



## ***Industrial Fiberglass Specialties, Inc.***

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## ***Our Terms & The Cost of Capital***

01-17-2000

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When we quote corrosion resistant FRP composite equipment - we try to present the customer with their most economical and cost effective proposal. Thus, when we quote based on order progress payments and/or our standard net 10 day payment terms, we literally discount the costs to our customer - and consciously make the decision to take a lower than normal margin. The costs we use for pricing are based upon the cash flow that will be generated from the specific payment terms that we have included in our quotation.

Our standard terms of payment have nothing to do with the character of the customer, or their credit worthiness. These are the same general terms of payment that we extend to all customers. If you will look at our partial customer list, you will note that we do not work with very many companies that could be considered "credit risks".

When we prepare the costs for any quotation, we try to ensure (at least hopefully) that we have covered all of our costs - which can include: Materials; engineering and design; labor, heat, light and power; supplies; commissions, and the cost of money. Working capital (money) is one of the resources that it takes to run a business. Through the use of progress payments, and prompt payment terms, we can lower this one cost of doing business. These savings are passed on to the customer at the time of our quotation.

When, after the fact, the customer wants to change the "rules of the game" under which we quoted - getting extended terms (or different terms from our proposal) - then our costs for that order obviously go up. We have already discounted the pricing at the time of the quotation for prompt payment terms (to include, where appropriate, progress payments). For extended payment terms, our cost of doing business increases and there is an obvious and immediate impact on our "bottom line". Since we are not trying to maintain ridiculously high margins to begin with - these additional costs for the money resources comes right out of the profit sharing for all of our employees; and from the money we reinvest for growth; and for adding new people and capabilities.

One analogy for this cost item of capital is the same as if we quoted a piping project with a standard polyester resin. And, then at the time of the purchase order the customer says "Oh, by the way, we are ready to give you a purchase order; and we want you to include, at the same quoted price, a premium grade epoxy resin." Again, labor, materials, and capital are all resources used in producing FRP corrosion resistant equipment.

Without being argumentative, if the customer has special progress payment terms, or wants extended payment terms - the proper time to bring this up would be at the time of the initial quote. The customer could say at the time of order placement, "Please requote on the basis of the following terms." We will then be most happy to requote on the basis of customer specified payment terms, including the appropriate capital cost.



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In these quotes (or requotes), we will include the additional costs for the money resources involved. The customer can then make their decision as to which of the two costing alternates they would like to use - for placing the order.

We have used this approach of quoting alternate pricing for payment terms on several occasions. On one recent order, we quoted costs on the basis of our standard Net 10 day terms, and again on the basis of special Net 45 days terms that the customer had requested. (This company's corporate headquarters was always slow to pay.) The customer's purchasing department, rather than arguing with their corporate accounting department, simply elected to place the order on the basis of the 45 day terms, at a slightly higher cost - and everybody was "happy".

Again, our payment terms have been well thought out, and represents a reasonable and equitable approach to all parties - as part of our "partnering" with our customers. We have already shared the cost savings with our standard payment terms with our partners.