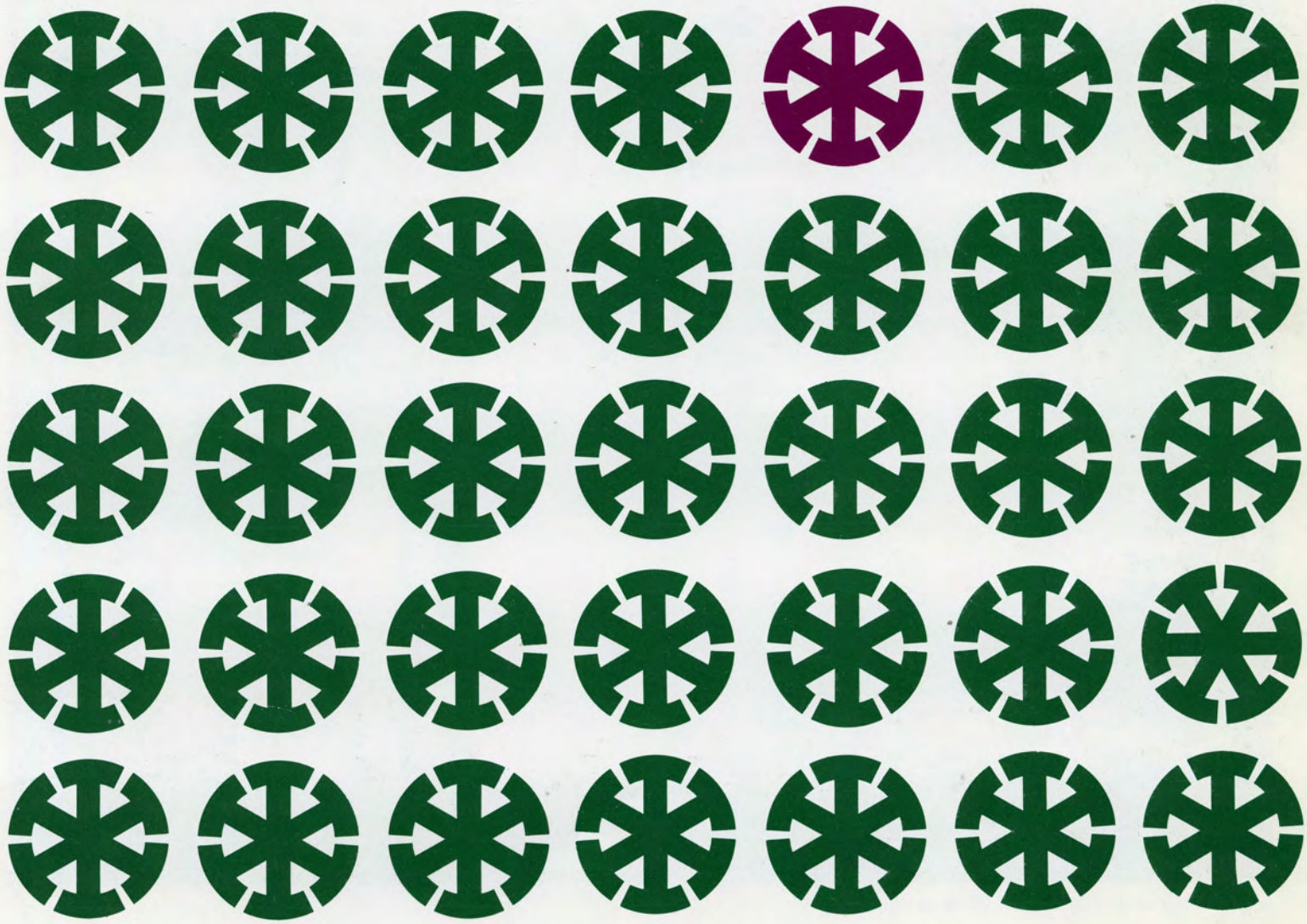
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Seventieth Annual Report Temple Industries 1963



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Log handling equipment at work in Diboll plant.

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TEMPLE INDUSTRIES

DIBOLL, TEXAS

TO THE SHAREHOLDERS:

This annual report marks the seventieth birthday of Southern Pine Lumber Company. During these seventy years, spanning the active business lives of three generations, the Company has grown to be one of the most successful and highly integrated in the industry. The dedication of its employees and the foresight of its directors and shareholders have made this record possible. While Southern Pine Lumber Company is one of the oldest in this industry, it justifiably holds the reputation for having a youthful posture.

By action of the shareholders, the name of the corporation was changed on January 3, 1964, to Temple Industries, Inc., which we feel more appropriately describes the varied activities of the Company.

Net earnings per share for 1963 were $1.45, as compared with $1.95 for the previous year. In spite of record earnings in most operations of Southern Pine Lumber Company, consolidated profits were severely reduced by heavy losses of The Great Texas Lumber Company -- our Retail Division. For the past three years, the Retail Division has been the subject of extensive studies to determine a course of operation which would increase earnings on capital employed and eliminate excessive financial exposure usually inherent in the construction industry. The severe loss for the year just ended testifies to our failure to attain the objectives sought. A decision has been made and is presently being executed to promptly reduce the activities of Great Texas and to move its central office to Diboll. We believe that the $600,000 loss in this Division in 1963 fully reflects the loss from operations. However, additional charge-offs will undoubtedly result from the reorganization and physical changes which will occupy the remainder of 1964. It is difficult to estimate the cost of this move and partial liquidation, but we are hopeful that gains from the sale of liquidated real estate will very largely off-set this unusual expense.

While our misfortune in the Retail Division in 1963 should not be taken lightly, we must say that we take great satisfaction in the fact that we can withstand a set-back of this type without loss of momentum and without fear of major consequences. We have built a strong and able company sufficiently diversified to take events of this sort in stride.

The parent company, Temple Industries, expects to have an excellent year in 1964, possibly exceeding the past year when it's pre-tax earnings increased 20% over 1962.

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Woodward, Inc., furniture manufacturing subsidiary of Temple Industries, earned $62,116 before taxes for the year 1963, as compared with a loss of $58,679 in 1962. Management was reorganized in early 1963 and the results have far exceeded expectations. The first two months operation of Woodward for 1964 give promise of substantially increased profitability for the current year.

Temple Industries recently acquired the remaining outstanding shares of Tex Lam, Inc., manufacturers of laminated beams and arches, and we are hopeful that this small operation can be made into a consistent earner for the Company. Several new products to use its present facilities are being studied.

Lumbermen's Investment Corporation of Austin (approximately 63% owned by Temple Industries) and Texas Gypsum Company, Inc. (49.9% owned by Temple Industries) have begun to earn as forecast and each month are showing a more consistently profitable operation. We believe these two investments will be outstanding performers for Temple Industries.

Long term financing to replace the portion of our debt which was created for capital expansion has been arranged at favorable rates with two insurance companies, which will greatly reduce the current liability of the Company and increase its working capital. The routine repayment of this funded debt will require approximately one-half of our present annual allowance for depreciation. This type of long-term financing is an important step in the long range planning for the maximum use of the Company's assets.

Two new plants will soon begin manufacturing new products for the Company. The first of these is the highly heralded joint venture for the manufacture of yellow pine plywood in partnership with U.S. Plywood Company. This plant should begin operating in June of this year and is projected to produce 100,000,000 sq. ft. of 3/8" yellow pine plywood sheathing per year. The second plant is the particleboard plant which should start production in Pineland in April. Although considerably smaller than the plywood plant, both from the standpoint of production capacity and investment required, we believe the profits from this facility will more than justify our investment. Both of these products further complement the wide variety of building materials and wood products bearing the Temple name.

We would like to again call attention to those loyal and dedicated men and women of Temple Industries who have contributed so much to build this Company to its present preeminent position.

W Temple Webber
Chairman of the Board

Arthur Temple
President

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New bridge crane tracks for log handling in the new log processing center at Diboll. This center will provide automated handling, sorting and distribution of raw material for lumber, plywood and treated poles and posts.

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Southern Pine Lumber Company And Subsidiaries
Five Year Summary
Consolidated Statements Of Financial Condition
At December 31

ASSETS

Current Assets:	1963	1962	1961	1960	1959
Cash	$ 1,779,100	$ 2,494,300	$ 2,629,600	$ 1,457,200	$ 1,448,800
Receivables — Net	5,592,200	4,117,700	4,321,300	2,539,300	2,663,000
Inventories	6,255,000	5,263,400	4,942,000	5,085,800	4,763,300
Real estate for resale	1,069,800	370,100	353,400	719,100	1,124,100
Prepaid expenses	126,200	204,600	281,600	132,500	250,800
TOTAL CURRENT ASSETS	$14,822,300	$12,450,100	$12,527,900	$ 9,933,900	$10,250,000
Investments — At Cost:					
Marketable securities	$ 166,200	$ 318,000	$ 281,900	$ 626,100	$ 604,400
Unconsolidated subsidiary and related companies	5,110,800	4,058,900	1,318,300	901,900	402,900
Land	51,700	67,000	67,000		
TOTAL INVESTMENTS	$ 5,328,700	$ 4,443,900	$ 1,667,200	$ 1,528,000	$ 1,007,300
Property, Plant and Equipment:					
Buildings, machinery and equipment	$22,176,700	$21,459,100	$20,228,900	$18,739,600	$18,347,200
Less accumulated depreciation	10,652,500	9,962,400	8,873,000	8,166,700	7,527,200
	11,524,200	11,496,700	11,355,900	10,572,900	10,820,000
Land and timber	3,161,800	3,564,600	3,509,900	3,623,000	3,799,100
TOTAL PROPERTY, PLANT AND EQUIPMENT	$14,686,000	$15,061,300	$14,865,800	$14,195,900	$14,619,100
Other assets	$ 1,914,500	$ 1,124,900	$ 862,100	$ 1,732,800	$ 572,900
TOTAL ASSETS	$36,751,500	$33,080,200	$29,923,000	$27,390,600	$26,449,300

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:					
Notes payable	$ 3,471,400	$ 1,483,900	$ 1,292,300	$ 551,300	$ 152,700
Accounts payable	1,301,400	543,700	278,600	602,300	358,500
Dividends payable	572,600	572,600	327,200	245,400	245,400
Accrued expenses	892,500	539,000	306,900	273,100	244,700
Accrued federal taxes on earnings	413,900	199,900	1,800,500	100,000	125,400
TOTAL CURRENT LIABILITIES	$ 6,651,800	$ 3,339,100	$ 4,005,500	$ 1,772,100	$ 1,126,700
Long-term notes payable	$ 3,655,900	$ 3,627,800	$ 659,300	$ 5,254,100	$ 5,551,500
TOTAL LIABILITIES	$10,307,700	$ 6,966,900	$ 4,664,800	$ 7,026,200	$ 6,678,200
Deferred income		$ 17,100	$ 7,100	$ 38,200	$ 37,700
Shareholders' equity	26,443,800	26,096,200*	25,251,100	20,326,200	19,733,400
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$36,751,500	$33,080,200	$29,923,000	$27,390,600	$26,449,300
Shareholders' equity per share outstanding as of December 31	$32.34	$31.90	$30.88	$24.85	$24.12
Dividends declared per share	1.00	1.00	1.00	.30	.60

*Net earnings, $55,600.00 of The Great Texas Lumber Company (Formerly Temple Builders Supply) for the period October 19, 1959 to December 31, 1961 were added to shareholders' equity at January 1, 1962.

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Southern Pine Lumber Company And Subsidiaries
Five Year Summary
Consolidated Statements Of Earnings
Years Ended December 31

	1963	1962	1961	1960	1959
Net sales	$33,242,400	$27,609,900	$22,581,200	$19,733,400	$19,686,000
Other income (Net)	1,137,000	980,100	660,800*	579,800	482,800
TOTAL	$34,379,400	$28,590,000	$23,242,000	$20,313,200	$20,168,800
Cost and Expenses:					
Cost of goods sold and expenses except expenses listed below	$30,567,000	$24,401,200	$19,663,700	$16,873,100	$16,132,600
Depreciation	1,260,300	1,236,800	1,166,800	1,067,400	1,213,000
Depletion of company timber	131,800	124,500	188,900	195,600	204,900
Purchased timber and logs	272,300	311,900	226,000	760,200	772,900
Property taxes	312,600	306,100	290,200	278,600	281,600
Federal income taxes — Estimated	651,800	611,400	506,500*	300,000	350,000
TOTAL COST AND EXPENSES	$33,195,800	$26,991,900	$22,042,100	$19,474,900	$18,955,000
NET EARNINGS	$ 1,183,600	$ 1,598,100	$ 1,199,900*	$ 838,300	$ 1,213,800
Dividends declared	818,100	818,100	818,100	245,400	490,800
EARNINGS RETAINED IN THE BUSINESS	365,500	780,000	381,800	592,900	723,000

*Excludes special profit item of $5,976,696.10 and $1,494,000.00 in Federal income taxes applicable thereto.

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Southern Pine Lumber Company And Subsidiaries

Consolidated Statements Of Earnings And Retained Earnings

For The Years Ending December 31, 1962 and 1963

CONSOLIDATED STATEMENT OF EARNINGS

	DECEMBER 31	
	1963	1962
Net sales	$33,242,436.54	$27,609,884.48
Cost of goods sold	25,448,142.77	20,585,682.76
GROSS PROFIT FROM SALES	$ 7,794,293.77	$ 7,024,201.72
Operating expenses	$ 6,799,253.67	$ 5,481,762.34
	$ 995,040.10	$ 1,542,439.38
Income from land rentals and oil leases	$ 411,384.69	$ 566,752.65
Profit on sales of property and investments	304,839.02	103,396.46
Interest income	208,190.49	127,568.34
Dividends received	75,969.00	17,950.60
Other income	136,617.69	164,443.11
	1,137,000.89	980,111.16
	$ 2,132,040.99	$ 2,522,550.54
Interest expense	$ 171,726.23	$ 202,119.00
Investment credit depreciation	41,962.54	47,280.85
Other expenses	82,944.13	63,689.56
	296,632.90	313,089.41
NET EARNINGS BEFORE TAXES	$ 1,835,408.09	$ 2,209,461.13
Provision for federal taxes on income — Estimated	651,855.64	611,388.34
NET EARNINGS FOR THE YEAR	$ 1,183,552.45	$ 1,598,072.79

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1963	1962
Balance at beginning of year	$17,915,494.34	$17,126,042.07
Net adjustment for prior years	(17,799.75)	9,444.48
	$17,897,694.59	$17,135,486.55
Net earnings for the year	$ 1,183,552.45	$ 1,598,072.79
Less dividends paid or declared	818,065.00	818,065.00
	$ 365,487.45	$ 780,007.79
Balance at end of year	$18,263,182.04	$17,915,494.34

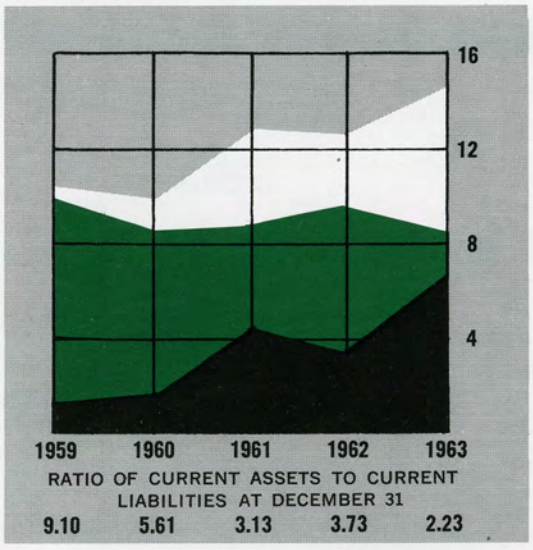
The accompanying notes to financial statements are an integral part of this statement.

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CURRENT ASSETS
CURRENT LIABILITIES
WORKING CAPITAL

WORKING CAPITAL

MILLIONS OF DOLLARS

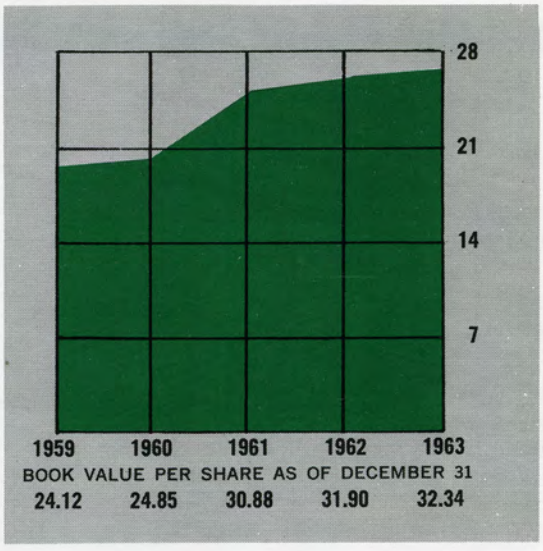


RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES AT DECEMBER 31

9.10 5.61 3.13 3.73 2.23

SHAREHOLDERS' EQUITY

MILLIONS OF DOLLARS

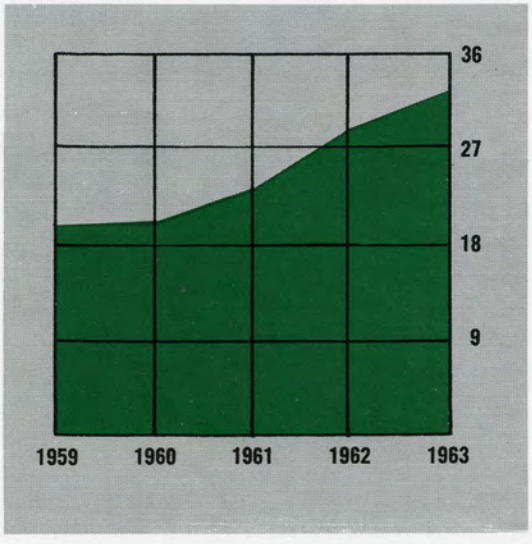


BOOK VALUE PER SHARE AS OF DECEMBER 31

24.12 24.85 30.88 31.90 32.34

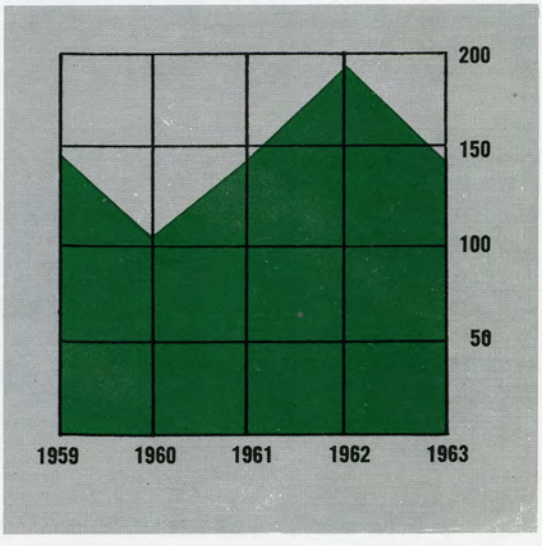
ANNUAL SALES

MILLIONS OF DOLLARS



EARNINGS PER SHARE

CENTS



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Southern Pine Lumber Company And Subsidiaries
Consolidated Statements Of Financial Condition

	AS OF DECEMBER 31	
	1963	1962
ASSETS		
Current Assets:		
Cash	$ 1,779,141.29	$ 2,494,306.47
Notes and accounts receivable (Less allowance for possible losses: 1963 — $168,152.50; 1962 — $94,430.02) — Note 3	5,592,126.21	4,117,655.26
Inventories at lower of cost or market	6,254,985.33	5,263,359.81
Real estate for resale and construction contracts in progress — Note 3	1,069,785.00	370,097.16
Prepaid expenses	126,206.79	204,628.89
TOTAL CURRENT ASSETS	$14,822,244.62	$12,450,047.59
Investments At Cost:		
Marketable securities — Note 3	$ 166,213.01	$ 317,989.23
Securities of and advances to related companies and subsidiaries not consolidated — Note 4	5,110,816.57	4,058,886.91
Land — Note 3	51,667.73	67,011.90
TOTAL INVESTMENTS	$ 5,328,697.31	$ 4,443,888.04
Property, Plant and Equipment At Cost:		
Buildings, machinery and equipment — Note 4	$22,176,739.55	$21,459,076.67
Less accumulated depreciation	10,652,469.43	9,962,400.30
	$11,524,270.12	$11,496,676.37
Land and timber at cost less provision for timber depletion	3,161,767.18	3,564,645.30
TOTAL PROPERTY, PLANT AND EQUIPMENT	$14,686,037.30	$15,061,321.67
Other assets, including notes receivable due after one year — Note 3	$ 1,914,495.08	$ 1,124,925.97
TOTAL ASSETS	$36,751,474.31	$33,080,183.27

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

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Southern Pine Lumber Company And Subsidiaries
Consolidated Statements Of Financial Condition

	AS OF DECEMBER 31	
	1963	1962
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable due within one year — Note 3	$ 3,471,350.60	$ 1,483,866.16
Accounts payable, including customers' credit balances	1,301,390.93	543,711.69
Dividends payable	572,645.50	572,645.50
Accrued Accounts:		
Provision for taxes and expenses	892,510.58	539,013.83
Provision for federal taxes on earnings — Note 5	413,857.66	199,888.34
TOTAL CURRENT LIABILITIES	$ 6,651,755.27	$ 3,339,125.52
Other Liabilities:		
Notes payable due after one year — Notes 3 and 5	$ 3,655,887.00	$ 3,627,749.77
TOTAL LIABILITIES — NOTE 6	$10,307,642.27	$ 6,966,875.29
Deferred income	————	17,163.64
Shareholders' 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	18,263,182.04	17,915,494.34
TOTAL SHAREHOLDERS' EQUITY	$26,443,832.04	$26,096,144.34
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$36,751,474.31	$33,080,183.27

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

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Southern Pine Lumber Company And Subsidiaries

Notes To Consolidated Financial Statements

December 31, 1963

NOTE 1—Events Subsequent to December 31, 1963

On January 3, 1964 the Company's name was duly changed to Temple Industries, Inc. by its shareholders.

NOTE 2—Principles of Consolidation:
The consolidated financial statements include all active wholly-owned subsidiaries except a corporation dealing in real estate (Scotch Investment Company) and a small newspaper publishing company.

Inter-company profits remaining in inventories are relatively insignificant and have not been eliminated. Inter-company sales totalling $2,026,246.22 in 1963 and $1,974,116.49 in 1962 have been eliminated from sales and cost of goods sold.

NOTE 3—Pledged Assets:

The following assets are pledged to secure notes payable of $1,526,030.00 ($880,922.00 due within one year):

Notes and Accounts Receivable:		
Due in one year	$698,013.00	
Due after one year	170,450.00	868,463.00
Real estate for resale and construction in progress at cost		176,000.00
Land held for investment		51,667.00
Property, plant and equipment at cost		600,122.00
TOTAL		$1,696,252.00

Marketable securities in the amount of $129,926.00 are pledged to savings and loan associations to secure payment of loans made to customers or employees for purchases of houses from the Company.

NOTE 4—Securities of and Advances to Related Companies and Subsidiaries Not Consolidated:

Certain subsidiaries were excluded from the consolidated financial statements because of the diversity of their operations and closing dates.

The equity of Southern Pine Lumber Company and Subsidiaries in the related companies and subsidiaries not consolidated totaled approximately $3,385,000.00 at December 31, 1963. The stock of the related companies and subsidiaries not consolidated is shown at cost ($3,395,316.57) in the financial statements.

NOTE 5—Notes Payable:

Notes payable to Republic National Bank of Dallas, Texas in the amount of $2,850,000.00 at December 31, 1962 (due within one year) were used for investments in and advances to subsidiary companies. The Company may, in accordance with an agreement with the bank, defer payment of these notes for a period of five years from January 15, 1962.

Due to arrangements that are being made to refinance the foregoing notes and an additional $3,150,000.00 of short term debt (total $6,000,000.00) the notes due to Republic National Bank have been classified as notes due after one year in the statement of financial condition. The terms of this refinancing provide for repayment of principal in twelve annual installments of $456,000.00 each beginning December 31, 1966 with interest of 5% payable semi-annually.

NOTE 6—Commitments and Contingencies:

The consolidated companies were contingently liable as guarantors or endorsers at December 31, 1963 as follows:

As endorsers of customers' notes sold to finance companies $730,000.00

As guarantors of notes payable of related companies and subsidiaries not consolidated $415,000.00

Southern Pine Lumber Company is committed to pay one-half the cost of constructing a plant for the manufacture of plywood at

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Diboll, Texas. The plant is expected to cost approximately $3,000,000.00. The Company is also committed for the construction of new log handling facilities which will cost approximately $1,250,000.00.

Agents of the Internal Revenue Service are examining the Federal income tax returns of Southern Pine Lumber Company for the years 1958 through 1962. The tax liability of the Company is not expected to be increased materially as a result of this examination.

Texas Gypsum Company, Inc., a company in which Southern Pine Lumber Company owns 49.9% of the stock, is currently engaged in legal proceedings to recover triple damages from certain of its competitors for alleged price discrimination prohibited by Federal "anti-trust" laws. One of the defendants is seeking the right to file a counterclaim for substantial damages from Texas Gypsum Company, Inc., Southern Pine Lumber Company and The Great Texas Lumber Company, a consolidated subsidiary. Outside counsel for Southern Pine Lumber Company and The Great Texas Lumber Company have stated that they have no information which indicates either company to be liable in any way to the counterclaimant or to any other defendant in the suit. In the opinion of the Company's general counsel, the counterclaim against Southern Pine Lumber Company and its consolidated subsidiary is without merit and will not have any material adverse effect on the financial position of either company.

AXLEY & RODE
Certified Public Accountants
LUFKIN, TEXAS

March 12, 1964

Board of Directors

Southern Pine Lumber Company

Diboll, Texas

We have examined the consolidated statement of financial condition of Southern Pine Lumber Company and Subsidiaries as of December 31, 1963 and the related statements of earnings 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 accompanying consolidated statement of financial condition and statements of earnings and retained earnings present fairly the financial position of Southern Pine Lumber Company and Subsidiaries at December 31, 1963 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Axley & Rode

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Officers

W. TEMPLE WEBBER
Chairman of the Board

ARTHUR TEMPLE
President

T. L. L. TEMPLE, III
Vice-President

CARROL B. ALLEN
Vice-President—Fiber Board Division

JOE C. DENMAN, JR.
Vice-President—Lumber Production

KENNETH NELSON
Vice-President—Land & Timber Division

R. CLYDE THOMPSON
Vice-President—Forest Harvest Division

ROBERT J. WESTON
Vice-President—Marketing

W. AUBREY CANON
Secretary-Treasurer

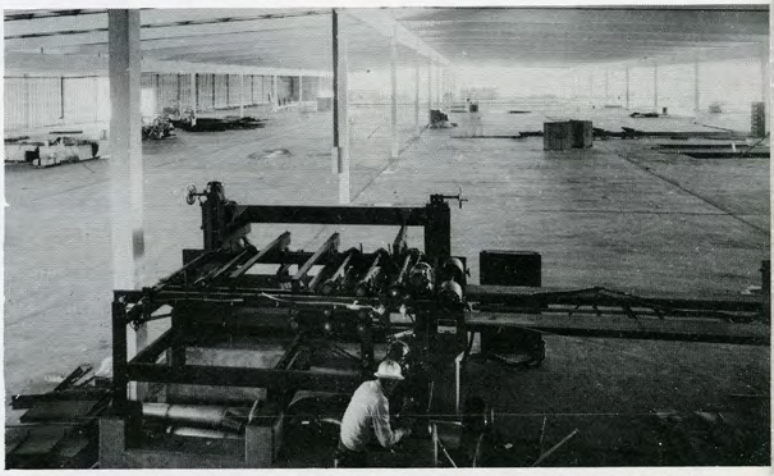
JAMES J. NELSON
Comptroller &
Assistant Secretary-Treasurer

Directors

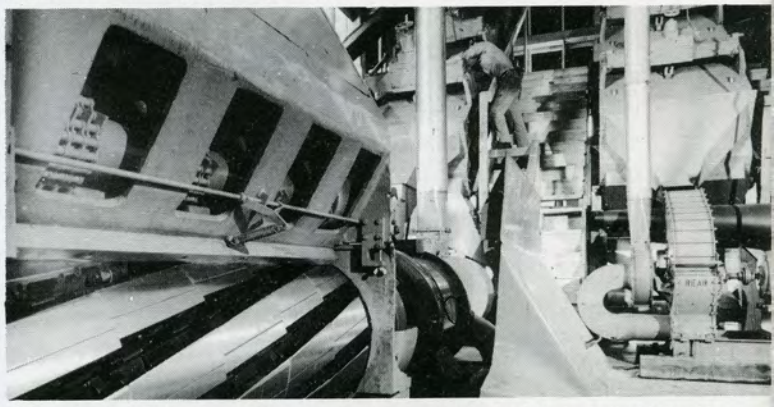
LEE E. COOK
NEWMAN B. GREGORY
ROBERT T. KEELER
THOMAS T. KEELER
NICHOLAS PEAY
E. G. PRUD'HOMME
H. J. SHANDS
*ARTHUR TEMPLE
*T. L. L. TEMPLE, III
R. CLYDE THOMPSON
*W. TEMPLE WEBBER
JULIAN H. ZIMMERMAN
*Executive Committee



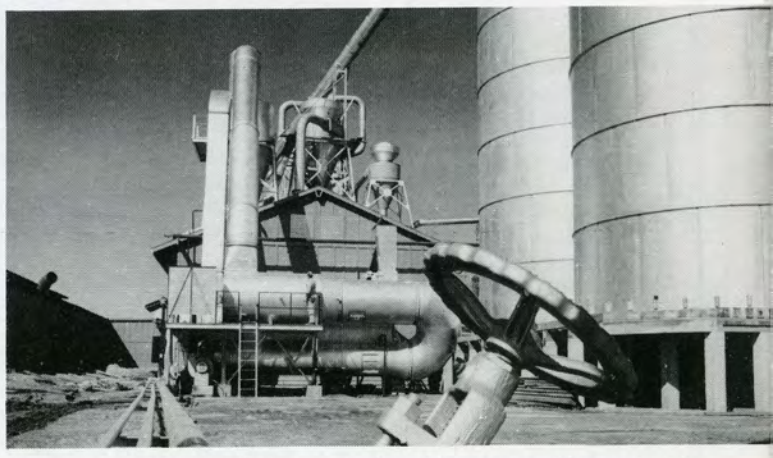
New plywood plant nearing completion in Diboll. In foreground is new office building for Southern Pine Plywood Company, and warehouse for storage of plywood (50% of production) to be marketed by Temple Industries.



Even before the plywood plant building is completed, production machinery is being assembled for this pioneering southern pine ply wood manufacturing operation.

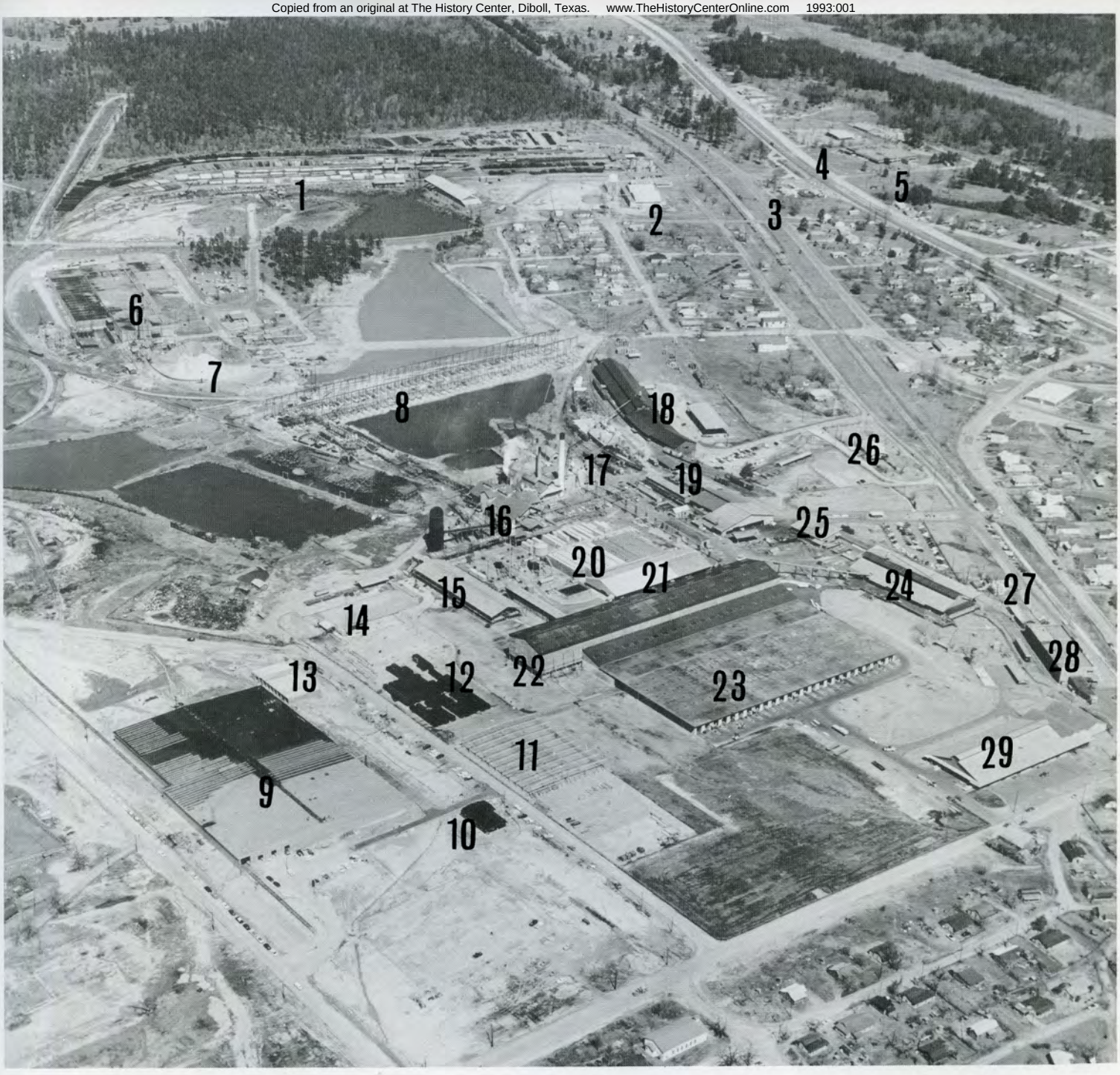


This giant flaking machine is being installed in the new Temple particleboard plant in Pineland.



These huge driers and storage tanks will process chips and flakes when the particleboard plant goes into operation this Spring.

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TEMPLE INDUSTRIES, DIBOLL, TEXAS

1. Treating plant **2.** Tex-Lam Division **3.** Log scales **4.** Temple Associates **5.** Angelina Furniture **6.** Fiber Products Division **7.** Fiber Products chip storage **8.** Log processing center **9.** Southern Pine Plywood Company plant **10.** Southern Pine Plywood Company general offices **11.** Plywood warehouse **12.** Fiberboard storage **13.** Steam vats **14.** Penta treating plant **15.** Sorter **16.** Sawmill **17.** Love Wood Products manufacturing **18.** Temple-White manufacturing plant **19.** TSE **20.** Kilns **21.** Cooling shed **22.** Rough storage **23.** Finish storage **24.** Planing mill **25.** Pine wood parts plant **26.** Temple-White general offices **27.** Love Wood Products **28.** Temple Industries general offices **29.** Shipping

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TEMPLE INDUSTRIES, PINELAND, TEXAS, DIVISION

1. Log storage **2.** Hammer mill **3.** Temple Molded Seat Division **4.** Sawmill **5.** Chipper **6.** Sorting **7.** Wolman treating plant **8.** Kilns **9.** Furniture Parts Division **10.** Particleboard plant **11.** Shipping **12.** Finish storage **13.** Planing mill & flooring manufacturing **14.** Rough storage **15.** Flooring storage **16.** Hardwood shipping **17.** Pineland general offices **18.** Temple Manufacturing Company parts plant **19.** Hardwood storage