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SOUTHERN PINE LUMBER COMPANY

DIBOLL, TEXAS

ANNUAL REPORT

December 31, 1958

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OFFICERS

W. TEMPLE WEBBER	*Chairman of the Board*
ARTHUR TEMPLE, JR.	*President*
T. L. L. TEMPLE, III	*Vice-President*
D. G. McNAIR	*Vice-President*
G. S. SMITH	*Secretary-Treasurer*
W. AUBREY CANON	*Assistant Secretary-Treasurer and Comptroller*
JOHN W. NAGLE	*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 18, 1959

TO OUR STOCKHOLDERS:

Our *Retail Division* posted an improved year and paid off all indebtedness against real estate developments within the sphere of this division. Operating costs within the Retail Division were held and reduced to commendable levels. Inventories and receivables were well balanced at the end of the year.

Woodside Addition in Houston, in which we have a 50% interest, continued to provide substantial operating profit. Approximately 37 acres of an original 154 remained to us and will undoubtedly be sold as developed for apartment house construction.

1958 climaxed for Southern Pine Lumber Company the task of completing and starting up the last of the new *manufacturing units* in our present modernization and expansion program. Although construction might be said to have been completed on these units, the problems associated with start-up continue to distort our operating costs and demand attention far in excess of normal.

In addition to these unusual expenses, we continued to buy timber under our five year cutting contract with International Paper Company in order to provide for our own timber stands the relief from harvest and resulting growth which would have taken many years to accomplish otherwise. We will continue to buy a substantial portion of our cut during the years 1959 and 1960, after which time we will rely almost entirely on our own timber growth.

During the year operational savings expected from prior phases of our modernization program were realized, notably in our oak flooring plant and in our seat plant. By the end of the year our new sawmill at Pineland was operating around the clock and all but minor start-up problems had been met. The new 5,000 KW power plant, completed also during the year, was well on its way to operational efficiency, but the obvious problem of alternate or standby power source remained to be solved. Studies are now being made to provide this security. The above is not intended to imply that the new units will run smoothly or without interruption until personnel have been thoroughly trained in new techniques and unforeseen mechanical weaknesses are corrected. We do not expect these new units to reach full efficiency on a routine basis until late '59.

The new fiberboard plant at Diboll went into operation early in '58 and by the end of the year justified our predicted economics. We feel that this unit can yield a profit at 50% of design capacity, which is slightly above current level of sales. Although some fabricating units have not yet been put into production, the basic plant is operating well and we now have an excellent staff. Emphasis from this point forward must be toward building sales volume which will allow the full efficiency resulting from high production.

Charge-off of residual book values of abandoned buildings and equipment at Pineland absorbed approximately $120,000 which might otherwise have appeared in our statement as operating profit.

The profit picture was improved for pine, oak flooring and seats as compared with last year. Hardwood was seriously hurt by additional costs of interrupted production, et cetera, associated with the turmoil incidental to shutting down the old mill and starting up the new facilities.

The treating department, lath and squares, chips, and road trucks showed about the same margin as previously.

The dimension department made a poor showing as a result of a weak furniture market, coupled with further adjustments in accounting and inventory practices.

Losses on rental properties at the mills were again held to a satisfactory minimum.

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Overhead and selling expenses were kept at substantially the same levels as previous years, in spite of strong upward pressure. Nevertheless, our sales efforts were intensified to make the most of our markets and we continued heavy participation in industry affairs designed to secure future markets for our products.

A fire at our Pineland plant destroyed the old locomotive and machine shop. This loss was fully covered with insurance, and we have replaced the destroyed facilities and the truck shop with a properly designed and well equipped maintenance center located conveniently within the plant area.

We are particularly proud of our well balanced modern plant in Pineland which has now replaced the one there at the time of merger.

Oil leases and delay rentals declined slightly, reflecting, primarily, the release of some of the acreage under lease to Humble. However, we are pleased to note that our royalties from production are up from prior years. This is attributable to production on our land in Jasper County. We now have two wells and anticipate further development of this discovery.

With the encouragement and assistance of the Company, neighobrhood improvements moved forward, particularly in the Negro residential areas in both Diboll and Pineland. The City of Pineland has just completed and put into operation a new sewage disposal plant and has entered into a long range Urban Development Program. In Diboll, Southern Pine Lumber Company continued to promote individual home ownership through the sales of its rental houses to employees. Working through the Federal Housing Administration a new restricted colored subdivision with all conveniences and paved streets has been built and adequate long term financing of homes has been arranged for. The replacement of substandard Negro houses in both Pineland and Diboll is presently our most urgent civic need. The solutions mentioned above have great promise of success without large investment of company funds. Two identical swimming pools, one for white and one for colored, were built in Diboll through contributions from employees, stockholders and other friends of Diboll. We believe these activities to be concrete evidence of the progressive spirit of the people of our towns, which certainly deserves commendation.

The efficiency and good spirit of our employees as we have moved through these last two difficult years of expansion, during a period when markets have been less favorable than in previous years, have been exemplary.

Our legal department has been heavily burdened with matters concerning our titles and particularly encroachments. In addition, the financial problems facing almost all political subdivisions has created extreme pressure on our land tax valuations. In many cases it has been necessary for our legal department to resist unfair tax valuations which strike directly at the health of our industry. The upward trend of ad valorem taxes imposes a terrific burden on companies such as Southern Pine Lumber Company which require a very large acreage in order to support a sustained yield operation. High taxes can make timber growing on a scientific and responsible basis uneconomical. The basic theory of taxation which exists today is to impose the cost of government primarily on real estate and property owners. The specialization of present day commerce has made this an unrealistic method of apportioning the cost of government. We urge each stockholder to consider this problem and to use his influence to help relieve the unequal burden imposed.

In closing it should be pointed out that operations absorbed depreciation in the amount of $1,031,537, outside timber purchases of $919,386 and land taxes of $230,192.

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, 1958

ASSETS

CURRENT ASSETS:		
Cash in banks and on hand		$ 1,023,216.66
Notes and accounts receivable, less provisions for bad accounts, etc.		2,536,774.75
Inventories		4,096,757.35
Prepaid Expenses		506,727.67
Houses and real estate for sale		675,067.55
TOTAL CURRENT ASSETS		$ 8,838,543.98
OTHER ASSETS:		
Timber and Timberland, exclusive of timber cutting contracts which have not been paid (Notes A and B)	$ 3,889,916.33	
Mills and equipment, less depreciation	11,265,576.16	
Work Under Construction	425,341.21	
Stocks, at cost	542,229.67	
Other assets, including notes receivable due subsequent to 12-31-59	538,556.48	16,661,619.85
		$25,500,163.83

LIABILITIES

CURRENT LIABILITIES:		
Notes Payable		$ 9,581.56
Accounts payable and customers credit balance		458,804.63
Provision for Income and other taxes and accrued expenses		479,165.48
TOTAL LIABILITIES		$ 947,551.67
OTHER LIABILITIES:		
Notes Payable due banks (Note C)		$ 5,300,000.00
Mortgage Notes Payable, Due Subsequent to 12-31-59		5,606.45
TOTAL LIABILITIES		$ 6,253,158.12
CAPITAL AND RETAINED EARNINGS:		
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 to 12-31-57	$10,994,366.00	
Net Income for 1958, per statement of income	242,018.00	
	$11,236,384.00	
Less: Cash Dividends paid $163,613.00		
Less: Miscellaneous Surplus Adjustments (Net Dr) 6,415.29	170,028.29	
	$11,066,355.71	11,066.355.71
		$25,500,163.83

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OPERATING STATEMENT
Southern Pine Lumber Company
Diboll, Texas
For Year Ended December 31, 1958

INCOME

OPERATIONS — MANUFACTURING AND RETAIL:

Sales of products, wholesale and retail, less freight, cash discounts and allowances		$16,763,378.95
Cost of Sales, stumpage, logging, milling and other costs including retail		14,278,715.11
GROSS PROFIT FROM SALES:		$ 2,484,663.84

OTHER INCOME — NET

Oil and gas royalties, bonuses and delay rentals	$ 143,140.90	
Dividends income	101,614.00	
Interest income	53,544.70	
Rents, exclusive of depreciation, amounting to $75,715.49	64,216.27	
Profit from sale of houses, land, machinery and equipment and other income, exclusive of depreciation amounting to $25,350.87, less abandonments of obsolete mill machinery amounting to $120,776.86	285,748.52	648,264.39
		$ 3,132,928.23

EXPENSES

Expenses other than taxes, including selling, general and administrative expenses and pension costs, exclusive of depreciation amounting to $23,270.48	$1,058,636.73	
Interest paid	211,832.21	
Depreciation	1,031,537.25	
Taxes, other than Federal Income	384,778.08	
Donations	43,725.96	
TOTAL		2,730,510.23
NET PROFIT		$ 409,418.00
PROVISION FOR FEDERAL INCOME TAX		167,400.00
NET INCOME		$ 242,018.00

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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, 1958, the company has cut 50,716,016 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) 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, 1958 the lumber company has cut and either paid for or accrued on its book a total of 14,013,509 feet Doyle log scale on this contract.

NOTE: (C) These notes are for construction funds for which long term financing has been arranged. We have classified them as non-current liabilities although the interim financing is temporarily evidenced by short term notes.

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2004:014