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SOUTHERN PINE LUMBER COMPANY

DIBOLL, TEXAS

TEMPLE INDUSTRIES

ANNUAL REPORT

December 31, 1957

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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	H. J. SHANDS
NEWMAN B. GREGORY	G. S. SMITH
ROBERT T. KEELER	ARTHUR TEMPLE, JR.
THOMAS T. KEELER	T. L. L. TEMPLE, III
D. G. McNAIR	CLYDE THOMPSON
E. G. PRUD'HOMME	W. TEMPLE WEBBER

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March 13, 1958

TO OUR STOCKHOLDERS:

Declining markets, brought about by a slow-down in housing starts, and an extremely competitive situation in the lumber business contributed to the reduction in operating profits for Southern Pine Lumber Company for the year 1957.

Lower sales volume projected against increasing operational costs reduced operating profits in the retail division severely. However, higher than normal profits from real estate, primarily in Houston developments, enabled this division to show net results approximately 75% of the previous year.

Since all of our products are dependent upon the housing market, we have been hit hard on a broad front by the decline in residential construction. However, our plants are running efficiently and at low cost and we do feel that most of our markets have "bottomed out" and will move to a more satisfactory level during the year.

Other than the factor mentioned above, probably the greatest single element in the reduction of earnings for 1957 was the purchase and consumption of $1,345,000 worth of outside timber. These purchases decreased our profit margin by almost $1,000,000, but in effect, returned to our own timber "bank" more than 20,000,000 feet of pine to add to our increase for future harvest. At the same time, we realized through efficiency and utilization a greater return per thousand feet of pine timber cut than at any time during our entire history. Realization is the ultimate measure of production efficiency.

Timber stand improvement in the Pineland area has reversed a prior trend on those lands and promises to place them on a par with our best stands. At the same time, more than five hundred miles of property lines have been surveyed to establish ownership and our legal department has been at work unremittingly perfecting doubtful titles. The high value of land and timber has made these new activities, even though they involve considerable expense, long overdue.

It has been the policy of management to depreciate as rapidly as possible any additions to our production facilities. In the year 1957 operations bore $899,291 depreciation.

One of the wettest fall and winter seasons in our history has adversely affected both logging costs and market conditions for our product.

Elsewhere in this statement you will find some rather interesting comparisons for the years 1955, 1956 and 1957. Hardwood and pine lumber suffered a $4.00 per thousand foot drop in selling price, while oak flooring markets reached a level $30.00 per thousand below the previous year's figure. It is interesting to note that the cost of almost every item we purchase, including labor, has increased substantially during the period covered by these comparisons.

A chaotic market in the toilet seat division forced your company to cease production for a period of three months, during which time the plant was completely re-organized in an effort to meet higher standards of quality and to improve its position costwise.

Although the seat plant figures are rather discouraging for the year, there is evidence that the effort put into this operation will be rewarding in the future. Today we have a very high quality product and current cost figures seem to justify qualified optimism for the future.

Capital expenditures for the year were the greatest in our history. The new insulation board plant is virtually complete and should be in production of primary product on a regular basis by April 1, barring unforeseen difficulties. Total cost of this plant has stayed within the budget of $3,250,000 authorized by the Board of Directors. Subsequent authorizations for

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fabricating equipment to produce a full and complete line of insulation board products in the amount of $500,000 will not be fully required. These facilities will be installed by September of the current year. Markets for insulation board products are considerably slower than at this time last year, but we confidently expect this plant to break into the profit column during the current year.

The new sawmill and power plant at Pineland should go on flow by April 1 at a total estimated cost of $1,600,000, almost all of which has been expended. These two badly needed replacements should effect considerable savings. Such savings will probably not be apparent immediately, but we do feel that the Pineland plant will then be a first class operation comparable to Diboll. Although both the power plant and sawmill were needed to replace worn out and physically exhausted facilities, advanced functional design incorporated therein will be our armament in the competitive conflict of the present and future.

Oil leases and delay rentals continue to be an important part of our revenue. The gloomy domestic oil picture will undoubtedly result in somewhat lower leasing activity until some remedy for the depressing effect of foreign imports on the oil industry is found. The Pure Oil Company during 1957 was successful in completing one deep test in Jasper County on lands under which we own one-half the minerals. Due to the depth of this producing sand, development is costly and will undoubtedly be deliberate. Our annual revenue from this producer is approximately $7,000.

The rehabilitation of the Pineland operation in the face of economic conditions in our industry at this time has been expensive and trying. A great deal of sacrifice on the part of all employees, officers and stockholders has been demanded. These sacrifices should prove rewarding in the future. 1958 will be another difficult year in all probability, but we do feel that it will be remembered as the beginning of a new and more profitable era in the history of our company as we more fully develop the potential of our basic asset—our forest. Vast sums have been diverted from operations in the last ten years to strengthen this important resource. Faith in the future of our company and its ultimate destiny has required the toilsome course of the past two years. From the standpoint of timber resources, production facilities, reputation in the market, and most important, our organization of men and women, we occupy a strong competitive position today.

W. TEMPLE WEBBER
Chairman of the Board

ARTHUR TEMPLE, JR.
President

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CONDENSED BALANCE SHEET

Southern Pine Lumber Company

Diboll, Texas

As Of

December 31, 1957

ASSETS

CURRENT ASSETS:	
Cash in bank and on hand	$ 1,053,230.16
United States Government securities	100,000.00
Notes and accounts receivable, less provisions for bad accounts, etc.	2,289,027.01
Inventories	4,039,646.05
Prepaid expenses	340,628.96
Houses and real estate for sale	854,447.44
TOTAL CURRENT ASSETS	$ 8,676,979.62
Timber and timberland, exclusive of timber cutting contracts which have not been paid (Notes A, B, C and D)	4,037,983.34
Mills and equipment, less depreciation	6,732,776.53
Work under construction, including machinery deposits	4,393,747.36
Stocks, at cost	520,104.67
Other assets, including notes receivable due subsequent to 12-31-58 of $302,674.82	497,085.30
	$24,858,676.82

LIABILITIES

CURRENT LIABILITIES:		
Notes payable		$ 4,720,700.00
Accounts payable and customers credit balance		558,485.94
Provision for income and other taxes and accrued expenses		404,474.88
TOTAL LIABILITIES		$ 5,683,660.82
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 to 12-31-56	$10,653,669.19	
Adjustment for 1956 Federal Income Taxes	32,621.59	
	$10,686,290.78	
Net income for 1957, per statement of income	308,075.22	
	$10,994,366.00	$10,994,366.00
		$24,858,676.82

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OPERATING STATEMENT

Southern Pine Lumber Company

Diboll, Texas

For Year Ended December 31, 1957

INCOME

OPERATIONS — MANUFACTURING AND RETAIL:

Sales of products, wholesale and retail, less freight, cash discounts and allowances		$15,485,905.96
Cost of Sales, stumpage, logging, milling and other costs including retail		13,610,371.04
GROSS PROFIT FROM SALES:		$ 1,875,534.92

OTHER INCOME — NET

Oil and gas royalties, bonuses and delay rentals	$ 192,789.78	
Dividends income	101,619.00	
Interest income	39,487.57	
Rents, exclusive of depreciation, amounting to $84,744.91	80,511.30	
Profit from sale of houses, land, machinery and equipment and other income exclusive of depreciation amounting to $25,525.35	509,458.76	$ 923,866.41
		$ 2,799,401.33

EXPENSES

Expenses other than taxes, including selling, general and administrative expenses and pension costs, exclusive of depreciation amounting to $37,816.36	$ 969,421.43	
Interest paid	122,830.87	
Depreciation	899,291.82	
Taxes, other than Federal income	346,963.56	
Donations	12,527.24	
TOTAL	$2,351,034.92	$2,351,034.92
NET PROFIT		$ 448,366.41
PROVISION FOR FEDERAL INCOME TAX		140,291.19
NET INCOME		$ 308,075.22

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NOTE: (A) Southern Pine Lumber Company entered into a timber cutting contract with a certain 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 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. To secure performance of this contract, the 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. Through December 31, 1957, the company has cut 35,964,008 feet Doyle scale on its contract dated April 13, 1956, and has either paid or accrued on its records the amount due the paper company for this amount of stumpage.

NOTE: (B) During 1956 Southern Pine entered into a timber cutting contract with another paper company agreeing to purchase a total of approximately 1,524,000 feet of pine timber Doyle scale at $45.92 per thousand feet Doyle scale. Through December 31, 1957 the company has cut and paid for 1,131,007 feet Doyle scale on this contract.

NOTE: (C) In January, 1957, the Southern Pine Lumber Company entered into a timber cutting contract with a certain lumber company agreeing to purchase a total of 20,000,000 feet Doyle log scale of hardwood timber at $13.50 per thousand feet Doyle scale during the ensuing four (4) years. Through December 31, 1957 the lumber company has cut and either paid for or accrued on its book a total of 5,861,953 feet Doyle log scale on this contract.

NOTE: (D) In February, 1957, the Southern Pine Lumber Company entered into a timber cutting contract with a certain company agreeing to purchase within one year 1,089,767 feet of pine timber Doyle log scale at $35.00 per thousand feet, and 2,263,545 feet of hardwood timber Doyle log scale at $12.00 per thousand feet. Through December 31, 1957, the lumber company has cut and either paid or accrued on its books for 557,747 feet of pine timber and 2,204,367 feet of hardwood timber Doyle log scale on this contract, and secured an extension until December, 1958 in which to complete the contract.

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MISCELLANEOUS STATISTICAL DATA

	1957	1956	1955
Pine Selling Price (1) (2)	$90.09	$94.07	$95.30
Pine Cost (2)	$78.04	$79.83	$79.81
Margin Per M (2)	$12.05	$14.24	$15.49
Profit	$547,004.00	$675,998.00	$951,915.00
Feet Sold	44,659,000	48,339,000	50,068,000
Pine Realization Per M B/M	$49.00	$34.13	$34.94
Hardwood Selling Price (1) (2)	$64.62	$68.23	$67.50
Hardwood Cost (2)	$58.85	$57.27	$57.70
Margin Per M (2)	$ 5.77	$10.98	$ 9.80
Profit	$177,111.00	$353,235.00	$273,390.00
Feet Sold	30,669,000	41,211,000	27,936,000
Hardwood Realization Per M B/M	$14.33	$18.10	$17.65
Total Lumber Sold	75,328,000	89,550,000	78,004,000
Flooring Selling Price (1) (2)	$100.80	$130.00	$147.00
Flooring Cost (2)	$119.00	$129.50	$125.70
Profit (2)	($238,030.00)	$6,831.00	$254,358.00
Feet Sold	12,848,000	13,166,000	12,115,000
Lath & Squares — Quantity Produced	7,486,508	7,023,167	6,452,142
Profit	$84,735.00	$63,937.00	$35,396.00
Treating Sales (1)	$894,936.00	$933,689.00	$838,832.00
Profit	$63,127.00	$52,031.00	$35,737.00
Treated — Cu. Ft.	1,088,073	919,788	893,324
Chips Profit	$362,373.00	$216,750.00	$59,832.00
Road Trucks Profit	$76,575.00	$63,329.00	$62,987.00
Dimension Selling Price	$339.41	$316.00	$289.00
Dimension Cost	$336.11	$295.00	$269.12
Profit	$12,792.00	$85,908.00	$78,837.00
Feet Sold	3,870,329	4,133,872	3,849,661
Seats Sold	278,673	309,898	380,438
Seat Selling Price	$2.46	$2.54	$2.39
Seat Cost	$2.72	$2.50	$2.11
Profit	($72,480.00)	$16,816.00	$105,535.00
Capital Assets Sold	$319,592.00	$352,673.00	$169,681.00
Oil Leases & Rentals	$209,226.00	$363,805.00	$129,201.00
Commercial & Residential Rent	($4,233.00)	($55,944.00)	($101,783.00)
Administrative Expense	$716,119.00	$713,204.00	
Selling Expenses (Excluding Wholesale)	$293,557.00	$275,861.00	$279,036.00
Wholesale Commissions	$156,513.00	$183,649.00	$166,543.00
Total Selling Cost	$449,070.00	$459,510.00	$445,579.00
Retail Division Profit	$302,490.00	$414,716.00	$401,099.00
Net Profit Before Taxes	$450,279.00	$1,298,922.00	$1,348,171.00
Depreciation	$899,291.00	$834,173.00	$875,544.00
Depletion*	$201,114.00	$270,748.00	$232,593.00
Outside Timber Purchases	$1,345,152.00	$849,456.00	$593,382.00
Land Taxes	$213,790.00	$198,860.00	$175,153.00

(1) After deducting wholesale commissions and cash discounts.
(2) Both Mills combined.

* Technical allowance based on Internal Revenue practice which reflects the total amount of timber harvested from our own lands and from timber contracts paid for in prior years.