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SOUTHERN PINE LUMBER COMPANY

DIBOLL, TEXAS

TEMPLE INDUSTRIES

ANNUAL REPORT

December 31, 1959

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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. KEEELER	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 8, 1960

TO STOCKHOLDERS:

Net earnings per share for the current year were $1.48 as compared with $.42 for 1958. This increase can be credited very largely to increased profits from pine lumber and chips, although other departments contributed less spectacularly to this improvement. Pine selling prices were up an average of 6% while costs were reduced 7%. Production of pine lumber showed a 15-1/2% increase.

Hardwood markets were about 4% above the previous year and costs remained the same.

Although oak flooring prices were up 13%, this unit failed to yield a profit, principally because of an increase in the cost of its rough oak raw material. However, oak flooring loss was cut 60% below that of the previous year.

The toilet seat market continued to decline, falling 6%, but costs were lowered even more. Thus the loss was reduced.

The treating plant margin was slightly improved.

Dimension operations yielded a small profit, as compared with a loss in 1958.

Complete utilization of chips, largely due to the added consumption by the fiberboard plant, contributed revenue second only to pine lumber.

Income from minerals, which always fluctuates widely, was down about one-third.

The fiberboard plant was in the black against a start-up loss in 1958. This was achieved in spite of the fact that it operated at 50% of capacity.

During 1959 our Company acquired all of the outstanding stock in Woodward Manufacturing Company of Austin, an old established manufacturer of popular priced bedroom furniture with 1959 sales of approximately $1,300,000. This company's lines tie in well with those of our affiliate, Angelina Furniture Manufacturing Company and the two will normally consume 60% of the production of our dimension plant at Pineland. The economies made possible there and operating profits of the Austin plant, renamed Woodward, Inc., should provide increased profits in future years.

In February of the past year your Company purchased a 50% interest in Tex-Lam, Inc., a Houston manufacturer of laminated beams, arches and trusses. Studies are being made to determine the advisability of moving this company to Diboll. It is a user of southern yellow pine lumber and we hope it will be a great help in promoting wider use of our lumber in industrial, school, and church construction.

Fifty percent of the outstanding stock of Security and Guaranty Abstract Company of Lufkin was purchased and Mr. Ward Burke, our general counsel, was elected president under the terms of our purchase agreement. The investment required was small and management feels that this will be a sound financial venture. In addition, as a large landowner, Security can be of great benefit to Southern Pine.

We created a Minerals Division in September of 1959 for coordinated management of our more than 300,000 mineral acres in East Texas and placed it under an experienced, well qualified geologist. This division is in process of mapping and evaluating our mineral holdings in seventeen counties. As this work advances, our ability to realize the potential of our minerals will be greatly enhanced.

We continue to place major emphasis on timber stand improvement and perfection of land titles, a long range program for the health of the forest asset from which our whole operation stems.

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Our Retail Division, reflecting the national increase in housing starts, had a $662,834 increase in sales for an increase in operating profit of $87,329. However, this was more than offset by earnings decline in real estate which were less spectacular than in 1958.

In July, 1959 the Directors of your Company offered to purchase the outstanding stock of Temple Builders Supply, Inc. for $6.38 (book value) per share. The stock was acquired in exchange for ten year 5% debentures. The three retail lumber yards acquired are being operated by the Temple Lumber Company Retail Division.

Scotch Investment Company was organized in December of 1959 as a wholly owned subsidiary of Southern Pine Lumber Company to provide a source of funds for loans to finance certain types of construction for customers of the Retail Division. Initially Scotch Investment will purchase mortgage loans which qualify under our Strong-Bilt shell-house program and Temple Log Cabins - a packaged resort type cabin. Eventually it is hoped that Scotch will develop into a full scale mortgage banking house which will provide mortgage funds and "know-how" to our Retail Division.

The last quarter of 1959 reflected the effect of high interest rates and the steel strike. Consequently we have entered the slow months of 1960 with a smaller than normal order file. However, if the slightly lower but still healthy level of housing starts predicted for 1960 should materialize, we will enjoy a satisfactory year.

Capital expenditures of $925,000 are being planned for the current year in the following areas: New dimension plant, additional machinery and warehouse at the fiberboard plant, major equipment for the logging department and additional pine storage buildings at Pineland.

W. TEMPLE WEBBER
Chairman of the Board

ARTHUR TEMPLE, JR.
President

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Southern Pine Lumber Company

Diboll, Texas

CONDENSED BALANCE SHEET

DECEMBER 31, 1959 and 1958

ASSETS

CURRENT ASSETS:	1959	1958
Cash in banks and on hand	$ 1,448,827.74	$ 1,023,216.66
Notes and Accounts Receivable (Net)	2,496,373.02	2,376,093.57
Real Estate for resale (including contract construction)	1,124,135.85	828,359.93
Inventories, at lower of cost or market	4,763,245.48	4,356,121.55
Prepaid Expenses	216,066.70	181,374.32
A/C. Receivable - Advance to Subsidiary	148,104.13	73,377.95
TOTAL CURRENT ASSETS	$10,196,752.92	$ 8,838,543.98
OTHER ASSETS:		
Timber and Timberland, exclusive of unpaid timber contract (Note A)	$ 3,786,216.66	$ 3,889,916.33
Mills and Equiptment, after depreciation of $6,889,898.84	11,137,628.22	11,265,576.16
Stocks, at cost	1,007,299.67	542,229.67
Plant Work Under Construction	77,594.70	425,341.21
Other Assets, including notes and accounts receivable due subsequent to 12/31/60 & '59	495,270.49	538,556.48
	$26,700,762.66	$25,500,163.83

LIABILITIES

CURRENT LIABILITIES:		
Notes Payable	$ 152,705.31	$ 9,581.56
Accounts Payable and Customers Credit Balances	305,131.47	458,804.63
Provision for taxes and accrued expenses	298,068.50	433,998.46
Dividend Payable	245.419.50	None
TOTAL CURRENT LIABILITIES:	$ 1,001,324.78	$ 902,384.65
OTHER LIABILITIES:		
Notes payable, due subsequent to 12/31/60	5,551,511.52	5,305,606.45
TOTAL LIABILITIES:	$ 6,552,836.30	$ 6,207,991.10
Deferred Income	37,705.64	45,167.02
STOCKHOLDERS' EQUITY:		
Capital stock 850,000 shares of $10.00 par value common stock authorized, issued and outstanding 818,065 shares	8,180,650.00	8,180,650.00
Retained earnings per statement of earnings and retained earnings	11,929,570.72	11,066,355.71
TOTAL STOCKHOLDERS' EQUITY	20,110,220.72	19,247,005.71
	$26,700,762.66	$25,500,163.83

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Southern Pine Lumber Company

Diboll, Texas

CONDENSED STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEARS ENDED DECEMBER 31, 1959 and 1958

INCOME

	1959	1958
Sales of products wholesale and retail less freight, cash discounts and allowances	$ 19,685.989.94	$ 16,763,378.95
Cost of goods sold	14,786,753.31	13,583,908.45
	$ 4,899,236.63	$ 3,179,470.50
Operating Expenses	2,872,320.63	2,755,504.92
Net Operating Income	$ 2,026,916.00	$ 423,965.58
Land rentals and oil lease income	130,268.97	160,139.96
Dividend Income	104,050.50	101,140.90
Gains, Assets Sold and Other Income (Net)	240,764.23	481,067.24
	$ 2,501,999.70	$ 1,166,313.68

OTHER EXPENSES

Land and Timber Department	$ 504,932.24	$ 402,712.18
Interest Expense	255,741.82	211,832.21
Other	177,585.66	142,351.29
TOTAL OPERATING EXPENSES	$ 938.259.72	756,895.68
NET INCOME BEFORE INCOME TAXES	$ 1,563,739.98	409,418.00
Provision for Federal Income Taxes (Est.)	350,000.00	167,400.00
NET EARNINGS FOR THE YEAR	$ 1,213,739.98	242,018.00
PRIOR YEARS ADJUSTMENTS (NET)	140,314.03	6,415.29
To retained earnings	$ 1,354.054.01	$ 235,602.71
RETAINED EARNINGS		
Balance at Beginning of Year	11,066,355.71	10,994.366.00
	$ 12,420,409.72	$ 11,229,968.71
Dividends paid or declared	490.839.00	163.613.00
Balance at end of Year	$ 11,929,570.72	$ 11,066.355.71

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MISCELLANEOUS STATISTICAL DATA

	1959	1958	1957
Net Sales - Total	$19,685,989	$16,694,717	$14,852,585
Pine Selling Price (Unit) (1)	$96.45	$90.18	$92.02
Pine Manufacturing Cost (Unit) (1)	$68.60	$73.73	$78.17
Margin Per M (1)	$27.85	$16.45	$13.85
Manufacturing Margin (1)	$1,452,430	$738,195	$636,530
Footage Sold	51,947,496	44,903,652	45,942,688
Pine Relization Per M B/M	$46.74	$38.06	$49.00
Hardwood Selling Price (Unit) (1)	$71.26	$67.52	$64.82
Hardwood Manufacturing Cost (Unit) (1)	$64.92	$64.75	$58.85
Margin Per M (1)	$6.34	$2.77	$5.97
Manufacturing Margin (1)	$185,305	$86,923	$182,881
Footage Sold	29,211,719	31,440,239	30,669,670
Hardwood Realization Per M B/B	$18.62	$9.80	$14.33
Total Lumber Sold Footage	81,159,000	76,344,000	75,328,000
Flooring Selling Price (Unit)	$138.58	$122.17	$105.20
Flooring Manufacturing Cost (Unit)	$129.44	$116.40	$119.25
Manufacturing Margin	$101,946	$82,370	($180,484)
Footage Sold	11,150,041	14,281,277	12,848,075
Lath & Squares - Quantity Produced	8,687,613	7,602,753	7,486,508
Profit	$103,197	$89,723	$84,735
Fiberboard Sales	$2,057,233	$638,466	
Total Cost Per M	$32.96	$46.85	
Net Profit	$108,187	($204,172)	
Footage Sold	59,084,128	17,955,686	
Treating Sales	$1,070,930	$914,518	$898,594
Manufacturing Profit	$68,904	$59,762	$66,785
Treated - Cu. Ft.	805,256	821,787	1,088,073
Chips Profit (1)	$513,976	$307,104	$362,373
Road Trucks Profit	$91,823	$88,022	$76,575
Dimension Selling Price (Unit)	$356.68	$325.82	$339.41
Dimension Cost (Unit)	$341.27	$327.63	$336,11
Profit	$30,603	($6,640)	$12,792
Footage Sold	3,921,361	3,660,639	3,870,329

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	1959	1958	1957
Seats Sold	404,747	426,304	278,673
Seat Selling Price (Unit)	$2.05	$2.19	$2.46
Seat Manufacturing Cost (Unit)	$1.97	$2.10	$2.53
Manufacturing Margin	$32,239	$35,623	($18,779)
Oil Leases & Delay Rentals	$113,085	$143,140	$209,226
Administrative Expense	$678,555	$586,363	$716,119
Selling Expense (Excluding Wholesale)	$359,016	$373,216	$293,557
Wholesale Commissions	$176,968	$164,441	$156,513
Total Selling Expense	$535,984	$537,657	$449,070
Retail Division Profit	$340,959	$383,883	$302,490
Total Net Profit before Taxes	$1,563,840	$385,405	$453,028
Depreciation	$1,213,000	$1,029,355	$901,579
Depletion*	$237,217	$199,180	$201,114
Outside Timber Purchases	$772,921	$912,056	$1,345,152
Land Taxes	$281,629	$230,191	$213,790

(1) Both Mills Combined

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

Individual sales figures include inter-company transfers..

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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. This contract was extended one additional year in 1959. 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 at slightly increased prices thereafter, 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, 1959, the company has cut 63,506,270 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.

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2004:014