagger crews in proper technique, selection, etc. These people are being directed by a salaried person whose job is training. Salaried assistance was received from sister plants. We're confident they're o.k. now. It will take a month or so before the field is sure. With all of this, gross margin for October was 33.4%.

The machines overall ran well in October. FG-2 incinerator was repaired on a 2 day downtime and is satisfactory. It has successfully fired oil as alternate fuel.

The 3 day 12 hour workday three-month trial was started October 2. We see absentee, accident and turnover - trending down though still at high level. Our feel is that the majority o rk force like it and will want to continue on it.

The union-no union election is s .ed for November 28 and 29. There has not been the intense pressure we had last year. The three unions involved, the GBBA, Teamsters and Trade Council of Northern Georgia have all had at least one meeting at the local VFW. There has been little handbilling.

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BERLIN

The full month of October was spent maximizing profit on final days of K-10 production and planning detail of asbestos free conversion on November 13. Press performance hit a record high in October of 106.8%. We returned to a 7-day reduced activity schedule to allow increased demand from the cylinders caused by the conversion to longer asbestos free cycles.

Considerable time is being spent to minimize K-10 left in Berlin after 2-1-73, the date we start to bill AF at AF prices.

Construction started on Phase I of environmental control program and contractors have committed to December 4, 1972 startup. Critical plans will be submitted by contractor by November 6, 1972. Phase I cost is now estimated at about $242,000 compared to original 901 at $116,000.

New production statistics system was debugged on live data in October and will be on stream during the entire month of November. Work was started to replace current planning systems with new composite planning and scheduling tools. This system will be developed along with the completion of the production statistics.

QUALITY

After experiencing three months of downward trends in quality complaints and adjustments during the third quarter, the month of October resulted in a sharp increase in complaints and particularly adjustments which has completely reversed our previous trend toward improvement. October adjustments for the Construction Materials Plants amounted to $31,823 or .098% of sales which is considerably over the monthly objective of .062% of sales. Year-to-date adjustments are .067% of sales. Quality adjustments for one piece tub and showers amounted to $1,733. Vendors were backcharged $157, bringing the net quality cost to $1,576 for October. Complaints on Bath Systems 4 in addition to the green stain problem on back walls is on the increase.

INDUSTRIAL ENGINEERING

Construction Group Manufacturing labor control for October resulted in good performance in labor reductions, direct hourly crew manning, salary levels and value added per man per labor dollar. Premium overtime trends were up at most plants, especially Kansas City as well as period hourly and maintenance.

The high compression rollup unit on D-5 machine continues to demonstrate mechanical success. Plans are being formulated to run more extensive product recovery trials. The Barrington robot building batt loader 901 is in the flow. A ceiling panel film packaging unit is on order for Newark. Engineering requests are in Toledo for film packaging and automatic film cutting requirements for the other producing plants. A filter poly packaging program has been launched and equipment is available in the marketplace. P-333 vacuum packaging is also commencing market testing.

CAPITAL

Year-to-date capital and reserve project expenditures through October approximate $22,500M. The total 1972 expenditure level is presently forecasted at $28,000M or $3,000M below the revised Group parameter of $31,000M.

CAPITAL (Cont'd)
With approval in October of such major projects as "V" Conversion to AF Electric Melt and #92 Aerocor Conversion to Electric Melt, our Group's 1973 approved expenditures are approaching $30,000M. We currently have 901's in the approval flow which total approximately $1,600M with most of these funds to be spent in 1973. Each plant/area must assess the timing of new programs in conjunction with their business plans as we presently are headed toward an over expenditure of our $35,000M 1973 parameter.

MAJOR PROJECT STATUS (as issued by P. Klein)

V-2 Expansion - Waxahachie General Contractor Award Made
Final contracts awarded for the fabrication of oven incinerator to Bigelow-Liptac and design and supply of all materials in the expanded batch facility to TECO. Total construction package for civil, structural, mechanical and electrical for the duration of the construction phase from November 6 through June 1, 1973 was awarded to Brown and Root of Houston, Texas. Due to the decision to negotiate construction contract with Brown and Root, individual construction packages will no longer be assembled and issued through Purchasing for bidding. This process will be replaced with issuing drawings to Brown and Root and developing a target price by December 15. Construction will be started November 6 with Brown and Root moving on site with their field offices and their surveying layout group.

"M" Line - Santa Clara Electric Furnace Down for 2nd Rebuild
"M" Rebuild remained on schedule despite having front wall fall in during drain. The rebuild was 14 days. The previous downtime took approximately 3 days longer. We experienced forehearth firing problems during the first three days after startup which were related to a design improvement.

J-5 and J-6 Kansas City Electric Melt Furnace Conversion Costs Revised
Design changes include a melter trench, enlarged conditioning chamber and batch spreader which are being incorporated as corrective measures to overcome the "T" problems experienced. Selection of Robicon as electrical firing system vendor was made in writing. An additional $373M in costs is resulting from corrective furnace design changes and additional electrode cable runs between transformer room and electrodes. Numerous problems regarding furnace interferences with building, utilities and forming process areas have been and are being resolved as they are detected.

FG-2 Oven Exhaust Incinerator Problems Corrected in October
A four-day machine downtime October 5-8, permitted the incinerator firing change to combustion air on the Vorhees burners. Proper operation of this incinerator then permitted engineering effor ncentrate on improving forming section liquid carryover and high smok on the cooling section. Final contractor cleanup of miscellaneous work w one by November 30.

Molded Tile Facility at Newark Requires Continued Major Effort
Use of J-cloth on the molded tile surface has caused flashing/scrape separation problems and knock out devices and deburring equipment are not operable. Redesign is necessary in these areas although four molding presses are operating satisfactorily. Product appears good but prototyping of above problem operations are underway.