Temple Industries Annual Report for 1971

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

Contents

Financial Highlights

	1971	1970	Increase
Net Sales	$73,545,442	$50,958,959	44%
Net Income:			
Amount	$ 6,452,909	$ 3,945,120	64%
Per Share	$ 1.12	$ .69	62%
Total Shareholders Equity	$62,663,262	$55,997,123	12%
Cash flow (net income plus depreciation and depletion):			
Amount	$11,925,696	$ 6,846,247	74%
Cash dividends:			
Amount	$ 1,426,639	$ 1,408,825	
Per Share	$ .25	$ .25	
Average Number of Shares Outstanding including Common Share Equivalents	5,787,087	5,736,781	
Number of Employees at End of Year	3,482	3,186	


TEMPLE

To Our Shareholders:

Fiscal 1971 was a record year. Revenue, earnings and production reached new highs. Sales were up 44% to $73,545,442. Pretax income increased 99%. Net income in 1971, which was subject to a higher tax rate and did not receive the benefits of an investment tax credit ($500,000 was available in 1970), was up 64%.

Net earnings per share were $1.12 in 1971, compared to $.69 last year.

Cash flow (net income plus depreciation and depletion) increased over $5,000,000 to almost $12,000,000. Cash flow exceeded term debt maturities as of December 31 by approximately 250%. This excess cash flow will serve as a valuable base to finance our expansion in future years.

The record results achieved this year were primarily due to our increased productive capacity. Over half of our sales increase in 1971 was attributed to new production.

Most building materials manufactured by our company find their ultimate use in residential or commercial construction. Probably the best statistical indicator of the level of residential construction is the housing starts data compiled by the U. S. Government. According to the Commerce Department, residential starts in 1971 were up 43% from the previous year, reaching approximately 2 million units. Commercial construction did not perform as well. Historically, recovery of this segment of the construction industry lags behind the resurgence of residential building.

Prices of many building materials had reached ten year lows in 1970, but recovered to more favorable levels in 1971 as residential housing markets expanded. Most economists today are predicting 1972 will be another outstanding year for residential building. This, coupled with the expected improvement in the volume of commercial construction, should produce a record demand for building materials and our increased production will allow us to capitalize on these markets.

Residential construction had its greatest year in 1971. Our major building material product lines set new production records.

During 1971 we completed the first phase of a major capital expenditure program; the expansion of our plywood, fiberboard and particleboard operations, and entry into mobile home production. The primary thrust of this three year $25,000,000 effort was to exploit our ability to meet the increased demand for wood-based panel products, and to horizontally integrate our manufacturing facilities in East Texas.

Completion of the current program now positions us to accelerate the geographic expansion of our manufacturing facilities to locations in the Southeastern United States.

Our gypsum wallboard plant in West Memphis, Arkansas, is scheduled for start-up within the next sixty days. Feasibility studies on a new particleboard plant in Georgia have been completed, and orders have been placed for most of the major production items. Construction should begin within 90 days. Further geographic expansion of present manufacturing lines will be aggressively pursued during this year.

Although manufacture of building materials is the largest facet of our activities, other company operations serve many other markets, including mortgage financing and land development (both residential and recreational), the manufacture of mobile homes, furniture and a variety of other consumer products. We are continuing to expand these operations in order to lessen the impact on earnings from any future swing of the building cycle.

During 1971 we acquired virtually all of the remaining stock outstanding in Lumbermen's Investment Corporation, our mortgage banking company. This subsidiary is now servicing approximately $180,000,000 in mortgages for various institutional investors. Lumbermen's is also active in residential land development. The activities of Lumbermen's in residential land development, and Sabine Investment Company of Texas, Inc. (another wholly-owned subsidiary) in recreational land development give us comprehensive coverage of this segment of the housing industry.

According to the financial press, many companies engaged in the sale of recreational land have suffered severe losses as a result of imprudent practices. Our activities in this area are subject to the same parameters as other facets of our real estate operations — compliance with Federal regulations, reasonable down payments, realistic interest rates on any balance financed by us; all have been basic policies of our real estate operations. This policy gives us confidence that we are maximizing our profits over the long term period.

In April 1971, Mr. John C. Stetson, President of A. B. Dick Company, was elected to our Board of Directors. Mr. Stetson brings to us many years of executive experience, including twelve years with the management consulting firm of Booz, Allen and Hamilton.

In February of this year our Board of Directors announced an increase in the dividend to be paid on April 28 of this year from 6¼¢ to 6½¢ per share. This 4% increase was, according to our interpretation, the maximum allowable under the Economic Wage Stabilization Act. Subsequent to this action two technical changes were made in the dividend guide lines, under which we were able to further increase the dividend, and our Board declared a special dividend of ½¢ per share payable on the same date as the previous dividend. The dividends total 7¢ per share, and, assuming we continue them for the remaining quarters, will be 28¢ per share this year; a 12% increase from last year.

Although 1971 showed impressive growth of sales and earnings, we feel the next five years will demonstrate even greater acceleration of the momentum established in 1971. Results for 1972 should reflect a substantial improvement over 1971 and another year of record earnings.

Arthur Temple
President and Chairman of
Executive Committee

W. Temple Webber
Chairman of the Board

March 17, 1972

The latest in automation technology has increased production and reduced per unit costs at our new particleboard plant in Diboll. Construction of a new plant to be located in Georgia should begin within 90 days.

Meanwhile, productive capacity of the plywood plant has reached 85 million square feet with the completion of an automated veneer lay-up line and other production improvements. Manufacturing costs have been further reduced. Plans are underway to increase the capacity of this plant 40% to 120 million feet per year.

Our plywood production is predominately a wide range of sheathing grades, a basic commodity in the construction industry. Increased demand for this product in 1971 prompted many western sanded plywood operations to convert to sheathing grade manufacture. This additional production kept plywood prices from performing as well as lumber through much of the year. However, demand strengthened in late 1971, and most manufacturers expect improved pricing in 1972.

Particleboard

Our new particleboard plant went on stream in May of this year, and was "in the black" 45 days after start-up. The early profitability of this facility is a credit to our engineering staff and the highly competitive quality board the new plant produces. Total particleboard production in 1971 exceeded 46 million feet (¾" basis) and will reach approximately 100 million feet in 1972.

This engineered wood based panel product is the newest and fastest growing building material market. Although total annual production is substantially less than lumber or plywood, particleboard growth has been dramatic in the past few years. One billion feet of new capacity was added nationwide in 1971, a 50% increase, with an additional one billion feet announced for completion over the next 18 months. This surge in production outstripped market demand; with a consequent momentary softening of product prices. However, expanding housing, mobile home and furniture markets should correct the current supply-demand imbalance.

600,000 square feet of plywood, particleboard, fiberboard sheathing, exterior siding and gypsum wallboard were produced in our mills in 1971.

More than 500,000 tons of sawmill and plywood wastes are now converted to highly profitable panel products.

Adequate sources of the raw material used in particleboard manufacture (sawdust and planer shaving residues from sawmill operations) geographically limit additional plant locations, and new capacity will be limited when these sites are pre-empted. Conversion of logs to meet particleboard raw material requirements is not now economically feasible in our view.


TEMPLE
GYPSUM
A PRODUCT OF
TEMPLE INDUSTRIES, INC.

Gypsum Wallboard

Demand for gypsum wallboard was stronger in 1971. Our Dallas mill produced 150,000,000 feet, up from 105,000,000 feet in 1970. Gypsum wallboard, although a competitor with many wood panel applications, is not similar in composition or method of manufacture. The panel is fire-retardant and specified in some commercial and industrial construction in addition to its usage in residential housing.

Costs of mining, milling and manufacture should not increase materially during 1972, and the forecast recovery of commercial construction activity should see favorable gypsum wallboard prices, increasing the profitability from this division.

Our new gypsum wallboard plant at West Memphis, Arkansas, should be in production before mid-year, increasing our annual capacity to 280 million feet. This also enlarges our gypsum sales area into new important markets. Gypsum rock from our mines in Oklahoma will supply both the Dallas and West Memphis plants.

Our new gypsum wallboard mill in West Memphis, Arkansas, is scheduled for completion in the second quarter of 1972. Our fleet of rail cars will transport gypsum rock for this mill from our mine in Oklahoma.

Building Materials Sales Facilities

Our two large company-owned distribution yards in East Texas and a sales facility in St. Louis, Missouri, enjoyed a profitable year. Nearly 27% of sales generated by these operations are products manufactured by Temple.

Contracting and Other

Despite a low level of commercial and industrial projects available for bid in 1971, Temple Associates, our contracting subsidiary, had another record year of earnings after elimination of inter-company profits.*

Most economists are now predicting a substantial improvement in commercial and industrial construction over the next few years. This should serve as the basis for continued growth of its profit trend.

**Temple Associates, Inc. has built many of our new manufacturing plants in the past two years. Their profits on these jobs were eliminated in our consolidated income statement for both 1970 and 1971. These profits will be recovered over the life of the asset.*

Consumer and Industrial Products

Doubling the capacity of Woodward, Inc., our wood furniture manufacturer in Austin, during 1971 positions us to meet the growing demand of the moderately priced furniture markets. We will continue to supply our growing network of independent retail furniture dealers, and the new production will also allow us to exploit the new markets created by mobile home manufacturers and high volume furniture warehouses. Woodward's bedroom furniture lines are designed and priced to compete effectively for all these markets. Both sales and income from Woodward should significantly be higher in 1972.

Our two wooden beverage case manufacturers are anticipating higher demand during the coming year. Public concern with throwaway containers promises to increase sales for wooden beverage cases which are used for returnable bottles.

Sales and earnings of other company consumer and industrial products operations were generally better than last year.

Mortgage Banking and Real Estate

Record mortgage originations of approximately $40,000,000 in new residential and commercial loans were recorded by Lumbermen's Investment Corporation during 1971. As of December 31, LIC was servicing approximately $180,000,000 in mortgages for various institutional investors.

These record originations, accompanied by a favorable relationship between the long term mortgage rate and the short term commercial bank prime rate, allowed our mortgage banking operation to substantially improve its operating profits over 1970's results. This contribution, plus the improved profitability of our income producing properties, resulted in record profits for Lumbermen's in 1971, an increase of 136%.

During 1971 this subsidiary acquired approximately 600 acres in Austin, Texas, for residential development. This subdivision when completed will include 2,000 homesites and various types of commercial facilities. This project follows completion of two earlier projects in Austin totaling about 600 acres. Although development has already begun, this project will probably not significantly contribute to profits in 1972, but should be an important revenue source over the next five years.

Sabine Investment Company of Texas, Inc., our recreational land subsidiary, enjoyed another record year. Individual lot sales remained relatively constant in comparison to 1970 with a dramatic increase in the sale of small undeveloped tracts up to five acres in size. (Both total revenues and profit, before taxes, were up 40% in 1971.)

Our diverse inventory of land on Lake Sam Rayburn and Toledo Bend Reservoir, both located in East Texas, allowed us to take advantage of changing consumer preferences and still maintain our profit margins. As of December 31, Sabine held approximately 25,000 acres of land.

New family formations will dramatically increase over the next five years. We have enlarged the capacity of our furniture manufacturing facilities to meet this growing market.

Minerals

The anticipated shortage of natural gas, nationwide, has resulted in renewed interest by major petroleum companies in potential East Texas gas producing areas. Since our company uses a significant amount of gas in our manufacturing plants, we have initiated a gas exploration program on 300,000 acres of land where we own mineral rights. We spent $100,000 for exploration in 1971 and have budgeted $200,000 during 1972 to our search for oil and gas. Our major emphasis, like that of other petroleum companies, will be to drill in the deeper geological horizon areas which have not been explored to this time.

Scientific Forest Management

Our Commitment to an Improved Environment

In 1971 our lumber and plywood facilities utilized 190,000,000 feet of timber. We purchased 104,000,000 feet of timber in open market transactions and relied on our own lands for only 86,000,000 feet. The timber growth on the 450,000 acres of land owned by us substantially exceeded our cut.

The price paid for purchased timber in our operating areas increased during 1971. (The average price of timber sold by the Federal Government in East Texas increased approximately 20% in 1971 compared to the previous year.) This added cost reduced conversion profit of our lumber and plywood plants, but increased the profit on the timber cut from our own lands.

Competition for available saw timber is becoming more intense. We have long anticipated this situation and have continued to increase our forest inventory through timberland acquisition and retention of a portion of annual growth. The ability of our forest inventory to meet our increased raw material needs in the future has been, and is, the most important facet of our forty year old forest management policy.

Initially our forest management was primarily concerned with reducing the number and severity of wildfires that annually devastated hundreds of thousands of acres of East Texas timberland. Through the creation of fire protection districts staffed by professional firefighters, and cooperative financial support of forestland owners, we have cut fire losses to less than one-tenth of what they were forty years ago.

Concurrent with this program, we instituted a then pioneer concept of tree harvest; selective cutting of individual trees in each logging area. Only mature, "ripe" trees are removed. Those remaining have more room to grow faster,

Several thousand acres of our timberlands are located on area lakes or adjacent to expanding metropolitan areas. These properties should produce substantial income in the future.

and there is far less damage to the total forest environment.

It is our view that clear cutting or even-age management of our forests is appropriate only on those *isolated* areas where natural or man-made catastrophes require reforestation by mechanical means. Management of our forests to include trees of all ages and sizes provides an ecological balance, a perpetually growing inventory of raw material and a source of enjoyment to the thousands of visitors who use our lands for outdoor recreation.

With the realization of these two primary objectives, we are now concentrating our efforts toward growing higher quality trees faster and limiting the damage caused by disease and insects.

This planting season we set out "superior" loblolly pine seedlings developed by the Arthur Temple Sr., Research Center—one of the first research centers to develop grafting techniques and scientific cross-breeding of genetically superior trees with desirable dominant characteristics. The strains evolved are particularly adaptable to East Texas soil and climate and should produce more wood fiber of high quality. Most of our seedling planting is on those abandoned pastures and other sites where natural regeneration cannot occur.

Wildlife conservation is a basic concept of our multiple use forest management program. Intensive management of company forests has seen wild game populations increase over the past several decades. We are currently attempting to reintroduce American elk to East Texas.

Forest disease research has seen insect damage substantially reduced in recent years without the use of dangerous pesticides. Wide spread use of non-toxic chemical attractants will keep infestations in isolated, easy to control areas.

Knowledge gathered through our research efforts with fish and game biologists has shown the impact various species have on our forest management activities. Our public game hunting program and transplanting of game to underpopulated areas keeps population densities at desired levels and lessens the effect of over-browse on young growing forests. More than 25,000 individual requests for the "Temple Hunting Guide" were filled this hunting season, attesting to the popularity this publication enjoys with area sportsmen. Evidence would seem to indicate that our long standing practice of removing only individually selected trees in each logging area maintains the delicate balance nature demands.

The long range goal of our forest management program is optimum growth on all fee lands and ultimately the harvest of full annual growth. Although not reflected on the balance sheet, the raw material inventory on our forests is our greatest asset.

Financial Review

Primarily as a result of record earnings of $6,452,909, working capital increased $2,455,521 to, $9,311,145 as of December 31, 1971. Cash flow increased 75% to $11,925,696 last year, and exceeded term debt maturities of $4,735,470 by 2.5 times.

During 1971 we spent $6,486,633 on additions to property, plant and equipment. These expenditures were primarily financed through the placement of $5,600,000 in long term debt. The long term debt consisted of the final loan of $1,900,000 on our $10,000,000 bank term note and $3,700,000 in revenue bonds of the City of West Memphis, Arkansas. An additional $500,000 of these revenue bonds were sold in January, 1972, giving a total issue of $4,200,000.

The $10,000,000 in bank term debt is payable over the next four years while the revenue bonds are payable over the next twenty years beginning in 1973.

Cash dividends of $.25 per share were paid in 1971. In February, 1972, and March, 1972, your Board of Directors increased the quarterly cash dividend (payable on April 28 to shareholders of record on March 29) to $.07 per share. Assuming this dividend is continued in the remaining quarters, it will represent an annual dividend of $.28 or a 12% increase over 1970's dividend.

Our strong equity position of $62,000,000 in net worth compared with only $38,000,000 in liability as of December 31, 1971, allows us flexibility to finance future growth without the dilution of common equity. Our various product lines offer us many opportunities for expansion and we will vigorously pursue those projects which offer the largest returns consistent with our growth plan.

ARTHUR ANDERSEN & CO.
SUITE 1700
910 TRAVIS STREET
HOUSTON, TEXAS 77002

February 11, 1972

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, 1971 and 1970, and the related consolidated statements of earnings, retained earnings and capital in excess of par value, and changes in financial position for the two years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheets and consolidated statements of earnings, retained earnings and capital in excess of par value, and changes in financial position present fairly the financial position of Temple Industries, Inc., and consolidated subsidiaries as of December 31, 1971 and 1970, and the results of their operations and the changes in their financial position for the two years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Consolidated Statements of Earnings

For the Years Ended December 31, 1971 and 1970

	1971	1970
NET SALES	$ 73,545,442	$ 50,958,959
COSTS AND EXPENSES:		
Cost of sales	$ 55,748,498	$ 39,408,273
Selling, general and administrative expenses	9,794,881	8,228,194
	$ 65,543,379	$ 47,636,467
EARNINGS FROM OPERATIONS	$ 8,002,063	$ 3,322,492
OTHER EARNINGS (EXPENSES):		
Gains on sale of land and proceeds from oil royalties and bonuses	$ 1,209,083	$ 1,113,240
Interest income	407,123	487,879
Interest expense (Note 3)	(1,217,023)	(157,592)
Other, net	630,248	94,083
	$ 1,029,431	$ 1,537,610
EQUITY IN NET EARNINGS (LOSSES) OF UNCONSOLIDATED SUBSIDIARIES AND JOINT VENTURE (Note 1)	$ 487,915	$ (64,982)
EARNINGS BEFORE TAXES	$ 9,519,409	$ 4,795,120
PROVISION FOR FEDERAL INCOME TAXES (Note 8)	3,066,500	850,000
NET EARNINGS	$ 6,452,909	$ 3,945,120
AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (Note 9)	5,787,087	5,736,781
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$ 1.12	$ .69

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

December 31, 1971 and 1970

	1971	1970
ASSETS		
CURRENT ASSETS:		
Cash	$ 3,200,303	$ 2,008,746
Receivables	8,428,966	6,574,699
Developed real estate, held for resale	800,000	2,950,000
Inventories, principally at the lower of average cost or market (Note 2)	7,837,713	6,816,723
Prepaid expenses and other	476,126	449,111
Total current assets	$ 20,743,108	$ 18,799,279
REAL ESTATE, held for development and resale (Note 4)	$ 8,126,234	$ 7,850,679
TIMBER AND TIMBERLANDS, at cost less depletion, including deposits on timber cutting contracts (Notes 3 and 4)	$ 15,349,813	$ 15,319,627
INVESTMENTS:		
Investment in and advances to unconsolidated subsidiaries and related companies, at cost plus equity in undistributed earnings since acquisition (Note 1)	$ 7,498,974	$ 6,195,717
Notes receivable	1,919,393	1,434,461
Other	922,950	963,342
	$ 10,341,317	$ 8,593,520
PROPERTY, PLANT, AND EQUIPMENT, at cost (Notes 3 and 4)		
Buildings, machinery and equipment	$ 66,026,565	$ 59,778,484
Less—Accumulated depreciation	22,133,209	18,707,591
	$ 43,893,356	$ 41,070,893
DEFERRED CHARGES AND OTHER ASSETS:		
Deferred Federal income tax charges	$ 971,000	$ 943,000
Funds held by trustee, for construction project	1,046,686	—
Other	826,493	667,927
	$ 2,844,179	$ 1,610,927
	$ 101,298,007	$ 93,244,925

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' INVESTMENT

	1971	1970
CURRENT LIABILITIES:		
Short-term note payable	$ —	$ 2,500,000
Current maturities of long-term liabilities (Note 4)	4,735,470	3,986,366
Accounts payable	2,729,178	2,994,145
Dividends payable	358,248	352,465
Accrued liabilities	2,468,455	1,796,315
Federal income taxes payable (Note 8)	1,140,612	314,364
Total current liabilities	$ 11,431,963	$11,943,655
LONG-TERM LIABILITIES (Note 4):		
Notes payable, excluding current maturities	$ 21,757,782	$24,754,147
Industrial revenue bonds	3,700,000	—
	$ 25,457,782	$24,754,147
DEFERRED FEDERAL INCOME TAXES (Note 8)	$ 1,745,000	$ 550,000
COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)		
SHAREHOLDERS' INVESTMENT:		
Common stock, $1.66⅔ par, authorized 20,000,000 shares, 5,740,615 shares issued in 1971 and 5,646,740 in 1970 (Note 5)	$ 9,567,691	$ 9,411,233
Capital in excess of par value	15,911,621	14,535,640
Retained earnings (Note 4)	37,183,950	32,157,680
	$ 62,663,262	$56,104,553
Less—Treasury stock, at cost, 7,344 shares	—	107,430
	$ 62,663,262	$55,997,123
	$101,298,007	$93,244,925

The accompanying notes are an integral part of these statements.

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

For the Years Ended December 31, 1971 and 1970

	1971	1970
RETAINED EARNINGS		
BALANCE, beginning of year	$ 32,157,680	$ 29,621,385
Net earnings	6,452,909	3,945,120
Cash dividends declared	(1,426,639)	(1,408,825)
BALANCE, end of year	$ 37,183,950	$ 32,157,680
CAPITAL IN EXCESS OF PAR VALUE		
BALANCE, beginning of year	$ 14,535,640	$ 14,461,730
Excess of fair market value over par of 55,644 shares of common stock issued in connection with purchase of common stock of Lumbermen's Investment Corporation net of expenses of $31,680	1,120,615	—
Excess of cash received over par of 38,100 and 10,700 shares, respectively, of qualified stock options exercised	305,300	73,910
Value of amounts awarded under restricted stock bonus plan in excess of par value (Note 5)	130,975	—
Excess of cost of treasury stock over par value issued under terms of restricted stock bonus plan	(125,519)	—
Excess of cost over cash received for 9,100 shares of treasury stock issued under terms of qualified stock option plan and other	(55,390)	—
BALANCE, end of year	$ 15,911,621	$ 14,535,640

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

For the Years ended December 31, 1971 and 1970

	1971	1970
SOURCE OF WORKING CAPITAL:		
Operations—		
Net earnings	$ 6,452,909	$ 3,945,120
Depreciation	3,664,170	2,187,479
Depletion of fee-timber	450,550	415,495
Amortization of timber cutting contracts	1,358,067	298,153
Deferred Federal income taxes	1,195,000	287,000
Total working capital from operations	$ 13,120,696	$ 7,133,247
(Increase) decrease of investments in unconsolidated subsidiaries and joint venture	(46,467)	2,159,848*
Issues of common stock and sales of treasury stock	1,639,869	254,359
Long-term borrowings	5,600,000	15,264,953
	$ 20,314,098	$ 24,812,407
APPLICATION OF WORKING CAPITAL:		
Additions to property, plant, and equipment	$ 6,486,633	$ 18,327,483*
Purchase of timber and timberlands	263,706	3,986,242
Purchase of timber cutting contracts	1,575,097	265,825
Purchase of real estate for development and resale	275,555	2,777,760
Increase in long-term notes receivable	484,932	235,962
Cash dividends declared	1,426,639	1,408,825
Payments on long-term liabilities	4,896,365	2,445,994
Purchase of treasury stock	—	118,361
Funds held by trustee for construction project	1,046,686	—
Acquisition of additional ownership in Lumbermen's Investment Corporation	1,256,790	—
Other—net	146,174	540,701
	$ 17,858,577	$ 30,107,153
INCREASE (DECREASE) IN WORKING CAPITAL	$ 2,455,521	$ (5,294,746)
SUMMARY OF INCREASE (DECREASE) IN WORKING CAPITAL:		
Cash	$ 1,191,557	$ (882,744)
Short-term commercial paper	—	(6,320,548)
Receivables	1,854,267	2,067,088
Developed real estate	(2,150,000)	2,350,000
Inventories	1,020,990	1,028,635
Prepaid expenses and other	21,232	(30,892)
Short-term notes payable	2,500,000	(2,500,000)
Current maturities of long-term liabilities	(749,104)	(1,553,254)
Accounts payable	264,967	(303,077)
Accrued liabilities	(672,140)	(504,854)
Federal income taxes payable	(826,248)	1,354,900
	$ 2,455,521	$ (5,294,746)

**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 percent interest.*

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

December 31, 1971

(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, which has not been consolidated since its mortgage brokerage and real estate operations are dissimilar to the other operations of the companies. Unconsolidated subsidiaries are reflected in the financial statements on the equity basis. All material intercompany accounts and transactions have been eliminated.

In 1971, the Company issued 55,644 shares of its common stock for additional shares of common stock of Lumbermen's Investment Corporation. Upon completion of the exchange, the Company owned in excess of 99 percent of the outstanding common stock of Lumbermen's.

(2) Inventories—

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

	1971	1970
Finished goods	$4,179,844	$3,463,524
Work in process	1,005,948	898,163
Raw materials	1,885,473	1,812,309
Supplies	766,448	642,727
	$7,837,713	$6,816,723

(3) Property, Plant, and Equipment, and Depreciation and Depletion Policies—

Property, plant and equipment, at cost, at December 31, 1971, is summarized by major classification as follows:

Land	$ 308,928
Buildings	12,608,665
Machinery and equipment	41,880,990
Autos, trucks, and aircraft	3,660,731
Furniture and fixtures	263,408
Other	3,700,169
Construction in progress	3,603,674
	$66,026,565

Depreciation is generally provided on the straight-line method based on the estimated useful lives of the assets. Depletion of timber cutting contracts is provided on the basis of the estimated recoverable timber and is credited to the timber accounts.

The Company follows the policy of capitalizing interest expense on funds borrowed to finance major construction projects. Interest of $260,000 in 1971 and $638,000 in 1970 has been capitalized in this manner.

(4) Long-term Liabilities—

Notes Payable

Notes payable outstanding at December 31, 1971, consisted of the following:

	Total	Current Maturities
5%, unsecured, due in annual installments	$ 4,304,000	$ 616,000
6 to 7%, some secured by timberlands and real estate, due in annual installments	12,591,970	1,756,031
Prime interest rate plus ½ of 1%, unsecured, due in equal quarterly installments	8,333,333	2,222,222
5½ to 7% some secured by property, plant and equipment, due in installments	1,263,949	141,217
	$26,493,252	$ 4,735,470
Less current maturities	4,735,470	
	$21,757,782	

The agreements under which certain unsecured long-term notes payable were issued provide, among other things, (a) that consolidated net current assets must not be less than $4,000,000 and the ratio of current assets as divided by current liabilities must not go below 1.4 (exclusive of maturities on loans under the agreement); (b) that the ratio of total liabilities as divided by shareholders' investment must not exceed .8; (c) for certain other restrictions on additional borrowing and financing, property acquisitions and disposals, and investment by the Company and its subsidiaries; and (d) for restrictions on the payment of cash dividends or retirement of capital stock. Under the most restrictive provision regarding cash dividends, the maximum amount of dividends which may be paid during 1972 is $6,450,000.

Industrial Revenue Bonds

The Company has leased a gypsum manufacturing plant from the City of West Memphis, Arkansas. Under terms of the lease the Company may purchase the property from the city after five years. To finance the project, the city has issued $4,200,000 ($500,000 of which were unsold at December 31, 1971) of 6.2 to 7.75% bonds. The bonds are due in increasing annual installments of from $110,000 to $400,000 beginning in 1973 and continuing until 1991. The Company considers this to be a financing arrangement for the purchase of these facilities, and accordingly has recorded the bonded indebtedness as its liability and the property and unexpended construction funds as its assets. Construction of the plant is scheduled to be completed during the first half of 1972.

(5) Capital Stock—

Stock Options

The Company's qualified stock option plan provides that options for a total of 425,000 shares of common stock may be granted to certain officers and employees. The option price must not be less than the fair market value on the date of the grant. As of December 31, 1971, options for 317,500 shares had been granted and options for 65,750 shares had been exercised.

Restricted Stock Bonus Plan

Under the Company's restricted stock bonus plan, 55,000 shares of unissued common stock plus shares held as treasury shares may be sold to certain officers and employees (participants) at par value of $1.66⅔ per share. To continue his ownership of the shares, a participant must be awarded points, over a period not to exceed five years, equal to the difference between par and the fair market value of the stock on the date of purchase. The total amount which may be awarded annually to all participants is five percent of consolidated net earnings, with certain limitations. In the event a participant does not receive sufficient award amounts during the five years and under certain other conditions, the Company has the option to repurchase the shares for the amount paid by the participant.

When stock is sold initially to the participant the proceeds are credited to common stock; as points are awarded a charge is made to salary expense and a credit is made to capital in excess of par value.

At December 31, 1971, 61,300 shares had been sold to participants. Points totaling $380,000 had been awarded to participants, and approximately $750,000 in points remained to be awarded to cover the aggregate excess of the fair market value of stock issued over par value at date of sale.

(6) Retirement Plans—

The Company has retirement plans covering all qualified employees. Contributions made to the plan and charged to expense were $392,000 in 1971 and $259,000 in 1970. 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. The Company 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, 1971, the amount of unfunded past service cost of the plans was $1,685,000, and the retirement fund assets and balance sheet accruals exceeded the actuarially computed value of the vested benefits.

(7) Commitments and Contingencies—

At December 31, 1971, the Company was contingently liable as guarantor or endorsor of notes issued by others totaling $1,350,000, none of which was in default.

(8) Federal Income Taxes—

In accordance with Federal income tax regulations, that portion of Temple's consolidated taxable earnings which is attributable to the harvesting and sale of its fee-owned timber is treated as a long-term gain, which reduces the amount of taxes which would otherwise be due.

Deferred Federal income tax provisions are recorded in the accounts to give effect to timing differences of certain transactions for financial and tax reporting purposes. The more significant differences are as follows: (1) depreciation deductions for tax reporting purposes in excess of amounts recorded for financial purposes; (2) plant preoperating costs, interest during plant construction, and carrying costs (primarily interest and taxes) on undeveloped real estate deducted currently for income tax purposes but capitalized and amortized over varying periods for financial reporting purposes; (3) excess of log inventory valuation for tax purposes over cost; (4) insurance proceeds resulting from plant destroyed by fire in a prior year considered as gain for tax purposes but offset against replacement cost for financial reporting; and (5) provisions for awards under the restricted stock bonus plan expensed currently for financial reporting purposes but not deductible for tax purposes until such time as the bonus has been fully accrued and restrictions on the stock have been removed. Deferred taxes of $1,195,000 in 1971 and $287,000 in 1970 were provided as a result of these timing differences.

The Company follows the practice of including investment tax credits as a reduction of the provision for Federal income taxes in the year in which the related property is put into service. The reduction in Federal income taxes for these credits amounted to approximately $50,000 in 1971 and $500,000 in 1970.

(9) Common Shares Outstanding—

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.

Five Year Summary—Consolidated Balance Sheets

(000's Omitted)

	December 31				
ASSETS	1971	1970	1969	1968	1967
CURRENT ASSETS:					
Cash and short-term commercial paper	$ 3,200	$ 2,009	$ 9,212	$ 2,553	$ 2,379
Receivables	8,429	6,574	4,508	4,628	3,992
Inventories, principally at the lower of average cost or market	7,838	6,817	5,788	3,868	4,817
Developed real estate, held for resale	800	2,950	600	—	—
Prepaid expenses	476	449	479	437	328
Total current assets	$ 20,743	$18,799	$20,587	$11,486	$11,516
REAL ESTATE, held for development and resale	$ 8,126	$ 7,851	$ 5,073	$ 423	$ —
TIMBER AND TIMBERLANDS, at cost less depletion including deposits on timber cutting contracts	$ 15,350	$15,320	$11,781	$ 4,950	$ 3,336
INVESTMENTS AND OTHER ASSETS:					
Investments in and advances to unconsolidated subsidiaries and related companies, at cost plus equity in undistributed net earnings since acquisition	$ 7,500	$ 6,196	$ 6,269	$ 6,298	$ 6,969
Equity in and advances to a joint venture	—	—	2,086	2,124	2,009
Notes receivable	1,919	1,434	1,198	1,074	1,071
Other	3,767	2,574	2,034	1,867	1,235
	$ 13,186	$10,204	$11,587	$11,363	$11,284
PROPERTY, PLANT AND EQUIPMENT, at cost:					
Buildings, machinery, and equipment	$ 66,026	$59,778	$41,489	$34,218	$30,619
Less—Accumulated depreciation	22,133	18,707	16,558	15,285	14,375
	$ 43,893	$41,071	$24,931	$18,933	$16,244
	$101,298	$93,245	$73,959	$47,155	$42,380
LIABILITIES AND SHAREHOLDERS' INVESTMENT					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term liabilities	$ 4,735	$ 6,486	$ 2,433	$ 867	$ 2,966
Accounts payable	2,729	2,994	2,691	1,208	425
Dividends payable	358	353	352	306	408
Accrued liabilities	2,469	1,796	1,291	787	808
Federal income taxes	1,141	315	1,669	2,232	379
Total current liabilities	$ 11,432	$11,944	$ 8,436	$ 5,400	$ 4,986
LONG-TERM LIABILITIES, excluding current maturities	$ 25,458	$24,754	$11,935	$ 7,910	$ 6,858
DEFERRED FEDERAL INCOME TAXES	$ 1,745	$ 550	$ 263	$ 191	$ —
SHAREHOLDERS' INVESTMENT:					
Common stock	$ 9,568	$ 9,411	$ 9,389	$ 8,181	$ 8,181
Capital in excess of par value	15,911	14,536	14,462	—	—
Retained earnings	37,184	32,158	29,621	25,522	22,404
Treasury stock, at cost	—	(108)	(147)	(49)	(49)
	$ 62,663	$55,997	$53,325	$33,654	$30,536
	$101,298	$93,245	$73,959	$47,155	$42,380
WORKING CAPITAL	$ 9,311	$ 6,855	$12,151	$ 6,086	$ 6,530
RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES	1.81	1.57	2.44	2.13	2.31

Five Year Summary—Consolidated Statements of Earnings

(000's Omitted)

	Year Ended December 31				
	1971	1970	1969	1968	1967
NET SALES	$73,545	$50,959	$50,131	$40,315	$31,951
COSTS AND EXPENSES:					
Cost of sales	$55,748	$39,408	$35,936	$28,615	$24,256
Selling, general, and administrative expenses	9,795	8,228	7,631	5,624	5,362
	$65,543	$47,636	$43,567	$34,239	$29,618
EARNINGS FROM OPERATIONS	$ 8,002	$ 3,323	$ 6,564	$ 6,076	$ 2,333
OTHER EARNINGS (EXPENSES):					
Gains on sale of land and proceeds from oil royalties and bonuses	$ 1,209	$ 1,113	$ 1,269	$ 632	$ 923
Interest income	407	488	730	360	421
Interest expense	(1,217)	(158)	(571)	(461)	(547)
Other—net	630	94	(175)	(40)	31
	$ 1,029	$ 1,537	$ 1,253	$ 491	$ 828
EQUITY IN NET EARNINGS (LOSSES) OF UNCONSOLIDATED SUBSIDIARIES AND JOINT VENTURE	$ 488	$ (65)	$ 361	$ 156	$ 86
EARNINGS BEFORE TAXES AND EXTRAORDINARY ITEM	$ 9,519	$ 4,795	$ 8,178	$ 6,723	$ 3,247
PROVISION FOR FEDERAL INCOME TAXES	3,066	850	2,719	2,424	669
EARNINGS BEFORE EXTRAORDINARY ITEM	$ 6,453	$ 3,945	$ 5,459	$ 4,299	$ 2,578
EXTRAORDINARY ITEM:					
Loss of investment in an abandoned venture, less applicable Federal income tax reduction of $99,000	—	—	—	(262)	—
NET EARNINGS	$ 6,453	$ 3,945	$ 5,459	$ 4,037	$ 2,578
CASH DIVIDENDS DECLARED	1,427	1,409	1,360	919	817
EARNINGS RETAINED IN THE BUSINESS	$ 5,026	$ 2,536	$ 4,099	$ 3,118	$ 1,761
AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (Note 1)	5,787	5,737	5,425	4,923	4,902
PER COMMON AND COMMON EQUIVALENT SHARE (Note 1)					
Earnings before extraordinary item	$ 1.12	$ .69	$ 1.01	$ .87	$ .53
Extraordinary item	—	—	—	(.05)	—
Net earnings	$ 1.12	$ .69	$ 1.01	$ .82	$ .53
PER SHARE OF COMMON STOCK (Note 2)					
Shareholders' investment	$10.92	$ 9.92	$ 9.47	$ 6.86	$ 6.23
Dividends declared	.25	.25	.25	.19	.17
COSTS AND EXPENSES ABOVE INCLUDE:					
Depreciation	$ 3,664	$ 2,187	$ 1,971	$ 1,712	$ 1,603
Depletion of company timber	451	415	146	58	45
Purchased timber and logs	1,358	298	692	671	1,037
Property taxes	893	650	540	443	409

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.

Directors

Lee E. Cook
Retired Executive Vice President
Texas Power & Light

*Joe C. Denman, Jr.
Executive Vice President

Michael D. Dingman
President
Wheelabrator-Frye, Inc.

Robert W. Halliday
Chairman of the Board
Wheelabrator-Frye, Inc.

Robert T. Keeler
Partner
Taft, Stettinius & Hollister, Attorneys-at-Law

Thomas T. Keeler
Real Estate and Investments

John C. Stetson
President
A. B. Dick Company

Walter P. Stern
General Partner
Burnham & Company

*Arthur Temple
President & Chief Executive Officer

R. Clyde Thompson
Vice President

*W. Temple Webber
Chairman of the Board

Julian H. Zimmerman
President
Lumbermen's Investment Corporation

** Members of Executive Committee*

Officers

Arthur Temple
President & Chairman of Executive Committee

W. Temple Webber
Chairman of the Board

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

Marine Midland Grace Trust Company
New York City

PRODUCTS AND SERVICES

Lumber	Furniture	General Contracting
Fiberboard	Mobile/Modular Homes	Land Development
Particleboard	Gypsum Wallboard	Other Wood Products
Plywood	Mortgage Banking	

SUBSIDIARIES AND AFFILIATES

The Angelina Free Press, Inc.

Austin Crest Hotel, Inc.

Chattanooga Container Corporation

Fleishel Lumber Company

Home Owners Trust Company

Love Wood Products Company

Lumbermen's Investment Corporation

Sabine Investment Company of Texas, Inc.

Scotch Investment Company

Temple Associates, Inc.

Temple Gypsum, Inc.

Temple Manufacturing Company

Temple White Company

Texas Gypsum Company, Inc.

Woodward, Inc.

TEMPLE
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