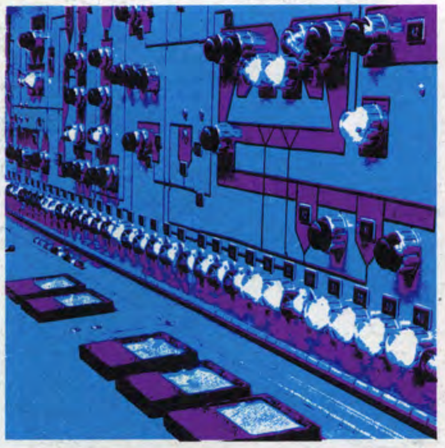
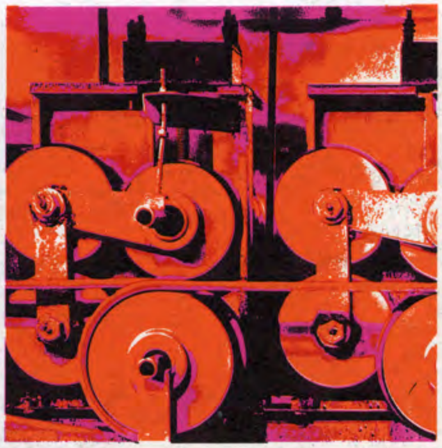
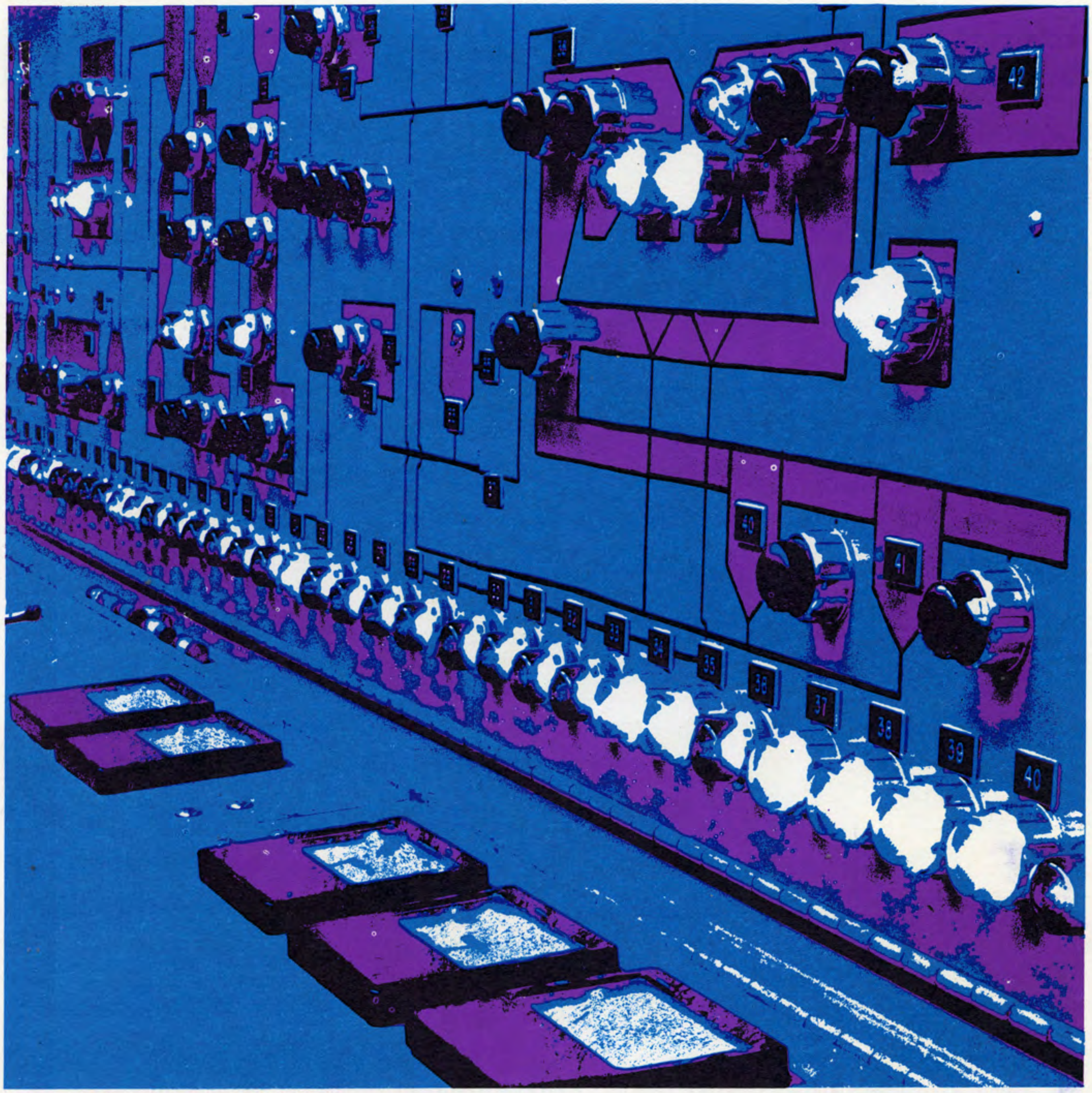
Temple Industries
Annual Report
1967 / Seventy-Fourth Year of Growth





Temple Industries



Control panel for Particleboard Plant, Pineland

PHOTOGRAPHIC ABSTRACTION

To Our Shareholders:

The recession that occurred in residential construction during the latter part of 1966 continued through most of 1967, depressing prices of some of our products, particularly lumber and hardwood flooring. In the final quarter demand improved and markets strengthened, but most prices for the year 1967 averaged considerably lower than in the previous year. As a result, profits of our operations at Diboll and Pineland were reduced. However, two of our wholly owned subsidiaries—Texas Gypsum Company and Woodward, Inc.—had substantially increased earnings which offset this decline. During the first quarter of this year we have enjoyed excellent market conditions and there are indications they will continue, barring any serious disruption of the general economy. Housing demand is strong at this time, but construction starts will largely depend on the availability of mortgage money at reasonable rates. Financial news of the past week again raises the spectre of a selective depression for the construction industry. On the other hand, if Congress will take the necessary steps to deal responsibly with the fiscal problems this country faces, we believe that normal money markets and the pent-up demand for housing will combine to give the entire construction industry the most profitable years in our history.

In 1967 the company changed its method of accounting for investments in unconsolidated subsidiaries and related companies to currently recognize the company's equity in the net earnings or losses of these companies. The statistical data of prior years' financial statements have been restated to reflect this change. Although this resulted in only a nominal change in the company's net earnings for 1966 and 1967, this method of reporting should provide a more complete picture of the company's operations in future years. On this basis of consolidation, net earnings for 1967, after provision for Federal income taxes, were $3.16 per share, compared with $2.89 for the previous year after adjusting for loss resulting from the sale of most of the retail division. Cash flow from operations increased to $5.22 from $4.83.

We are continuing to change our production facilities and patterns to fit the long-range picture of markets and timber supply. Thus, as the supply of hardwood timber has diminished, we have eliminated the production of both hardwood lumber and hardwood flooring. At the same time, we have increased our production of pine lumber and have doubled the production of pine studs at the Pineland operation. Pine timber is considerably more abundant in our area and promises to be in the future.

We have recently entered into a long-term agreement for the exchange of pine chips for pine timber with a large paper manufacturer which will supplement the timber harvested from our own lands. We also follow a policy of making substantial open market purchases of pine timber from tree farmers in our area. During the year, 1967, we cut 67,000,000 feet of pine timber from our own lands and 47,000,000 feet from others. We expect to make additional continuing agreements with large timber owners to stabilize further an increasing supply of market timber.

The stud mill at Pineland is enjoying a strong market and has fulfilled our expectations.

Texas Gypsum Company showed marked improvement over the previous year. Sales increased 50% and profits were up substantially. Improved efficiency and more stable prices resulted in almost complete utilization of productive capacity. We have just completed an expansion program at this plant which will further increase production and reduce costs. Assuming a healthy economy, we expect Texas Gypsum to improve its earnings further.

Woodward, Inc., our furniture manufacturing subsidiary in Austin, Texas, had a sales increase of approximately 17% and a gain in earnings of over 100%. Modest capital expenditures have been approved to increase production and we expect sales to increase 35% as a result.

Southern Pine Plywood Company, our joint venture with U.S. Plywood-Champion Papers, Inc., made a small profit in 1967. Plywood prices were depressed during the year, but showed some strength in the last quarter. We continue to have strong convictions that plywood will be an important contributor to the profitability of Temple Industries in future years when the housing market rebounds and the current wave of production expansion slows. We believe that the expansion of plywood production in the South will continue to grow during the next two years, but at a much slower pace.

A fire destroyed the Diboll sawmill proper on January 7th of this year. A new mill is under construction and we hope to be operating again by fall. This mill will incorporate many labor-saving and technical developments which were not possible in the old mill. We were covered by insurance for full replacement cost, as well as business interruption and, therefore, our loss should be minimal. All permanent employees who might have been adversely affected have been placed in other operations, and every step possible has been taken to minimize the detrimental effect of this catastrophe on our customers, our earnings, and our employees.

Several promising new developments are under consideration at the present time involving additional products and the further expansion of existing operations. We are conducting a continuing profitability study seeking to increase the earnings of the company through the elimination of diversionary activities and by channeling our investments and efforts into those activities which hold the greatest promise of future profit.

The value of some of our timber lands has greatly increased near towns and cities and on lakes and highways, to such an extent that it is no longer practical to consider such tracts as an economic timber growing unit. An active program has been established for the development and sale of real estate growing out of our timber holdings. The acreage which is classified as real estate is relatively small when compared with the company's total land holdings and we expect to reinvest in rural timber lands a portion of the profits from real estate sold.

Under a restricted stock option plan approved by the shareholders at the last annual meeting, options for a total of 31,000 shares of stock were granted to 34 key employees of the company. The plan was enthusiastically received and we expect it to have a great motivational effect.

We are pleased to acknowledge the faithful and efficient services rendered by the employees, the directors and officers during the year.

W. Temple Webber

W. TEMPLE WEBBER
Chairman of the Board

Arthur Temple

ARTHUR TEMPLE
President and
Chairman of Executive Committee

Temple Industries

Finished studs ready for shipment, Stud Mill, Pineland

PHOTOGRAPHIC ABSTRACTION

Temple Industries

Automatic stacker, Fiberboard Plant, Diboll

PHOTOGRAPHIC ABSTRACTION

Temple Industries, Inc., and Consolidated Subsidiaries

Consolidated Statement of Earnings

For the Years Ended December 31, 1967 and 1966

	1967	1966
Net Sales	$31,951,393	$30,518,961
Cost of Sales	24,256,621	22,570,185
	$ 7,694,772	$ 7,948,776
Operating Expenses	5,361,966	4,834,525
	$ 2,332,806	$ 3,114,251
Other Earnings (Expenses):		
Profit from sale of real estate and oil leases	$ 923,202	$ 866,424
Interest expense	(547,213)	(465,241)
Net earnings (loss) of joint venture	49,537	(12,895)
Interest income and other, net	451,773	187,668
Equity in net earnings (losses) of unconsolidated subsidiaries and related companies (Note 1)	37,013	(30,130)
Earnings from discontinued operations (Note 3)	–	90,424
Loss on sale of The Great Texas Lumber Company, less applicable income tax reduction (Note 3)	–	(623,428)
	$ 914,312	$ 12,822
EARNINGS BEFORE FEDERAL INCOME TAXES	$ 3,247,118	$ 3,127,073
Provision for Federal Income Taxes (Note 6)	669,000	767,000
NET EARNINGS	$ 2,578,118	$ 2,360,073

(Costs and expenses above include depreciation and depletion of $1,687,000 in 1967 and $1,542,000 in 1966.)

Consolidated Statement of Retained Earnings

For the Years Ended December 31, 1967 and 1966

	1967	1966
Balance at Beginning of Year (Note 1)	$20,643,905	$19,101,628
Net Earnings	2,578,118	2,360,073
	$23,222,023	$21,461,701
Cash Dividends Declared	817,089	817,796
Balance at End of Year	$22,404,934	$20,643,905

(See accompanying notes to financial statements.)

Temple Industries, Inc., and Consolidated Subsidiaries

Consolidated Balance Sheets

December 31, 1967 and 1966

Assets	*1967*	*1966*
Current Assets:		
Cash	$ 2,379,272	$ 560,372
Receivables, less reserves of $204,682 in 1967 and $231,472 in 1966	3,792,287	4,332,057
Refundable Federal income taxes	199,822	125,119
Inventories, principally at the lower of average cost or market	4,816,456	4,208,339
Prepaid expenses	327,975	224,714
Total Current Assets	$11,515,812	$ 9,450,601
Investments and Other Assets:		
Investment in and advances to unconsolidated subsidiaries and related companies, at cost plus equity in undistributed net earnings since acquisition (Note 1)	$ 6,969,141	$ 5,858,844
Equity in and advances to Southern Pine Plywood Co., a joint venture	2,009,330	2,044,793
Notes receivable	1,070,780	1,513,021
Real estate and other assets (partially pledged)	1,234,430	1,182,357
	$11,283,681	$10,599,015
Timber and Timberlands, at cost less depletion, including deposits on timber cutting contracts	$ 3,336,088	$ 3,829,390
Property, Plant and Equipment, at cost (Note 2):		
Buildings, machinery and equipment	$30,618,511	$29,225,832
Less—Accumulated depreciation	14,374,579	13,085,685
	$16,243,932	$16,140,147
	$42,379,513	$40,019,153

(See accompanying notes to financial statements.)

Liabilities and Shareholders' Investment	*1967*	*1966*
Current Liabilities:		
Notes payable	$ 2,250,000	$ 750,000
Current maturities of long-term debt	715,764	663,765
Accounts payable	424,822	841,239
Dividends payable	408,544	408,794
Accrued liabilities	808,034	697,117
Federal income taxes (Note 6)	378,704	277,755
Total Current Liabilities	$ 4,985,868	$ 3,638,670
Long-Term Debt, excluding current maturities (Note 4)	$ 6,857,361	$ 7,579,728
Commitments and Contingencies (Note 7)		
Shareholders' Investment:		
Common stock, $10 par, authorized 1,000,000 shares, issued 818,065 shares (Note 8)	$ 8,180,650	$ 8,180,650
Retained earnings (Notes 1 and 4)	22,404,934	20,643,905
	$30,585,584	$28,824,555
Less—Treasury stock, at cost (976 shares and 476 shares, respectively)	49,300	23,800
	$30,536,284	$28,800,755
	$42,379,513	$40,019,153

(See accompanying notes to financial statements.)

Notes to Consolidated Financial Statements

December 31, 1967

(1) PRINCIPLES OF CONSOLIDATION AND RETROACTIVE CHANGE IN ACCOUNTING FOR UNCONSOLIDATED SUBSIDIARIES AND RELATED COMPANIES

All significant wholly-owned subsidiaries, except an oil and gas and a real estate company, are included in the consolidated financial statements, and no related companies owned less than 100 per cent by Temple are consolidated. Prior to 1967 the company followed the policy of accounting for investments in unconsolidated subsidiaries and related companies at cost. In 1967 the company retroactively changed its method of accounting for investments in unconsolidated subsidiaries and related companies from cost to cost (less amortization of cost in excess of the net assets acquired) plus or minus the equity in net earnings or losses since acquisition. The 1966 financial statements have been restated to reflect this change in accounting as follows:

	Net Earnings	Retained Earnings	Investment in Unconsolidated Subsidiaries and Related Companies
As reported before restatement	$2,405,203	$20,289,716	$5,504,655
Equity in net earnings (losses) of unconsolidated subsidiaries and related companies	(30,130)	558,721	558,721
Dividends received from above companies reclassified as reduction of investment account	(15,000)	(204,532)	(204,532)
Balance for 1966, as restated	$2,360,073	$20,643,905	$5,858,844

(2) FIRE LOSS

On January 7, 1968, a fire destroyed the company's log sawing facilities at Diboll, Texas. Adjacent sawmill properties suffered only minor damage and have been repaired. The log sawing facilities are being rebuilt with an estimated completion date in the fourth quarter of 1968. The company is not expected to suffer any substantial financial loss from the fire, as it carries replacement insurance on its plant and business interruption insurance against loss of profits. The results and amounts of the insurance claims, however, cannot be determined at this time.

(3) DISCONTINUED OPERATIONS

As of August 31, 1966, the company discontinued substantially all of its retail lumber yard operations by selling its wholly-owned subsidiary, The Great Texas Lumber Company.

(4) LONG-TERM DEBT

At December 31, 1967, long-term debt consisted of the following:

	Long-Term	Current Maturities
Notes payable under loan agreements dated April 3, 1964— 5%, unsecured, due in annual installments of $616,000	$6,152,000	$616,000
Notes payable dated January 2, 1960— 6%, due in annual installments of $51,646, secured by land, equipment and property with a book value of $344,893. The principal payments maturing January 2, 1968 were prepaid on December 31, 1967	103,292	—
Note payable to an insurance company dated May 1, 1961— 6%, due in monthly installments, secured by land and buildings with a book value of $181,360	122,074	12,518
Notes payable dated November 30, 1966— 6%, due in annual installments of $100,000 commencing November 30, 1969, secured by real estate with a book value of $626,524	300,000	—
Other notes and mortgages, partially secured by land	179,995	87,246
	$6,857,361	$715,764

The loan agreements dated April 3, 1964, provide, among other things, that so long as any of the loans are outstanding the company will not:

A. Permit the consolidated net current assets of the company and its subsidiaries to be less than $4,000,000.

B. Create any mortgage on existing assets of the company and its subsidiaries, unless certain conditions are met.

C. Permit the payment of dividends or retirement of capital stock in excess of $2,200,000 plus the consolidated net income of the company as defined, subsequent to December 31, 1963. The amount of consolidated retained earnings not restricted at December 31, 1967, and available for dividends or capital stock retirement was $5,200,000.

The agreements also place certain restrictions on additional borrowing and financing, property acquisitions and disposals, and investments. The entire balance owing on the notes may become due and payable if certain covenants of the loan agreement are violated.

(5) RETIREMENT PLAN

The company and its subsidiaries have a pension plan covering all qualified employees. Pension expense was $158,900 in 1967 and $148,500 in 1966, including amortization of prior service cost over a period of not less than ten years. The company's policy is to fund pension cost accrued. As of December 31, 1967, the pension fund assets and balance sheet accruals exceeded the actuarially computed value of the vested benefits.

(6) FEDERAL INCOME TAXES

The company uses the flow-through method of accounting for the investment tax credit available under the Revenue Act of 1962. Under the flow-through method, such tax credits available for each year are applied as a reduction of the year's provision for Federal income taxes. The reduction in Federal income taxes from these credits amounted to approximately $50,000 in 1967 and $180,000 in 1966.

Agents of the Internal Revenue Service are examining the consolidated Federal income tax returns of the company for 1963 and 1964. No material increase in the tax liability of the company is expected to result from this examination.

(7) COMMITMENTS AND CONTINGENCIES

As of December 31, 1967, the company was contingently liable as guarantor or endorser of notes sold to others and notes payable of related companies in the amount of $822,000.

Subsequent to December 31, 1967, the company guaranteed a note payable of an unconsolidated real estate subsidiary to the extent of $787,000.

The company is the defendant in several legal actions; however in the opinion of management and the company's legal counsel, the eventual settlement of these items will not result in liabilities substantially in excess of amounts provided for in the financial statements.

(8) STOCK OPTION PLAN

During 1967 the stockholders approved a stock option plan designed to meet the requirements of the Internal Revenue Code as a qualified stock option plan. Under this plan, options for a total of 80,000 shares of common stock may be granted to certain officers and key employees by the Stock Option Committee of the Board of Directors. The option price must not be less than the fair market value on the date of the grant. As of December 31, 1967, options for 31,000 shares of stock had been granted under this plan.

ARTHUR ANDERSEN & CO.

1700 Bank of the Southwest Building
Houston, Texas 77002

March 4, 1968

To the Stockholders and Board of Directors,
Temple Industries, Inc.:

We have examined the consolidated balance sheet of Temple Industries, Inc. (a Texas corporation), and consolidated subsidiaries as of December 31, 1967 and 1966, and the related consolidated statements of earnings and retained earnings for the years 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 balance sheet and consolidated statements of earnings and retained earnings present fairly the consolidated financial position of Temple Industries, Inc., and consolidated subsidiaries as of December 31, 1967 and 1966, and the results of their operations for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change in the method of reporting investments in unconsolidated subsidiaries as explained in Note 1 to the financial statements.

ARTHUR ANDERSEN & CO.

Temple Industries, Inc., and Consolidated Subsidiaries

Five Year Summary Consolidated Statements of Earnings

(000 Omitted)

	Years Ended December 31				
	1967	*1966*	*1965*	*1964*	*1963*
Net Sales	$31,952	$30,519	$29,095	$21,380	$19,308
Cost of Sales	24,257	22,570	22,219	16,358	14,530
	$ 7,695	$ 7,949	$ 6,876	$ 5,022	$ 4,778
Operating Expenses	5,362	4,835	4,446	3,259	2,891
	$ 2,333	$ 3,114	$ 2,430	$ 1,763	$ 1,887
Other Earnings (Losses)–					
Other earnings, net	877	576	21	858	504
Equity in net earnings (losses) of unconsolidated subsidiaries and related companies	37	(30)	61	(138)	(11)
Earnings (losses) on discontinued operations	–	90	40	(1,995)	(607)
Write-down of investments in certain subsidiaries to equity in net assets	–	–	(716)	–	–
Loss on sale of The Great Texas Lumber Company, less applicable income tax reduction	–	(623)	–	–	–
Earnings before Federal income taxes	$ 3,247	$ 3,127	$ 1,836	$ 488	$ 1,773
Provision for Federal Income Taxes	669	767	353	26	652
NET EARNINGS	$ 2,578	$ 2,360	$ 1,483	$ 462	$ 1,121
Cash Dividends Declared	817	818	818	654	818
EARNINGS RETAINED IN THE BUSINESS	$ 1,761	$ 1,542	$ 665	$ (192)	$ 303
Costs and expenses above include–					
Depreciation	$ 1,609	$ 1,457	$ 1,506	$ 1,290	$ 1,218
Depletion of company timber	$ 78	$ 85	$ 144	$ 144	$ 132
Purchased timber and logs	$ 1,470	$ 1,423	$ 848	$ 447	$ 272
Property taxes	$ 409	$ 385	$ 357	$ 369	$ 313

(See note to consolidated balance sheets.)

Temple Industries, Inc., and Consolidated Subsidiaries

Five Year Summary Consolidated Balance Sheets

(000 Omitted)

	December 31				
Assets	*1967*	*1966*	*1965*	*1964*	*1963*
Current Assets:					
Cash	$ 2,379	$ 560	$ 2,210	$ 1,440	$ 1,779
Receivables, net	3,992	4,457	4,879	4,229	5,592
Inventories, principally at the lower of average cost or market	4,817	4,209	5,020	5,310	6,255
Real estate for resale and construction contracts (of retail operations discontinued in 1966)	–	–	1,000	818	1,070
Prepaid expenses	328	225	280	306	126
Total Current Assets	$11,516	$ 9,451	$13,389	$12,103	$14,822
Investments and Other Assets:					
Investments in and advances to unconsolidated subsidiaries and related companies, at cost plus equity in undistributed net earnings since acquisition	$ 6,969	$ 5,859	$ 3,885	$ 5,142	$ 4,834
Equity in and advances to a joint venture	2,009	2,045	2,191	2,350	375
Notes receivable	1,071	1,513	581	402	559
Real estate and other assets (partially pledged)	1,235	1,182	564	491	447
	$11,284	$10,599	$ 7,221	$ 8,385	$ 6,215
Timber and Timberlands, at cost less depletion, including deposits on timber cutting contracts	$ 3,336	$ 3,829	$ 3,222	$ 3,277	$ 3,344
Property, Plant and Equipment, at cost:					
Buildings, machinery and equipment	$30,619	$29,226	$27,434	$25,379	$23,388
Less—accumulated depreciation	14,375	13,086	12,778	11,601	10,652
	$16,244	$16,140	$14,656	$13,778	$12,736
	$42,380	$40,019	$38,488	$37,543	$37,117

Liabilities and Shareholders' Investment

	1967	1966	1965	1964	1963
Current Liabilities:					
Notes payable and current maturities of long-term debt	$ 2,966	$ 1,414	$ 825	$ 738	$ 3,471
Accounts payable	425	841	872	648	1,301
Dividends payable	408	409	409	409	573
Accrued liabilities	808	697	691	673	893
Federal income taxes	379	278	527	–	414
Total Current Liabilities	$ 4,986	$ 3,639	$ 3,324	$ 2,468	$ 6,652
Long-Term Debt, excluding current maturities	$ 6,858	$ 7,580	$ 7,885	$ 8,458	$ 3,656
Shareholders' Investment:					
Common stock	$ 8,181	$ 8,181	$ 8,181	$ 8,181	$ 8,181
Retained earnings	22,404	20,643	19,101	18,436	18,628
Treasury stock, at cost	(49)	(24)	(3)	–	–
	$30,536	$28,800	$27,279	$26,617	$26,809
	$42,380	$40,019	$38,488	$37,543	$37,117
Per Share:					
Shareholders' investment	$ 37.37	$ 35.23	$ 33.35	$ 32.54	$ 32.77
Net earnings	$ 3.16	$ 2.89	$ 1.81	$ .56	$ 1.37
Cash from operations	$ 5.22	$ 4.83	$ 4.48	$ 2.61	$ 3.15
Dividends paid	$ 1.00	$ 1.00	$ 1.00	$ 1.00	$ 1.00
Dividends declared	$ 1.00	$ 1.00	$ 1.00	$ .80	$ 1.00
Ratio of current assets to current liabilities	2.31	2.60	4.03	4.90	2.23

NOTE: Prior to 1967 the company followed the policy of accounting for investments in unconsolidated subsidiaries and related companies at cost. In 1967 the company retroactively changed its method of accounting for investments in unconsolidated subsidiaries and related companies from cost to cost (less amortization of cost in excess of net assets acquired) plus or minus the equity in net earnings or losses since acquisition. The financial statements for 1963 through 1966 have been restated to reflect this change in accounting and certain other reclassifications and adjustments applicable to those years.

Temple Industries

Particleboard press, Pineland

PHOTOGRAPHIC ABSTRACTION

Temple Industries

Raw fence posts for pressure treating, Treating Plant, Diboll

PHOTOGRAPHIC ABSTRACTION

Officers

W. Temple Webber
Chairman of the Board

Arthur Temple
President & Chairman of Executive Committee

Joe C. Denman, Jr.
Executive Vice-President

Kenneth Nelson
Vice-President—Land & Timber Division

R. Clyde Thompson
Vice-President

W. Aubrey Canon
Secretary-Treasurer

James J. Nelson
Comptroller & Assistant Secretary-Treasurer

Directors

Lee E. Cook
*Joe C. Denman, Jr.
Newman B. Gregory
Robert T. Keeler
Thomas T. Keeler
Nicholas Peay
H. J. Shands
*Arthur Temple
R. Clyde Thompson
*W. Temple Webber
Julian H. Zimmerman
**Executive Committee*

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