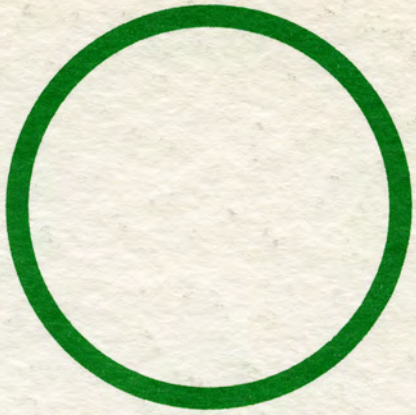
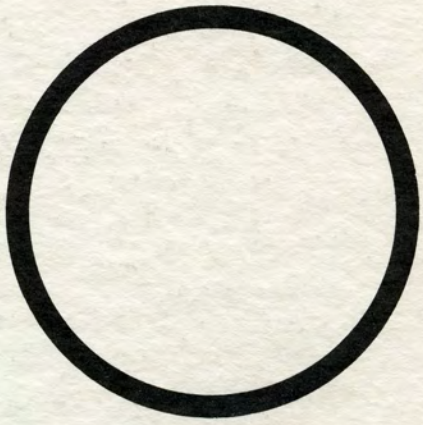
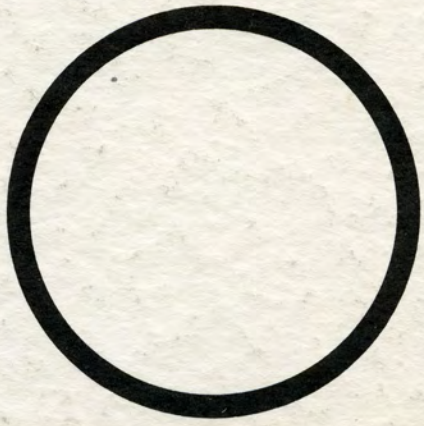
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SIXTY-EIGHTH ANNUAL REPORT/SOUTHERN PINE LUMBER COMPANY/1961



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OFFICERS

W. TEMPLE WEBBER
CHAIRMAN OF THE BOARD

ARTHUR TEMPLE, JR.
PRESIDENT

T. L. L. TEMPLE, III
VICE-PRESIDENT—RETAIL DIVISION

JOE C. DENMAN, JR.
VICE-PRESIDENT—LUMBER PRODUCTION

KENNETH NELSON
VICE-PRESIDENT—LAND & TIMBER DIVISION

R. CLYDE THOMPSON
VICE-PRESIDENT—FOREST HARVEST DIVISION

CARROL B. ALLEN
VICE-PRESIDENT—FIBER BOARD DIVISION

G. S. SMITH
SECRETARY-TREASURER

W. AUBREY CANON
ASSISTANT SECRETARY-TREASURER AND COMPTROLLER

JOHN W. NAGLE
ASSISTANT SECRETARY-TREASURER

DIRECTORS

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

* EXECUTIVE COMMITTEE

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TO THE SHAREHOLDERS:

From almost every standpoint, 1961 was one of the best years in the history of your company. It was certainly the best year since the merger of Southern Pine and Temple Lumber Company in 1956. Total sales, after deducting intra-company sales, were increased about 10% over the previous year. Profits from normal operations were $1.53 per share for 1961, as compared with $1.03 per share for the previous year. However, a nonrecurring net gain of $5.48 per share was realized from the sale of our minority interest in Southland Paper Mills, Inc., increasing total net earnings to $7.01 for 1961.

The improved results were largely due to greater sales of fiberboard and a lower cost of timber, made possible by the intensive forestry program of the past decade, which allows us to depend entirely upon the growth of our own lands for our raw material; whereas in previous years it was necessary for us to supplement our company harvest with outside purchases of timber. We made relatively small purchases of outside timber during 1961. It is our present plan to purchase limited quantities of timber in the future, but such purchases will not be motivated by necessity, since our total growth now exceeds our total manufacturing capacity.

All of our plants have operated efficiently, and our unit manufacturing costs have remained remarkably stable in spite of substantial increases in wages, et cetera.

Capital expenditures during 1961 were relatively minor and were largely confined to (1) installation of a mosaic parquet flooring unit which is now in operation and (2) initial expenditures on the particle board plant which will not be completed for another 18 months. Other capital expenditures for expansion which were previously authorized have been deferred pending additional market studies.

At the December meeting of the Board of Directors, your Executive Committee was authorized to purchase majority interest in Lumbermen's Investment Corporation of Austin. Since the incorporation of LIC in 1955, your company has been a minor stockholder and your president has served as a director and officer. Subsequent to January 1, 1962, Southern Pine subscribed and purchased additional stock in LIC at a price of $11.00 per share, bringing its total ownership in the company to 64%, representing an investment of $1,549,237. In our opinion, this will prove to be a splendid diversification and a useful entry into the world of finance. LIC is principally engaged in the mortgage loan business and is headed by former FHA Commissioner, Julian H. Zimmerman.

Southern Pine recently applied for Federal approval of its application for a charter for Construction Funds, Inc., which is being organized as a Small Business Investment Corporation. Construction Funds will be owned jointly and equally by LIC and Southern Pine Lumber Company. Its general office will probably be in Diboll.

The pension plan for employees of Southern Pine Lumber Company and its affiliates was revised in December, 1961 and, in our opinion, is now among the best in the industry. The revised pension plan, together with our job evaluation and merit rating system give us a personnel program equal to or better than any in the industry. We have a fine team and such enlightened action by our Board gives assurance of perpetuating our superior manpower position.

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The Retail Division was given over to an aggressive reorganization to employ more modern management techniques, to bring our properties up to date, to refine policy and to institute more dependable controls. Selling effort was intensified. Our StrongBilt shell house program was expanded to include Leisure Cottages. Modern merchandising was introduced into our stores. A home remodeling campaign was launched. Sales increased substantially. To these increased sales can be attributed the fact that our profit margin for combined retail operations was maintained at the prior year's level in spite of the fact that heavy expenses were absorbed for reorganization, for bringing properties up to current maintenance standards, and for adjusting values of certain assets to more realistic levels. Three unprofitable yards were liquidated, while a yard in the Highland Lakes region and a wholesale material operation were acquired.

The field of building material distribution remains highly competitive and populated with operators whose earnings are considerably below those expected from enterprises involving equivalent capital outlay and risk. It remains to be seen whether the reorganization still under way in our Retail Division can give it the force necessary to achieve the hopeful objectives we have set for it.

As of January 1, 1962, the assets and liabilities of Temple Lumber Company Retail Division—which, since its acquisition as part of the 1956 merger, has been operated as a division of Southern Pine Lumber Company—were exchanged for stock in Temple Builders Supply, Inc., a wholly owned subsidiary of Southern Pine Lumber Company. This has the effect of putting all of our retail operations, including Republic Building Material Company, in one subsidiary corporation.

Southern Pine now holds royalty interests in varying amounts under seven oil wells and two gas wells with a third being completed at this time.

Topaz Oil Company, a wholly owned subsidiary, owns an operating interest in one oil well and an overriding royalty interest in a gas well in the completion stage at this time. Topaz has participated in six wildcat exploratory tests during 1961 on an overriding royalty and a working interest conversion basis and has bought into three drilling deals.

The satisfactory results of the year just closed ran contrary to the unprofitable experience of the industry generally, and were made in spite of significantly lower selling prices on almost all of our major products. It is a source of great pride that in the past decade your management has recognized its problems in advance of the industry and has moved to meet these problems before they develop. Had we not done so, our plight would be a difficult one rather than the satisfactory situation of today.

We would like to express our appreciation to all members of the Temple team—its employees, its directors, its stockholders and, indeed, its customers—for the loyalty and "esprit de corps" without which the accomplishments of the past year would have been more difficult and less rewarding.

W. Temple Webber

W. TEMPLE WEBBER
Chairman of the Board

Arthur Temple, Jr.

ARTHUR TEMPLE, JR.
President

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Southern Pine LUMBER COMPANY

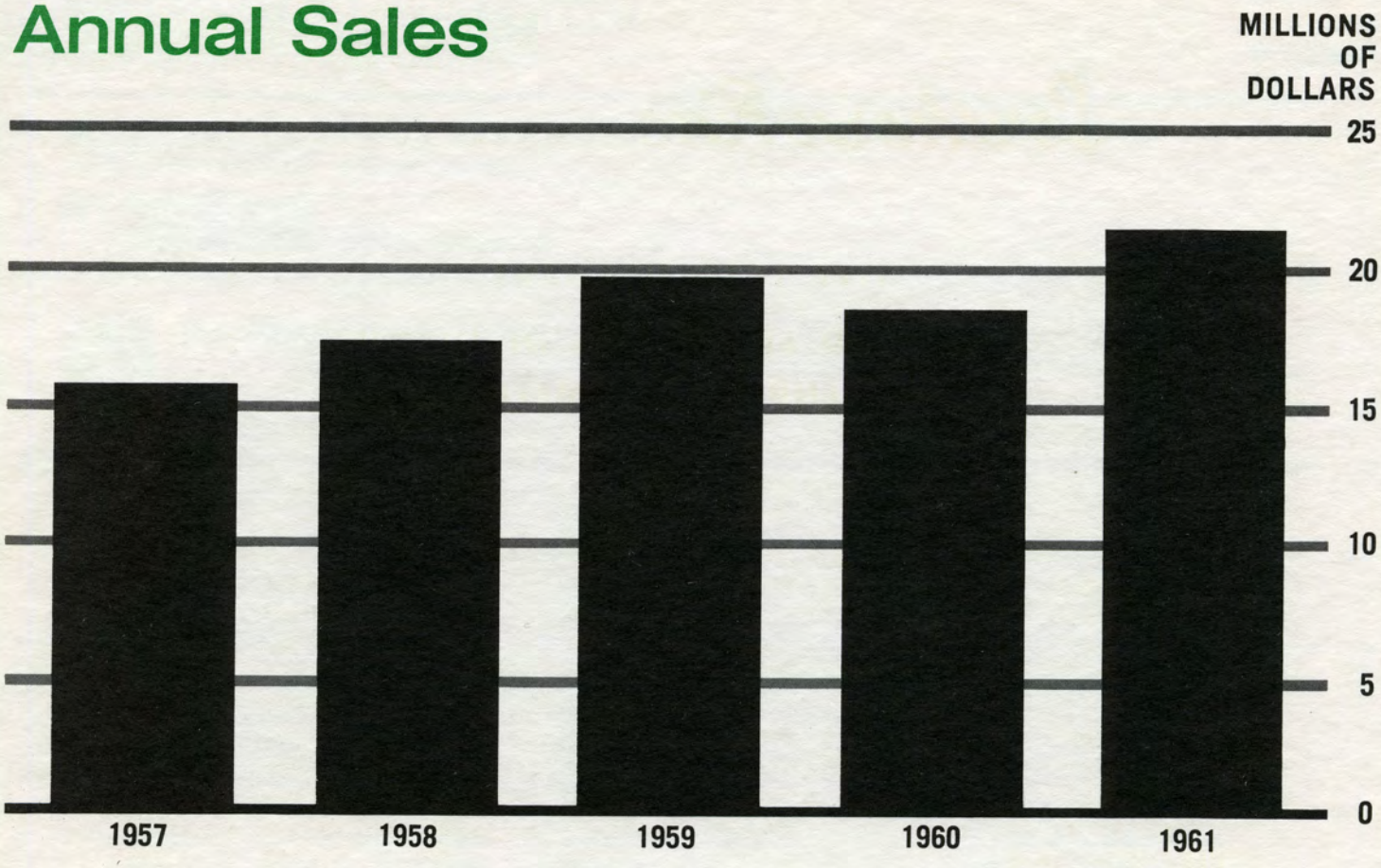
FIVE YEAR SUMMARY

CONDENSED STATEMENTS OF INCOME
YEAR ENDING DECEMBER 31

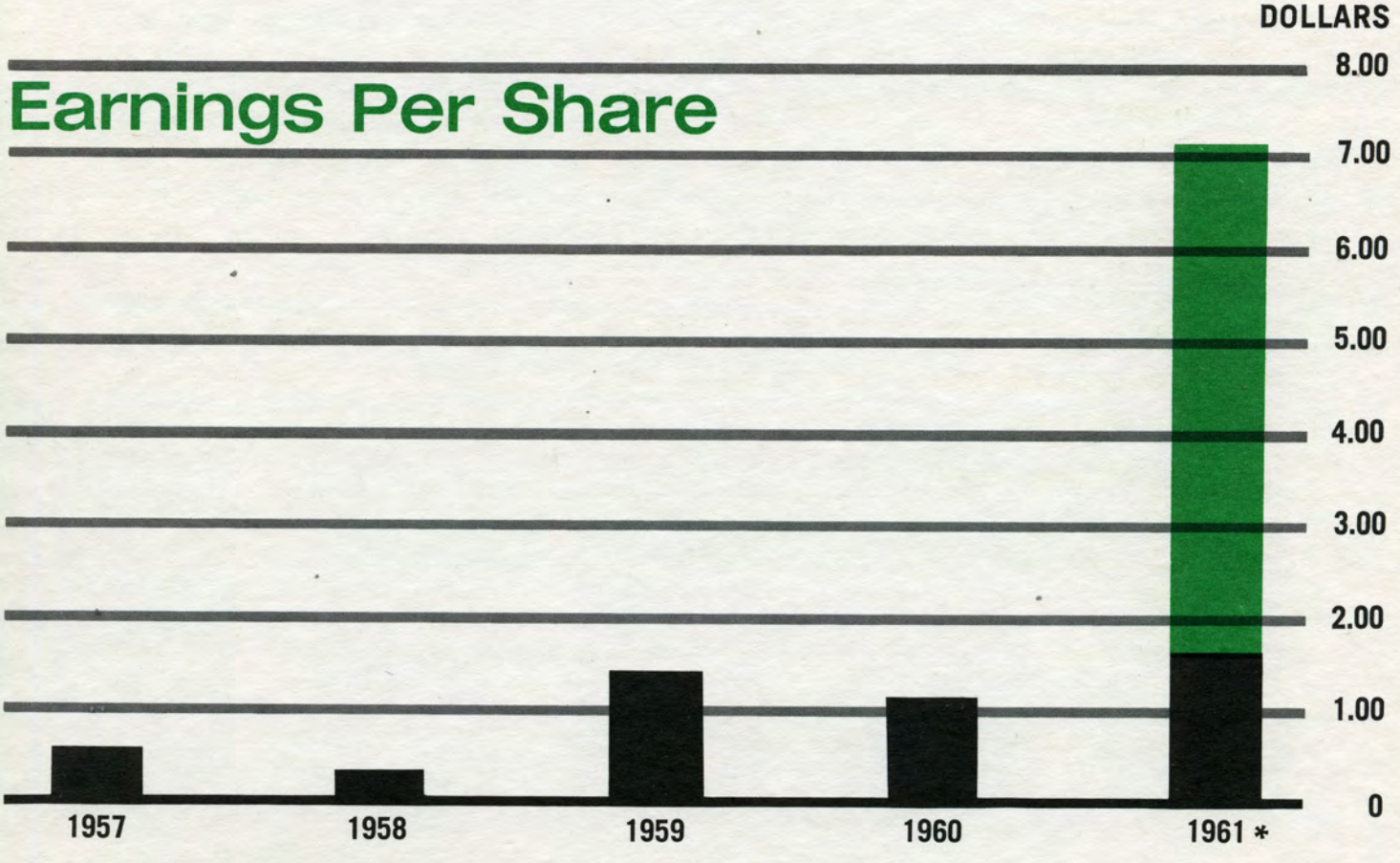
	1961	1960	1959	1958	1957
SALES:					
Lumber	$ 6,226,600	$ 5,373,700	$ 6,343,600	$ 6,381,400	$ 5,944,000
Furniture Parts	1,090,200	1,166,100	1,397,300	1,190,600	1,311,000
Treated Materials	1,081,700	1,006,500	966,300	834,100	876,400
Fiberboard	3,010,800	2,494,300	1,991,500	620,900	
Seats	587,900	862,100	831,700	932,200	685,500
Chips	247,300	316,300	500,700	351,200	486,700
Other Products	564,900	574,400	556,400	455,600	303,900
	$12,809,400	$11,793,400	$12,587,500	$10,766,000	$ 9,607,500
Retail Division	8,590,500	7,197,000	7,098,500	6,433,900	5,878,400
Total Sales	$21,399,900	$18,990,400	$19,686,000	$17,199,900	$15,485,900
OTHER INCOME (Net)	6,633,000	578,100	475,100	211,700	923,900
Total	$28,032,900	$19,568,500	$20,161,100	$17,411,600	$16,409,800
COSTS & EXPENSES:					
Costs of Goods Sold and Expenses, exclusive of items below	$18,461,800	$16,161,100	$16,119,500	$14,631,300	$13,299,700
Depreciation	1,139,400	1,040,700	1,218,500	1,029,400	901,600
Depletion of Company timber	188,900	195,600	204,900	199,200	201,100
Purchased timber and logs	226,000	760,200	772,900	912,100	1,345,200
Land taxes	279,100	265,400	281,600	230,200	213,800
Federal Income Taxes (Estimated)	2,000,000	300,000	350,000	167,400	140,300
Total Costs & Expenses	$22,295,200	$18,723,000	$18,947,400	$17,169,600	$16,101,700
NET INCOME FOR THE YEAR	$ 5,737,700	$ 845,500	$ 1,213,700	$ 242,000	$ 308,100
DIVIDENDS DECLARED	818,100	245,400	490,800	163,600	None
EARNINGS RETAINED IN THE BUSINESS	$ 4,919,600	$ 600,100	$ 722,900	$ 78,400	$ 308,100
Per share outstanding at December 31:					
Net Income	$ 7.01*	$ 1.03	$ 1.48	$ .30	$ .38
Dividends Declared	$ 1.00	$ .30	$ .60	$ .20	$ None
* Income from operations	$ 1.53				
Gain on sale of stock	$ 5.48				

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Annual Sales



Earnings Per Share



* NON-RECURRING GAIN OF $5.48 ON SALE OF OUR MINORITY HOLDINGS IN SOUTHLAND PAPER MILLS, INC.

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Southern Pine LUMBER COMPANY

FIVE YEAR SUMMARY

CONDENSED STATEMENTS OF FINANCIAL CONDITION AT DECEMBER 31

ASSETS

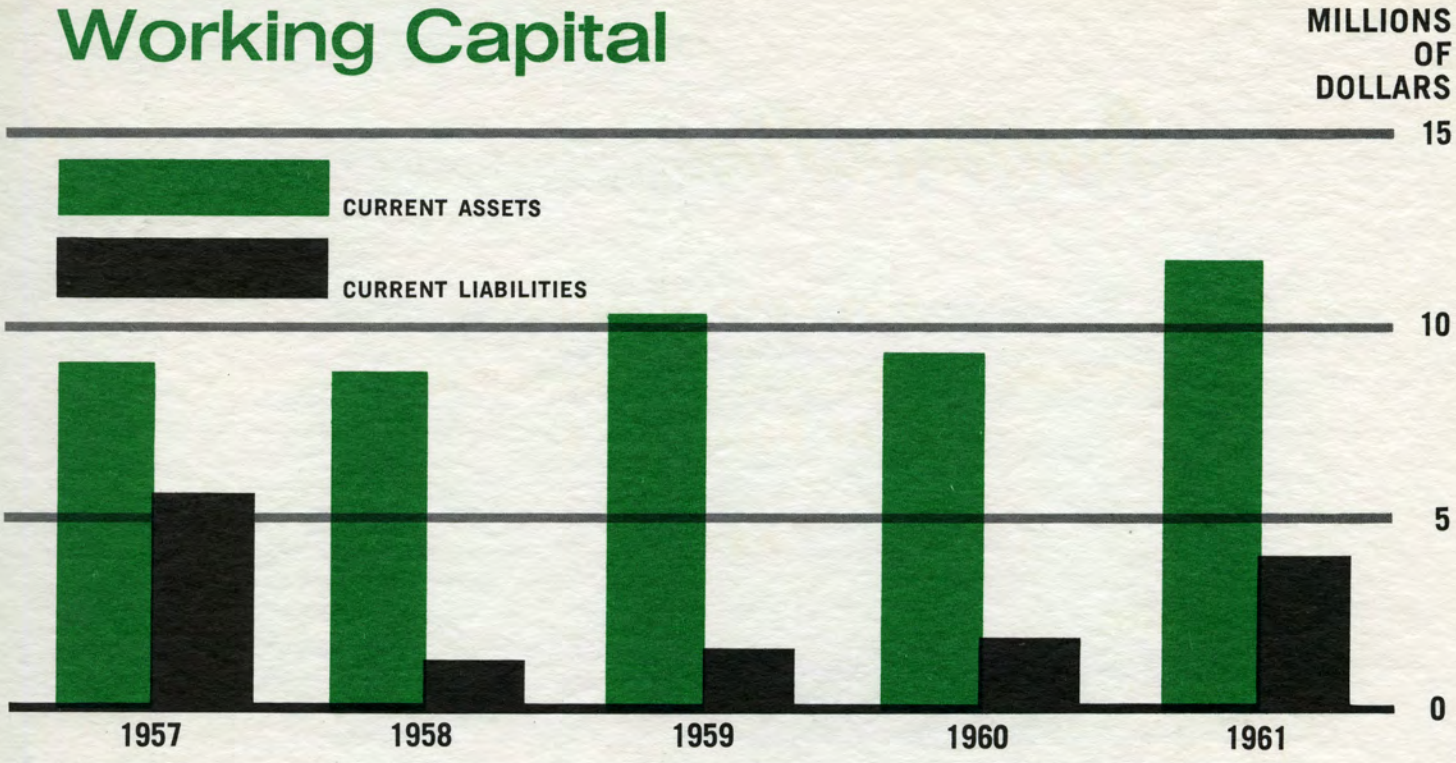
	1961	1960	1959	1958	1957
CURRENT ASSETS:					
Cash	$ 2,444,200	$ 1,254,200	$ 1,448,800	$ 1,023,200	$ 1,153,200
Receivables—Net	3,995,000	2,263,900	2,514,900	2,367,600	2,416,100
Due from subsidiaries—Net	117,100	218,800	148,100	73,400	69,000
Real estate held for resale	353,400	719,100	1,124,100	828,400	854,400
Inventories	4,707,400	4,878,600	4,763,200	4,356,100	4,259,700
Prepaid Expenses	278,400	129,800	216,100	181,400	119,200
Total Current Assets	$11,895,500	$ 9,464,400	$10,215,200	$ 8,830,100	$ 8,871,600
INVESTMENTS, at cost:					
Marketable securities	$ 280,700	$ 626,100	$ 705,400	$ 519,700	$ 515,200
Wholly-owned subsidiaries	1,848,300	1,026,900	301,900	5,000	5,000
PROPERTY, PLANT & EQUIPMENT:					
Mills and equipment—at cost	19,474,400	19,671,800	18,424,800	17,917,700	17,058,400
Accumulated depreciation	(8,034,500)	(8,140,100)	(7,209,600)	(6,216,300)	(5,856,900)
Land and timber—at cost or less	3,508,600	3,623,000	3,799,100	3,889,600	4,046,100
OTHER ASSETS	537,000	553,000	212,500	564,100	259,100
TOTAL ASSETS	$29,510,000	$26,825,100	$26,449,300	$25,509,900	$24,898,500

LIABILITIES

CURRENT LIABILITIES:					
Notes Payable	$ 1,292,300	$ 498,900	$ 152,700	$ 15,200	$ 4,720,700
Accounts Payable	235,900	451,100	337,000	551,700	554,100
Dividend Payable	327,200	245,400	245,400		
Accrued Expenses	287,900	376,100	266,200	238,300	277,000
Accrued Federal Income Taxes	1,800,000	100,000	125,400	112,500	105,900
Total Current Liabilities	$ 3,943,300	$ 1,671,500	$ 1,126,700	$ 917,700	$ 5,657,700
LONG-TERM NOTES PAYABLE	246,100	4,782,000	5,551,500	5,300,000	
	$ 4,189,400	$ 6,453,500	$ 6,678,200	$ 6,217,700	$ 5,657,700
DEFERRED INCOME	7,200	38,200	37,700	45,300	41,700
STOCKHOLDERS' EQUITY	25,313,400	20,333,400	19,733,400	19,246,900	19,199,100
TOTAL LIABILITIES	$29,510,000	$26,825,100	$26,449,300	$25,509,900	$24,898,500
Stockholders' Equity per share outstanding at December 31:	$ 30.94	$ 24.86	$ 24.12	$ 23.52	$ 23.47

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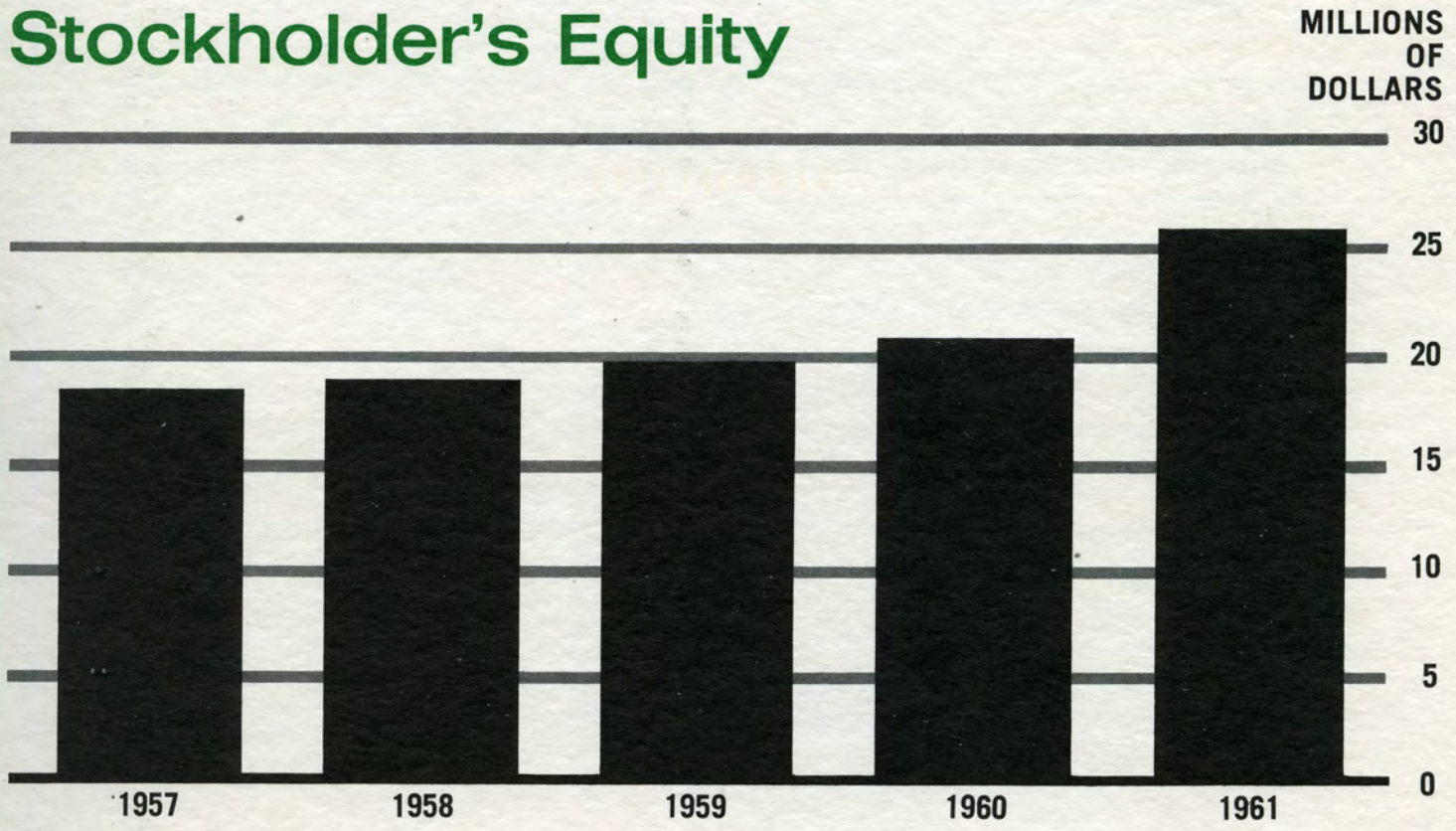
Working Capital



RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES AT DECEMBER 31

1957	1958	1959	1960	1961
1.58	9.62	9.06	5.66	3.02

Stockholder's Equity



BOOK VALUE PER SHARE AS OF DECEMBER 31

1957	1958	1959	1960	1961
$ 23.47	$ 23.52	$ 24.12	$ 24.86	$ 30.94

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Southern Pine LUMBER COMPANY

STATEMENT OF FINANCIAL CONDITION AT DECEMBER 31

ASSETS

	1961	1960
CURRENT ASSETS:		
Cash	$ 2,444,195.59	$ 1,254,172.52
Notes and Accounts Receivable (Less allowance for possible losses: 1961—$59,574.77; 1960—$110,693.37)	3,995,033.01	2,263,892.81
Accounts Receivable from Subsidiary Companies—Net	117,082.66	218,824.83
Real Estate held for resale	353,442.68	719,127.81
Inventories at lower of cost or market	4,707,437.58	4,878,599.05
Prepaid expenses	278,350.73	129,818.64
TOTAL CURRENT ASSETS	$11,895,542.25	$ 9,464,435.66
INVESTMENTS AT COST:		
Marketable Securities—Note A	$ 280,720.99	$ 626,094.68
Securities of and advances to subsidiary companies not consolidated—Note B	1,848,344.55	1,026,916.03
TOTAL INVESTMENTS	$ 2,129,065.54	$ 1,653,010.71
PROPERTY PLANT AND EQUIPMENT AT COST:		
Mills and Equipment—Note C	$19,474,371.72	$19,671,826.76
Less Accumulated Depreciation	8,034,451.54	8,140,154.04
	$11,439,920.18	$11,531,672.72
Land and Timber—Note D	3,508,551.37	3,623,013.38
TOTAL PROPERTY, PLANT & EQUIPMENT	$14,948,471.55	$15,154,686.10
OTHER ASSETS:		
Other, including notes and accounts receivable due after one year	$ 536,967.08	$ 552,927.99
TOTAL ASSETS	$29,510,046.42	$26,825,060.46

The accompanying notes to financial statements are an integral part of this balance sheet.

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Southern Pine LUMBER COMPANY

STATEMENT OF FINANCIAL CONDITION AT DECEMBER 31

LIABILITIES

	1961	1960
CURRENT LIABILITIES:		
Notes Payable due within one year—Note C	$ 1,292,325.85	$ 498,860.90
Accounts Payable, including customers credit balances	235,885.69	451,122.69
Dividend Payable	327,226.00	245,419.50
Accrued Accounts:		
Provision for Taxes and Expenses	287,915.27	376,140.21
Provision for Federal Taxes on Earnings	1,800,000.00	100.000.00
TOTAL CURRENT LIABILITIES	$ 3,943,352.81	$ 1,671,543.30
DEFERRED INCOME	$ 7,178.19	$ 38,212.83
OTHER LIABILITIES:		
Notes Payable due after one year	$ 246,131.00	$ 4,781,925.15
STOCKHOLDERS' EQUITY:		
Common Stock: Authorized 850,000 shares of $10.00 par value; issued and outstanding 818,065 shares	$ 8,180,650.00	$ 8,180,650.00
Retained earnings	17,132,734.42	12,152,729.18
TOTAL STOCKHOLDERS' EQUITY	$25,313,384.42	$20,333,379.18
TOTAL LIABILITIES	$29,510,046.42	$26,825,060.46

The accompanying notes to financial statements are an integral part of this balance sheet.

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CONDENSED STATEMENTS OF EARNINGS AND RETAINED EARNINGS
YEARS ENDING DECEMBER 31

STATEMENT OF EARNINGS

	1961	1960
Sales of Products wholesale and retail less freight, cash discounts and allowances	$21,399,932.82	$18,990,381.16
Cost of Goods Sold	16,070,819.78	14,382,416.42
	$ 5,329,113.04	$ 4,607,964.74
Operating Expenses	3,875,819.96	3,610,116.98
Net Operating Income	$ 1,453,293.08	$ 997,847.76
Income from Land Rentals and Oil Leases	$ 202,238.78	$ 125,852.86
Dividends Received	15,934.50	108,548.50
Gains on Sales of Assets	288,757.09	198,756.07
Interest Income	95,015.09	58,246.11
Other	54,349.26	86,679.77
	$ 656,294.72	$ 578,083.31
	$ 2,109,587.80	$ 1,575,931.07
Interest Expense	$ 117,313.23	$ 276,687.05
Other Expense	231,254.32	153,788.57
	$ 348,567.55	$ 430,475.62
Net Income from Operations Before Income Taxes	$ 1,761,020.25	$ 1,145,455.45
Provision for Federal Income Taxes (Est.)	506,000.00	300,000.00
	$ 1,255,020.25	$ 845,455.45
Gain on Sale of Corporate Stock $5,976,696.10 Less $1,494,000.00 Estimated Federal Income Taxes Thereon	$ 4,482,696.10	
NET EARNINGS FOR THE YEAR	$ 5,737,716.35	$ 845,455.45

STATEMENT OF RETAINED EARNINGS

Balance—Beginning of year	$12,152,729.18	$11,929,570.72
Net Adjustments for prior years	60,353.89	(376,877.49)
	$12,213,083.07	$11,552,693.23
Net Earnings for the Year	5,737,716.35	845,455.45
	$17,950,799.42	$12,398,148.68
Dividends Paid or Declared	818,065.00	245,419.50
Balance—End of year	$17,132,734.42	$12,152,729.18

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NOTES TO FINANCIAL STATEMENTS

Note A: Shares in savings and loan associations in the amount of $71,836.04 at December 31, 1961 and $63,000.68 at December 31, 1960 are pledged to the respective associations to secure the payment of loans to customers or employees for purchases of houses from the Company.

Note B: Investments in wholly-owned subsidiary companies are shown at cost as follows:

	1961	1960
Temple Builders Supply, Inc.:		
Capital Stock	$ 301,916.03	$ 301,916.03
Note Receivable	105,000.00	
	$ 406,916.03	$ 301,916.03
Scotch Investment Company	1,000,000.00	600,000.00
Woodward, Inc.	125,000.00	125,000.00
Fleishel Lumber Company	300,000.00	
Topaz Oil Company	10,428.52	
Angelina Free Press, Inc.	6,000.00	
	$1,848,344.55	$1,026,916.03

Consolidated Financial Statements of the parent and subsidiary companies were not made due to diversity of operations and variations in closing dates. The stockholder's equity in these wholly-owned subsidiaries, as shown in statements prepared by their employees, closely approximates the parent company's investment as shown above.

Note C: A note payable to the First Security & Savings Bank, Elmwood, Illinois in the amount of $34,134.00 at December 31, 1961 is secured by a chattel mortgage on Orton Cranes included in Mills and Equipment at an undepreciated balance of $56,715.45.

Note D: Remaining cost of timber and land after deducting timber depletion. The timber cutting contract dated April 13, 1956, between the Company and a certain paper company, was completed during 1961. The approximately 14,000 acres of land in Nacogdoches and Rusk Counties which the Company had pledged to secure the performance of this contract has been released.

CONTINGENT LIABILITIES

The Company is contingently liable as guarantor as follows:

(1) A guarantor and endorser for Tex-Lam (a partially owned subsidiary):
   (a) The Company is committed to guarantee a first mortgage loan of $200,000.00 payable over a period of fifteen years. The balance of this loan as of December 31, 1961 was $195,821.75.
   (b) Unsecured notes payable to the First State Bank & Trust Company totalling $100,000.00.

(2) To the extent of $26,000.00 on an unsecured loan made by First State Bank & Trust Company, Lufkin, Texas to Love Wood Products Company (a partially owned subsidiary) which is payable in monthly installments.

(3) As endorser of $40,000.00 notes receivable sold to a finance company.

(4) Notes of Scotch Investment Company secured by Real Estate as follows:

Alkek Oil Company	$ 60,000
Bayou Land Company	106,232
Freeway Development Company	379,403
	$ 545,635

(5) Unsecured notes of Temple Builders Supply, Inc., to Texas National Bank, Houston, Texas $685,000.00.

TRANSACTIONS AFTER DECEMBER 31, 1961

In order to simplify its operations, the Company on January 1, 1962 transferred all assets and liabilities of its retail division, Temple Lumber Company, to its wholly owned subsidiary, Temple Builders Supply, Inc. in exchange for additional shares of Temple Builders Supply, Inc. common stock. In the future all retail stores and the newly acquired Republic Building Materials Company will be operated by this subsidiary. The exchange is believed to be tax free.

The Company acquired on February 14, 1962 by subscription 135,000 shares of the common stock of Lumbermen's Investment Corporation, Austin, Texas at a cost of $1,485,000.00 which was financed by an unsecured loan from Republic National Bank of Dallas. The Company now owns 140,685 shares or more than 60% of Lumbermen's Investment Corporation common stock at a total cost of $1,549,237.00.

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March 15, 1962

Board of Directors
Southern Pine Lumber Company
Diboll, Texas

We have examined the statement of financial condition of Southern Pine Lumber Company as of December 31, 1961 and the related statements of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statement of financial condition and statements of income and retained earnings present fairly the financial position of Southern Pine Lumber Company at December 31, 1961 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Ashley & Rode
CERTIFIED PUBLIC ACCOUNTANTS

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Southern Pine LUMBER COMPANY Diboll, Texas

