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Temple Industries Annual Report for 1970

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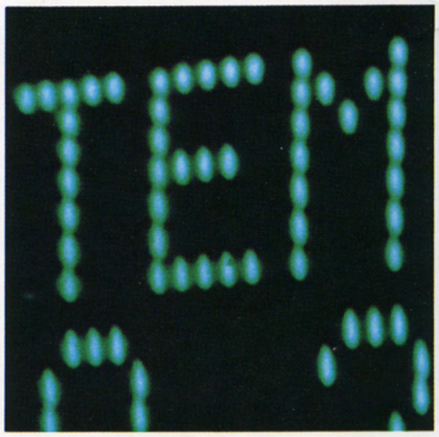

TEM, the New York Stock Exchange symbol for Temple Industries, Inc.

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Financial Highlights

	1970	1969
Net Sales	$50,958,959	$50,130,641
Net Income:		
Amount	$ 3,945,120	$ 5,458,649
Per Share	$ .69	$ 1.01
Total Shareholders Equity	$55,997,123	$53,324,830
Cash Flow (net income plus depreciation and depletion):		
Amount	$ 6,846,247	$ 8,267,900
Cash Dividends:		
Amount	$ 1,408,825	$ 1,359,818
Per Share	$ .25	$ .25
Average Number of Shares Outstanding including Common Share Equivalents:	5,736,781	5,424,978
Number of Employees at End of Year	3,186	2,818

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To Our Shareholders:

The general softness of the residential housing market this past year materially affected the profitability of our operations in 1970, with net profit declining to $3,945,120 from $5,458,649. Net income per share declined to $.69 based on 5,736,781 shares outstanding compared with $1.01 in 1969 on 5,424,978 average shares.

Sales increased moderately to $50,958,959 compared with $50,130,641 in 1969, as added production in several manufacturing divisions overcame the extremely low market prices for some of our basic products.

There has been a marked improvement in the level of construction activity over the last few months, with prices of most of our products recovering to more favorable levels during the first quarter of 1971.

Our $27,000,000 expansion program, begun three years ago, saw four more projects completed this past year.

The Diboll lumber division is now operating at full capacity with completion of our $1,400,000 *automated tray sorter and planer mill.*

The $9,000,000 *expanded fiberboard mill* in Diboll, Texas, will double production of this important building product.

Our $800,000 *mobile/modular housing plant* in Diboll commenced start-up operations.

Our *furniture subsidiary* in Austin, Texas, completed its $1,500,000 expansion in January, 1971, doubling the production of popular priced furniture to 1,000 units per day.

Miracle Bark—A Love Wood product used by landscape architects and home gardeners. Other Love Wood products marketed throughout the South include pine bark soil conditioner, catalysts and filler for the pharmaceutical, petroleum and steel industries.

During the year we acquired the remaining interest in *Southern Pine Plywood Co.* from U. S. Plywood-Champion Papers Inc. for $2,300,000. This company had operated as a joint venture since 1964.

During the second quarter of 1971 our new $7,000,000 *particleboard plant* will begin production in Diboll.

Completion of our present expansion program will occur when our $5,000,000 *gypsum wallboard mill* in West Memphis, Arkansas, begins operation in the second quarter of 1972.

We are continuing to develop new markets for our diversified products, especially those not affected by the cyclical swings of the residential housing market. An example is the increased promotion for Miracle Bark, a southern pine bark by-product. Another example is our 1971 marketing of a portion of our treated lumber as decorative fencing. Sold in pre-packaged units, they can be assembled and installed by the homeowner.

During the year we acquired 53,650,000 feet of timber in open market transactions from other tree farmers and relied upon our own lands for only 88,000,000 feet.

Since many of our basic manufacturing decisions are based on the volume of our standing timber, we have followed a policy of having an outside audit of our timberlands every ten years. Our 1970 audit reflected a total timber volume in excess of 2 billion feet on Temple lands.

Under our continuing timber acquisition program, we purchased nearly 20,000 acres of timberland in 1970 and now own approximately

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450,000 acres. Sabine Investment Company of Texas, Inc., one of our land development subsidiaries, acquired an additional 7,000 acres for recreational and commercial development, increasing their holdings to 25,000 acres. Our combined acreage is now approximately 475,000.

A more detailed analysis of our multiple-use land management policy will be found elsewhere in this report. We hope you will agree that your company has been an industry leader in this regard.

In January, 1971, we successfully tendered and now own in excess of 99% of the outstanding shares of Lumbermen's Investment Corporation, our mortgage banking subsidiary.

Temple Associates, Inc., our contracting subsidiary, enjoyed its greatest year with record levels of both revenues and profits. Based on our current backlog, 1971 should continue to reflect very satisfactory operating results.

The outlook for residential construction during 1971 is very promising. Most experts are pegging housing starts near 1,800,000 units, a 20% increase over 1970 levels. The easing of monetary controls, decline of interest rates and recent action of the Federal National Mortgage Association indicate that sufficient mortgage funds should be available to finance this level of residential construction.

The added capacity and broadened product lines available from our expanded manufacturing facilities will permit us to further expand our market penetration. We will also aggressively pursue new areas of opportunity to increase the profitability of our operations.

Mr. H. J. Shands, Chairman of the Board of First Bank & Trust, Lufkin, Texas, retires from our board in April, 1971. We would like to take this opportunity to recognize the many years of devotion and effort Mr. Shands has given to Temple. Evidence of his wisdom is abundantly apparent in the history and character of the company.

In April, 1970, two new members were added to our Board of Directors—Robert W. Halliday and Walter P. Stern. Mr. Halliday is Chairman of the Board of U. S. Natural Resources, and Mr. Stern is a senior partner of Burnham and Company. Both men bring many years of experience in our industry to their new assignment.

Adversity often encourages increased effort and dedication. This was particularly true of our employees, directors and friends during the past year.

Significant economies were achieved through their hard work and excellent counsel.

It is fitting that we should recognize the contributions they have made to our continuing growth.

W Temple Webber

W. Temple Webber
Chairman of the Board

Arthur Temple

Arthur Temple
President and
Chairman of Executive Committee

March 26, 1971

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Classification of Sales

	% of Sales				
	1970	1969	1968	1967	1966
Lumber and By-Products	24	28	29	27	29
Panel Products	26	27	34	32	31
Consumer & Industrial Products	23	22	16	18	19
Building Material Sales Facilities	13	16	19	21	18
Contracting & Other	14	7	2	2	3

Temple salesmen exhibit our diversified products at conventions and product shows through 26 Central and Southern states.

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Forest Management

Acquisition of 20,000 acres of timberland . . . 1,250,000 pine seedlings planted on 1,400 acres . . . a successful breakthrough in insect control . . . these were just a few of the major projects undertaken by our forest management division this year.

The timberland purchases, containing 45,000,000 board feet of standing timber, are located near our Pineland and Diboll mills in East Texas.

These purchases add substantially to our raw material inventory and give us much greater flexibility in determining the long range product capabilities for these operations.

A milestone in the management of Temple forestlands was reached in 1940 when an inventory of our standing timber indicated we could substantially supply our raw material requirements from timber growing on our lands. Since that time we have selectively harvested our timber needs (removing individual trees on each cutting location, leaving the younger timber for future growth). This harvest method also maintains a balanced natural environment.

Both timber volume and the quality of the tree stands have improved through the years, and we continue to remove only about 70% of the annual growth each year, thereby increasing our forest inventory and maintaining a raw material base for further enlargement of our manufacturing operations.

Temple Perpetual Forests have been selectively harvested for generations. Our 450,000 acres of scientifically managed timberlands provide game habitat and public recreation, as well as wood fiber for our manufacturing operations.

We also have acquired additional timberlands to replace those acres being developed for recreational and commercial usages.

Today we have more than 2,000,000,000 board feet of growing timber in our forests. This record volume has been attained even though we are now harvesting roughly double the timber volume used in our mills ten years ago.

Consistent with assuring that each acre will carry its maximum timber volume, we are continuing a long standing policy of planting southern pine seedlings on those areas presently under-stocked. This is particularly important on those lands purchased each year from other landowners.

This past year, 1,250,000 seedlings were planted on 1,400 acres. Over the last ten years, more than 11 million seedlings have been planted on 11,000 acres of newly acquired lands. This program will continue until all areas are fully stocked.

Chip conversion of low grade trees produced 27,000 tons of raw material this past year. This silvicultural practice, using a portable chipper, has greatly improved the quality of timber on thousands of acres over the past several years.

This past year saw a breakthrough in insect and disease control that may be as important as any facet of our timber management programs.

The southern pine beetle has been responsible for killing more trees each year than are normally lost to fire or harvest. Ten years ago, we joined with other forest landowners in East Texas to find a method of controlling this insect. Paramount in our thinking was that the control should in no way endanger or imbalance plant or animal life.

The research team came up with a "chemical attractant" that only the southern pine beetle will recognize. Injected into individual trees in

The modern tree-length log processing yard at Diboll directs log inventory to several locations, assuring maximum utilization.

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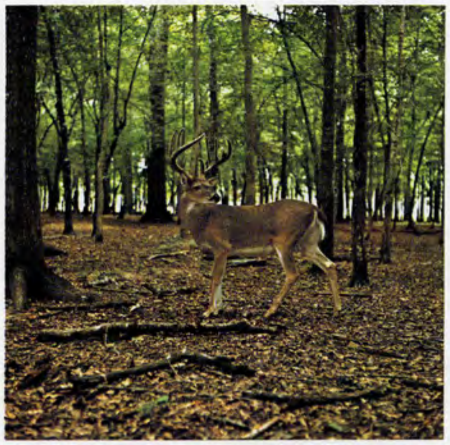
infested areas, it assures that only areas of heavy beetle populations need be treated.

Commercial synthesization of the attractant will lead to an all-out assault on this killer of southern pine lumber.

One other by-product of our intensive management program has been the dramatic growth of wildlife population through the last thirty to forty years.

It seems impossible that in the 1920's the sighting of deer in some areas of East Texas was a major news event.



Intensive management of Temple forests has seen deer population reach record levels. Some species were almost non-existent in East Texas 30 years ago.

In fact, the growth of deer population, and other wild game and birds, did not begin to increase until after intensive forest management got underway in the 30's and 40's.

This year, for the first time, we published a "Guide to Good Hunting" booklet identifying 125,000 acres of company owned lands open on a no-fee basis to hunters and fishermen. More than 18,000 requests were filled.

Introduction of wild turkey on one of our game preserves was begun this year, and we are cooperating with state and federal game biologists in isolating nesting areas of the rare red-cockaded woodpecker. This bird has been placed on the federal "endangered species" list and is thought to be near extinction.

It is gratifying to know that the land management decisions we made many years ago to assure a timber supply for our manufacturing operations also fostered so many additional benefits.

Lumber and By-Products

Completion of our Diboll sawmill and planer modernization program during 1970 has increased the annual capacity of our lumber division to 140,000,000 board feet.

Actual production in 1970 was 132,000,000 feet, up 3,000,000 over 1969.

By-product utilization (sawdust, shavings, chips, bark) is now approaching 585,000 tons per year.

The completed expansion of our wood-waste manufacturing plants, primarily our new particleboard facility, will consume most by-products of our sawmill operations. As a consequence, we are converting our wood-fueled steam plant in Diboll to natural gas to upgrade the utilization of by-products generated by our sawmill operations.

Panel Products

The evolution of wood-based panel products (particleboard, fiberboard, plywood) as a substitute for lumber in residential construction has a two-fold impact: competitively priced products and lower installation costs.

Wood-based panels are taking an increasing share of the building materials marketed each year, and we expect this trend to accelerate as component and factory built housing moves into prominence.

Our entry into panel product manufacture in the late 50's was designed to position ourselves both on the production line and in the market place to take fullest advantage of the increasing demand for these materials.

We take great pride in the fact that our company pioneered development of fiberboard and plywood in the South.

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FIBERBOARD

Our expanded mill at Diboll began start-up operations shortly after mid-year. This facility increases total fiberboard capacity 80% to 360,000,000 square feet per year. It also increases our existing product line to include medium density exterior siding.

Fiberboard production in 1970 was 230,000,000 square feet, a 15% increase over 1969. This added footage was largely attributable to our new capacity being operative in the latter half of 1970.

PLYWOOD

We pioneered the manufacture of southern pine plywood with construction of a 75,000,000 square-foot-capacity mill at Diboll in 1964.

The plant was operated as a joint venture until October, 1970, when we acquired the remaining 50% interest from U. S. Plywood-Champion Papers Inc.

We are performing certain modifications and will further automate the plant, increasing capacity to 85,000,000 square feet.

We have also added some product lines to complement our sheathing, sanded and concrete form production.

During 1970, this mill produced more than 71,000,000 square feet of plywood products, 50% of which was marketed by Temple. U. S. Plywood-Champion Papers Inc., has an option on 50% of the production in 1971; 30% in 1972, and 25% in 1973.

Plywood prices have recovered substantially in the first quarter of 1971, in response to increased housing starts. If this trend continues, profit performance of this division should substantially improve over 1970's depressed levels.

PARTICLEBOARD

This versatile wood-based panel product is continuing to make inroads in markets formerly served by both lumber and plywood.

Manufactured from sawdust and shavings, and bonded under extreme pressure, the hard, smooth surface of particleboard makes it particularly adaptable as floor underlayment, furniture core stock and cabinets.

Manufactured in 4′ x 8′ and larger panels, it is finding many uses in the construction of factory-built housing and mobile homes.

Our new particleboard plant at Diboll is scheduled to be in production in the second quarter of 1971 and will increase our present capacity from 10,000,000 square feet per year to 105,000,000 feet. In 1970 we produced 8,000,000 feet of particleboard products.

New domestic particleboard plants recently announced will increase estimated 1970 capacity by as much as 50%. This may result in a temporary imbalance of supply and demand and could influence our profitability from this product in 1971. However, the geographic location of our plant relative to our major markets will enable us to maintain a competitive position at expected price levels.

GYPSUM WALLBOARD

To further broaden our building material line, we began manufacture of gypsum wallboard in the 1950's.

In the manufacturing process, the white mineral gypsum is crushed, reduced to a water-based slurry and pressed between two sheets of specialty paper. The panel is fire resistant and is often specified as interior wall sheathing in residential construction.

Gypsum wallboard's ease of application and paintability give it a cost advantage over many other materials.

We will double our production of Temple fire-rated gypsum wallboard with completion of our West Memphis, Arkansas, plant in 1972.

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To open new markets for this product, construction of a plant in West Memphis, Arkansas, was begun in March, 1971. The mill should be completed in the first quarter of 1972.

The new facility will double our annual capacity to 280,000,000 feet. In addition, the geographic location of this mill will add gypsum wallboard as one of our manufactured products in markets where other Temple building materials are now being sold.

Gypsum rock from our mine in Oklahoma will supply both our Dallas and West Memphis plants.

In 1970, we produced approximately 110,000,000 feet of gypsum wallboard.

Many Temple products, including lumber and fiberboard, are used in the construction of mobile homes.

Building Material Sales Facilities

We maintain two large building material distribution yards in Diboll and Pineland, Texas, and a subsidiary, Fleishel Lumber Company, operates as a sales agent in St. Louis, Missouri. Approximately 25% of the sales of these operations are products manufactured by Temple.

Consumer & Industrial Products

Woodward, Inc., our furniture manufacturing facility, completed a major addition to its manufacturing plant in Austin in the first quarter of 1971, doubling our manufacturing capacity to 1,000 units per day. This will expand our markets both geographically and into contract items for mobile homes and apartments.

Sales for Woodward were up 17% during 1970, and the current backlog of orders indicates this trend should continue in 1971.

In 1970, we designed several styles of decorative fencing made from our treated lumber. Sold as a packaged unit, assembled by the homeowner, it will be extensively promoted throughout our major market areas.

Sales and earnings of the remainder of our consumer and industrial products were generally adversely affected by the economic conditions existing in 1970.

Contracting & Other

Temple Associates, our commercial industrial contracting subsidiary, posted record income and profit this past year.

Current contracts in progress and improving economic conditions should see Associates continue its excellent performance during 1971.

Major projects, in addition to work being performed for Temple, include a municipal center, county hospital, commercial bank, plywood facility for another forest product company, distribution warehouse, etc.

Production models began coming off the line at our new shelter housing factory in Diboll during the second half of last year. The plant is designed to produce 2,000 homes per year and uses a broad range of Temple products.

This facility should begin contributing to earnings by mid-year.

Woodward furniture specified by our shelter division is designed for gracious living.

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Real Estate and Mortgage Banking

In January, 1971, we successfully acquired through a registered tender offer an additional 37% of the outstanding stock of Lumbermen's Investment Corporation, a mortgage banking corporation headquartered in Austin, Texas. Temple now owns in excess of 99% of this company.

During 1970, Lumbermen's originated $23,000,000 in new residential mortgages, and as of December 31, 1970, was servicing approximately $170,000,000 in mortgages (up 10% from last year) for various institutional investors.

Traditionally a mortgage banking company lends money to various individuals to purchase homes, accumulating these loans in inventory and periodically selling a portion of the loans to institutional investors. The mortgage company usually continues to collect the loan payments for the investors and is paid a fee for this service. To carry the loans accumulated, mortgage banking companies generally borrow from commercial banks. The profitability of these warehouse functions is an equation of the short term interest cost and long term mortgage rates. During 1970, monetary restraints imposed by the Federal Government to control inflationary pressures resulted in short term bank rates being virtually equal to the long term rate of residential mortgage loans. This adverse relationship affected the profitability of LIC in 1970. Short term bank rates began declining in the fourth quarter, and a more favorable relationship now exists between the two rates.

The income producing properties of this subsidiary continued to improve profitability. In July, 1970 we acquired the remaining 50% interest in the Sheraton Crest Hotel of Austin, and another of our real estate subsidiaries purchased and remodeled a hotel in East Texas. This property has been franchised as Sheraton Crest Inn of Nacogdoches.

Sabine Investment Company of Texas, Inc., our recreational and commercial land development subsidiary, enjoyed another satisfactory year. Now in its second year as an independent operation, Sabine increased its scope of activity to include five new recreational subdivisions on Lake Sam Rayburn and Toledo Bend Reservoir, the fifth and sixth largest man-made lakes in the United States. A minimum of three new subdivisions is scheduled for development later this year.

Recreational lot sales continued at about the same level as 1969, but other facets of our land development activity declined from last year. We anticipate an improved economic environment and greater leisure time for many potential consumers in the years ahead.

With this in view, Sabine Investment Company of Texas, Inc. acquired an additional 7,000 acres of prime recreational land around Lake Sam Rayburn during 1970.

Temple owns several thousand acres around Lake Sam Rayburn, site of the 1970 National Bass Fishing Championship. This prime recreation area attracts millions of visitors annually.

Vacation home development has shown spectacular growth in East Texas with the creation of two major fresh water lakes, Sam Rayburn and Toledo Bend. Sabine has ten lakefront developments under construction.

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How do you dispose of nearly 2,000,000 gallons of water per day from a major mill complex without endangering the natural environment?

At our expanded fiberboard mill in Diboll, you begin with a 200 acre field, install 33 miles of asbestos and perforated pipe underground; connected to 708 irrigation sprinkler heads. The field is contoured so that the runoff is directed to a collection basin for recycling. And it was accomplished without significantly adding to our cost of manufacture.

Recognizing that too many lakes and rivers are becoming polluted by industrial and population growth, our engineers laid down some stringent criteria for treating effluent from the new fiberboard mill.

Natural percolation of the water on the field collects any fine wood fibers that escape the filter screens at the mill. Biologic action reduces these fibers to their natural state. The perforated pipe system returns a portion of the water to the collection basin for recycling through the pulping process. The year-round ground cover provides excellent forage for deer and other game.

Installation of this sprinkler system is one more example of how research and applied engineering are developing improved techniques to protect our natural environment.

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Enhancing Our Total Environment

Our goal is a better environment tomorrow.

Concern about the quality of our environment is not a recent involvement for your company.

Our commitment was made more than 75 years ago when we acquired our first timberlands in East Texas.

The hue and cry of recent years over the "despoiling of our environment" by so many ill-informed groups can in no way be directed toward those industrial and private timberland owners in the South who have long managed their lands for the perpetual harvest of wood.

It is interesting to note that those lands now sought for national parks and other single uses are often forests that have been intensively managed for timber production for generations.

There is a realistic judgment to be made if we are to continue to provide the necessities of a growing population, as well as assure benefits so necessary to our total environment.

Our commitment to these principles has been constantly kept in view.

Adequate shelter, community services, basic human needs have always been a concern of your company.

In our early years, the very isolation of our operations from major population centers made it mandatory that we provide these services.

The company store, company housing, company-provided utilities and schools were a part of doing business.

We assumed a total responsibility for our employees.

The evolution of these former company towns to private communities has been a rewarding, albeit challenging, experience.

Shopping centers, parks, swimming pools, now serve communities of private homes and rental housing.

Municipal government now administers the affairs of the towns, and non-profit housing authorities oversee present and anticipated housing needs for our expanding populations.

From that date in 1893, when we purchased our first timberlands, to today when we convert 585,000 tons of sawmill waste each year to a useful and profitable product, wise use of our natural resources has been a constant concern, but even more importantly it has provided a secure future for our 3,200 employees and their families.

This spacious community center plus abundant parks and play grounds, libraries, swimming pools and municipal golf course—all contribute to the leisure-time enjoyment of many of our employees.

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Financial Review

1970 was a year of forward-looking developments in the financial area of your company.

In May, 1969, we received $14,175,000 from the public sale of 600,000 shares of common stock. A portion of these proceeds plus the following additional term loans are financing our $27,000,000 expansion program:

A $10,000,000 term note from a group of five banks, payable in eighteen quarterly payments beginning in June, 1971.

A $1,000,000 bank term note to finance the expansion of our furniture subsidiary, amortized at $25,000 per quarter with the balance due in five years.

Our West Memphis gypsum mill is being financed through a $4,200,000 industrial revenue bond issue maturing over the next twenty years, with no maturities until February, 1973. The net interest cost to the company of these bonds will average about 7.5%.

Approximately $20 million of the $27 million allocated for expansion was expended as of December 31, 1970.

A total of 27,000 acres of timberland and other real estate was purchased during the year for approximately $9,000,000. We have given a series of notes totaling $7,800,000 as a portion of the sales price from one seller. These notes bear interest at 6% payable over the next eight years. A fully developed subdivision acquired in 1970 was sold in the first quarter of 1971 for $2,400,000 in cash. This was roughly equal to the carrying cost of this asset.

Cash dividends totaling $.25 per share were paid quarterly during 1970. Total dividends were more than $1,400,000, a record high.

Cash flow (net earnings plus depreciation and depletion) from operations in 1970 was $6,846,247.

Our strong equity position, over $55,000,000 in net worth compared with $37,000,000 in total liabilities as of December 31, 1970, gives us many opportunities to finance growth without dilution of common equity. This year we will dedicate our excess cash flow to complete our capital expenditures program and build a reserve for future projects. This enlarged equity base will allow prudent leverage of senior debt.

It is our intention to maintain our policy of retaining a large portion of our earnings each year. This retention will allow major flexibility in financing our future growth and increase long-range benefits to our shareholders.

Statements of Source and Application of Funds

For the Years Ended December 31, 1970 and 1969

	1970	1969
SOURCE OF FUNDS:		
Operations—		
Net earnings	$ 3,945,120	$ 5,458,649
Depreciation and depletion	2,901,127	2,809,251
Total from operations	$ 6,846,247	$ 8,267,900
Reduction of investments in unconsolidated subsidiaries and joint venture	2,159,848*	66,724
Issues of common stock and sales of treasury stock	254,359	15,670,063
Long-term borrowings	15,264,953	5,925,033
	$24,525,407	$29,929,720
APPLICATION OF FUNDS:		
Additions to property, plant and equipment	$18,327,483*	$ 7,969,280
Purchases of timber and timberlands	4,252,067	7,668,900
Purchase of real estate for development and resale	2,777,760	4,649,604
Cash dividends declared	1,408,825	1,359,818
Increase in noncurrent notes receivable	235,962	125,009
Purchase of treasury stock	118,361	97,969
Payments on long-term debt	2,445,994	1,900,203
Other—net	253,701	94,349
	$29,820,153	$23,865,132
INCREASE (DECREASE) IN WORKING CAPITAL	$ (5,294,746)	$ 6,064,588
WORKING CAPITAL, beginning of year	12,150,370	6,085,782
WORKING CAPITAL, end of year	$ 6,855,624	$12,150,370

**Approximately $2,000,000 reduction of investments and contra addition to plant are a result of the liquidation of joint venture by purchase of outside 50% interest.*

The accompanying notes are an integral part of these statements.

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

February 19, 1971

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, 1970, and the related consolidated statements of earnings, retained earnings and capital in excess of par value, and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

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, 1970, and the results of their operations and the source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

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Consolidated Balance Sheets

December 31, 1970 and 1969

ASSETS

	1970	1969
CURRENT ASSETS:		
Cash	$ 2,008,746	$ 2,891,490
Short-term commercial paper, at cost which approximates market	—	6,320,548
Receivables	6,574,699	4,507,611
Developed real estate, held for resale	2,950,000	600,000
Inventories, principally at the lower of average cost or market (Note 2)	6,816,723	5,788,088
Prepaid expenses and other	449,111	479,047
Total current assets	$ 18,799,279	$ 20,586,784
REAL ESTATE, held for development and resale (Note 4)	$ 7,850,679	$ 5,072,919
TIMBER AND TIMBERLANDS, at cost less depletion, including deposits on timber cutting contracts, partially pledged (Notes 3 and 4)	$ 15,319,627	$ 11,781,208
INVESTMENTS:		
Investment in and advances to unconsolidated subsidiaries and related companies, at cost plus equity in undistributed earnings since acquisition (Note 1)	$ 6,195,717	$ 8,355,565
Notes receivable	1,434,461	1,198,499
Undeveloped mineral deposit and other (Note 4)	963,342	952,083
	$ 8,593,520	$ 10,506,147
PROPERTY, PLANT, AND EQUIPMENT, at cost, partially pledged (Note 3):		
Buildings, machinery and equipment	$ 59,778,484	$ 41,489,238
Less—Accumulated depreciation	18,707,591	16,558,349
	$ 41,070,893	$ 24,930,889
DEFERRED CHARGES AND OTHER ASSETS:		
Deferred Federal income tax charges	$ 943,000	$ 906,000
Other assets	667,927	175,485
	$ 1,610,927	$ 1,081,485
	$ 93,244,925	$ 73,959,432

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

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LIABILITIES AND SHAREHOLDERS' INVESTMENT

	1970	1969
CURRENT LIABILITIES:		
Short-term note payable	$ 2,500,000	$ —
Current maturities of long-term debt (Note 4)	3,986,366	2,433,112
Accounts payable	2,994,145	2,691,068
Dividends payable	352,465	351,509
Accrued liabilities	1,796,315	1,291,461
Federal income taxes (Note 8)	314,364	1,669,264
Total current liabilities	$ 11,943,655	$ 8,436,414
LONG-TERM DEBT, excluding current maturities (Note 4)	$ 24,754,147	$ 11,935,188
DEFERRED FEDERAL INCOME TAXES	$ 550,000	$ 263,000
COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)		
SHAREHOLDERS' INVESTMENT:		
Common stock, $1.66⅔ par, authorized 20,000,000 shares, 5,646,740 shares issued in 1970 and 5,633,390 in 1969 (Notes 1 and 5)	$ 9,411,233	$ 9,388,983
Capital in excess of par value	14,535,640	14,461,730
Retained earnings (Note 4)	32,157,680	29,621,385
	$ 56,104,553	$ 53,472,098
Less—Treasury stock, at cost, 7,344 shares in 1970 and 11,894 shares in 1969	107,430	147,268
	$ 55,997,123	$ 53,324,830
	$ 93,244,925	$ 73,959,432

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

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Consolidated Statements of Earnings

For the Years Ended December 31, 1970 and 1969

	1970	1969
NET SALES (Note 1)	$ 50,958,959	$ 50,130,641
COSTS AND EXPENSES (Note 3):		
Cost of sales	$ 39,408,273	$ 35,936,221
Selling, general and administrative expenses	8,228,194	7,630,505
	$ 47,636,467	$ 43,566,726
	$ 3,322,492	$ 6,563,915
OTHER EARNINGS (EXPENSES):		
Gains on sale of land and proceeds from oil royalties and bonuses	$ 1,113,240	$ 1,268,648
Interest income	487,879	729,698
Interest expense (Note 3)	(157,592)	(570,798)
Other, net	94,083	(174,451)
	$ 1,537,610	$ 1,253,097
	$ 4,860,102	$ 7,817,012
EQUITY IN NET EARNINGS (LOSSES) OF UNCONSOLIDATED SUBSIDIARIES AND JOINT VENTURE (Note 1)	(64,982)	360,637
EARNINGS BEFORE TAXES	$ 4,795,120	$ 8,177,649
PROVISION FOR FEDERAL INCOME TAXES (Note 8)	850,000	2,719,000
NET EARNINGS	$ 3,945,120	$ 5,458,649
AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (Note 9)	5,736,781	5,424,978
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE (Note 9)	$ .69	$1.01

The accompanying notes are an integral part of these statements.

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

For the Years Ended December 31, 1970 and 1969

RETAINED EARNINGS

	1970	1969
BALANCE, beginning of year	$ 29,621,385	$ 25,522,554
Net earnings	3,945,120	5,458,649
	$ 33,566,505	$ 30,981,203
Cash dividends declared	(1,408,825)	(1,359,818)
BALANCE, end of year	$ 32,157,680	$ 29,621,385

CAPITAL IN EXCESS OF PAR VALUE

	1970	1969
BALANCE, beginning of year	$ 14,461,730	$ —
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 10,700 and 7,850 shares, respectively, of qualified stock options exercised (Note 5)	73,910	62,800
Value of amounts awarded under restricted stock bonus plan in excess of par value (Note 5)	—	250,000
BALANCE, end of year	$ 14,535,640	$ 14,461,730

The accompanying notes are an integral part of these statements.

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Notes to Consolidated Financial Statements

December 31, 1970

(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 62 percent owned subsidiary at December 31, 1970) 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.

In January and February, 1971, Temple acquired an additional 92,087 shares of common stock of Lumbermen's Investment Corporation in exchange for 55,240 shares of Temple's common stock. Temple owned 99 percent of Lumbermen's Investment Corporation upon completion of the exchange.

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 electrical distribution construction. 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 earnings before taxes in 1969, and $8,900,000 in sales and $857,000 of earnings before taxes in 1970.

(2) Inventories—

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

	December 31 1970	December 31 1969
Finished goods	$3,463,524	$2,951,511
Work in process	898,163	973,565
Raw materials	1,812,309	1,347,819
Supplies	642,727	515,193
	$6,816,723	$5,788,088

(3) 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	$ 192,775	
Buildings	10,100,900	10 to 35 years
Machinery and equipment	33,540,468	5 to 25 years
Autos, trucks, and aircraft	3,205,292	3 to 10 years
Furniture and fixtures	231,924	5 to 10 years
Other	3,500,460	Various
Construction in progress	9,006,665	
	$59,778,484	
Less— Accumulated depreciation	18,707,591	
	$41,070,893	

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 $2,187,479 in 1970 and $1,971,114 in 1969.

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 $713,648 in 1970 and $838,137 in 1969.

A significant portion of Temple's borrowed funds was used to finance major construction projects in 1970, and, accordingly, interest of $638,000 applicable to these projects was capitalized. Interest attributable to construction projects was not capitalized in 1969 as it was not significant.

(4) Long-term debt—

At December 31, 1970, 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	$ 4,920,000
Notes payable to banks under loan agreement dated April 30, 1970, at prime interest rate plus 1/2 of 1%, unsecured, due in 18 equal quarterly installments beginning June 30, 1971	9,060,000
Notes payable to vendors, 5%-7 1/2%, secured by timberlands and real estate, due in annual installments of $1,483,271	14,165,456
Other notes and mortgages, 4 1/2%-7%, secured by property, plant, and equipment with a book value of $411,188, and by an undeveloped gypsum deposit with a book value of $628,683, due in installments	595,057
	$28,740,513
Less—Current maturities due within one year	3,986,366
	$24,754,147

The loan agreements covering the $4,920,000 unsecured debt 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, 1970, and available for dividends or capital stock retirement was $14,000,000.

The loan agreement covering the $9,060,000 unsecured debt dated April 30, 1970, provides for borrowings by Temple

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of up to $10,000,000 to June 30, 1971. The terms of the agreement provide, among other things, that so long as any of the loans are outstanding Temple will not (a) permit its consolidated net current assets to be less than $4,000,000 or allow the ratio of current assets as divided by current liabilities to be below 1.4, (b) allow the ratio of total liabilities (exclusive of the loans under this agreement), as divided by shareholders' equity, to exceed .8, or (c) pay any dividend to common shareholders in excess of the greater of net income of the preceding fiscal year or the average of net income in the three preceding fiscal years or make any distributions to its shareholders when shareholders' equity is less than $40,000,000.

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

(5) Capital stock—

Stock options

Temple has a qualified stock option plan whereby options for a total of 425,000 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, 1970, options for 266,000 shares had been granted and options for 18,550 shares (10,700 shares in 1970) had been exercised.

Restricted stock bonus plan

In June, 1969, the shareholders approved a restricted stock bonus plan whereby a total of 55,000 shares of unissued common stock plus shares held as treasury shares 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 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, 1970, a total of 63,450 shares (net of 3,250 shares repurchased by Temple) of stock had been sold to employees under this plan, with the proceeds 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 approximately $1,000,000 (the excess of fair market value of the stock over its par value at the date of sale).

(6) Retirement plans—

Temple has retirement plans covering all qualified employees. Contributions made to the plans and charged to expense were $259,000 in 1970 and $346,000 in 1969. 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 plans indefinitely; however, it has reserved the right to discontinue or amend the plans at any time.

As of December 31, 1970, the unfunded past service cost of the plans were $1,543,000 and the retirement funds assets and balance sheet accruals exceeded the actuarially computed value of the vested benefits.

(7) Commitments and contingencies—

At December 31, 1970, Temple was contingently liable as guarantor or endorser of notes issued by others totaling $1,500,000, none of which was in default.

Temple presently has under construction plants and plant additions estimated to cost approximately $14,000,000, of which $9,000,000 had been expended at December 31, 1970.

(8) 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 of its fee-owned timber is treated as a long-term capital gain, which reduced the amount of tax which otherwise would have been 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 $500,000 in 1970 and $34,500 in 1969.

(9) 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. 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.

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Five Year Summary — Consolidated Balance Sheets

(000's Omitted)	December 31				
ASSETS	1970	1969	1968	1967	1966
CURRENT ASSETS:					
Cash and short-term commercial paper	$ 2,009	$ 9,212	$ 2,553	$ 2,379	$ 560
Receivables	6,574	4,508	4,628	3,992	4,457
Inventories, principally at the lower of average cost or market	6,817	5,788	3,868	4,817	4,209
Developed real estate, held for resale	2,950	600	—	—	—
Prepaid expenses	449	479	437	328	225
Total current assets	$ 18,799	$ 20,587	$ 11,486	$ 11,516	$ 9,451
REAL ESTATE, held for development and resale	$ 7,851	$ 5,073	$ 423	$ —	$ —
TIMBER AND TIMBERLANDS, at cost less depletion, including deposits on timber cutting contracts	$ 15,320	$ 11,781	$ 4,950	$ 3,336	$ 3,829
INVESTMENTS AND OTHER ASSETS:					
Investments in and advances to unconsolidated subsidiaries and related companies, at cost plus equity in undistributed net earnings since acquisition	$ 6,196	$ 6,269	$ 6,298	$ 6,969	$ 5,859
Equity in and advances to a joint venture	—	2,086	2,124	2,009	2,045
Notes receivable	1,434	1,198	1,074	1,071	1,513
Undeveloped gypsum deposit and other assets	2,574	2,034	1,867	1,235	1,182
	$ 10,204	$ 11,587	$ 11,363	$ 11,284	$ 10,599
PROPERTY, PLANT, AND EQUIPMENT, at cost:					
Buildings, machinery, and equipment	$ 59,778	$ 41,489	$ 34,218	$ 30,619	$ 29,226
Less—Accumulated depreciation	(18,707)	(16,558)	(15,285)	(14,375)	(13,086)
	$ 41,071	$ 24,931	$ 18,933	$ 16,244	$ 16,140
	$ 93,245	$ 73,959	$ 47,155	$ 42,380	$ 40,019
LIABILITIES AND SHAREHOLDERS' INVESTMENT					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	$ 6,486	$ 2,433	$ 867	$ 2,966	$ 1,414
Accounts payable	2,994	2,691	1,208	425	841
Dividends payable	353	352	306	408	409
Accrued liabilities	1,796	1,291	787	808	697
Federal income taxes	315	1,669	2,232	379	278
Total current liabilities	$ 11,944	$ 8,436	$ 5,400	$ 4,986	$ 3,639
LONG-TERM DEBT, excluding current maturities	$ 24,754	$ 11,935	$ 7,910	$ 6,858	$ 7,580
DEFERRED FEDERAL INCOME TAXES	$ 550	$ 263	$ 191	$ —	$ —
SHAREHOLDERS' INVESTMENT:					
Common stock	$ 9,411	$ 9,389	$ 8,181	$ 8,181	$ 8,181
Capital in excess of par value	14,536	14,462	—	—	—
Retained earnings	32,158	29,621	25,522	22,404	20,643
Treasury stock, at cost	(108)	(147)	(49)	(49)	(24)
	$ 55,997	$ 53,325	$ 33,654	$ 30,536	$ 28,800
	$ 93,245	$ 73,959	$ 47,155	$ 42,380	$ 40,019
WORKING CAPITAL	$ 6,855	$ 12,151	$ 6,086	$ 6,530	$ 5,812
RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES	1.57	2.44	2.13	2.31	2.60

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Five Year Summary — Consolidated Statements of Earnings

(000's Omitted)	Year Ended December 31				
	1970	1969	1968	1967	1966
NET SALES	$ 50,959	$ 50,131	$ 40,315	$ 31,951	$ 30,519
COSTS AND EXPENSES:					
Cost of sales	$ 39,408	$ 35,936	$ 28,615	$ 24,256	$ 22,570
Selling, general, and administrative expenses	8,228	7,631	5,624	5,362	4,834
Losses (earnings) of discontinued operations	—	—	—	—	(90)
Total	$ 47,636	$ 43,567	$ 34,239	$ 29,618	$ 27,314
	$ 3,323	$ 6,564	$ 6,076	$ 2,333	$ 3,205
OTHER EARNINGS (EXPENSES):					
Gains on sale of land and proceeds from oil royalties and bonuses	$ 1,113	$ 1,269	$ 632	$ 923	$ 866
Interest income	488	730	360	421	208
Interest expense	(158)	(571)	(461)	(547)	(465)
Other—net	94	(175)	(40)	31	(20)
Total	$ 1,537	$ 1,253	$ 491	$ 828	$ 589
	$ 4,860	$ 7,817	$ 6,567	$ 3,161	$ 3,794
EQUITY IN NET EARNINGS (LOSSES) OF UNCONSOLIDATED SUBSIDIARIES AND JOINT VENTURE	(65)	361	156	86	(43)
EARNINGS BEFORE TAXES AND EXTRAORDINARY ITEMS	$ 4,795	$ 8,178	$ 6,723	$ 3,247	$ 3,751
PROVISION FOR FEDERAL INCOME TAXES	(850)	(2,719)	(2,424)	(669)	(767)
EARNINGS BEFORE EXTRAORDINARY ITEMS	$ 3,945	$ 5,459	$ 4,299	$ 2,578	$ 2,984
EXTRAORDINARY ITEMS:					
Loss on sale of The Great Texas Lumber Company, less applicable Federal income tax reduction of $126,000	$ —	$ —	$ —	$ —	$ (624)
Loss of investment in an abandoned venture, less applicable Federal income tax reduction of $99,000	—	—	(262)	—	—
Total	$ —	$ —	$ (262)	$ —	$ (624)
NET EARNINGS	$ 3,945	$ 5,459	$ 4,037	$ 2,578	$ 2,360
CASH DIVIDENDS DECLARED	1,409	1,360	919	817	818
EARNINGS RETAINED IN THE BUSINESS	$ 2,536	$ 4,099	$ 3,118	$ 1,761	$ 1,542
AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (Note 1)	5,737	5,425	4,923	4,902	4,906
PER COMMON AND COMMON EQUIVALENT SHARE (Note 1):					
Earnings before extraordinary items	$ .69	$1.01	$ .87	$ .53	$ .61
Extraordinary items	—	—	(.05)	—	(.13)
Net earnings	$ .69	$1.01	$ .82	$ .53	$ .48
PER SHARE OF COMMON STOCK (Note 2):					
Shareholders' investment	$9.92	$9.47	$6.86	$6.23	$5.87
Dividends declared	$ .25	$ .25	$ .19	$ .17	$ .17
COSTS AND EXPENSES ABOVE INCLUDE:					
Depreciation	$ 2,187	$ 1,971	$ 1,712	$ 1,603	$ 1,491
Depletion of company timber	$ 714	$ 146	$ 58	$ 45	$ 34
Purchased timber and logs	$ 298	$ 692	$ 671	$ 1,037	$ 1,137
Property taxes	$ 650	$ 540	$ 443	$ 409	$ 344

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.

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Joe C. Denman, Jr.
Michael D. Dingman
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Robert T. Keeler
Thomas T. Keeler
H. J. Shands, Sr.
Walter P. Stern
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
Controller & Assistant
Secretary-Treasurer

Transfer Agents
The Republic National Bank
of Dallas

The First National City Bank
New York City

Registrars
Mercantile National Bank
Dallas

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TEMPLE INDUSTRIES, INC.
Drawer N
Diboll, Texas 75941

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