Temple Industries Annual Report for 1969


TEMPLE
INSULATING SHEATHING
KILN

Financial Highlights

	1969	1968[1]	Percent Increase
Net Sales	$50,130,641	$40,315,257	24
Net Income:			
Amount	5,458,649	4,036,845[2]	35
Per Share	1.01	.82	23
Cash Flow (net income plus depreciation and depletion):			
Amount	8,267,900	6,477,557	28
Per Share	1.52	1.32	15
Cash Dividends:			
Amount	1,359,818	919,225	48
Per Share	.25	19	32
Average Number of Shares Outstanding including Common Share Equivalents:	5,424,978	4,922,616	10
Number of Employees at End of Year	2,818	1,863	51

[1]1968 results adjusted for two-for-one stock split in April, 1969.

[2]Net income after a $261,586 ($.05 per share) non-recurring charge for loss of an investment in an abandoned venture.

Temple Industries passed a significant milestone on September 26, 1969. On that date your company joined the select group of American corporations listed on the New York Stock Exchange. NYSE Vice President John Cunningham (left) and NYSE Specialist Morris Goldstein were present when President Arthur Temple visited the floor of the Exchange.

A new symbol for the future.

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Temple Industries, Inc., is now listed on the New York Stock Exchange.

Growth — both our forests and our company continue to grow. During the last five years sales have increased over 88% and net profits have increased over 775%.

Temple Industries is a highly diversified forest products company engaged in the manufacture of a wide range of building materials and consumer items, land development, construction and mortgage banking.

For current financial reports please write the company.

TEMPLE INDUSTRIES
P.O. Drawer N, Diboll, Texas 75941

Lumber
Fiberboard
Plywood
Particleboard

Furniture
Other Wood Products
Gypsum Wallboard

Mortgage Banking
General Contracting
Land Development

The investing public was informed of Temple's listing on the Exchange through business press advertisements such as the one above.

To Our Shareholders:

We are proud to report that 1969 was another record year for Temple Industries, reaching new peaks in both sales and net profits. Sales, including $6,500,000 from acquisitions during the year, increased to $50,131,000, up 24% over 1969. Net earnings from operations increased 27% to $5,459,000 of which $260,000 came from operations acquired during the year. Earnings were $1.01 per share on 5,425,000 average outstanding compared with $.82 on 4,923,000 in 1968 (adjusted for two-for-one stock split in April, 1969).

Cash flow increased 28% to $8,268,000.

In May, 1969, your company successfully sold an additional 600,000 shares in a total offering of 800,000 through a group of underwriters headed by Burnham and Company and Rauscher Pierce & Co. This offering was followed by the listing of our stock on the NYSE on September 26, 1969. As a result of this underwriting, over 4,000 new members were added to our growing family of shareholders. Their investment in our company is appreciated and we shall strive to merit the confidence they have placed in us.

During 1969 we continued the expansion program started in 1968, including six major projects within our building products division, to benefit from the expected housing boom of the 70's. We are doubling plywood and gypsum capacity, increasing fiberboard production by 80%, increasing particleboard capacity ten times, and expanding lumber production by one-third. The new fiberboard mill should be operative in May of 1970, and the remaining projects will be completed during the next two years. More detailed information on each activity will be given later in this report.

In addition to our basic building material capital expansion, we are in the midst of a similar program both in furniture and a new endeavor in mobile/modular housing. The furniture program includes doubling the basic manufacturing capacity and introduction of a new line of casual tables. This expansion will be on stream in the latter half of this year, but no significant earnings are expected until 1971.

Our mobile/modular home operation will manufacture a variety of units for both recreational and low cost housing and will be in production early in the third quarter. Even though we supply a wide variety of products to the automated housing industry, this new operation will allow us to participate directly in its growth.

The total cost of all our expansion projects exceeds $25,000,000. Proceeds of our public offering and internally generated cash flow will finance a majority of the cost with a term bank loan available to cover the remainder.

We continued to be successful in purchasing a large part of our timber requirements in open market transactions. During the year, we cut 80,000,000 feet of sawtimber from our own lands and purchased 56,000,000 feet from other tree farmers, thereby allowing us to add a substantial portion of our annual growth to forest inventory. We also acquired over 50,000 additional acres of timberland including 15,000 acres to be commercially developed in the near future. Fee ownership now exceeds 460,000 acres.

Sabine Investment Company of Texas, Inc., our newest real estate management and development operation, was organized in 1969 to develop land wherever profit opportunities are identified, including a more effective utilization of lands acquired from Temple.

Land development contributed almost $1 million in earnings, on a pre-tax basis — exceeding our forecast.

It is with deep regret that we report the death last October of Shelton Boyce, President of Scotch Investment Company. His leadership and dedication will be sorely missed. Scotch's operations are now being administered by Sabine and we are benefiting from the combining of the two real estate activities under one management.

Our mortgage banking operation, Lumbermen's Investment Corporation, in which we own 68% of the outstanding stock, enjoyed a good year, increasing its after-tax earnings by 30%. Mortgage banking is a leverage operation, and we expect LIC to increase significantly in profitability as the housing boom develops.

In June, 1969, we acquired Temple Associates, Inc., a general contractor with extensive experience in residential tract building. In recent years, this operation has concentrated largely on commercial and public works projects, but their previous experience in housing development will give us the expertise to supply the turnkey house in the future.

By using Temple Associates as general contractor on our new construction, we have eliminated the usual contracting profits, thereby reducing capital costs for these facilities.

To reflect on this past year, 1969 has been, to say the least, a paradox.

In the first quarter, housing starts reached an annual rate of over 1,800,000 units; but the country was also threatened with runaway inflation. In an attempt to slow down the economy, the government imposed severe monetary controls. Over the balance of the year, available mortgage funds for housing all but disappeared. As an obvious consequence, housing starts dropped about 50% to an annual rate of approximately a million units in the first quarter of 1970.

Prices of most building materials have followed this decline, with many products now selling at ten year lows.

The same economic controls designed to curb inflation have also deferred the solution of one of our most pressing domestic problems — that of providing adequate housing for the millions of Americans living in sub-standard and dilapidated accommodations.

Announcements over the past few weeks by those agencies concerned with meeting our future housing demands seem to indicate the government finally has assigned a higher priority to housing's role in the future growth of our nation.

We feel some of the programs proposed will now be implemented.

It would appear monetary controls will be eased. Actions along these lines would, of course, allow your company to help supply the increased demand for building materials as housing activity accelerates.

Nevertheless, we are sincerely concerned that inflation may once again become a major economic threat unless some form of credit control is imposed simultaneously with the easing of monetary restrictions.

The housing industry has borne the brunt of the government's fight to control inflation these past nine months. We hope the decisions being pondered at this time will afford our industry an opportunity to fully participate in the job to be done. The lack of adequate housing in this country has created a social crisis that can no longer be ignored.

Therefore, the immediate outlook for building material markets during 1970 remains uncertain. First quarter results will not compare favorably with last year's record quarter. However, with most housing economists forecasting a healthier mortgage money market after mid-year, per quarter earnings should improve.

Our expansion projects are programmed to take fullest advantage of the anticipated upturn in building activity in the decade ahead.

Concurrently with this, your company is continuing to build its management team for the future. During the year we added and elevated several key members to our executive team, including Mr. W. S. Johnson, who will head Creative Homes, Inc., our new subsidiary in automated housing; Mr. Henry H. Holubec, Jr., who was elected Vice President — Marketing; and Mr. Horace G. Stubblefield, Jr., who will head Sabine Investment Company of Texas, Inc.

Particularly, we want to acknowledge the dedication and hard work contributed by our employees, directors and friends in the industry this past year. Their efforts saw both sales and profits reach new record highs.

W Temple Webber

W. Temple Webber
Chairman of the Board

Arthur Temple

Arthur Temple
President and
Chairman of Executive Committee

March 23, 1970

Classification of Sales

	% of Sales 1969	1968	1967	1966	1965
Lumber and by-products	28	29	27	29	33
Panel products	27	34	32	31	30
Consumer & industrial products	22	16	18	19	19
Distribution	16	19	21	18	15
Contracting & Other	7	2	2	3	3

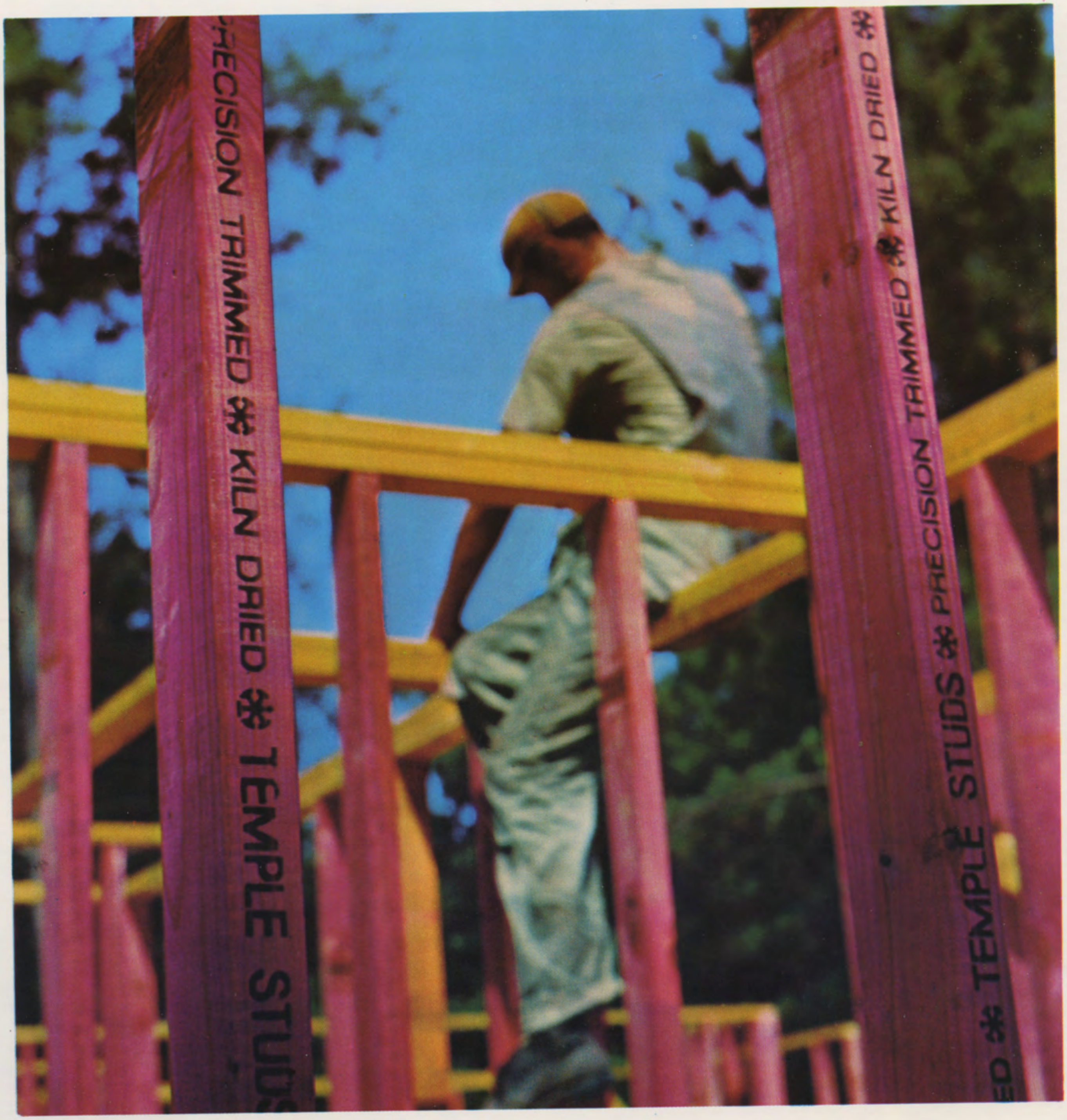
The above Classification of Sales represents a departure in reporting procedure from previous years, to reflect more accurately the company's continuing diversification.

Of particular interest: inclusion of gypsum wallboard in the Panel Products category; consolidation of Consumer and Industrial Products; redefinition of Wholesale-Retail to Distribution; and the addition of Contracting.

During 1969 the company acquired three new operations: Temple Manufacturing, Chattanooga Container and Temple Associates. These three acquisitions contributed $6,505,630 in sales, and $423,246 in pre-tax profits.

The sales of Chattanooga Container, Temple Manufacturing and Angelina Furniture (a division of Temple Associates) are reflected in Consumer and Industrial Products.

As in prior years, gross profits from real estate and oil operations are reported as Other Earnings net of costs.


PRECISION TRIMMED ✱ KILN DRIED ✱ TEMPLE
TEMPLE STUDS ✱ PRECISION TRIMMED ✱ KILN DRIED ✱

Lumber and By-Products

New equipment being installed this year will further automate the company's sawmill operations, increasing annual capacity to 140,000,000 board feet.

By-products conversion was substantially increased through installation of additional chipping facilities at Pineland, Texas; an automated lumber sorter and modernization of the planer at Diboll, Texas, will more efficiently handle the production of the new sawmill.

Ground has been broken for a 40 million board foot chip and stud mill at Carthage, Texas, scheduled to be on stream in the first quarter of 1971.

Increased by-product volume (chips, shavings, sawdust) generated by the Carthage mill, and improvements to existing operations will substantially fill the expanded raw material requirements of the new panel product facilities under construction.

Panel Products

Temple is greatly expanding panel board production to participate in the increased demand for these products in the decade ahead.

Fiberboard capacity will be increased 80% to 360,000,000 square feet; gypsum wallboard production will be doubled to 280,000,000 square feet; and particleboard capacity will be increased ten times to 105,000,000 square feet.

Fiberboard

Located adjacent to the existing mill at Diboll, the new plant (scheduled start-up, May 1970) will produce medium density sidings, as well as present product lines. Raw material requirements will be generated at Temple sawmills, maintaining the plant's competitive position as a low-cost producer.

Gypsum Wallboard

The new mill at West Memphis, Arkansas, to be completed in the third quarter of 1971, will competitively serve many markets on the Mississippi River, as well as the immediate trade area.

The company has gypsum reserves located in Oklahoma sufficient to supply our needs for at least 25 years. This location provides low cost raw materials for both operations.

Particleboard

Forecasts by many building experts indicate particleboard will command an even greater share of the panel market in home construction, furniture, cabinetry and case goods.

To meet this future demand, Temple is building a new particleboard plant at Diboll that will increase present capacity ten times.

Not only is the new plant adjacent to major markets, but through utilization of by-products of the company's sawmills, it will enjoy a cost advantage over other manufacturers.

Consumer and Industrial

In 1969 Temple took two major steps to diversify in related fields.

Last Spring, the company acquired two wooden container operations; Temple Manufacturing Company and Chattanooga Container Corporation. Profits have been gratifying, and studies are underway to expand their markets further.

Woodward, Inc., the company's furniture division, will double plant capacity this year. We are now positioned for additional expansion of our sales territory. Woodward's 1970 line was exhibited at the Atlanta Furniture Market this year for the first time.

Despite the depressed housing market this past year, the company's consumer products enjoyed substantial sales and profit increases.

Contracting

Acquisition of Temple Associates in June, 1969, brought to the company an excellent management team, with expertise in all areas of general contracting.

One of the principal contractors in the Southwest, Associates is active in institutional, commercial, public works, business and residential projects, as well as electric utility construction and maintenance, and serves as general contractor on your company's new manufacturing facilities.

The experience these men bring to the company adds one more of the elements necessary for the corporation to implement a "total concept" strategy to housing development.

1969 saw Temple further diversify through formation of a factory-built home division. Creative Homes, Inc., positions the company in one of the fastest growing segments of the housing industry.

Acquisition of Temple Associates brings valuable expertise in the construction industry. The firm's wide experience includes public works, institutional, commercial and residential construction. Typical of Associates' versatility is the Nuclear Testing Laboratory at Texas A & M University.

Real Estate

Land development and other real estate activities enjoyed another record year. Gross profits reached $907,040.

During the year, the company organized a new subsidiary, Sabine Investment Company of Texas, to develop recreational and commercial properties in East Texas.

10,000 acres of prime recreational lands are included in Sabine's portfolio of approximately 30,000 acres.

More than 1100 homesites in ten sub-divisions located on Lake Sam Rayburn and Toledo Bend Reservoir (the fourth and fifth largest man-made lakes in the United States), have been completed, with adjacent lands earmarked for future development.

281 lots were sold in 1969, and sales during the first three months of 1970 indicate sales will exceed those of last year.

Sabine also services a wide variety of residential and commercial property, including industrial parks, residential sub-divisions and mobile home parks.

Scotch Investment Company, a wholly-owned subsidiary managed by Sabine, is the owner-operator of several income-producing properties, including the 260 room Emerald Cove Hotel in Corpus Christi, and its 19 acres of adjoining beachfront; a 114 unit hotel in Nacogdoches, Texas; a 116 unit garden apartment in Houston, as well as commercial property in San Antonio.

Included in Scotch and Sabine's expanded program for 1970 is the development of an additional 400 acres of land for recreation homesites, and the completion of a $350,000 modernization of the Fredonia Hotel in Nacogdoches.

These expenditures will contribute significantly to the future profits of our real estate activities.

Our 68% owned subsidiary, Lumbermen's Investment Corporation, also posted improved results ir 1969.

LIC is presently servicing $150 million in mortgages and is positioning its activities to fully participate in the housing boom of the 70's.

Emerald Cove Hotel,
Corpus Christi, under lease to Holiday Inns, is one of many income producing properties administered by Temple Industries' diversified real estate operations.

Temple's Perpetual Forests and Tomorrow's Environment

Today's public concern for the wise use of our natural resources has been a stated objective of Temple management for many years.

Timber from the company's lands is selectively harvested on a sustained yield basis. At the present time only 70 percent of annual growth is removed each year.

As each area reaches its optimum volume per acre, the mature timber is harvested, accelerating the annual growth of the remaining younger trees.

During the past decade, your company has increased its standing timber inventory by 18%; despite the harvest of more than 650,000,000 feet for conversion in the firm's manufacturing operations.

Over the years, Temple has acquired additional timberlands to more than replace those lost to public works or other uses. Present timber ownership exceeds 460,000 acres, with a net volume of more than 2,000,000,000 board feet.

Temple was one of the first Southern mills to employ "tree length" logging. This technique permits greater flexibility at the mill to determine the most profitable use for each tree harvested.

Public Use of Company Lands

It has been a long-standing policy to permit public access to company lands. More than 300,000 acres are open to public recreation. Hundreds of miles of company maintained logging roads and trails are used by thousands of visitors each year.

The company has supported since its inception the creation of a String of Pearls National Park in the Big Thicket area of East Texas; and has declared a moratorium on timber harvest on those fee lands in the Thicket now designated for the proposed park until final boundaries are determined. This decision was reached in accord with the company's multiple use policy; recognizing that recreation and ecological considerations contribute to the quality of our total environment.

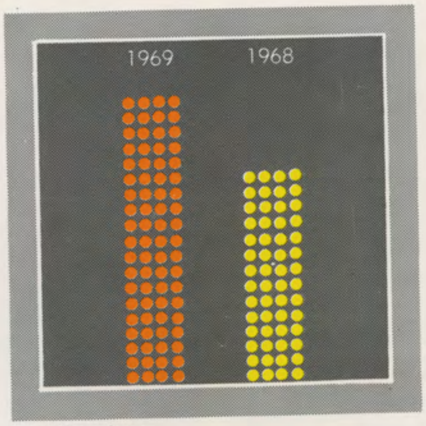
Environment

Capital expenditure for new manufacturing facilities includes provision for the installation of the most efficient air and water control devices.

Equipment has been installed at several locations to maintain stack emissions well within the standards established by the Texas Air Quality Board.

The company has been commended for its continued cooperation with those agencies charged with enforcement of air and water quality regulations.

Your management believes it has a very real responsibility to contribute to the quality of our environment.



Net Earnings

Temple Industries, Inc., and Consolidated Subsidiaries

Consolidated Statements of Earnings

For the Years Ended December 31, 1969 and 1968

	1969	1968
Net sales (Notes 1 and 2)	$50,130,641	$40,315,257
Costs and expenses (Note 4):		
Cost of sales (Note 2)	$35,936,221	$28,614,933
Selling, general and administrative expenses	7,630,505	5,624,391
	$43,566,726	$34,239,324
	$ 6,563,915	$ 6,075,933
Other earnings (expenses):		
Gains on sale of land and proceeds from oil royalties and bonuses	$ 1,268,648	$ 632,301
Interest income	729,698	360,187
Interest expense	(570,798)	(461,481)
Other, net	(174,451)	(40,200)
	$ 1,253,097	$ 490,807
	$ 7,817,012	$ 6,566,740
Equity in net earnings (losses) of unconsolidated subsidiaries and joint venture (Note 1):		
Wholly and majority owned companies engaged in unrelated businesses	$ (47,414)	$ (77,053)
Fifty percent owned plywood joint venture and other companies	408,051	232,744
	$ 360,637	$ 155,691
Earnings before taxes and extraordinary item	$ 8,177,649	$ 6,722,431
Provision for Federal income taxes (Note 9)	2,719,000	2,424,000
Earnings before extraordinary item	$ 5,458,649	$ 4,298,431
Extraordinary item—Loss on investment in an abandoned venture, less applicable Federal income tax reduction of $99,000	—	(261,586)
Net earnings	$ 5,458,649	$ 4,036,845
Average common and common equivalent shares outstanding (Note 10)	5,424,978	4,922,616
Earnings per common and common equivalent share (Note 10):		
Earnings before extraordinary item	$1.01	$ .87
Extraordinary item	—	(.05)
Net earnings	$1.01	$ .82

The accompanying notes are an integral part of these statements.

Temple Industries, Inc. and Consolidated Subsidiaries

Consolidated Balance Sheets

December 31, 1969 and 1968

Assets

	1969	1968
CURRENT ASSETS:		
Cash	$ 2,891,490	$ 2,553,245
Short-term commercial paper, at cost which approximates market	6,320,548	—
Receivables	4,507,611	4,627,480
Inventories, principally at the lower of average cost or market (Note 3)	5,788,088	3,867,727
Prepaid expenses and other	479,047	437,608
Total current assets	$19,986,784	$11,486,060
REAL ESTATE, held for development and resale (Note 5)	$ 5,672,919	$ 423,314
TIMBER AND TIMBERLANDS, at cost less depletion, including deposits on timber cutting contracts, partially pledged (Note 4)	$11,781,208	$ 4,950,444
INVESTMENTS:		
Investment in and advances to unconsolidated subsidiaries and related companies, at cost plus equity in undistributed earnings since acquisition (Note 1)—		
Wholly and majority owned companies engaged in unrelated businesses	$ 5,711,899	$ 5,615,374
Fifty percent owned plywood joint venture and other companies	2,643,666	2,806,915
Notes receivable	1,198,499	1,073,490
Undeveloped mineral deposit and other (Note 5)	952,083	870,127
	$10,506,147	$10,365,906
PROPERTY, PLANT AND EQUIPMENT, at cost, partially pledged (Notes 2 and 4):		
Buildings, machinery & equipment	$41,489,238	$34,218,123
Less—Accumulated depreciation	(16,558,349)	(15,285,400)
	$24,930,889	$18,932,723
DEFERRED CHARGES AND OTHER ASSETS:		
Deferred Federal income tax charges (Note 2)	$ 906,000	$ 785,000
Other assets	175,485	212,093
	$ 1,081,485	$ 997,093
	$73,959,432	$47,155,540

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

Liabilities and Shareholders' Investment

	1969	1968
CURRENT LIABILITIES:		
Current maturities of long-term debt (Note 5)	$ 2,433,112	$ 867,061
Accounts payable	2,691,068	1,208,064
Dividends payable	351,509	306,409
Accrued liabilities	1,291,461	786,752
Federal income taxes (Note 9)	1,669,264	2,231,992
Total current liabilities	$ 8,436,414	$ 5,400,278
LONG-TERM DEBT, excluding current maturities (Note 5)	$11,935,188	$ 7,910,358
DEFERRED FEDERAL INCOME TAXES	$ 263,000	$ 191,000
COMMITMENTS AND CONTINGENCIES (Notes 7 and 8)		
SHAREHOLDERS' INVESTMENT:		
Common stock, $1.66-2/3 par, authorized 20,000,000 shares, 5,633,390 shares issued in 1969 and 4,908,390 in 1968 (Note 6)	$ 9,388,983	$ 8,180,650
Capital in excess of par value	14,461,730	—
Retained earnings (Note 5)	29,621,385	25,522,554
	$53,472,098	$33,703,204
Less—Treasury stock, at cost, 11,894 shares in 1969 and 5,856 shares in 1968	147,268	49,300
	$53,324,830	$33,653,904
	$73,959,432	$47,155,540

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

Temple Industries, Inc., and Consolidated Subsidiaries

Consolidated Statements of Retained Earnings and Capital in Excess of Par Value

For the Years Ended December 31, 1969 and 1968

	1969	1968
RETAINED EARNINGS		
Balance, beginning of year (Note 2)	$25,522,554	$22,404,934
Net earnings	5,458,649	4,036,845
	$30,981,203	$26,441,779
Cash dividends declared	(1,359,818)	(919,225)
Balance, end of year	$29,621,385	$25,522,554
CAPITAL IN EXCESS OF PAR VALUE		
Balance, beginning of year	$ —	$ —
Excess of cash received over par of 600,000 shares of common stock issued, net of expenses of $137,153	13,037,847	—
Excess of underlying net assets of Temple Associates, Inc., over par of 67,000 shares of common stock issued therefor (Note 1)	1,111,083	—
Excess of cash received over par of 7,850 shares of qualified stock options exercised (Note 6)	62,800	—
Value of amounts awarded under Restricted Stock Bonus Plan in excess of par value (Note 6)	250,000	—
Balance, end of year	$14,461,730	$ —

Temple Industries, Inc., and Consolidated Subsidiaries

Statements of Source and Application of Funds

For the Years Ended December 31, 1969 and 1968

	1969	1968
SOURCE OF FUNDS:		
Operations —		
Net earnings	$ 5,458,649	$ 4,036,845
Depreciation and depletion	2,809,251	2,440,712
Total from operations	$ 8,267,900	$ 6,477,557
Reduction of investments in unconsolidated subsidiaries and joint venture	66,724	556,181
Issues of common stock	15,670,063	—
Increase in long-term debt	4,024,830	1,052,997
	$28,029,517	$ 8,086,735
APPLICATION OF FUNDS:		
Additions to property, plant and equipment — net	$ 7,969,280	$ 4,401,084
Purchases of timber and timberlands — net	7,668,900	2,342,775
Purchase of real estate for development and resale — net	5,249,604	261,739
Cash dividends declared	1,359,818	919,225
Increase in noncurrent notes receivable	125,009	2,710
Purchase of treasury stock	97,969	—
Provision for deferred Federal income tax charges (net of credits)	49,000	594,000
Other — net	45,349	9,364
	$22,564,929	$ 8,530,897
INCREASE (DECREASE) IN WORKING CAPITAL	$ 5,464,588	$ (444,162)
WORKING CAPITAL, beginning of year	6,085,782	6,529,944
WORKING CAPITAL, end of year	$11,550,370	$ 6,085,782

The accompanying notes are an integral part of these statements.

Temple Industries, Inc., and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

December 31, 1969

(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 68 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.

Two companies, which manufacture wooden beverage cases, were purchased by Temple in February, 1969, for $1,958,445 cash. Also, in June, 1969, Temple acquired, in exchange for 67,000 shares of Temple's common stock, all of the outstanding common stock of a company engaged in general and public utility construction, and the manufacture of furniture. All three of these acquisitions have been accounted for as purchases and are included in Temple's consolidation for the first time in 1969 for the periods from the date each was acquired. From the dates they were purchased by Temple, these companies accounted for $6,500,000 in sales and $260,000 of net income.

(2) INSURANCE CLAIMS —

Replacement and business interruption insurance claims resulting from a fire on January 7, 1968, which destroyed a portion of Temple's log sawing facilities, were settled in October, 1969, for $3,963,999, or $79,428 less than the estimated claims recorded in 1968. The 1968 financial statements have been retroactively restated to reflect the final settlement. The proceeds from the claims are accounted for in the restated 1968 financial statements as follows:

Increase in net sales	$1,652,487
Reduction of cost of sales	477,804
Reduction of cost of replacing the facilities	1,833,708
	$3,963,999

Although for financial statement purposes no gain or loss was recognized on the disposition of the old facilities which had been fully depreciated at the time of the fire, for tax reporting purposes the $1,833,708 of replacement insurance was recognized as a gain and the cost of the new facilities was capitalized. Federal income taxes of $528,000 applicable to this gain are included in deferred Federal income tax charges in the accompanying consolidated balance sheet at December 31, 1968, and 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 1969	December 31 1968
Finished Goods	$2,951,511	$1,831,097
Work in Process	973,565	775,114
Raw Materials	1,347,819	660,113
Supplies	515,193	601,403
	$5,788,088	$3,867,727

(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	$ 191,042	
Buildings	6,341,980	10 to 35 years
Machinery and equipment	24,195,643	5 to 25 years
Autos, trucks and aircraft	2,809,383	3 to 10 years
Furniture and fixtures	166,804	5 to 10 years
Other	538,793	Various
Construction in progress	7,245,593	
	$41,489,238	
Less—Accumulated depreciation	16,558,349	
	$24,930,889	

Depreciation of property, plant and equipment is generally provided on the straight-line method based on the estimated useful lives of the assets. The total amount of depreciation included in costs and expenses is $1,971,114 in 1969 and $1,712,293 in 1968.

Depletion of timber and timber cutting contracts is provided on the basis of the estimated recoverable timber and is credited to the timber accounts. The total amount of depletion included in costs and expenses is $838,137 in 1969 and $728,419 in 1968.

(5) LONG-TERM DEBT —

At December 31, 1969, long-term debt consisted of the following:

Notes payable under loan agreements dated April 3, 1964, 5%, unsecured, due in annual installments of $616,000	$ 5,536,000
Notes payable to vendors, 6½% - 7½%, secured by timberlands and real estate, due in annual installments of $1,481,023	7,881,304
Other notes and mortgages, 5½% - 7%, secured by property, plant and equipment with a book value of $856,146, and by an undeveloped gypsum deposit with a book value of $628,683, due in installments	950,996
	$14,368,300
Less—Current maturities due within one year	2,433,112
	$11,935,188

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, or (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, 1969, and available for dividends or capital stock retirement was $11,700,000.

The agreements also place certain restrictions on additional borrowing and financing, property acquisitions and disposals, and investments by Temple and its subsidiaries.

(6) CAPITAL STOCK —

Stock split —

On February 25, 1969, and March 26, 1969, respectively, the board of directors and shareholders approved a stock split of two-for-one 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.

Change in authorized capital stock —

On February 25, 1969, and March 26, 1969, respectively, the board of directors and shareholders 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, none of which has been issued.

Stock options —

Temple has a qualified stock option plan whereby options for a total of 425,000 shares of common stock (adjusted for the stock split mentioned above) 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, 1969, options for 263,000 shares had been granted and options for 7,850 shares had been exercised.

Restricted stock bonus plan —

In June, 1969, the stockholders approved a restricted stock bonus plan whereby a total of 55,000 shares of unissued common stock plus shares held as treasury shares (adjusted for the two-for-one stock split mentioned above) may be sold to certain officers and key employees of Temple and subsidiaries as approved by a committee of the board of directors. The restricted shares are to to be sold to participating employees at par value, $1.66⅔ per share; however, to continue his ownership of the shares, an employee must be awarded points by the committee over a period of not more than five years (beginning in 1969), equal in value to the difference between par and the fair market value of the stock on the day it was sold to the employee. The points may be awarded annually during the five years to employees out of a total "award amount" which is equal to five percent of the consolidated net income, with certain limitations, of Temple and its subsidiaries. In the event an employee does not receive sufficient award amounts during the five years and under certain other conditions, Temple has the option to repurchase the shares for the amount paid by the employee. As of December 31, 1969, a total of 50,150 shares of stock had been sold to employees under this plan, with the proceeds ($83,583) being credited to common stock. A charge to expense and a credit to "capital in excess of par value" will be recorded in Temple's accounts over the five-year period in amounts equal to the "award amount" each year up to a total of $831,654 (the excess of fair market value of the stock over its par value at the date of sale). An estimated "award amount" of $250,000 has been recorded in 1969.

(7) RETIREMENT PLAN —

Temple has a retirement plan covering all qualified employees. Contributions made to the plan and charged to expense were $346,000 in 1969 and $159,000 in 1968. 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, 1969, the unfunded past service cost of the plan was $1,572,000 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, 1969, Temple was contingently liable as guarantor or endorser of notes issued by others totaling $1,600,000, none of which were in default.

Temple presently has under construction plants and plant additions estimated to cost approximately $21,000,000, of which $7,000,000 had been expended at December 31, 1969.

(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 which contribute taxable income to the consolidation, based upon the ratio of each company's taxable income to the total taxable income. Carry-back or carry-forward benefits are not allocated to any subsidiary in a taxable loss position.

Under present Federal income tax regulations that portion of Temple's consolidated income which is attributable to the harvesting and sale of its fee-owned timber is taxed at long-term capital gain rates, thus reducing the amount of tax which would otherwise be due.

Temple follows the flow-through method of accounting for investment tax credit 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 $34,500 in 1969 and $278,000 in 1968.

(10) EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE —

Earnings per common and common equivalent share were computed by dividing net earnings by the weighted average number of shares of common stock and common stock equivalents outstanding during each year, after giving retroactive effect to a three-for-one stock split in May, 1968, and a two-for-one stock split in March, 1969. The previously reported 1968 earnings per share amounts have been restated in this manner in accordance with Opinion No. 15 of the Accounting Principles Board. Temple's employee stock options have been considered to be the equivalent of common stock. The number of common shares outstanding was increased by the number of shares issuable upon the exercise of employee stock options when the market price of the common stock exceeded the exercise price of the options. The increase in the number of common shares was reduced by the number of common shares which are assumed to have been purchased with the proceeds from the exercise of the options; these purchases were assumed to have been made at the average price of the common stock when the market price of the stock exceeded the exercise price of the options.

ARTHUR ANDERSEN & CO.
910 Travis Street, Suite 1700
Houston, Texas 77002
March 13, 1970

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, 1969 and 1968, and the related consolidated statements of earnings, retained earnings and capital in excess of par value, 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 report dated February 28, 1969, our opinion on the consolidated financial position as of December 31, 1968, and the consolidated results of operations for the year then ended was qualified as being subject to the effect of the settlement of the insurance claims described in Note 2. Our qualification on this matter has been removed as these claims have subsequently been settled and the financial statements for 1968 retroactively adjusted.

In our opinion, the accompanying consolidated balance sheets and consolidated statements of earnings, retained earnings and capital in excess of par value, and source and application of funds present fairly the financial position of Temple Industries, Inc., and consolidated subsidiaries as of December 31, 1969 and 1968, and the results of their operations and the source and application of funds for the years then ended, 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				
	1969	*1968*	*1967*	*1966*	*1965*
NET SALES	$50,131	$40,315	$31,951	$30,519	$29,095
COSTS AND EXPENSES:					
Cost of sales	$35,936	$28,615	$24,256	$22,570	$22,219
Selling, general, and administrative expenses	7,631	5,624	5,362	4,834	4,446
Losses (earnings) of discontinued operations	—	—	—	(90)	(40)
Total	$43,567	$34,239	$29,618	$27,314	$26,625
	$ 6,564	$ 6,076	$ 2,333	$ 3,205	$ 2,470
OTHER EARNINGS (EXPENSES):					
Gains on sale of land and proceeds from oil royalties and bonuses	$ 1,269	$ 632	$ 923	$ 866	$ 596
Interest income	730	360	421	208	88
Interest expense	(571)	(461)	(547)	(465)	(521)
Other—net	(175)	(40)	31	(20)	17
Total	$ 1,253	$ 491	$ 828	$ 589	$ 180
	$ 7,817	$ 6,567	$ 3,161	$ 3,794	$ 2,650
EQUITY IN NET EARNINGS (LOSSES) OF UNCONSOLIDATED SUBSIDIARIES AND JOINT VENTURE	361	156	86	(43)	(98)
EARNINGS BEFORE TAXES AND EXTRAORDINARY ITEMS	$ 8,178	$ 6,723	$ 3,247	$ 3,751	$ 2,552
PROVISION FOR FEDERAL INCOME TAXES	(2,719)	(2,424)	(669)	(767)	(535)
EARNINGS BEFORE EXTRAORDINARY ITEMS	$ 5,459	$ 4,299	$ 2,578	$ 2,984	$ 2,017
EXTRAORDINARY ITEMS:					
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)
NET EARNINGS	$ 5,459	$ 4,037	$ 2,578	$ 2,360	$ 1,301
CASH DIVIDENDS DECLARED	1,360	919	817	818	818
EARNINGS RETAINED IN THE BUSINESS	$ 4,099	$ 3,118	$ 1,761	$ 1,542	$ 483
AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (Note 1)	5,425	4,923	4,902	4,906	4,908
PER COMMON AND COMMON EQUIVALENT SHARE (Note 1):					
Earnings before extraordinary items	$ 1.01	$ .87	$ .53	$ .61	$ .41
Extraordinary items	—	(.05)	—	(.13)	(.14)
Net earnings	$ 1.01	$ .82	$ .53	$ .48	$ .27
Cash from operations	$ 1.54	$ 1.33	$ 1.08	$ 1.02	$ .78
PER SHARE OF COMMON STOCK (Note 2):					
Shareholders' investment	$ 9.47	$ 6.86	$ 6.23	$ 5.87	$ 5.56
Dividends declared	$ .25	$ .19	$ .17	$ .17	$ .17
COSTS AND EXPENSES ABOVE INCLUDE:					
Depreciation	$ 1,971	$ 1,712	$ 1,603	$ 1,491	$ 1,506
Depletion of company timber	$ 146	$ 58	$ 45	$ 34	$ 144
Purchased timber and logs	$ 692	$ 671	$ 1,037	$ 1,137	$ 847
Property taxes	$ 540	$ 443	$ 409	$ 344	$ 367

Notes—

(1) Based on the weighted average number of shares of common stock and common stock equivalents outstanding during each year after giving retroactive effect to a three-for-one stock split in May, 1968, and a two-for-one stock split in March, 1969.

(2) Based on common shares actually outstanding at December 31 of each year for shareholders' investment and at the dividend date for dividends declared after giving retroactive effect to a three-for-one stock split in May, 1968, and a two-for-one stock split in March, 1969.

Temple Industries, Inc., and Consolidated Subsidiaries

Five Year Summary—Consolidated Balance Sheets

(000's Omitted)

	December 31				
Assets	*1969*	*1968*	*1967*	*1966*	*1965*
CURRENT ASSETS:					
Cash and short-term commercial paper	$ 9,212	$ 2,553	$ 2,379	$ 560	$ 2,210
Receivables, net	4,508	4,628	3,992	4,457	4,879
Inventories, principally at the lower of average cost or market	5,788	3,868	4,817	4,209	5,020
Real estate for resale and construction contracts (of retail operations discontinued in 1966)	—	—	—	—	1,000
Prepaid expenses	479	437	328	225	280
Total current assets	$19,987	$11,486	$11,516	$ 9,451	$13,389
REAL ESTATE, held for development and resale	$ 5,673	$ 423	$ —	$ —	$ —
TIMBER AND TIMBERLANDS, at cost less depletion, including deposits on timber cutting contracts	$11,781	$ 4,950	$ 3,336	$ 3,829	$ 3,222
INVESTMENTS AND OTHER ASSETS:					
Investments in and advances to unconsolidated subsidiaries and related companies, at cost plus equity in undistributed net earnings since acquisition	$ 6,269	$ 6,298	$ 6,969	$ 5,859	$ 3,885
Equity in and advances to a joint venture	2,086	2,124	2,009	2,045	2,191
Notes receivable	1,198	1,074	1,071	1,513	581
Undeveloped gypsum deposit and other assets	2,034	1,867	1,235	1,182	564
	$11,587	$11,363	$11,284	$10,599	$ 7,221
PROPERTY, PLANT, AND EQUIPMENT, at cost:					
Buildings, machinery, and equipment	$41,489	$34,218	$30,619	$29,226	$27,434
Less—Accumulated depreciation	(16,558)	(15,285)	(14,375)	(13,086)	(12,778)
	$24,931	$18,933	$16,244	$16,140	$14,656
	$73,959	$47,155	$42,380	$40,019	$38,488
Liabilities and Shareholders' Investment					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	$ 2,433	$ 867	$ 2,966	$ 1,414	$ 825
Accounts payable	2,691	1,208	425	841	872
Dividends payable	352	306	408	409	409
Accrued liabilities	1,291	787	808	697	691
Federal income taxes	1,669	2,232	379	278	527
Total current liabilities	$ 8,436	$ 5,400	$ 4,986	$ 3,639	$ 3,324
LONG-TERM DEBT, excluding current maturities	$11,935	$ 7,910	$ 6,858	$ 7,580	$ 7,885
DEFERRED FEDERAL INCOME TAXES	$ 263	$ 191	$ —	$ —	$ —
SHAREHOLDERS' INVESTMENT:					
Common stock	$ 9,389	$ 8,181	$ 8,181	$ 8,181	$ 8,181
Capital in excess of par value	14,462	—	—	—	—
Retained earnings	29,621	25,522	22,404	20,643	19,101
Treasury stock, at cost	(147)	(49)	(49)	(24)	(3)
	$53,325	$33,654	$30,536	$28,800	$27,279
	$73,959	$47,155	$42,380	$40,019	$38,488
WORKING CAPITAL	$11,551	$ 6,086	$ 6,530	$ 5,812	$10,065
RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES	2.37	2.13	2.31	2.60	4.03

Directors
Lee E. Cook
Joe C. Denman, Jr.
Michael D. Dingman
Robert T. Keeler
Thomas T. Keeler
H. J. Shands, Sr.
Arthur Temple
R. Clyde Thompson
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

Henry H. Holubec, Jr.
Vice President-Marketing

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

Registrars
Mercantile National Bank of Dallas
Marine Midland Grace Trust Company of New York

Stock Listed New York Stock Exchange

Temple Industries, Inc. Drawer N, Diboll, Texas 75941