

INTERIM STATUS REPORT WEST BUILDING PRODUCTION LINE

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HISTORY

As Barrier Technology continued to achieve double digit growth year after year, it was decided that the current manufacturing plant in Watkins, MN needed to be expanded. The current capacity of 25,920 sq. ft. per day would not meet the expected growth in demand over the next several years. We began planning the development of a more automated facility in 2004. Initially, the concept was to extend the existing, manual production line; however, the additional capacity needed was unable to be achieved using that process. We needed to increase the overall throughput of the manufacturing process. A higher volume, faster line was selected as the best means to provide: lower costs of production through reduced waste and improved efficiency; improved quality through enhanced uniformity; and, required gains in capacity to meet the expected demand for at least the next 5 years.

The first phase of bringing our new, highly automated line to fruition was to add space to our existing facility. We added a 20' high, 150'x 100' addition. The building addition was begun October, 2004 and finished March, 2005.

The second phase of the new line development involved procuring and installing equipment to de-stack units of raw sheathing, prepare individual boards for treatment, and then, to apply Pyrotite™. This phase began in December 2004 and continued through August 2005.

After Phase II, we made limited runs of Blazeguard panels for purposes of filling existing orders. These initial runs began in March, 2006. Phase III began and we gained the additional capacity for Blazeguard that current demand required, making approximately 850 boards per run. However, flaws in the equipment design were identified that led the system to have less capacity than the original specification point. Correction of these equipment flaws began in April and this final phase is estimated to be completed and tested by the end of December 2007.

The capacity on the new automated manufacturing line after completion of Phase III is projected to be 67,200 sq.ft. per shift. For two shifts a day, this would be 134,400 sq. ft./day potential. This is an increase of 500% in potential production capacity; with a two shift capacity we could potentially now produce 40,240,320 sq. ft. annually.

SUMMARY

- Line completion projected to be 2QF08.
- Blazeguard production continues to increase on the new line.
- Potential final production capacity increase over 500%.
- Potential total plant capacity at line completion of 40M sq. ft./year.
- Labor and waste costs reduced.
- Capital cost estimated to be \$2.9M.
- Highest quality boards ever produced.
- Product shows improved performance characteristics: cosmetic, strength and fire.
- Patents and trade secrets provide additional value to Barrier shareholders.
- Two models of plant for potential franchisees: a lower cost, manual labor intensive version for those with inexpensive labor costs; and a more highly automated system which can produce higher capacity, slightly higher quality, with less labor.

COST SUMMARY: NEW FACILITY/WEST BUILDING TO DATE

Capital : Building	\$ 454,866
Capital: Equipment (to date)	\$ 2,214,854
Total:	\$ 2,669,720

Note: Additional Estimated Expenses to Complete: \$255,000

COST SUMMARY; PREVIOUS FACILITY/EAST BUILDING

Capital: Building + office	\$ 805,000
Capital: RR siding	\$ 94,000
Capital: Equipment	\$ 329,000
Total:	\$ 1,228,000

FISCAL YTD ORDER AND PRODUCTION SUMMARY

Last four quarters of production F07 (000 sq. ft.)

	TOTAL ORDER	Order Percentages		TOTAL PRODN	Production Percentages		
		BG	CM		BG		CM
					E. bldg(old)	W. bldg(new)	
Q1	2691.8	55.6	44.4	2523.1	35	23.5	41.5
Q2	2251.8	58.9	41.1	2401.1	21.2	27.54	51.2
Q3	1642.8	19.9	80.1	1942	1.8	15.4	82.8
Q4 to date	1527.4	10.4	89.6	1618	3.9	8.6	87.5

BG= Blazeguard; CM=Commercial Modular

Automated Manufacturing Facility

