Temple Industries 1968 Seventy Fifth Anniversary Annual Report

Building materials, furniture and mortgage financing . . . all are products and services provided by Temple Industries.

Financial Highlights

	1968	*1967*	*Percent Change*
Net Sales	$40,388,000	$31,951,000	+ 26
Net Income:			
Amount	4,073,000	2,578,000	+ 58
Per Share	$1.66	$1.05*	+ 58
Rate of Earnings on Common Equity at Beginning of Year	13.3%	9.0%	+ 48
Cash Flow (net income plus depreciation and depletion)			
Amount	$ 6,514,000	$ 5,262,000	+ 24
Per Share	$2.66	$2.15*	+ 24
Cash Dividends			
Amount	$ 919,225	$ 817,089	+ 12
Per Share	$ .38	$ .33	+ 12
Number of Shares Outstanding	2,451,267	2,451,267	
Number of Employees at End of Year	1,863	1,851	

*Adjusted for three-for-one stock split in July, 1968.


INFEED CONVEYOR
START
STOP
START
STOP

Skilled hands operate the control console in Temple's new Diboll sawmill, which was completed in October. The new sawmill now employs the most modern automated processes available to obtain maximum use of logs and to reduce production costs. Temple also is continuing to modernize and automate its other manufacturing facilities.

To Our Shareholders:

The recovery in building material markets, which began in the fourth quarter of 1967, continued through 1968, and as a result, Temple Industries enjoyed the most profitable year in its history. Sales increased 26% to $40,388,000, as compared with $31,951,000 for the year 1967. Net income after taxes was $4,073,000 (including the business interruption claim)—up 58% over the $2,578,000 earned in 1967. Earnings were $1.66 per share, compared with $1.05 for the previous year (adjusted for a three-for-one stock split in July, 1968). Cash flow increased 24% to $6,514,000.

Changes in production to emphasize those products with strongest markets and profit potential allowed us to take advantage of a relatively stronger housing market this year. We expect 1969 to see a continuation of this upward trend in sales and profitability.

During the last five years sales have almost doubled, increasing from $21,000,000 to in excess of $40,000,000. During this same time, the company has been able to increase its net profit at a faster rate than sales have increased—reaching in excess of $4,000,000 in 1968.

In October we started production through our new, highly efficient sawmill at Diboll, which has been built to replace the mill destroyed by fire on January 7, 1968. Although we were insured against business interruption occasioned by the fire, we expect the operation of the new mill to significantly exceed the income received on this unit in 1968.

We have been successful in purchasing a large part of our timber requirements in open market transactions from other timber owners in our area. During the year 1968, we cut 52,000,000 feet of sawtimber from our own lands and acquired 37,000,000 feet of timber from other tree farmers, thereby adding to our forest inventory a large part of this year's timber growth. We purchased 10,000 acres of timberland in fee during 1968 and have purchased 5,000 acres thus far in 1969. We expect to close pending options to purchase 46,000 additional acres in the next few months and we will continue to acquire good timberlands as they become available. At the present time, Temple Industries owns 400,000 acres of growing timberland.

Texas Gypsum Company increased its earnings 50% as a result of improved automation and an increase in its productive capacity from 120,000,000 square feet to 150,000,000 square feet on an annual basis. Plans are being prepared for construction of an additional gypsum plant on the Mississippi River to serve the Mid-West. This location will allow Texas Gypsum Company to distribute its products over a much wider area than would be possible by land transportation alone. The total cost of this plant is expected to be in excess of $5,000,000 and the project should be completed within twelve months after construction begins.

Feasibility studies are being prepared for a large particleboard plant to be located in the Diboll-Pineland area, which would increase our production of this important new building material by approximately 60,000,000 feet per year. This plant will utilize as its basic raw material shavings from both Diboll and Pineland sawmill operations.

Construction is well underway on the new $7,500,000 fiberboard plant, which will almost double our present capacity by early 1970. These new facilities will produce additional products including pre-finished medium density siding and hardboard. At that time, we will have a fiberboard capacity of approximately 360,000,000 square feet per year.

Plywood markets have been very strong in the past six months and if operations continue at current levels, Southern Pine Plywood Company, our 50% joint venture with U. S. Plywood-Champion Papers, Inc., will have a record year in 1969.

Since December 31, 1968, your company has purchased substantially all the assets of Chattanooga Box & Lumber Company, a manufacturer of wooden beverage cases, located in Chattanooga, Tennessee, and virtually all the stock of Temple Manufacturing Company, Dallas, Texas. These two companies manufacture similar products, but serve different geographical markets. The total consideration of both these purchases is in excess of $1,900,000 and the combined sales of these operations were in excess of $4,000,000 in 1968. The purchase of these two companies will give Temple a foothold in the packaging industry. It is hoped that through these acquisitions, the company may be able to enter other facets of the container industry.

The company has also entered into an agreement with two investment bankers—Burnham and Company (New York City) and Rauscher Pierce & Co., Inc., (Dallas)—to sell an additional 600,000 shares of its stock. As of March 7, 1969, this issue was filed with the Securities and Exchange Commission. The company plans to use the proceeds from this stock offering to liquidate bank debt incurred in connection with its various expansion projects; to complete construction of the new fiberboard plant; and to have additional funds available for future projects as the needs arise.

It is the intention of the company, subject to meeting distribution requirements of the New York Stock Exchange, to make an application for the listing of its common stock on that Exchange after the public offering is completed.

On February 25, subject to approval of the shareholders at the Annual Meeting on March 26, your Board of Directors recommended a two-for-one stock split; an increase of authorized common stock to 20,000,000 shares; and an authorization of 1,000,000 shares of preferred stock.

Most economists predict a sharp increase in the level of residential construction during the next five years to a new plateau of around 2,600,000 housing starts each year. As the expected level of housing starts increases, new manufacturing facilities will be added to our present capacity to enable your company to meet the resulting increased demand for its products.

We continue to take steps to increase the earnings of the company by channeling our efforts to those products and activities which hold the greatest promise of reward. We expect to capitalize on our company's present capabilities in its many diversified operations through expansions which meet our performance criteria and to dispose of those that do not.

It is with a great deal of sorrow that we report the deaths in 1968 of Mr. Newman B. Gregory and Mr. Nicholas Peay, directors since 1956 and 1962 respectively. Each gave much of himself to our company.

We welcome Mr. Michael D. Dingman as a new member of our Board, having been elected to fill one of these vacancies in February of this year. Mr. Dingman is a partner in the investment firm of Burnham and Company of New York City.

Mr. Clifford J. Grum was elected Financial Vice President of the company in September of 1968. Mr. Grum was previously Vice President of the Republic National Bank of Dallas.

We acknowledge the untiring efforts of our employees, directors and friends throughout the industry who have made 1968 another record year of growth and profitability.

W. Temple Webber

W. Temple Webber
Chairman of the Board

Arthur Temple

Arthur Temple
President and
Chairman of Executive Committee

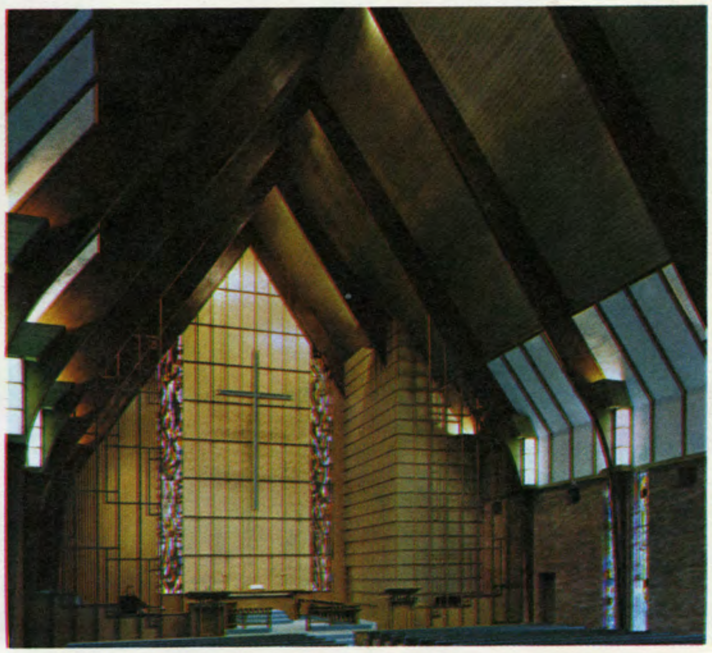
Temple's timberlands lie in an area of rapid population growth and recreational land development. Several large lakes, including Sam Rayburn and Toledo Bend Reservoirs, have been created within the area of Temple's land holdings. The company currently is developing some of its properties for vacation home sites.

PHOTO COURTESY OF TEXAS PARADE MAGAZINE

A pioneer in timber conservation, Temple uses a planned program of seedling planting and selective harvesting. The company now owns more than 400,000 acres in twenty-two East Texas counties. An additional 10,000 acres were purchased during the past year as part of a continuing land acquisition program.

Lumbermen's Investment Corporation, a growing mortgage banking company which is 68 percent owned by Temple, originated in excess of $18,000,000 in FHA and VA mortgage loans in 1968 and now services a portfolio of more than $145,000,000 on a contract basis for institutional investors. It is also involved in urban real estate development.

1968 was a record year for sales of many of Temple's products. In response to the growing demand for its forest products, the company has continued to expand and diversify its operations. During 1968, construction of a new fiberboard plant was begun which is expected to increase fiberboard capacity by 80 percent to 360,000,000 feet, when completed in early 1970.



Temple Industries, Inc., and Consolidated Subsidiaries

Consolidated Statements of Earnings *For the Years Ended December 31, 1968 and 1967*

	1968	*1967*
NET SALES (Note 2)	$40,388,393	$31,951,393
COSTS AND EXPENSES (Note 4):		
Cost of sales (Note 2)	$28,614,933	$24,256,621
Selling, general, and administrative expenses	5,624,391	5,361,966
	$34,239,324	$29,618,587
	$ 6,149,069	$ 2,332,806
OTHER EARNINGS (EXPENSES):		
Gains on sale of land and proceeds from oil royalties and bonuses	$ 632,301	$ 923,202
Interest income	360,187	421,100
Interest expense	(461,481)	(547,213)
Other—net	(40,200)	30,673
	$ 490,807	$ 827,762
	$ 6,639,876	$ 3,160,568
EQUITY IN NET EARNINGS (LOSSES) OF UNCONSOLIDATED SUBSIDIARIES AND JOINT VENTURE (Note 1):		
Wholly and majority owned companies engaged in unrelated businesses	$ (77,053)	$ (146,400)
50% owned companies and other (including joint venture)	232,744	232,950
	$ 155,691	$ 86,550
EARNINGS BEFORE TAXES AND EXTRAORDINARY ITEM	$ 6,795,567	$ 3,247,118
PROVISION FOR FEDERAL INCOME TAXES (Note 9)	2,461,000	669,000
EARNINGS BEFORE EXTRAORDINARY ITEM	$ 4,334,567	$ 2,578,118
EXTRAORDINARY ITEM—Loss on investment in an abandoned venture, less applicable Federal income tax reduction of $99,000	(261,586)	—
NET EARNINGS	$ 4,072,981	$ 2,578,118
PER SHARE OF COMMON STOCK (Note 6):		
Earnings before extraordinary item	$1.77	$1.05
Extraordinary item	(.11)	—
Net earnings	$1.66	$1.05

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the Years Ended December 31, 1968 and 1967

BALANCE AT BEGINNING OF YEAR (Note 1)	$22,404,934	$20,643,905
NET EARNINGS	4,072,981	2,578,118
	$26,477,915	$23,222,023
CASH DIVIDENDS DECLARED	(919,225)	(817,089)
BALANCE AT END OF YEAR	$25,558,690	$22,404,934

The accompanying notes are an integral part of these statements.

Temple Industries, Inc., and Consolidated Subsidiaries

Consolidated Balance Sheets—*December 31, 1968 and 1967*

Assets	*1968*	*1967*
CURRENT ASSETS:		
Cash	$ 2,553,245	$ 2,379,272
Receivables, less reserves of $191,359 in 1968 and $204,682 in 1967	3,497,189	3,792,287
Insurance claims receivable (Note 2)	1,203,427	—
Refundable Federal income taxes	—	199,822
Inventories, principally at the lower of average cost or market (Note 3)	3,867,727	4,816,456
Prepaid expenses	437,608	327,975
Total current assets	$11,559,196	$11,515,812
INVESTMENTS:		
Investment in and advances to unconsolidated subsidiaries and related companies, at cost plus equity in undistributed net earnings since acquisition (Note 1)—		
Wholly and majority owned companies engaged in unrelated businesses	$ 5,615,374	$ 5,831,397
50% owned plywood joint venture	2,124,154	2,009,330
50% owned companies and other	682,761	1,137,743
Notes receivable	1,073,490	1,070,780
Real estate and other, partially pledged	1,293,441	1,024,308
	$10,789,220	$11,073,558
TIMBER AND TIMBERLANDS, at cost less depletion, including deposits on timber cutting contracts, partially pledged (Note 4)	$ 4,950,444	$ 3,336,088
PROPERTY, PLANT, AND EQUIPMENT, at cost, partially pledged (Notes 2 and 4)		
Buildings, machinery, and equipment	$34,218,123	$30,618,511
Less—Accumulated depreciation	(15,285,400)	(14,374,579)
	$18,932,723	$16,243,932
DEFERRED CHARGES AND OTHER ASSETS:		
Prepaid Federal income taxes (Note 2)	$ 528,000	$ —
Other assets	212,093	210,123
	$ 740,093	$ 210,123
	$46,971,676	$42,379,513

The accompanying notes are an integral part of these balance sheets.

Liabilities and Shareholders' Investment

	1968	1967
CURRENT LIABILITIES:		
Notes payable	$ —	$ 2,250,000
Current maturities of long-term debt	867,061	715,764
Accounts payable	1,208,064	424,822
Dividends payable	306,409	408,544
Accrued liabilities	786,752	808,034
Federal income taxes (Note 9)	2,202,992	378,704
Total current liabilities	$ 5,371,278	$ 4,985,868
LONG-TERM DEBT, excluding current maturities (Note 5)	$ 7,910,358	$ 6,857,361
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)		
SHAREHOLDERS' INVESTMENT:		
Common stock, $3.33⅓ par, authorized 3,000,000 shares, issued 2,454,195 shares (Note 6)	$ 8,180,650	$ 8,180,650
Retained earnings (Note 5)	25,558,690	22,404,934
	$33,739,340	$30,585,584
Less—Treasury stock, at cost (2,928 shares)	(49,300)	(49,300)
	$33,690,040	$30,536,284
	$46,971,676	$42,379,513

The accompanying notes are an integral part of these balance sheets.

Temple Industries, Inc., and Consolidated Subsidiaries

Statements of Source and Application of Funds

For the Years Ended December 31, 1968 and 1967

	1968	1967
SOURCE OF FUNDS:		
Operations—		
Net earnings	$4,072,981	$2,578,118
Depreciation and depletion	2,440,712	2,684,252
Total from operations	$6,513,693	$5,262,370
Distributions from joint venture in excess of (less than) earnings thereof	(114,824)	35,463
Increase (decrease) in long-term debt	1,052,997	(722,368)
	$7,451,866	$4,575,465
APPLICATION OF FUNDS:		
Additions to property, plant, and equipment—net	$4,401,084	$1,706,508
Purchases of land and timber—net	2,342,775	588,227
Cash dividends declared	919,225	817,089
Increase (decrease) in noncurrent notes receivable	2,710	(442,241)
Increase (decrease) in investments in and advances to unconsolidated subsidiaries and related companies	(671,005)	1,110,296
Purchase of treasury stock	—	25,500
Increase in real estate held for resale and other investments	269,133	39,351
Prepaid Federal income taxes	528,000	—
Other—net	1,970	12,722
	$7,793,892	$3,857,452
INCREASE (DECREASE) IN WORKING CAPITAL	$ (342,026)	$ 718,013

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

December 31, 1968

(1) PRINCIPLES OF CONSOLIDATION—

The consolidated financial statements include the accounts of Temple Industries, Inc., and its significant wholly and majority owned subsidiaries other than Lumbermen's Investment Corporation and Scotch Investment Company. All material intercompany accounts and transactions have been eliminated. The individual accounts of Lumbermen's Investment Corporation (a 67.7 percent owned subsidiary) and Scotch Investment Company (a wholly owned subsidiary) have not been consolidated since their mortgage brokerage and real estate investment operations are dissimilar to the operations of Temple and its consolidated subsidiaries which relate primarily to the growing and harvesting of timber, converting logs into finished products, manufacture of furniture and products related to the building materials industry, and the distribution of finished products to customers.

As of January 1, 1967, Temple retroactively changed from the cost to the equity method of accounting for investments in unconsolidated subsidiaries in its consolidated financial statements. Under the equity method such investments are stated at cost less amortization of cost over underlying net assets acquired, plus or minus the equity in net earnings and losses since acquisition.

(2) INSURANCE CLAIMS—

On January 7, 1968, a fire destroyed Temple's log sawing facilities at Diboll, Texas. The facilities were covered by replacement insurance and business interruption insurance against loss of profits, and they were rebuilt and in operation again during October, 1968. The insurance claims total $4,043,427 of which an advance of $1,000,000 has been received from the insuror. These amounts have been recorded as follows in Temple's consolidated statements at December 31, 1968:

Business interruption claim for lost earnings	$2,000,000(a)
Claim for reimbursement for repairs to damaged properties, and other	203,427
Advance received from insuror	(1,000,000)
Net amount classified as current account receivable in balance sheet as of December 31, 1968	$1,203,427
Claim for reimbursement of costs of replacing sawing facilities—classified as property in balance sheet as of December 31, 1968	1,840,000(b)
Net claims as of December 31, 1968	$3,043,427

(a) Included in net earnings before Federal income taxes for the year ended December 31, 1968, as sales ($1,725,000) and reduction of expenses ($275,000).

(b) The proceeds of the $1,840,000 claim will be applied as a reduction of the property accounts; thus no gain will be recognized for financial reporting purposes. For Federal income tax reporting purposes, however, Temple will recognize a gain of approximately $1,840,000 on the disposition of the log sawing facilities. Federal income taxes of $528,000 applicable to this gain, which are shown as prepaid Federal income taxes in the accompanying balance sheet, will be charged against future income over the life of the facilities when tax depreciation will be greater than depreciation charged in the accounts.

(3) INVENTORIES—

Inventories are generally stated at the lower of average cost or market and are comprised of the following:

	December 31 1968	1967
Finished goods	$1,831,097	$2,634,236
Work in process	775,114	883,657
Raw materials	660,113	708,558
Supplies	601,403	590,005
	$3,867,727	$4,816,456

(4) PROPERTY, PLANT, AND EQUIPMENT, AND DEPRECIATION AND DEPLETION POLICIES—

Property, plant, and equipment, at cost, is summarized by major classifications and estimated useful lives as follows:

Assets	Amount	Estimated Useful Life
Land	$ 83,377	—
Buildings	5,884,870	10 to 35 years
Machinery and equipment	24,817,776	5 to 25 years
Autos, trucks, and aircraft	2,469,595	3 to 10 years
Furniture and fixtures	128,618	5 to 10 years
Other	206,632	Various
Construction in progress	627,255	—
	$ 34,218,123	
Less—Accumulated depreciation	(15,285,400)	
	$ 18,932,723	

Depreciation of property, plant, and equipment is generally provided on the straight-line method based on the estimated useful lives of the assets. Total amount of depreciation included in costs and expenses is $1,712,293 in 1968 and $1,602,723 in 1967.

Depletion of timber and timber cutting contracts is provided on the basis of the estimated recoverable timber and is credited to the timber accounts. Total amount of depletion included in costs and expenses is $728,419 in 1968 and $1,081,529 in 1967.

(5) LONG-TERM DEBT—

At December 31, 1968, long-term debt consisted of the following:

Temple Industries, Inc.—	
Notes payable under loan agreements dated April 3, 1964—5%, unsecured, due in annual installments of $616,000	$6,152,000
Note payable to an individual—7%, secured by timberlands, due in annual installments of $93,910	939,100
Note payable to a bank under loan commitment, dated July 15, 1968, as amended—at prime interest rate plus ½%, unsecured, due in 16 equal quarterly installments commencing in December, 1970	1,000,000
Other notes and mortgages, partially secured by land	70,446
Consolidated subsidiaries—	
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 $435,855. The principal payments maturing January 2, 1969, were prepaid on December 31, 1968	51,646

(5) LONG-TERM DEBT Continued—

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 $209,110	$ 122,074
Notes payable dated November 30, 1966—6%, due in annual installments of $100,000 commencing November 30, 1969, secured by undeveloped gypsum deposit with a book value of $628,683	300,000
Promissory note payable in annual installments to 1979	142,153
	$8,777,419
Less—Current portion due within one year	867,061
	$7,910,358

The loan agreements dated April 3, 1964, as amended, provide, among other things, that so long as any of the loans are outstanding Temple 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, 1968, and available for dividends or capital stock retirement was $8,000,000.

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

The note payable to a bank for $1,000,000 was borrowed under a loan commitment for $10,750,000 dated July 15, 1968, as amended, obtained from the bank to finance, among other things, the construction of an expansion to the fiberboard plant. The interest rate on money borrowed under this commitment is to be one half of one percent above the prime rate at the bank, and Temple is to pay a commitment fee of one fourth of one percent on any unused balance of the commitment. Loans made under this commitment are to be repaid in 16 equal quarterly installments beginning December, 1970. The terms of the commitment provide, among other things, that Temple will (1) not allow its future borrowings to exceed specified levels, (2) maintain a working capital of not less than $4,000,000, and (3) maintain 350,000 acres of unencumbered timberlands.

(6) CAPITAL STOCK—

STOCK SPLITS

On March 27, 1968, and May 24, 1968, respectively, the board of directors and stockholders of Temple approved a three-for-one stock split and the increase of authorized common stock from 1,000,000 shares of $10 par value to 3,000,000 shares of $3.33⅓ par value. On February 25, 1969, the board of directors approved a further stock split of two-for-one, which is to be submitted to the stockholders for approval on March 26, 1969, and the increase of authorized common stock from 3,000,000 shares of $3.33⅓ par value to 6,000,000 shares of $1.66⅔ par value. Net earnings per share are based on common shares outstanding at December 31, 1968 and 1967, before giving effect to the currently proposed two-for-one stock split.

CHANGE IN AUTHORIZED CAPITAL STOCK

On February 25, 1969, the board of directors approved the increase of authorized common stock from 6,000,000 shares to 20,000,000 shares of $1.66⅔ par value and authorized the creation of 1,000,000 shares of no par value preferred stock, which is to be submitted to stockholders for approval on March 26, 1969.

STOCK OPTIONS

During 1967 the stockholders approved a qualified stock option plan whereby options for a total of 240,000 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, 1968, options for 103,000 shares had been granted and no options have been exercised.

The stock options are subject to equitable adjustment to reflect stock dividends, stock splits, and similar capital changes.

(7) RETIREMENT PLAN—

Temple and its subsidiaries have a retirement plan covering all qualified employees. Contributions charged to expenses were $159,000 in 1968 and $158,000 in 1967. Temple's policy is to fund retirement plan cost accrued, including amortization of prior service cost over a period of not less than 10 years. Temple intends to continue the retirement plan indefinitely; however, it has reserved the right to discontinue or amend the plan at any time.

As of December 31, 1968, the unfunded past service liability of the plan was $1,022,917 and the retirement fund assets and balance sheet accruals exceeded the actuarially computed value of the vested benefits.

(8) COMMITMENTS AND CONTINGENCIES—

At December 31, 1968, Temple was contingently liable as guarantor or endorser of notes issued by others totaling approximately $1,585,000; none of these notes were owned by Temple or its consolidated subsidiaries and none were in default.

Temple commenced construction in late 1968 of a major addition to its fiberboard plant estimated to cost approximately $7,500,000.

In 1969, Temple agreed to purchase all of the outstanding stock of Temple Manufacturing Company of Dallas, Texas, for an aggregate purchase price of $896,380. Temple assumed control of Temple Manufacturing as of February 28, 1969.

Also, in 1969, Temple agreed to purchase certain assets of Chattanooga Box and Lumber Company (Chattanooga, Tennessee) for $1,066,745. Temple has organized a subsidiary to continue this operation.

(9) FEDERAL INCOME TAXES—

Temple and its wholly owned subsidiaries file a consolidated Federal income tax return. It is Temple's policy to allocate consolidated taxes, net of investment credit, to those subsidiaries who contribute taxable income to the consolidation, based upon the ratio of each company's taxable income to the total taxable income. Temple does not allocate any carry-back or carry-forward benefits to any subsidiary in a taxable loss position.

In accounting for the investment tax credit Temple follows the flow-through method, whereby tax credits available 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 $278,000 in 1968 and $108,000 in 1967.

ARTHUR ANDERSEN & CO.
1700 Bank of the Southwest Building
Houston, Texas 77002
February 28, 1969

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

We have examined the consolidated balance sheets of Temple Industries, Inc. (a Texas corporation), and consolidated subsidiaries as of December 31, 1968 and 1967, and the related consolidated statements of earnings, retained earnings, and source and application of funds 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 financial statements referred to above present fairly the financial position of Temple Industries, Inc., and consolidated subsidiaries, as of December 31, 1967, and the results of their operations and source and application of funds for the year then ended, and, subject to the effect of such adjustment, if any, as may be required upon settlement of the insurance claims as explained in Note 2 to the consolidated financial statements, the financial statements referred to above present fairly the financial position of Temple Industries, Inc., and consolidated subsidiaries as of December 31, 1968, and the results of their operations and source and application of funds for the year then ended, all in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

Temple Industries, Inc., and Consolidated Subsidiaries

Five Year Summary—Consolidated Statements of Earnings

(000's Omitted)

	Year Ended December 31				
	1968	1967	1966	1965	1964
NET SALES	$40,388	$31,951	$30,519	$29,095	$21,380
COSTS AND EXPENSES:					
Cost of sales	$28,615	$24,256	$22,570	$22,219	$16,358
Selling, general, and administrative expenses	5,624	5,362	4,834	4,446	3,259
Losses (earnings) of discontinued operations	—	—	(90)	(40)	1,995
Total	$34,239	$29,618	$27,314	$26,625	$21,612
	$ 6,149	$ 2,333	$ 3,205	$ 2,470	$ (232)
OTHER EARNINGS (EXPENSES):					
Gains on sale of land and proceeds from oil royalties and bonuses	$ 632	$ 923	$ 866	$ 596	$ 921
Interest income	360	421	208	88	337
Interest expense	(461)	(547)	(465)	(521)	(463)
Other—net	(40)	31	(20)	17	63
Total	$ 491	$ 828	$ 589	$ 180	$ 858
	$ 6,640	$ 3,161	$ 3,794	$ 2,650	$ 626
EQUITY IN NET EARNINGS (LOSSES) OF UNCONSOLIDATED SUBSIDIARIES AND JOINT VENTURE	156	86	(43)	(98)	(138)
EARNINGS BEFORE TAXES AND EXTRAORDINARY ITEMS	$ 6,796	$ 3,247	$ 3,751	$ 2,552	$ 488
PROVISION FOR FEDERAL INCOME TAXES	(2,461)	(669)	(767)	(535)	(87)
EARNINGS BEFORE EXTRAORDINARY ITEMS	$ 4,335	$ 2,578	$ 2,984	$ 2,017	$ 401
EXTRAORDINARY ITEMS:					
Income tax reduction from carry-forward of operating losses	$ —	$ —	$ —	$ —	$ 61
Loss on sale of The Great Texas Lumber Company, less applicable Federal income tax reduction of $126,000	—	—	(624)	—	—
Write down of investments in consolidated subsidiaries	—	—	—	(716)	—
Loss of investment in an abandoned venture, less applicable Federal income tax reduction of $99,000	(262)	—	—	—	—
Total	$ (262)	$ —	$ (624)	$ (716)	$ 61
NET EARNINGS	$ 4,073	$ 2,573	$ 2,360	$ 1,301	$ 462
CASH DIVIDENDS DECLARED	919	817	818	818	654
EARNINGS RETAINED IN THE BUSINESS	$ 3,154	$ 1,761	$ 1,542	$ 483	$ (192)
COMMON SHARES OUTSTANDING (Note)	2,451	2,451	2,453	2,454	2,454
PER SHARE OF COMMON STOCK:					
Earnings before extraordinary items	$ 1.77	$ 1.05	$ 1.22	$ .82	$ .16
Extraordinary items	(.11)	—	(.25)	(.29)	.02
Net earnings	$ 1.66	$ 1.05	$ .97	$ .53	$ .18
Shareholders' investment	$13.74	$12.46	$11.74	$11.12	$10.85
Cash from operations	$ 2.66	$ 2.15	$ 2.05	$ 1.55	$ .96
Dividends declared	$ .38	$ .33	$ .33	$ .33	$ .27
COSTS AND EXPENSES ABOVE INCLUDE:					
Depreciation	$ 1,712	$ 1,603	$ 1,491	$ 1,506	$ 1,290
Depletion of company timber	$ 58	$ 45	$ 34	$ 144	$ 144
Purchased timber and logs	$ 671	$ 1,037	$ 1,137	$ 847	$ 447
Property taxes	$ 443	$ 409	$ 344	$ 357	$ 369

NOTE—Based on common shares outstanding at December 31 of each year after giving retroactive effect to a three-for-one stock split in May, 1968, but before a proposed two-for-one stock split to be submitted to the stockholders in March, 1969.

Temple Industries, Inc., and Consolidated Subsidiaries

Five Year Summary—Consolidated Balance Sheets

(000's Omitted)

Assets

	December 31 1968	1967	1966	1965	1964
CURRENT ASSETS:					
Cash	$ 2,553	$ 2,379	$ 560	$ 2,210	$ 1,440
Receivables, net	4,701	3,992	4,457	4,879	4,229
Inventories, principally at the lower of average cost or market	3,868	4,817	4,209	5,020	5,310
Real estate for resale and construction contracts (of retail operations discontinued in 1966)	—	—	—	1,000	818
Prepaid expenses	437	328	225	280	306
Total current assets	$11,559	$11,516	$ 9,451	$13,389	$12,103
INVESTMENTS AND OTHER ASSETS:					
Investments in and advances to unconsolidated subsidiaries and related companies, at cost plus equity in undistributed net earnings since acquisition	$ 6,298	$ 6,969	$ 5,859	$ 3,885	$ 5,142
Equity in and advances to a joint venture	2,124	2,009	2,045	2,191	2,350
Notes receivable	1,073	1,071	1,513	581	402
Real estate and other assets (partially pledged)	2,034	1,235	1,182	564	491
	$11,529	$11,284	$10,599	$ 7,221	$ 8,385
TIMBER AND TIMBERLANDS, at cost less depletion, including deposits on timber cutting contracts	$ 4,950	$ 3,336	$ 3,829	$ 3,222	$ 3,277
PROPERTY, PLANT, AND EQUIPMENT, at cost:					
Buildings, machinery, and equipment	$34,218	$30,619	$29,226	$27,434	$25,379
Less—Accumulated depreciation	(15,285)	(14,375)	(13,086)	(12,778)	(11,601)
	$18,933	$16,244	$16,140	$14,656	$13,778
	$46,971	$42,380	$40,019	$38,488	$37,543

Liabilities and Shareholders' Investment

	1968	1967	1966	1965	1964
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	$ 867	$ 2,966	$ 1,414	$ 825	$ 738
Accounts payable	1,208	425	841	872	648
Dividends payable	306	408	409	409	409
Accrued liabilities	787	808	697	691	673
Federal income taxes	2,203	379	278	527	(182)
Total current liabilities	$ 5,371	$ 4,986	$ 3,639	$ 3,324	$ 2,286
LONG-TERM DEBT, excluding current maturities	$ 7,910	$ 6,858	$ 7,580	$ 7,885	$ 8,458
SHAREHOLDERS' INVESTMENT:					
Common stock	$ 8,181	$ 8,181	$ 8,181	$ 8,181	$ 8,181
Retained earnings	25,558	22,404	20,643	19,101	18,618
Treasury stock, at cost	(49)	(49)	(24)	(3)	—
	$33,690	$30,536	$28,800	$27,279	$26,799
	$46,971	$42,380	$40,019	$38,488	$37,543
WORKING CAPITAL	$ 6,188	$ 6,530	$ 5,812	$10,065	$ 9,817
RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES	2.15	2.31	2.60	4.03	5.29

The map on the facing page shows the location of three Temple Industries investment properties on Rayburn Lake.

Directors

Lee E. Cook
Joe C. Denman, Jr.
Michael D. Dingman
Robert T. Keeler
Thomas T. Keeler
H. J. Shands
Arthur Temple
W. Temple Webber
Julian H. Zimmerman

Executive Committee

Joe C. Denman, Jr.
Arthur Temple
W. Temple Webber

Officers

W. Temple Webber
Chairman of the Board

Arthur Temple
President & Chairman of Executive Committee

Joe C. Denman, Jr.
Executive Vice President

Clifford J. Grum
Vice President-Finance

Kenneth Nelson
Vice President—Land & Timber Division

R. Clyde Thompson
Vice President

W. Aubrey Canon
Secretary-Treasurer

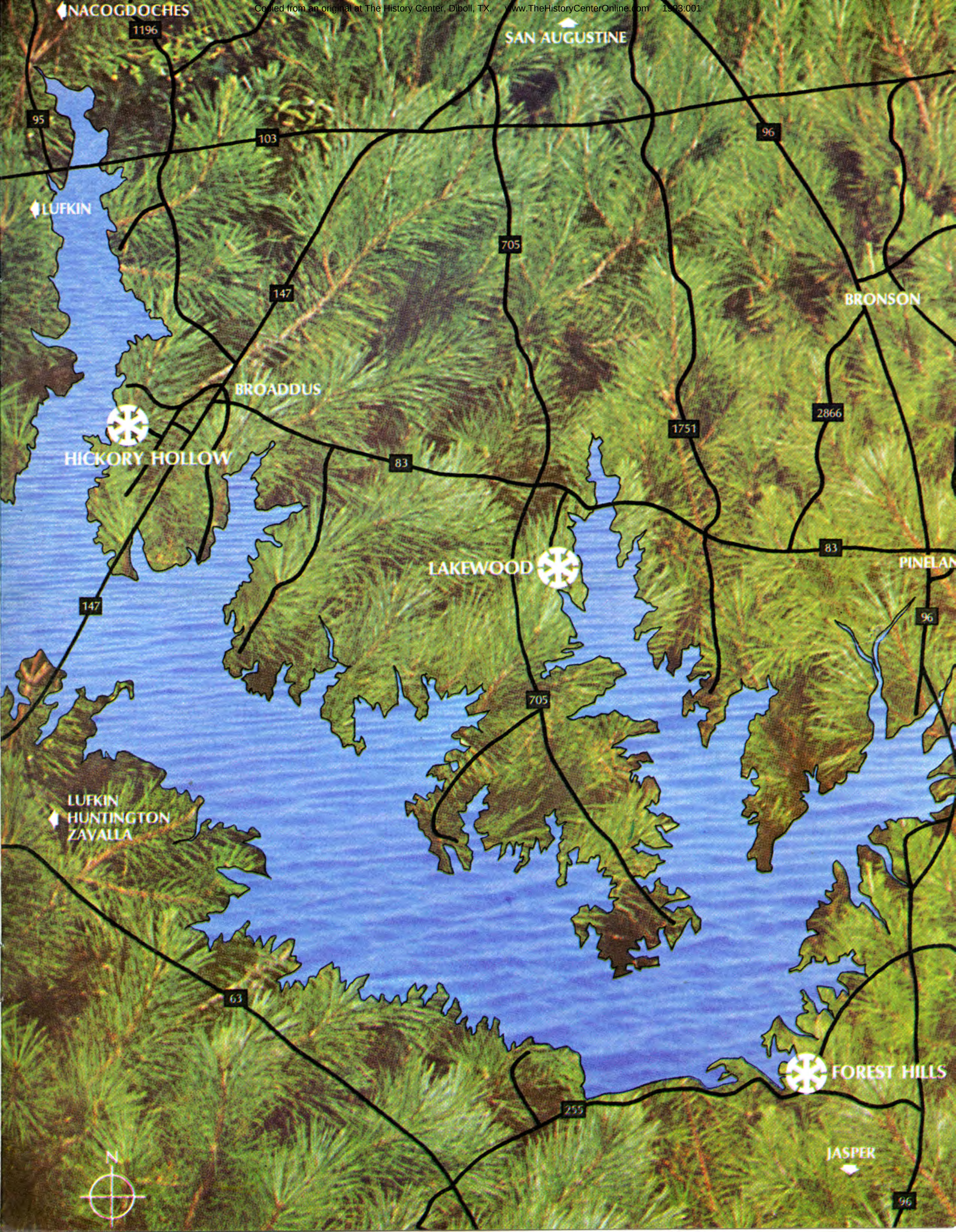
James J. Nelson
Comptroller & Assistant Secretary-Treasurer

Transfer Agents

The Republic National Bank of Dallas
The First National City Bank of New York

Registrar

Marine Midland Grace Trust Company of New York


NACOGDOCHES
1196
SAN AUGUSTINE
95
103
96
LUFKIN
705
147
BRONSON
BROADDUS
2866
1751
HICKORY HOLLOW
83
LAKEWOOD
83
PINELAN
96
147
705
LUFKIN
HUNTINGTON
ZAVALLA
63
FOREST HILLS
255
JASPER
N
96

Printed in Diboll, Texas
The Free Press