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SOUTHERN PINE LUMBER COMPANY

DIBOLL, TEXAS

TEMPLE INDUSTRIES

December 31, 1956

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OFFICERS

W. Temple Webber	*Chairman of the Board*
Arthur Temple, Jr.	*President*
T. L. L. Temple, III	*Vice-President*
G. S. Smith	*Secretary-Treasurer*
W. Aubrey Canon	*Assistant Secretary-Treasurer*

DIRECTORS

Carrol Allen
Newman B. Gregory
Robert T. Keeler
Thomas T. Keeler
D. G. McNair
E. G. Prud'homme
H. J. Shands
G. S. Smith
Arthur Temple, Jr.
T. L. L. Temple, III
Clyde Thompson
W. Temple Webber

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TO OUR STOCKHOLDERS:

We are pleased to submit herewith a condensed balance sheet and income statement for the year ending December 31, 1956. Because of our merger with Temple Lumber Company, effective February 1, 1956, all figures include only eleven (11) months operation at Pineland and for the Retail Division.

Net earnings for the year after provision for Federal Income Taxes were $928,922.00, equal to $1.14 per share. Expenditures for improvements and additions to buildings, machinery and equipment were $1,974,748.02, and for land and timber $230,522.58, exclusive of the International Paper Company purchase.

As a result of the merger and basic changes in our operations, we were confronted with many problems and it was only due to the hard work and cooperation of our employees that we were able to realize a profit that was slightly greater than that of the two companies during 1955. On September 10, 1956, Pineland was converted to an all hardwood operation and Diboll started cutting pine only. A new hardwood flooring plant has been installed at Pineland, is now operating, and henceforth all our flooring will be made at that plant. We will soon start construction of a new hardwood sawmill and power plant at Pineland.

Our general and administrative cost for the year was increased because of heavy expenditures for timber stand improvement, additions to our forestry department and the inclusion of the Pineland employees in our Pension Plan.

Construction of the Fiber Board Plant here at Diboll is progressing nicely, the most difficult phase having been completed. We can expect more noticeable progress in the future, and unless delayed by our suppliers, the plant should start operating on schedule.

Due to a shortage of mortgage money, housing starts declined last year about 16%. As a result, the demand for lumber was reduced during the last half of the year and prices were depressed, particularly in hardwood flooring which has declined an average of approximately $30.00 per thousand feet. Prices of pine have fared better, although our sales average is off several dollars per thousand. Our markets continue to be weak and we can only hope for an increase in demand which will stabilize prices. Otherwise, it will be difficult to maintain the rate of earnings we have enjoyed the past few years.

W. TEMPLE WEBBER,
Chairman of the Board

ARTHUR TEMPLE, JR.,
President

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CONDENSED BALANCE SHEET

Southern Pine Lumber Company

Diboll, Texas

December 31, 1956

ASSETS

CURRENT ASSETS:	
Cash in bank and on hand	$ 818,959.95
United States Government securities and accrued interest	200,625.00
Notes and accounts receivable, less provisions for bad accounts, etc.	2,999,242.57
Inventories	3,929,530.61
Prepaid expenses	484,664.58
Houses and real estate for sale	715,233.74
TOTAL CURRENT ASSETS	$ 9,148,256.45
Timber and timberland, exclusive of International Paper Company contract (Notes A, B and C)	4,008,426.04
Mills and equipment, less depreciation	6,926,589.94
Work under construction, including machinery deposits	868,661.17
Stocks, at cost	518,904.67
Other assets, including notes receivable due subsequent to 12-31-57 of $162,045.67	295,494.68
	$21,766,332.95

LIABILITIES

CURRENT LIABILITIES:		
Notes payable, due prior to 1-1-58		$ 1,818,558.57
Accounts payable and customers credit balance		484,413.65
Provision for income and other taxes and accrued expenses		622,188.05
TOTAL CURRENT LIABILITIES		$ 2,925,160.27
Notes payable, due subsequent to 12-31-58		6,853.49
TOTAL LIABILITIES		$ 2,932,013.76
Capital stock 850,000 shares of $10.00 par value common authorized	$ 8,500,000.00	
Less 31,935 shares unissued	319,350.00	8,180,650.00
Retained Earnings:		
Retained earnings (Note "D")	$10,133,779.69	
Net income for 1956, per statement of income	928,922.00	
	$11,062,701.69	
DEDUCT Dividends paid during year 1956— Total 50c per share	409,032.50	
	$10,653,669.19	10,653,669.19
		$21,766,332.95

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CONDENSED BALANCE SHEET

Southern Pine Lumber Company

Diboll, Texas

December 31, 1956

INCOME

LUMBER OPERATIONS — MANUFACTURING AND RETAIL:

Sales of products, wholesale and retail, less freight, discount and allowances		$15,769,390.18
Cost of Sales, stumpage, logging, milling and other costs		13,221,347.88
GROSS PROFIT FROM SALES:		$2,548,042.30

OTHER INCOME — NET

Oil and gas royalties and bonuses	$ 325,995.98	
Dividends income	101,777.00	
Interest income	29,465.31	
Rents, exclusive of depreciation, amounting to $85,414.49	45,699.94	
Profit from sale of houses, land, machinery and equipment and other income exclusive of depreciation amounting to $24,105.06	399,155.16	902,093.39
		$ 3,450,135.69

EXPENSES

Expenses other than taxes, including selling, general and administrative expenses and pension costs, exclusive of depreciation amounting to $47,684.29	$ 989,436.82	
Interest paid	53,374.56	
Depreciation	834,173.83	
Taxes, other than Federal Income	212,259.60	
Donations	61,968.88	
TOTAL	$2,151,213.69	2,151,213.69
NET PROFIT		$ 1,298,922.00
PROVISION FOR FEDERAL INCOME TAX		370,000.00
NET INCOME		$ 928,922.00

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NOTE: (A) Southern Pine Lumber Company entered into a timber cutting contract with International Paper Company on April 13, 1956, which is to run for a period of five (5) years, or until eighty million feet of timber has been cut, whichever event comes first. The lumber company has obligated itself to pay in full for eighty million feet Doyle log scale of pine timber at a price of $49.00 per thousand feet Doyle scale by the beginning of the fifth year of the contract and the paper company obligated itself to furnish and make this quantity of timber available to the lumber company during the term of the contract. Title to the timber is to remain in the hands of the paper company until severed and paid for and title to all timber not cut and removed by April 13, 1961 is to continue in the paper company.

NOTE (B) To secure performance of the contract dated 4-13-56 with International Paper Company, the lumber company has pledged approximately 14,000 acres of its lands in the Northern part of Nacogdoches County, Texas, and the Southern part of Rusk County, Texas.

NOTE (C) Through December 31, 1956, the lumber company has cut 13,802,953 feet Doyle log scale on its contract dated April 13, 1956, and has either paid or accrued on its records the amount due International Paper Company for this amount of stumpage.

NOTE (D) On February 1, 1956, Southern Pine Lumber Company merged with Temple Lumber Company, Pineland, Texas. In accordance with the merger agreement Southern Pine Lumber Company stock was reduced from $100.00 par to $10.00 par value. Also, 164,815 additional shares of new $10.00 par value stock was issued to the holders of Southern Pine Lumber Company stock in accordance with the terms of merger and this amount was deducted from total adjustments shown on the condensed balance sheet. The retained earnings shown are as of January 1, 1956, for Southern Pine Lumber Company and February 1, 1956, for Temple Lumber Company.

NOTE (E) On January 4, 1956, the company's entire holdings consisting of 32,963 shares of Temple Manufacturing Company's stock was "Spun-off" to the stockholders of Southern Pine Lumber Company in a tax deferred reorganization.

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