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Dear Customer,

This letter will discuss the year's sales to date, our current focus at Clark Foam, an explanation of our media relations' policy, some environmental issues relating to surfboards, and a brief overview of the economic conditions influencing the surfboard market. In the last part I will briefly discuss imported surfboards.

To date this year has been a classic case of caution on the part of the majority of our customers. It appears that almost everyone is building boards just as they get orders. Our sales appeared, for the most part, to be biggest during the periods when surfboards normally sell well. We have seen this happen before but it was a long time ago.

At Clark Foam I would note that we have joined the majority of our customers and have leaned out our organization. We are running very efficiently at this time. We are, however, maintaining fairly high inventories to insure good service.

For this year the main goal at Clark Foam has been to focus hard on all of our relatively new systems for predicting demand and improving service. This is a very difficult problem due to the variety of blanks, densities, stringers, and rockers we offer. With the current state of the surfboard manufacturing industry we believe that we need to get the right blank in the hands of our customers as quickly as possible.

As a part of this program we continued to focus on helping individual customers using tools such as the "mark" system, customer statistics, and custom solutions for specific customer needs. These systems are normally based on our powerful computer's database and offer our customers sophisticated inventory and ordering controls without the cost of maintaining their own computer and database.

The majority of our customers are unaware of the systems we are using and only notice better availability and shorter delivery times.

Our systems seem to be working and under the current state of the surfboard market I believe our goal is the correct one for these times.

Early this year we completed our new stainless steel tank farm and resin manufacturing equipment. This was a two-year project. The custom software for the computer that weighs the additives for our resins is debugged and working very well. This system is faster and far more accurate than conventional methods. There is very little room for operator error. The main goals of this equipment were to make our factory better looking to get the government off our back and, most important, better quality control. An unexpected benefit was significant labor savings.

For decades Clark Foam has avoided surf media and other media coverage. Our policy is having some negative fallout so I believe that we owe our customers an explanation.

To cite one example, recently Surfer Magazine printed a picture of me giving the double finger to one of their photographers. In their article I was lined up with a bunch of clothing executives and some surfers I respect very much. Some of the facts cited about me in the article were wrong. While some of the opinions of the author were amusing and the double finger clearly gave me more publicity than others in the article, I must be missing something. I have absolutely no idea what clothes have to do with paddling for, catching, and riding a wave. Clothes and accessory manufacturers do totally support the magazines, help surfboard sales, sponsor a handful of great surfers and surf contests, and help make the water very, very crowded with beginners.

Just so you will understand what we are doing our media policy is based on the following:

1. The majority of what we know about contemporary surfboard design and construction we have learned from our customers, shapers, glassers, and others supplying or working in the industry. We gain a lot of this information by being allowed access to factories or are told the information. In some cases information is given to us in confidence or confidence is implied. While we certainly use some of this information to improve our product and service to all of our customers we still consider this information to be owned by others and make every effort to keep it confidential. Frequently this is information the media wants. Supplying this information to the media can violate the trust we have tried to build with our customers. I personally feel we have already taken or even stolen way too much from our customers to improve our product and service. I do not want to go any further.
2. We have the ability to analyze our sales and do other studies to determine why some manufacturers are more successful in sales and even in profits. We can even spot some trends. It is again a violation of confidentiality if we divulge any of this to the media or for that matter to any third party.
3. We offer seven densities or weights of blanks, have up to seventy-five different molds, and glue an incredible number of stringer types and rockers. Factors like overshaping, choosing the wrong density, and the entire glassing process have a dramatic effect on the final weight, strength, and strength to weight ratio of a surfboard. While the first successful polyurethane core was developed in 1958 over the years polyurethane blanks have been consistently improved by the world's leading blank manufacturers. To make for easy reading, sensationalism, and to cover up their lack of knowledge the media breaks this entire process and evolution into simple terms like polyurethane, polyester, epoxy, Styrofoam, and "the new Brand X". They also throw in catch phrases like "composite",

“sandwich”, “toxic”, “recycle”, “lighter”, “floats better”, and “stronger”. Some of the board weights they quote make you wonder if they ever passed high school math. Years ago we tried to work with representatives of the media to address some of these issues but it was a hopeless task. They really need simple, sensational answers and automatically try to promote controversy to attract readers and advertising.

4. Certain aspects of Clark Foam we do not discuss with anyone for competitive reasons.

For over a decade the surf media and promoters of alternate surfboard construction technologies have made claims regarding environmental and worker safety issues as a direct attack on our customers and us. Some of these attacks have been by sincere environmentalists. Sadly, some have been by self-promoters with a pure profit motive. Since you might be quizzed on these issues, below is a short list of answers that might be helpful:

1. Historically each time there has been an improvement in board strength due to improvements in foam, fiberglass, resins, and fabrication technique there has almost immediately been a drop in the weight of the surfboard that offsets the gain in strength. Put another way if we get stronger materials boards will not get stronger - they will get lighter. This will always be a rule and the reasons are obvious. Never expect a more durable surfboard but instead expect a lighter surfboard with the same durability as your older boards. (There have been apparent exceptions to the above rule with “pop outs” and other technologies. To date, however, all of these methods of construction have had structural flaws that appeared with time. Therefore they can be discounted.)
2. Using the same raw materials or raw material types there is a huge difference in strength to weight ratio between boards. (I cannot go into this very far without angering some very valued customers but everyone knows about these practices and we are all going to pay in the long run!)
3. The worker safety issues for all types of surfboard construction are well known and well documented. All the legal methods for using conventional materials are available from Clark Foam or from OSHA Consulting. They are enforced in the United States. The toxic chemical in our foam, toluene-di-isocyanate, has a billion pound production capacity in the United States alone. It is very safe if properly handled. Polyesters and fiberglass are also toxic. When thinking of them think of boats, shower stalls, tanks of all sizes, large truck bodies, and Jacuzzis. The bottom line is that surfboards are a tiny, tiny fraction of these materials used around the world.
4. Within the United States there are some surfboard manufacturers who do not follow the rules for both worker safety and fire safety. Most do! We know the surfboard blanks and finished boards that are imported into the United States come from countries with little or no enforced rules or controls. It is rumored that some of these factories are horror stories. Unfortunately many individuals who bitch about domestic safety and environmental issues could care less about these matters if they are done overseas. Others who promote resins that do not use styrene and acetone conveniently ignore a completely different set of health hazards imposed by these materials.

5. The issue of “recyclable foam” and “recycling” other surfboard materials pops up from time to time. It is pretty tough for any manufactured product to stand up to the type criticism that has frequently been directed at our industry. For what it is worth at Clark Foam we currently do the following:
 - a. All of our used paper and paper mold release is recycled into paper or used for packaging.
 - b. All of our wood scrap, including sawdust, is made into mulch and other wood by products.
 - c. The small foam balls from the bucket used to pour the blank are cut up for commercial flower arrangements.
 - d. The remaining weekly scrap accumulation from our factory fits in several small commercial trash bins that are trucked to a local landfill.
 - e. We have a very close tolerance line of blanks that save a lot of raw material and make more durable boards when properly shaped. (Many shapers, and especially shaping machines, do not take advantage of this feature as it requires careful ordering, good inventory control, and more set up time when using shaping machines.)

Surfing seems to be receiving publicity on a level beyond our wildest imagination. *Blue Crush*, a true surfing movie, just climbed to the box office rating levels of Bruce Brown’s 1965 *The Endless Summer*. With their new, giant corporate owners surfing magazines have moved to newsstands all over the country. Satellite and even some cable networks show weekly surfing all over the Northern Hemisphere.

The down side is that in warm water areas near large population centers the better surf spots are very, very crowded. There are also an awful lot of used surfboards in the pipeline. Both of the above factors could slow new surfboard sales.

An even bigger down side is the fact that the publicity is attracting the attention of some big importers and retailers. They want a piece of the action.

On the economic front we are entering an increasingly complex period.

The general economy has not rebounded as expected. We are also in a war. There are many indications that the economy, especially manufacturing, will not rebound rapidly. Put very simply we are in an extended recession and that affects surfboard sales.

We frequently ask our large chemical company suppliers for economic information. They have told us two things of significance: First our purchases are ahead of the majority of their domestic customers. Second it appears the dumping of chemicals at very low prices in Asia and Australia has slowed. They were losing money so finally slowed production and quit dumping. Both of these factors are good news.

Last, and most important, the value of the dollar has decreased slightly. As manufacturers this is what we need. The high dollar kills exports and encourages imports. This issue is just starting to enter the main economic news and quite possibly could be a major cause of the current recession. The National Association of Manufacturers believes the dollar is thirty to thirty-five percent over-valued. Unfortunately consumers love the low prices of imports and so do the firms who have made a killing moving their production overseas. An example is the surf clothes industry that has moved the majority of their production overseas and is even licensing surfboards that are made in Asia.

Some very respected business leaders in the United States have noted that eventually our government is going to have to address this problem.

Meanwhile imported surfboards have created a wide range of reactions from our customers, retailers, and others in our industry. There are probably still some big surprises in store for us. At Clark Foam we hear an awful lot of different viewpoints and have a rough idea of who is trying to take advantage of the situation. Some of the numbers, theories, and rumors that are floating around are pretty wild.

just this - but from a different point of view.

A few years ago I read a warning to college basketball players that only one out of every six thousand five hundred of them would make it to the NBA. This means that you might be a big star at your local college but when you went to the NBA tryouts you might run head on into young players named Michael Jordan and Shaq O'Neal.

Around the world there are a lot of great shapers and board builders. Many are big local stars and have a loyal following. A few have greater spheres of influence. When we take a long-range view of this import situation it is kind of like the NBA tryouts. Only a few are going to make it! Unfortunately instead of names like Michael and Shaq the top two tryouts will probably be named Wal Mart and Costco. Following them will most likely be some big retailers and advertised brand names. The advertised brand names will probably have some surfing identity but they could be brands with no surfing identity trying to gain identity with surfing. Some may even be big name board builders but it is more likely that they will be big name surfers. A pretty tough, crowded tryout! Only a very few are going to make it!

We kind of need to take a big breath and figure out where we stand. I will take a shot at doing

What about the shaper? I do not want to be too harsh but ever since I have been around surfboards shapers have been copying each other and true, single shaper innovations have been pretty rare. The bottom line is that standard shapes for imported boards are free. You just have to be smart enough to copy the right shape.

A good example of this was demonstrated at a Costco near our factory. This summer their "fun boards" sold out super fast and their "short boards" were much slower moving. Their huge computers picked this up in a heart beat and they will not make the same mistake next year. The year after they will do an even better job. Right now shapers or surfers may be making the

decisions but when dealing with large retailers, powerful computers will make the decisions. (On the bright side their computers will dump surfboards if they do not sell. During the sailboard boom Costco carried sailboards. They no longer do this.)

Who is going to run or advise these third world factories? Are there job openings?

Not for shapers! Check their wholesale board prices.

I believe it was about twenty years ago that I heard rumors of Australians helping to set up and train surfboard factories in the southern coastal regions of Mainland China. Through various methods we found out the Australian blank manufacturers that export were supplying the Asian factories. For a while the Chinese board builders even advertised Silmar resin and Hexcel cloth. Recent rumors have the Australian blank manufacturers helping set up blank manufacturing plants in Asia. In sum these jobs were taken long ago. These factories now know what they are doing. Australians got the work. The majority of the work is finished.

I have no information on shaping machines but surfing's ".com" would be there in a flash if invited. They are not that busy and the competition is fierce. They are another source of shapes and have been selling generic shaped blanks overseas for years. Some of these shapes look very familiar. This might be a job opening?

What about the "pop outs" coming out of Slovakia and Thailand? Their technology was worked out some time ago for sailboards. For what it is worth there is a 1997 video produced in Canada that lays out the fundamental raw materials to use and fabrication technique. The technology was developed in North America and Europe then transferred to the third world to take advantage of lower costs. These factories are still getting limited technical assistance but it is my guess that they are now the experts. They probably do not want your help but do want your orders. They will build you anything you want if you have the cash and meet their minimum order requirements. Their stuff would look great in a Wal Mart. Buying direct by the container it is pretty cheap.

The Cobra factory in Thailand custom builds almost all of the world's light weight sail board brands and could probably quickly ramp up to supply all of the world's surfboards. They are huge and very checked out. Besides "pop outs" they also make polyester/urethane boards, soft boards, and are a major supplier of surfboard fins and fin systems in the United States. They do not need any help. If you are thinking of applying for a job remember they pay about \$3.00 per day plus a free lunch.

The bottom line is that there are very few legitimate job openings for us in the surfboard import business. The jobs that were there are taken. If the imports are successful a lot of board builders will be changing careers.

To date, considering everything, the domestic surfboard industry is very healthy.

While some retail specialty surf shops push "pop outs" and Asian boards a lot of them are sticking with their traditional suppliers. (Surf shops are clearly in a bad spot for the big discount retailers are going to kill them with lower prices for the imports.)

Below are some of the positive sides of the custom surfboard industry.

Surfing is not a fad but is a well established, healthy sport with a large customer base of experienced and dedicated surfers. These surfers come in all ages, have all types of experiences, and ride all types of waves. There are also a number of different surfing styles. You cannot cover this with a few dozen molds or some stock designs. Believe me we know this only too well at Clark Foam!

The vast majority of experienced surfers have a fairly direct relationship with a custom board builder or a local specialty retail surf shop. The best surfers usually have a direct relationship with one or more shapers or board manufacturers.

Experienced surfers normally pay a lot of attention to their board purchases. The majority of experienced surfers have developed tastes for their equipment. They have rarely purchased boards based on advertisement or promotions but instead seem to rely on their own judgment, peers, "gurus" including shapers, or good surfers. The good surfers that influence their purchases are often surfing side by side with them.

Beginners and what we used to call "kooks" or off the beaten path surfers have always been a wild card. The worst is grandma buying grandson a board as a surprise.

There are a lot more good things on our side but this letter is already too long. I hope this letter has been both informative and thought provoking.

Thank you for your business,

Gordon Clark