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ANNUAL REPORT 1954

SOUTHERN PINE LUMBER COMPANY

DIBOLL, TEXAS

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Southern Pine Lumber Company

MANUFACTURERS

YELLOW PINE — ANNUAL CAPACITY OF OUR OWN MILLS 100,000,000 FEET — HARDWOODS

ARTHUR TEMPLE, JR.
PRESIDENT AND GENERAL MANAGER

Diboll, Texas

March 7, 1955

TO OUR STOCKHOLDERS:

For Southern Pine Lumber Company 1954 was a reassuring year.

In spite of 10% decline in our selling price for pine lumber and a 20% decline on hardwood, our net earnings after taxes increased 17%.

All previous employee benefits were maintained during the year and an employees' retirement plan was introduced under which Southern Pine contributes three dollars to the employee's one.

Increase in oil rentals and dividends from affiliated companies totalled approximately $126,000.

PRODUCTION

LOGGING:

Logging operations by Company crews have been reduced to approximately one-third of the total. Two-thirds is by contract. Substantial savings have resulted.

A significant achievement during 1954 was the completion of 15.9 additional miles of fully drained all-weather roads and bridges to make a total under our current program of 89.2 miles. All bridge materials and concrete culverts are Company produced.

SOUTHERN PINE SERVICE ASSOCIATION

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MANUFACTURING:

Pine production was up over 11%. Shipments were up almost 13%.

Hardwood production was up 5%. Shipments were down almost 21%, reflecting the accumulation of flooring oak on the yard in anticipation of a further increase in flooring production in 1955.

Hardwood flooring production increased 83%. Shipments increased 77%.

At the treating plant cubic feet treated decreased 7%. It is significant that improved handling methods and other factors made possible better than 150% increase in net realization in this department in spite of reduced cubic volume.

As plant improvements previously programmed are completed and the rewards predicted in projection are realized, new phases of improvement have been undertaken.

During 1954 a debarker and chipper were added, making it possible to market waste previously usable only as fuel. This improvement will give us a realization of approximately $400 per day.

The new Gantry crane will make possible more efficient log unloading and underwater log storage.

The replacement and modernization of flooring and planer equipment has continued.

A small plant was built and the manufacture of industrial pallets was inaugurated during 1954. As the year ended, it appeared that this market for grades of oak between dunnage and flooring promised hope for a profitable operation in the years ahead. Small orders have given a feel of the market and afforded manufacturing experience necessary in a new undertaking. A loss of $4,555 absorbed beginning expense and overhead heavily weighted with allowable depreciation at a time when volume was necessarily small.

Other significant plant changes and additions were commenced during 1954.

1. A completely radical manner of handling and drying hardwood automatically.

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2. A vertical resaw on the green chain to control the quality of dimension produced.

3. A new dressed shed of radical concept and design with theorectical storage for 6-1/2 million feet of finished lumber. This shed is designed around a side-lifting fork truck which makes possible the efficient use of space for the storage of small packages of lumber.

4. A new planer located to follow the master flow pattern conceived under original plant transformation plans and designed to be served by existing material handling devices.

5. New facilities at the treating plant were commenced to provide storage for 200,000' of treated lumber and 120,000 fence posts.

UNDER STUDY:

A green surfacer conceived to:

Improve quality in drying.

Provide accurate inventory grades in the rough shed.

New shipping facilities.

MARKETING

When we entered 1954 the lumber market had already entered a lull.

Plans for aggressive marketing to supplement our basic pattern had been forming since the war years. Their value proved itself during this period and continue to be reflected in our results.

It is notable that during a period of an industry-wide price decline of approximately 15%, our prices held within 10% of their high and our sales continued to take our production handily. The return of a strong market in the second half found our stocks low so that we moved into a critically oversold condition and had approximately 220 unfilled pine orders by the end of the year.

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ADMINISTRATIVE

OFFICE:

Changes in statement form during the year have provided a clearer breakdown of operating results and have made possible tightening of control of departments and a sounder basis for evaluation of results.

Automatic IBM accounting machines were introduced. Drastic savings of expense were thereby effected in the payroll and other accounting departments. At the same time more complete, more accurate data is computed, recorded and made instantly available.

A multilith printing system projected at the end of 1954 promises to further reduce the cost of office supplies and to afford unlimited opportunities for direct mail merchandising, personnel literature, etc. The report you are reading was reproduced on this system.

DWELLINGS:

Each Company house was accurately platted and appraised. Insurance was thoroughly revised to provide realistic coverage.

Continued sale of Company houses made possible the reduction of the maintenance crew to five men and a foreman.

One new residential subdivision was laid out. A new furniture store and used car lot came to the business section. The merchants' year, reflected in percentage rentals, are exceeding expectations.

A modern sanitary sewer system was completed and put, with the water system, under separate departmental administration. Meters were installed and billings commenced in order to segregate water service from rentals and sales of houses.

PERSONNEL DEPARTMENT:

Job evaluation and merit rating were professionally projected and installed during 1954.

Under the system two-thirds of our personnel earned increases in pay while total labor costs actually declined.

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Southern Pine's safety program resulted in its safest year in history. Eleven lost-time accidents were suffered, only two of serious nature. Incurred losses were approximately one-half the previous low.

FINANCIAL:

During the year $780,917 was spent for new construction. $138,326 was spent for timber.

Bonuses, pensions and dividends accounted for $395,521.

$20,000 was invested in Lumbermen's Investment Corporation, established in part under Southern Pine leadership for the purpose of affording sound financing for small town construction in Texas.

During this period our cash increased by $134,814.

RESEARCH PROMISE:

Partly as a result of specific research we hope to be able to launch during the year ahead a promotional program for SPAR 53, the drying and treating process developed at Southern Pine in cooperation with Aurora Research Industries of Aurora, Illinois. Pending final findings from Bell Telephone Laboratories in Murray Hill, New Jersey, and final perfection of controls, it would be unwise to give way to any undue optimism. However, it is hoped that this revolutionary method for drying and treating lumber in one process by a solvent method has given us a completely clean, permanently preserved wood which will be equally suitable for finish work or for exposure and ground contact.

We share substantially in the rights of this process.

We look forward to 1955 as a year of great opportunity.

Yours truly,

Arthur Temple, Jr.
President

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BALANCE SHEET
December 31, 1954

ASSETS

CURRENT ASSETS:		
Cash		709,296.96
U. S. Govt. Obligations (includes accrued interest)		201,875.00
Accounts and Notes Receivable (less reserve for freight, wholesale allowances, etc. of $17,417.14)		638,688.69
Inventories (at lower of cost or market value)		942,760.02
Prepaid Expenses: Unexpired insurance premiums, meter deposits, etc.		93,102.77
Total Current Assets		2,585,723.44
Investments (Stocks and Bonds)		472,681.49
Miscellaneous Accounts and Notes Receivable		28,303.66
Timber Holdings, less depletion		1,361,854.60
Deposits on Timber Purchases		13,474.90
Land		467,283.34
Construction in Progress		229,024.18
Plant and Equipment	5,766,654.85	
Less: Reserve for Depreciation	2,844,418.71	2,922,236.14
Other Assets		38,571.08
TOTAL ASSETS		8,119,152.83

LIABILITIES

CURRENT LIABILITIES:		
Notes Payable		11,250.00
Accounts Payable		53,676.43
Accrued Payroll and Expenses		61,686.39
Provision for Federal Income Taxes		180,000.00
Total Current Liabilities		306,612.82
CAPITAL STOCK AND SURPLUS:		
Common Stock (authorized 33,000 shares, par value $100 per share-outstanding 12-31-54 32,963 shares)		3,296,300.00
Earned Surplus:-		
Balance 12-31-53	4,510,965.67	
Net Income before taxes	554,729.05	
Fed. Income Tax	180,000.00	
Net Income	374,729.05	
Dividends paid	296,667.00	
Carried to Surplus	78,062.05	
Surplus and Reserve adj. (net dr.)	72,787.71	5,274.34
Balance 12-31-54	4,516,240.01	4,516,240.01
Total Stock and Surplus		7,812,540.01
TOTAL		8,119,152.83

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STATEMENT OF PROFIT AND LOSS
FOR YEAR ENDING DECEMBER 31, 1954

Gross Sales		4,417,729.58
Cost of Goods Sold	2,996,429.92	
Depletion	359,262.88	
Depreciation on Mill Properties	343,106.74	3,698,799.54
Gross Profit from Operations		718,930.04
Profit from Sales of Poles, Piling, Pulpwood, Timber, Capital Assets, etc.		131,559.12
Gross Profit		850,489.16
OTHER INCOME:		
Land Rentals	7,540.87	
Dividends Received	145,852.00	
Interest Income	13,184.31	
Oil Leases & Delay Rentals	139,578.28	
Miscellaneous	25,020.24	331,175.70
TOTAL INCOME		1,181,664.86
EXPENSES:		
General and Administrative	373,118.22	
Taxes, including Social Security	127,543.25	
Donations	24,308.21	
Pension	60,500.00	
Rental Loss	18,613.64	
Other Expense	22,852.49	626,935.81
		554,729.05
Less Estimated Income Tax		180,000.00
NET PROFIT		374,729.05

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