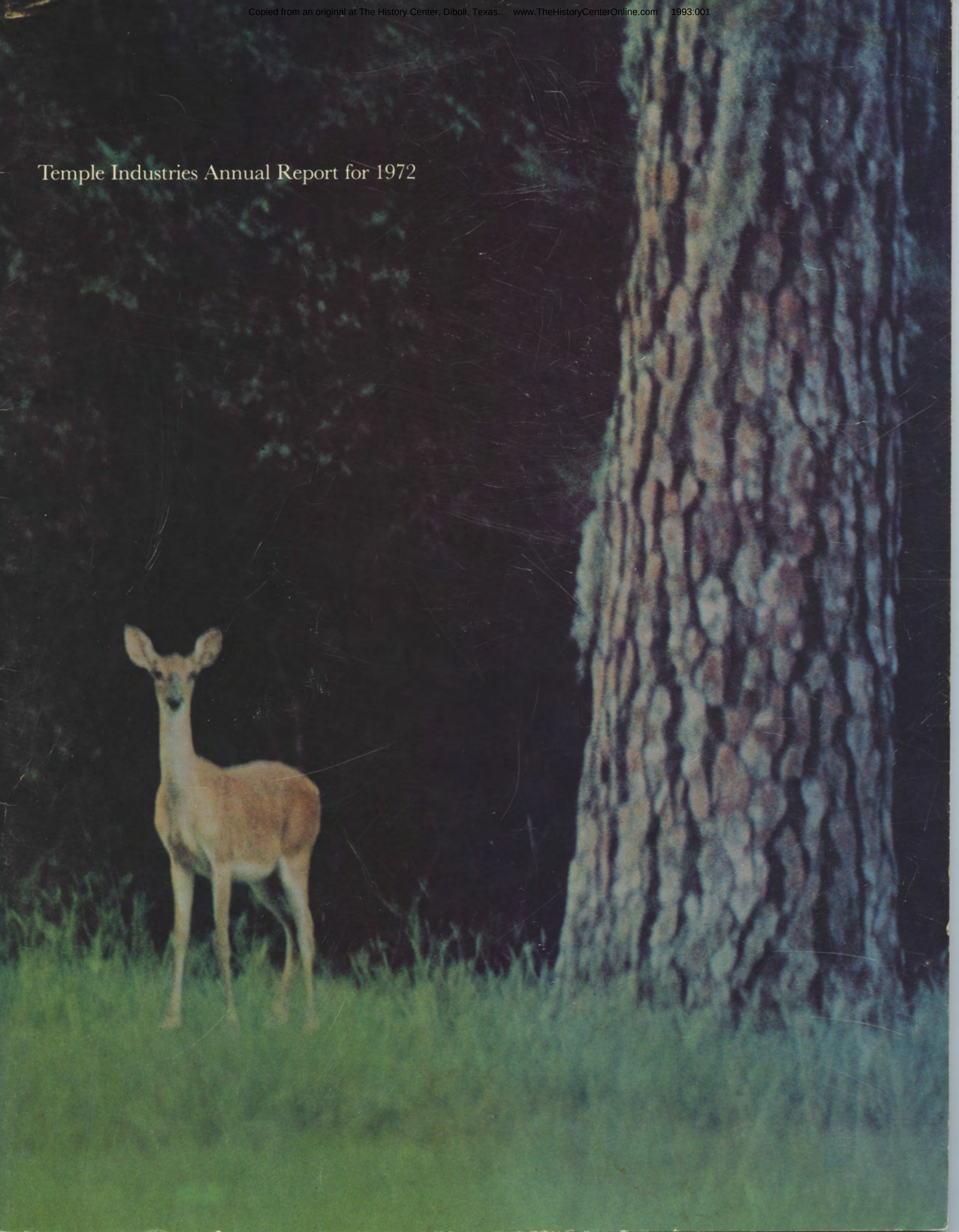
Temple Industries Annual Report for 1972



Friendly Encounter

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Financial Highlights

	1972	1971	Increase
Net Sales	$99,598,748	$82,367,348	21%
Net Income:			
Amount	$ 9,612,650	$ 6,799,403	41%
Per Share	$ 1.56	$ 1.11	41%
Total Shareholders' Equity	$74,674,438	$65,822,003	13%
Cash Flow (net income plus depreciation and depletion):			
Amount	$17,391,420	$12,479,274	39%
Cash Dividends:			
Amount	$ 1,645,426	$ 1,426,639	
Per Share	$ .28	$ .25	12%
Average Number of Shares Outstanding including Common Share Equivalents	6,160,672	6,118,636	
Number of Employees at End of Year	3,829	3,707	

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Temple Industries' symbol—
New York Stock Exchange


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To Our Shareholders

This has been the greatest year in our history. Sales topped $99,500,000. Earnings per share reached a record $1.56 — a 37% increase over 1971. Detailed analyses of these results are in the Financial Report on page 7.

These results further emphasized our growth over the past decade. Since 1962 earnings per share have grown at an annual compounded rate of 15%, and in only two of these years (1964 and 1970), have earnings not exceeded the previous year's results. Over the past five years, our compounded earnings growth has exceeded 24%.

In establishing the priorities to sustain this growth, we have employed criteria common to many companies—with these added qualifications—build a timber base to ensure future earnings and design converting facilities to maximize the timber values. This goal has been paramount in our planning since the company's inception nearly 80 years ago and has been accelerated in recent years.

Initially the company acquired 7,000 acres of land in East Texas. Additional acres were purchased as capital was available and we now own 475,000 acres. We have bought more than 71,000 acres in the last five years.

Acquisition of additional land is only part of our goal—only when maximum timber growth is assured will the job be complete. Many acres which we acquired over the years had not been intensively managed for timber production. Scientific reforestation was applied on these areas, and today annual growth on our forests has increased to 120,000,000 feet per year.

This growth is even more significant when compared to the size of our company. Ownership of 13 shares of our stock represents indirect ownership of one acre of timberland which has an average timber stand in excess of 4,000 board feet. Our cut is removing only two-thirds of annual growth and retaining the balance for future years.

To further accelerate growth, and increase production from company lands, we initiated our "20/5 Plan" in early 1973. This forest management program will condense into five years routine forest practices originally scheduled to be completed by 1993. A $3,000,000 allocation has been made to initiate the project.

In addition to their timber growing value, approximately 25,000 acres of these lands are located near population centers of East Texas (including Houston) or adjacent to two large recreational lakes (Sam Rayburn and Toledo Bend). As these lands are developed in coming years, additional timberland will be purchased to replace them.

To meet the second criteria of our corporate plan, maximum economic value must be realized from each tree. This can only be accomplished through full utilization and efficient converting units. Technological innovations in our industry have obsoleted mills and concepts used less than ten years ago. We have been a leader in this change; in fact, all of our present converting units have either been built or dramatically modified in this period. We have invested more than $40,000,000 in the past ten years on these facilities, and our profits now reflect our position as an integrated low-cost producer of building materials.

We are continuing this expansion through an allocation of $25,000,000 to be expended over the next eighteen months to increase our productive capacities (primarily particleboard and plywood). These new plants should add more than $25,000,000 in annual sales when completed.

Thousands of acres of company forestlands front on major highways throughout East Texas. Appropriate signs have been erected in select locations as a visual reminder to travelers of the company's continuing interest in preserving the quality of our environment.

In recent years another important thrust of our corporate planning has been to reduce the impact on earnings of changes in the levels of construction activity. Although manufacture of building materials remains our largest industry, we also manufacture furniture, mobile homes, beverage cases, and are engaged in commercial and industrial contracting, mortgage banking and land development.

This year we brought a new industry under the Temple umbrella through the acquisition of AFCO Industries, Inc., with plants in Louisiana and Michigan. AFCO manufactures a broad line of specialty building materials including vinyl and melamine wall panelings, custom bathroom tub enclosures and molding trim. An addition to AFCO's manufacturing capacity scheduled for completion in the second half of this year will allow their products to be distributed nationwide. Additional products will be added to their manufacturing capacity in the future. Although some of AFCO's products are used in new residential construction, a majority are purchased for home remodeling, commercial, and industrial construction. All of these markets are generally contracyclical to residential construction.

Our mortgage banking operations were significantly enlarged this year with the merger of Loper Mortgage Company of San Antonio into Lumbermen's Investment Corporation. This merger extends the geographic coverage of our mortgage banking facilities and doubles our portfolio of mortgages serviced. The enlarged operation will reduce our unit servicing costs and increase our profitablility.

We report with a great deal of sorrow the death in February, 1973, of Mr. Lee E. Cook, one of our directors. Mr. Cook had served on the board for ten years and gave much of himself to our company during its most important period of growth.

Residential construction reached a record level in 1972 and may soften in 1973. The anticipated increase in industrial and commercial construction should at least offset any decline in residential activity. Present demand for building materials remains good. A strong economy should allow all of our industries to continue to grow in 1973 and produce another record year.

Arthur Temple
Chairman of the Board & Chief Executive Officer

Joe C. Denman, Jr.
President

Only mature trees, ripe for harvest, are individually selected from company lands during each cutting cycle. Marking crews leave the younger, faster growing trees for later cutting. This forest harvest practice maintains a high volume of timber per acre with the least possible impact on other natural values.

Schedule of Sales and Contributions to Earnings by Lines of Business

Sales:	1972	1971**	Change
Building Materials	$ 59,478,346	$46,968,117	+27%
Consumer & Industrial Products	19,354,523	16,597,891	+17%
Building Material Sales Facilities	10,643,788	8,259,450	+29%
Mortgage Banking & Real Estate	12,631,805	11,684,350	+ 8%
Other (Including Contracting)	10,122,091	10,541,891	- 4%
Total Net Sales	$112,230,553*	$94,051,699*	
Earnings:			
Building Materials	$ 14,987,579	$10,473,103	+43%
Consumer & Industrial Products	240,022	830,644	- 71%
Building Material Sales Facilities	353,849	177,458	+99%
Mortgage Banking & Real Estate	2,959,803	1,712,812	+73%
Other (Including Contracting)	533,158	1,024,465	- 48%
	$ 19,074,411	$14,218,482	
Unallocated General Expenses	(3,561,761)	(3,773,579)	- 6%
Earnings Before Taxes	$ 15,512,650	$10,444,903	

Building Materials Sales (including By-Products)

	Net Sales 1972	Net Sales 1971**
Pine Lumber	$16,243,038	$15,886,802
Plywood	7,802,961	6,327,539
Particleboard	8,273,639	3,359,711
Fiberboard	12,475,425	10,425,749
Gypsum Wallboard	7,532,537	4,776,933
Decorative Wall Paneling	7,150,746	6,191,383
	$59,478,346	$46,968,117

**Revenues from mortgage banking and real estate operations are not included as net sales in the company's consolidated statements of earnings because these operations are disimilar to the operations of Temple and its consolidated subsidiaries.*

***All 1971 figures have been restated to include the pooling of AFCO Industries, Inc., and Loper Mortgage Company.*

Financial Report

Record sales and earnings were achieved by the company in 1972, with sales increasing to $99,598,748, up 21% from last year, and pretax earnings increasing to $15,512,650, up 48% from 1971. Earnings per share increased 37% to $1.56. (All figures for 1971 have been restated to reflect the pooling of Loper Mortgage Company and AFCO Industries, Inc.)

The increase in sales and profitability can largely be attributed to results of the initial phase of our expansion program in which over $30,000,000 was expended on new facilities. These facilities continued to improve their operating results during the year and should make further progress in 1973.

The second phase of our capital expenditure program was initiated this year with an outlay of $5,000,000 of a $25,000,000 commitment. To be completed by mid-1974, these capital investments include new particleboard plants in Thomson, Georgia, and Diboll, Texas; expansion of Diboll plywood and a new facility in Pineland; beverage case manufacturing operations in Port Gibson, Mississippi; and a major expansion of AFCO's manufacturing operations in Alexandria, Louisiana, and Holland, Michigan.

Cash flow this year of $17,391,420 was 39% higher than 1971. This increase funded all capital outlays and retired $8,000,000 in term debt, including $3,372,145 in pre-payments. In pre-paying these obligations, we reduced existing term debt maturities to allow us to finance our announced expansion program through a revolving credit agreement with seven banks. Under this agreement we can draw $15,000,000 over the next eighteen months, repaying the debt over the succeeding three years.

Our company enters 1973 with the strongest balance sheet in our history. Net worth rose to almost $75,000,000, from $66,000,000 in 1971. Total liabilities were reduced to $37,000,000 from $42,000,000 last year. Equity is now twice our total debt. Depreciation and depletion expense in 1972 exceeded current maturities of term debt as of December 31, 1972 by $4,117,934. This balance sheet will permit a high degree of flexibility in financing future growth.

In January, 1973, our Board of Directors approved an increase in the quarterly dividend of common stock to $.08 per share. This is the second consecutive year we have increased the dividend.

Assuming the current rate is maintained for the balance of the year, it will represent a 28% increase in payout over the two year period. Although no commitment can be made at this time, we anticipate increasing the dividends as our earnings rise in the future.

This was a record year for most of our operations, with only two divisions performing below expectations—furniture and mobile homes. Sales of our expanded furniture manufacturing facility increased during the year, but operating results did not respond until the latter half. We expect this operation to show continued improvement in 1973. Our mobile home operation was unprofitable this year. Production problems have hopefully been overcome through the efforts of a newly organized management group. Unit production increased at the close of the year, and we are confident a profit will be earned in 1973.

In 1972 we concluded the combination of both Loper and AFCO on a pooling-of-interest basis. We acquired Loper in September for 98,645 shares of our common stock and AFCO Industries, Inc., in December in exchange for 235,000 shares of common stock.

As of year end, we had 5,943,826 shares outstanding and 159,349 additional shares subject to the exercise of employee stock options. These options have exercise prices ranging from $10.00 to $25.63 with a weighted average of $22.63. In an attempt to prevent dilution of common equity from exercises of these options, our Board has approved a conditional expenditure of up to $2,000,000 to acquire our stock. As of December 31, approximately $1,250,000 was still available for future purchases.

Operations Report

During 1972 much criticism was directed toward the forest products industry because of higher retail prices for many building materials, particularly lumber and plywood.

Strong demand for these products, reflecting record levels of residential construction, created acute shortages in many areas resulting in a "free market" translation of demand-pull inflation—and high retail cost.

The regulations imposed under Phase II Price Controls restricted our selling prices for these materials to the 1971 base period, plus direct cost increases permitted under Phase II. Therefore to a larger extent our profits at the manufacturing level did not proportionately reflect the higher retail prices realized in this "free market."

Building Materials

Lumber

Lumber markets were extremely active during the year. The average price of all lumber products was $128 per thousand board feet, up from $110 in 1971.

In the fourth quarter of 1971, we changed the product mix at our Pineland sawmill operations, concentrating on production of 1″ thick boards and increasing production of our stud mill. The conversion to 1″ lumber decreased total lumber output to 142,000,000 feet compared with 154,000,000 feet in 1971.

By-product tonnage (chips, sawdust, bark) generated from our lumber and plywood operations was approximately 470,000 tons. These mill residues are the basic raw material for both our fiberboard and particleboard operations, and some were exchanged for sawlogs with various pulp mills in East Texas.

Plywood

New innovations in building construction and the rising cost of timber have placed emphasis on the use of various panel products in applications where lumber was formerly used. These panels are now employed in many building systems largely because of their versatility and low installation cost. Plywood panel products represent a more efficient conversion of timber—one square foot of plywood uses less than half the timber required for one board foot of lumber. Recognizing this trend toward expanding panel markets, we are continuing to expand our plywood capacity to meet future markets. A major expansion of our Diboll mill increased annual production to

Tons of mill residues previously burned are recovered from the manufacture of lumber and plywood. These by-products serve as the basic raw materials for our particleboard and fiberboard operations.


CHEVROLET

120,000,000 square feet in February, 1973, and by the end of the year our new 120,000,000 foot mill in Pineland, Texas, should be completed. This will increase total capacity to 240,000,000 feet—almost triple the 86,000,000 feet produced in 1972. The average sales price of plywood in 1972 was $90.90 per thousand square feet, up from $72.07 in 1971.

Particleboard

Particleboard continues to be the fastest-growing building material product in our industry. Production nationwide has tripled since 1970, and will exceed 4,000,000,000 feet in 1973. New uses for this low-cost engineered panel product have substantially broadened its areas of application. Market estimates indicate more than half of total particleboard production is used in commercial and industrial applications.

Our Diboll particleboard mill operated at near capacity during the year. Total production for the division reached 107,000,000 sq. ft. (¾″ basis), a 230% increase over 1971. Average selling price for the year was $78.67 per sq. ft. (¾″ basis), up from $72.27 in 1971.

Construction began early in 1972 on a 100,000,000 sq. ft. capacity particleboard mill at Thomson, Georgia, similar to our new Diboll mill. Raw material is contracted for and will be purchased from eighteen sawmills within an 80 mile radius to supply our requirements. We expect this new facility to be in production early in 1974. Completion of the Georgia mill will put us in a competitive market position throughout the Eastern United States.

Also scheduled for completion late in 1974 is a new continuous ribbon (Mende process) particleboard plant at Diboll. This process creates an improved quality thin particleboard of ⅛″ thickness for use in furniture, interior wall paneling and door skins. This mill will have a rated annual capacity of 208,000,000 sq. ft. (⅛″ basis.)

Fiberboard

Sales increased 18% during the year to $12,700,000. Production of medium density exterior siding increased eight times over 1971's level to 25,000,000 feet. We will expand production of this higher margin commodity in 1973. The change in our product mix to fill siding orders decreased insulation sheathing production from 309,000,000 to 240,000,000 feet, but profits of the division were substantially increased.

Completion of a water quality control system at the fiberboard division has reduced effluent discharge to one-fifth what it was a year ago—less than 200,000 gallons per day.

This figure will be further reduced through design modifications planned during 1973.

Exterior siding sales this year were more than eight times greater than 1971. Additional production of this item in 1973 will include introduction of a new texture finish panel.

Decorative Wall Paneling

Sales of decorative wall panel systems, manufactured by AFCO Industries, Inc., increased to $8,700,000 in 1972, up from $7,320,000 in 1971. Growth was particularly evident in both decorative vinyl and melamine finished panels and tub enclosure kits.

AFCO's new plant in Michigan continued to improve its operations, reporting profits for the first time in its short history. Enlargement of this plant, planned for 1973, will further expand sales into new markets in the Eastern United States and California, establishing nationwide distribution.

New decorative "Brite-Stripe" vinyl patterns and melamine panel designs introduced during 1972 were well received and should further increase sales in 1973.

New products added this year through the acquisition of AFCO Industries, Inc., include melamine and vinyl covered wall panelings. A melamine finish tub enclosure kit, accented by decorative vinyl wall paneling, is shown.
These new AFCO wall systems are particularly attractive to the do-it-yourself market.

Gypsum Wallboard

Demand for this product strengthened throughout the year. Our new West Memphis mill began producing wallboard at mid-year, and in the fourth quarter was operating at an annual rate in excess of 174,000,000 feet with improving profitability.

The Dallas gypsum mill produced 154,000,000 feet this year. West Memphis added 76,000,000. Total production was 53% above 1971's 150,000,000 feet.

Sales Facilities

All of our distribution and sales facilities benefited from expanded construction activity this year. These operations had record sales and earnings. A new distribution outlet owned by AFCO in Alexandria, Louisiana, joined our existing facilities in East Texas and St. Louis.

Nearly 31% of the sales generated by these operations were Temple products.

Consumer and Other Products

Expanded capacity at Woodward, Inc., our furniture subsidiary, pushed sales to $6,400,000, 35% greater than 1971. Efficiency of this operation improved throughout the year and further gains are projected for 1973. New lines shown at this winter's furniture shows were well received and a record backlog of orders has been received.

Demand for wooden beverage cases continued to increase this year producing higher sales and profits for this division's operations. Sales of $5,000,000 were 20% ahead of last year.

Wooden cases are used by the soft drink industry to deliver the returnable bottle, and this year's high demand reflects expanding customer preference for returnable bottles. This was particularly evident in the expanding quart-size bottle market.

We had a strong backlog of orders for cases in December, whereas in previous years we rebuilt inventory at year-end. Output was expanded this year through the acquisition of another manufacturing unit—Hassell Lumber Co. of Savannah, Tennessee.

To meet expected future demand, we will build a beverage case parts plant at Port Gibson, Mississippi, in 1973. Hardwood timber is in good supply at this location and the mill will furnish case parts to our assembly plants in Dallas, Texas, and in Chattanooga and Savannah, Tennessee.

Our mobile home operation was unprofitable in 1972, primarily due to production problems. A new management team restructured the operation in the fourth quarter and unit production increased. This facility is expected to break even in the first quarter of 1973 and steadily improving earnings are forecast for the balance of the year.

The majority of our other consumer products enjoyed another profitable year. Our general contracting subsidiary, Temple Associates, reported $23,000,000 in contracts in force on December 31, 1972.

The growing consumer preference for returnable bottles has increased the demand for wooden beverage cases. Modification and enlargement of our manufacturing plants during 1972 will increase annual production to more than 5,000,000 cases. The automated painting line for beverage case ends, newly installed in our Dallas plant, is shown above.

Consumer Products

	Net Sales	
	1972	1971*
Furniture	$ 7,364,281	$ 6,330,214
Beverage Cases	5,112,308	3,997,711
Mobile Homes	2,275,279	2,051,242
Other	4,602,655	4,218,724
	$19,354,523	$16,597,891

**All 1971 figures have been restated to include the pooling of AFCO Industries, Inc., and Loper Mortgage Company.*

Mortgage Banking and Real Estate

Our combined mortgage banking companies have reported record mortgage originations of $74,000,000 in new residential and commercial loans this year. As of December 31, 1972, we were servicing approximately $360,000,000 in mortgages for various institutional investors.

All residential lots offered as the first phase of our 600 acre Colony Park Subdivision in Austin, Texas, were sold by year-end. During 1973 an additional 200 lots are scheduled for improvement and sale, with the remainder to be marketed in the next five years.

In 1972 we entered into two joint venture agreements to develop two tracts of land near Austin embracing 1700 acres which will be subdivided into more than 4000 residential lots and 80 acres of commercial property. One subdivision—Onion Creek—will include full recreational facilities centered around an eighteen hole golf course which is already completed. Although some lots may be offered for sale this year, the majority will not be developed until future years.

Our three Austin subdivisions, located in one of the country's fastest-growing metropolitan areas, feature residential lots suitable to all types of housing. They should also serve as an expanded base of earnings as the planned pace of development increases in the next five years.

Sabine Investment Company of Texas, Inc., our recreation land development subsidiary, enjoyed another good year with revenues from lot sales exceeding $1,100,000, up 30% from 1971, even though the actual number of lots sold remained about the same. As of December 31, 1972, we had an inventory of more than 400 lots in nine subdivisions on Lake Sam Rayburn and Toledo Bend Reservoir. An additional 400 are scheduled for development in 1973.

These subdivisions offer a wide variety of lake homesites in all price ranges, and through a balanced inventory, we are able to meet any market demand.

The techniques of selling recreational property and the accounting policies employed by many companies within this industry have been subjected to much criticism in recent years. Our recreational land subsidiary is charged with the same fiscal responsibility as our other operations; that is, producing income flow over a period of years using conservative accounting policies designed to reflect these profits accurately. Although this policy limits our short term profit growth, our subsidiary is building a sound base to achieve optimum growth return over the extended period of years during which we plan to market these properties.

Miles of shoreline on Lake Sam Rayburn and Toledo Bend, owned by Sabine Investment Company of Texas, Inc., will continue to be developed as recreation and second home sites.

Minerals

The shortage of natural gas in many parts of the country became increasingly apparent this year, and is forecast to further intensify. Efforts to resolve this energy crisis have attracted new interest in the gas potential of East Texas formations. These include 310,000 mineral acres owned by the company.

Our Diboll and Pineland operations use a significant amount of natural gas—2.1 billion cubic feet in 1972. In an attempt to secure an adequate energy source to meet future plant needs, we have accelerated our exploration activities and negotiated commitments with major petroleum companies to extend their search of additional prospective areas on our lands. These commitments generally include an agreement to sell us a portion of any gas deposits developed.

Scientific Forest Management

Timber requirements to supply our Texas lumber and plywood operations this year reached 181,300,000 board feet. We were successful in acquiring all but 78,600,000 feet from outside sources, including large industrial timber companies in the area, the federal government, and private landowners.

Prices paid for outside stumpage this year reached an all time high. The bid price for Federal timber available from the National Forests was approximately 28% higher than 1971.

Of the more than 120,000,000 board feet of annual growth on our 475,000 acres this year, one-third was not cut, and reserved for future needs. The volume of timber to be cut annually is determined through a careful study of each of the more than 1,500 individual harvest areas on company lands. Varying in size from 50 to 1,500 acres, each is treated as an individual forest, requiring various forest management practices, and capable of producing varying volumes of timber. Creating compartments of this size assures that each tract maintains its maximum growth rate.

Evaluation of the data accumulated from each compartment is also used to determine future capital investments in new facilities to fully utilize the increased timber volumes available from succeeding harvests.

Intensive management of our forests over the past several decades has created some of the most productive timberlands in the South. Over the years we have removed low quality trees, and repaired through planting of seedlings, those areas abused by previous owners. These forest practices will be evident in future growth. The science of good forest management has made significant strides during the past few years, and we are now able to employ more sophisticated techniques to attain maximum yield and improve the volume and quality of our timber stands.

As an example, soil analysis studies to clearly define prime pine-growing sites were completed this year on

an additional 100,000 acres of company lands. Using this data, we will stock these areas with the most adaptable species of pine and hardwoods, bringing each acre to maximum capacity.

Constant observation and professional analysis of the standing timber on company lands have isolated some individual trees that exhibit rapid growth characteristics, trees that grow straight and tall, producing high quality commercial timber. Rather than harvest these trees for immediate use, we will collect the seed cones and inventory a seedling nursery for future planting.

"20/5 Plan"

Early in 1973, our Land and Timber department initiated the "20/5 Plan", telescoping into five years reforestation activities scheduled to be achieved by 1993. Total commitment to this program will be initiated with a $3,000,000 appropriation, with additional expenditures anticipated as the project develops.

The first phase of the "20/5 Plan" will be directed toward rehabilitating those isolated areas needing immediate attention—small tracts of abandoned pastureland, or sites that have reverted to brush or non-commercial trees. Most of these areas represent recent acquisitions by the company, lands not originally managed for timber production. Bringing these acres up to the quality standards we have established will potentially add more than 88,000,000 board feet to our timber inventory, and at least 6,000,000 feet to annual growth. Based on current timber sale values, this added volume would increase our earnings by almost $600,000 each year.

The energy crisis now before our country calls for a re-study of the economics of waste recovery far beyond present practice. Millions of tons of low grade fiber will be brought into use as costs of conventional fuels advance.

The second phase of the "20/5 Plan", also being currently implemented, will fund additional research to utilize the wood fiber represented in the limbs and tops, material presently left on the ground after logging operations. Although the value of this residue as raw material for our converting plants is marginal, new economic chipping methods could convert it as a fuel source for our operations.

One of our initial commitments under the "20/5 Plan" will be the planting of more than 14,000,000 superior seedlings on company lands during the next five years.

Working With Nature

Great progress has been made this year to bring all manufacturing operations into conformity with present or announced air and water quality regulations.

We are fortunate that our major manufacturing facilities, being new in design, incorporated many of the elements now required to eliminate air and water pollution.

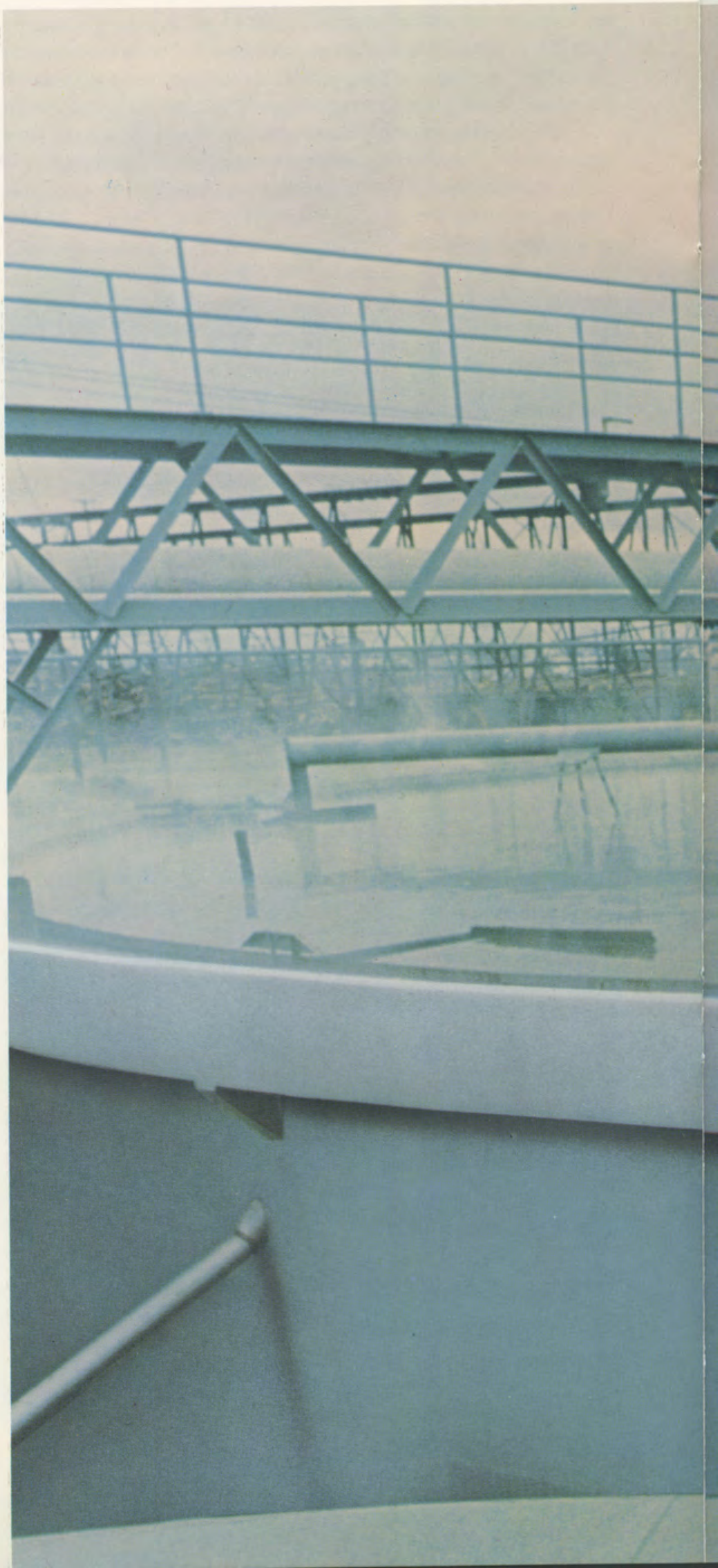
Our major pollution problem—the effluent discharge from our Diboll operations—has been reduced from 1,000,000 to 200,000 gallons per day, an 80% reduction.

A new $1,000,000 clarifier filtration system now re-cycles industrial waste water from the fiberboard plant back to the pulping process. Water volume surges in the system are stored in a 100,000 gallon holding tank, with excess water piped to a 200-acre irrigation/filter field completed two years ago.

This relatively new effluent control technique and the reduction of process water required have substantially alleviated our greatest pollution problem.

Technology in air and water quality is constantly changing and modifications are made on existing systems as new equipment is developed. This has been particularly evident at our particleboard operations, where new collection systems have substantially reduced the fall-out of fine wood particles used in product manufacture. Refinements developed at the Diboll mill will be incorporated in our new Georgia plant.

The major pollution problems in our manufacturing operations have been effectively dealt with. Minor trouble spots have been mostly corrected, and the few remaining objectionable emission areas are receiving our constant attention.



Completion of a water clarifier system at the Diboll fiberboard plant has reduced waste water discharge five-fold, to 200,000 gallons per day. More than 15,000 pounds of wood fiber are recovered each day as well, and returned to the mill's pulping unit.

Auditors' Report

ARTHUR ANDERSEN & CO.

SUITE 1700
910 TRAVIS STREET
HOUSTON, TEXAS 77002

February 16, 1973

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, 1972 and 1971, 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, 1972 and 1971, 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, 1972 and 1971

	1972	1971
NET SALES	$99,598,748	$82,367,348
COSTS AND EXPENSES:		
Cost of sales	$74,504,134	$62,621,669
Selling, general and administrative expenses	12,389,938	11,144,501
	$86,894,072	$73,766,170
EARNINGS FROM OPERATIONS	$12,704,676	$ 8,601,178
OTHER EARNINGS (EXPENSES):		
Gains on sale of land and proceeds from oil royalties and bonuses	$ 1,833,735	$ 1,209,083
Interest income	477,096	414,995
Interest expense (Note 1)	(1,500,640)	(1,389,649)
Other, net	322,586	653,662
	$ 1,132,777	$ 888,091
EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES (exclusive of Federal income taxes) (Note 1)	$ 1,675,197	$ 1,042,634
EARNINGS BEFORE TAXES	$15,512,650	$10,531,903
PROVISION FOR FEDERAL INCOME TAXES (Note 3)	5,900,000	3,732,500
NET EARNINGS	$ 9,612,650	$ 6,799,403
AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (Note 8)	6,160,672	6,118,636
EARNINGS PER COMMON AND COMMON EQUIVALENT SHARE	$1.56	$1.11

The accompanying notes are an integral part of these statements.

Consolidated Balance Sheets

December 31, 1972 and 1971

ASSETS

	1972	1971
CURRENT ASSETS:		
Cash	$ 2,453,544	$ 3,767,053
Receivables	9,465,545	9,716,592
Inventories, principally at the lower of average cost or market (Note 1)	10,390,499	9,222,078
Developed real estate, held for resale (Note 1)	900,000	800,000
Prepaid expenses and other	554,915	546,436
Total current assets	$ 23,764,503	$ 24,052,159
REAL ESTATE, held for development and resale (Note 1)	$ 8,037,540	$ 8,126,234
TIMBER AND TIMBERLANDS, at cost less depletion (Notes 1 and 2)	$ 14,960,564	$ 15,349,813
INVESTMENTS:		
Investment in and advances to unconsolidated subsidiaries and related companies, at cost plus equity in undistributed earnings since acquisition (Note 1)	$ 7,954,933	$ 7,762,401
Notes receivable	2,171,517	1,919,393
Other	963,999	960,450
	$ 11,090,449	$ 10,642,244
PROPERTY, PLANT, AND EQUIPMENT, at cost (Notes 1 and 2)		
Buildings, machinery and equipment	$ 77,575,616	$ 68,978,190
Less—Accumulated depreciation	27,029,281	23,194,194
	$ 50,546,335	$ 45,783,996
DEFERRED CHARGES AND OTHER ASSETS:		
Deferred Federal income tax charges (Note 3)	$ 1,089,000	$ 971,000
Funds held by trustee, for construction project	—	1,046,686
Other (Note 1)	1,825,282	1,676,414
	$ 2,914,282	$ 3,694,100
	$111,313,673	$107,648,546

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' INVESTMENT

	1972	1971
CURRENT LIABILITIES:		
Short-term notes payable	$ 403,920	$ 550,000
Current maturities of long-term liabilities (Note 2)	3,660,836	4,872,399
Accounts payable	4,106,237	3,115,510
Dividends payable	415,900	358,248
Accrued liabilities	2,817,881	2,604,092
Federal income taxes payable (Note 3)	2,889,525	1,325,612
Total current liabilities	$ 14,294,299	$ 12,825,861
LONG-TERM LIABILITIES, excluding current maturities (Note 2):		
Notes payable	$ 14,898,936	$ 23,079,682
Lease obligation	4,090,000	3,700,000
	$ 18,988,936	$ 26,779,682
DEFERRED FEDERAL INCOME TAXES (Note 3)	$ 3,356,000	$ 2,221,000
COMMITMENTS AND CONTINGENCIES (Notes 6 and 9)		
SHAREHOLDERS' INVESTMENT:		
Common stock, $1.66⅔ par, authorized 20,000,000 shares, 6,178,826 shares issued in 1972 and 6,072,164 in 1971 (Notes 4 and 5)	$ 10,298,042	$ 10,120,273
Capital in excess of par value	16,673,117	15,965,675
Retained earnings (Note 2)	47,703,279	39,736,055
	$ 74,674,438	$ 65,822,003
	$111,313,673	$107,648,546

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, 1972 and 1971

RETAINED EARNINGS	1972	1971
BALANCE, beginning of year, as previously reported	$37,183,950	$32,157,680
Add (deduct)–		
Retained earnings of merged companies accounted for on a pooling-of-interests basis (Note 1)–		
Loper Mortgage Company	567,524	323,604
AFCO Industries, Inc.	2,388,678	2,143,307
Adjustments to conform certain accounting policies of Loper Mortgage Company and Lumbermen's Investment Corporation (Note 1)	(404,097)	(261,300)
BALANCE, beginning of year, as restated	$39,736,055	$34,363,291
Add (deduct)–		
Net earnings	9,612,650	6,799,403
Cash dividends declared ($.28 and $.25 per share respectively)	(1,645,426)	(1,426,639)
BALANCE, end of year (Note 2)	$47,703,279	$39,736,055

CAPITAL IN EXCESS OF PAR VALUE	1972	1971
BALANCE, beginning of year, as previously reported	$ 15,911,621	$ 14,535,640
Add (deduct)–		
Excess (deficit) of par value of common stock and capital surplus of merged companies accounted for on a pooling-of-interests basis over par value of 331,549 shares of Temple common stock issued therefor (Note 1)-		
Loper Mortgage Company	(60,915)	(60,915)
AFCO Industries, Inc.	114,969	114,969
BALANCE, beginning of year, as restated	$15,965,675	$14,589,694
Add (deduct)–		
Excess of fair market value over par of 12 and 55,644 shares of common stock issued in 1972 and 1971, respectively, in connection with purchase of common stock of Lumbermen's Investment Corporation (net of expenses of $31,680 in 1971)	248	1,120,615
Excess of cash received over par of 106,650 and 38,231 shares, respectively, of qualified stock options exercised	871,118	305,300
Value of amounts awarded under restricted stock bonus plan in excess of par value (Note 7)	244,572	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)
Excess of cost over option price of shares purchased for issuance under terms of qualified stock option plan	(408,496)	–
BALANCE, end of year	$16,673,117	$15,965,675

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

For the Years Ended December 31, 1972 and 1971

	1972	1971
SOURCE OF WORKING CAPITAL:		
Operations:		
Net earnings	$ 9,612,650	$ 6,799,403
Depreciation	4,752,509	3,871,254
Depletion of fee-timber	372,140	450,550
Amortization of timber cutting contracts	2,654,121	1,358,067
Deferred Federal income taxes	1,135,000	1,170,000
Total from operations	$18,526,420	$13,649,274
Issues of common stock and sales of treasury stock	885,211	1,639,869
Long-term borrowings	677,350	5,607,284
Reduction of real estate held for development and resale	88,694	—
Reduction of funds held by trustee for construction project	1,046,686	—
	$21,224,361	$20,896,427
APPLICATION OF WORKING CAPITAL:		
Additions to property, plant, and equipment	$ 9,514,848	$ 6,606,304
Purchase of timber and timberlands	286,315	263,706
Purchase of timber cutting contracts	2,350,697	1,575,097
Purchase of real estate for development and resale	—	275,555
Increase in long-term notes receivable	252,124	484,932
Cash dividends declared	1,645,426	1,426,639
Reduction of long-term debt	8,468,096	5,033,124
Funds held by trustee for construction project	—	1,046,686
Acquisition of additional ownership in Lumbermen's Investment Corporation	1,387	1,369,194
Increase in investments in unconsolidated subsidiaries	1,144	35,186
Other—net	270,418	48,342
	$22,980,455	$18,164,765
INCREASE (DECREASE) IN WORKING CAPITAL	$(1,756,094)	$ 2,731,662
SUMMARY OF INCREASE (DECREASE) IN WORKING CAPITAL:		
Cash	$(1,313,509)	$ 1,269,585
Receivables	(251,047)	2,240,368
Inventories	1,168,421	637,078
Developed real estate	100,000	(2,150,000)
Prepaid expenses and other	8,479	30,445
Short-term notes payable	146,080	2,353,465
Current maturities of long-term liabilities	1,211,563	(739,062)
Accounts payable	(990,727)	746,611
Dividends payable	(57,652)	(5,783)
Accrued liabilities	(213,789)	(639,797)
Federal income taxes	(1,563,913)	(1,011,248)
	$(1,756,094)	$ 2,731,662
WORKING CAPITAL, Beginning of year	11,226,298	8,494,636
WORKING CAPITAL, End of year	$ 9,470,204	$11,226,298

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

December 31, 1972 and 1971

(1) Summary of significant accounting policies—

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 investment 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.

Inventories—

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

	December 31, 1972	December 31, 1971
Finished goods	$ 3,897,814	$5,058,273
Work-in-process	1,094,682	1,054,863
Raw materials	4,277,412	2,302,022
Supplies	1,120,591	806,920
	$10,390,499	$9,222,078

Property, plant and equipment and depreciation policies—

Property, plant and equipment at December 31, 1972, is summarized by major classifications and estimated useful lives as follows:

Assets	Amount	Estimated Useful Life
Land	$ 460,108	—
Buildings	15,558,948	10 to 40 years
Machinery and equipment	46,437,336	5 to 25 years
Autos, trucks and aircraft	4,703,537	3 to 10 years
Furniture and fixtures	474,645	5 to 10 years
Other	4,215,660	Various
Construction in progress	5,725,382	—
	$77,575,616	

Depreciation of property, plant and equipment is generally provided on the straight-line method based on the estimated useful lives of the assets.

The Company follows the policy of capitalizing interest expense on funds borrowed to finance major construction projects. Interest of $179,000 in 1972 and $260,000 in 1971 has been capitalized in this manner.

Real estate held for resale—

The Company has certain lands on or near lakes that it develops and sells as recreational property. Certain other tracts, due to their location or other attributes, have also been designated as real estate available for resale. Cost includes taxes, interest and other carrying costs incurred during development, after which such carrying costs are expensed. Costs applicable to those subdivisions that are fully developed and available for retail sales are included in current assets. All other real estate has been classified as real estate held for development and resale.

Costs of developed lot sales are determined by allocating the total cost of the subdivision based on established retail sales prices. Since adequate cash down-payment is received on retail land sales, the revenue and resulting income is recognized in the year of the sale.

Investments in subsidiaries—

On September 21, 1972, the Company acquired all of the outstanding common stock of Loper Mortgage Company in exchange for 96,549 shares of its common stock. Subsequently, the Company donated the common stock of Loper Mortgage Company to its unconsolidated subsidiary, Lumbermen's Investment Corporation. In connection with this acquisition certain adjustments have been made to retroactively conform certain of the accounting policies of Loper and Lumbermen's.

On December 21, 1972, the Company acquired all of the outstanding common stock of AFCO Industries, Inc., in exchange for 235,000 shares of its common stock. AFCO Industries, Inc. is a manufacturer of building materials and therefore has been included in the financial statements as a consolidated subsidiary.

The acquisitions of Loper Mortgage Company and AFCO Industries, Inc., have both been accounted for as poolings of interests. A reconciliation of sales, equity in earnings of Lumbermen's Investment Corporation, and net income as shown in the accompanying financial statements, after restatement for these poolings, with amounts previously reported is shown below.

	1971
Net Sales:	
As previously reported	$73,545,442
Pooling of AFCO Industries, Inc.	8,821,906
As restated	$82,367,348
Equity in Earnings of Unconsolidated Subsidiaries:	
As previously reported	$ 487,915
Pooling of Loper Mortgage	243,920
Adjustments to conform certain accounting policies of Loper and Lumbermen's and other	(155,201)
Reclassification of provision for Federal income taxes applicable to subsidiaries included in Temple's consolidated tax return	466,000
As restated	$ 1,042,634
Net Earnings:	
As previously reported	$ 6,452,909
Pooling of:	
Loper Mortgage Co.	101,123
AFCO Industries, Inc.	245,371
As restated	$ 6,799,403

Timber and timberlands—

The Company's investment in timber and timberlands is stated at historical cost less accumulated depletion.

Substantially all costs of maintaining and preserving the Company's fee-owned timberlands, including interest and property taxes, are expensed in the year incurred.

Depletion is computed based on actual timber footage cut and a depletion rate that is recomputed annually. The depletion rate is calculated using the remaining net cost of timber and the estimated timber footage available for cutting. This estimate of available footage is determined by using the applicable growth rates experienced by the Company in the past and is adjusted periodically to the footage determined to be available by a timber cruise conducted by outside experts.

Start-up costs—
Start-up costs are normally expensed in the year incurred. However for major new facilities, certain costs, such as interest, salaries, and net costs of production, that are incurred during the period required to establish normal operations, are deferred and amortized on a straight-line basis over 60 months. Unamortized start-up costs of approximately $1,150,000 are included in other assets shown in the December 31, 1972, balance sheet.

(2) Long-term liabilities—

Long-term liabilities at December 31, 1972, consisted of the following:

Notes payable—	Total	Current Maturities
5%, unsecured, due in annual installments	$ 3,688,000	$ 616,000
5-7%, some secured by timberlands and real estate, due in annual installments	8,457,835	544,695
Prime interest rate plus ½ of 1%, unsecured, due in quarterly installments	5,111,111	2,222,222
4½-7%, some secured by property, plant and equipment, due in installments	1,192,826	167,919
	$18,449,772	$3,550,836
Lease obligation (described below)	4,200,000	110,000
	$22,649,772	$3,660,836
Less—current maturities	3,660,836	
	$18,988,936	

*Notes payable—*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 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 1973 is $9,613,000.

*Lease obligation—*During 1971, the Company leased a gypsum wallboard 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 issued $4,200,000 of 6.2 to 7.75 percent industrial revenue bonds. The lease, which is structured so as to service the retirement of the bonds and interest, is guaranteed by the Company. 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 lease obligation as a liability and the property as an asset.

(3) 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.

The provision for taxes shown in the accompanying statements of earnings includes Federal income taxes applicable to the unconsolidated subsidiaries since substantially all of such subsidiaries are included in the Company's consolidated tax return. Taxes applicable to these unconsolidated subsidiaries were $567,000 in 1972 and $466,000 in 1971.

Deferred Federal income tax charges and liabilities 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 $1,135,000 in 1972 and $1,170,000 in 1971 were provided as a result of these timing differences.

The Company defers investment tax credits arising from the Revenue Act of 1971 and recognizes such credits in income over the lives of the assets which gave rise to such credits. Approximately $265,000 of such credits were deferred in 1972 whereas the amount in 1971 was insignificant. Prior to the Revenue Act of 1971 the Company accounted for investment tax credits under the "flow-through" method whereby such credits reduced the provision for Federal income taxes for the year the tax credits arose.

(4) Common stock—

Changes in outstanding shares during 1972 and 1971 were as follows:

	1972	1971
BALANCE, beginning of year, as previously reported	5,740,615	5,646,740
Add—Issuance of common stock in acquisitions of companies accounted for as poolings-of-interests (Note 1)		
Loper Mortgage Company	96,549	96,549
AFCO Industries, Inc.	235,000	235,000
BALANCE, beginning of year, as restated	6,072,164	5,978,289
Add—		
Shares exchanged for net assets of subsidiary company acquired	12	55,644
Shares issued under qualified stock option plan	106,650	38,231
BALANCE, end of year	6,178,826	6,072,164

(5) 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. One-half of the options granted are exercisable two years from the date granted and the remaining one-half are exercisable four years from the date granted. All options terminate five years from the date granted. As of December 31, 1972, options for 365,500 shares had been granted, options for 192,000 shares had been exercised and options covering 21,000 shares had been terminated unexercised.

(6) Retirement plans—

The Company has retirement plans covering all qualified employees. Contributions made to the plan and charged to expense were $472,000 in 1972 and $392,000 in 1971. 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, 1972, the amount of unfunded past service cost of the plans was $1,397,000 and the retirement fund assets and balance sheet accruals exceeded the actuarially computed value of the vested benefits.

(7) Officer and employee bonus plans—

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 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 to capital in excess of par value.

At December 31, 1972, 66,700 shares had been sold to participants. Of these, 5,125 shares had been relinquished and sold back to the company. Points aggregating $625,500 had been awarded to participants and approximately $421,000 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. Bonuses representing estimated points awarded totalling $244,600 and $131,000 were charged to expense in 1972 and 1971, respectively.

Other plans—

The Company has certain other bonus plans and a deferred compensation plan in effect for certain employees and officers. The total amount of bonuses paid under these plans were $203,000 and $128,000 in 1972 and 1971, respectively.

(8) 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.

(9) Proposed merger—

In February, 1973, the Company and Time Incorporated signed a memorandum of intent under which the Company would be merged into Time Incorporated. The proposed merger is subject to the negotiation and execution of mutually satisfactory definitive agreements and approval by the Board of Directors and stockholders of the Company and Time Incorporated.

Five Year Summary—Consolidated Balance Sheets

(000's Omitted)	December 31				
ASSETS	1972	1971	1970	1969	1968
CURRENT ASSETS:					
Cash	$ 2,454	$ 3,767	$ 2,498	$ 9,602	$ 2,805
Receivables	9,466	9,717	7,476	5,234	5,320
Inventories, principally at the lower of average cost or market	10,390	9,222	8,585	7,216	5,025
Developed real estate, held for resale	900	800	2,950	600	—
Prepaid expenses and other	555	546	516	500	467
Total current assets	$ 23,765	$ 24,052	$ 22,025	$ 23,152	$ 13,617
REAL ESTATE, held for development and resale	$ 8,038	$ 8,126	$ 7,851	$ 5,073	$ 423
TIMBER AND TIMBERLANDS, at cost less depletion	$ 14,960	$ 15,350	$ 15,320	$ 11,781	$ 4,950
INVESTMENTS AND OTHER ASSETS:					
Investments in and advances to unconsolidated subsidiaries and related companies, at cost plus equity in undistributed earnings since acquisition	$ 7,955	$ 7,762	$ 6,358	$ 6,234	$ 6,253
Equity in and advances to a joint venture	—	—	—	2,086	2,124
Notes receivable	2,172	1,920	1,434	1,198	1,074
Other	3,878	4,655	3,560	2,465	1,938
	$ 14,005	$ 14,337	$ 11,352	$ 11,983	$ 11,389
PROPERTY, PLANT, AND EQUIPMENT, at cost:					
Buildings, machinery and equipment	$ 77,575	$ 68,978	$ 62,648	$ 43,951	$ 35,737
Less—Accumulated depreciation	(27,029)	$(23,194)	(19,600)	(17,284)	(15,914)
	$ 50,546	$ 45,784	$ 43,048	$ 26,667	$ 19,823
	$111,314	$107,649	$ 99,596	$ 78,656	$ 50,202
LIABILITIES AND SHAREHOLDERS' INVESTMENT					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term liabilities	$ 4,065	$ 5,422	$ 7,037	$ 2,483	$ 1,056
Accounts payable	4,106	3,116	3,862	3,197	1,761
Dividends payable	416	358	353	352	306
Accrued liabilities	2,818	2,604	1,964	1,380	849
Federal income taxes payable	2,889	1,326	314	1,669	2,375
Total current liabilities	$ 14,294	$ 12,826	$ 13,530	$ 9,081	$ 6,347
LONG-TERM LIABILITIES, excluding current maturities	$ 18,989	$ 26,780	$ 26,206	$ 13,482	$ 7,968
DEFERRED FEDERAL INCOME TAXES	$ 3,356	$ 2,221	$ 1,051	$ 448	$ 191
SHAREHOLDERS' INVESTMENT:					
Common stock	$ 10,298	$ 10,120	$ 9,964	$ 9,941	$ 8,712
Capital in excess of par value	16,673	15,966	14,589	14,516	27
Retained earnings	47,704	39,736	34,363	31,335	27,006
Treasury stock, at cost	—	—	(107)	(147)	(49)
	$111,314	$107,649	$ 99,596	$ 78,656	$ 50,202
WORKING CAPITAL	$ 9,471	$ 11,226	$ 8,495	$ 14,071	$ 7,270
RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES	1.66	1.88	1.63	2.55	2.15

Note: Prior year amounts have been restated to reflect the poolings-of-interests of AFCO Industries, Inc. and Loper Mortgage Company in 1972.

Five Year Summary—Consolidated Statements of Earnings

(000's Omitted)	Year Ended December 31				
	1972	1971	1970	1969	1968
NET SALES	$99,599	$82,367	$57,846	$55,513	$45,298
COSTS AND EXPENSES:					
Cost of sales	$74,504	$62,622	$44,583	$40,035	$32,374
Selling, general, and administrative expenses	12,390	11,144	9,322	8,418	6,357
	$86,894	$73,766	$53,905	$48,453	$38,731
EARNINGS FROM OPERATIONS	$12,705	$ 8,601	$ 3,941	$ 7,060	$ 6,567
OTHER EARNINGS (EXPENSES):					
Gains on sale of land and proceeds from oil royalties and bonuses	$ 1,834	$ 1,209	$ 1,113	$ 1,269	$ 632
Interest income	477	415	497	733	361
Interest expense	(1,501)	(1,390)	(174)	(585)	(464)
Other—net	323	654	64	(259)	(141)
	$ 1,133	$ 888	$ 1,500	$ 1,158	$ 388
EQUITY IN EARNINGS OF UNCONSOLIDATED SUBSIDIARIES AND JOINT VENTURE (exclusive of Federal income taxes)	$ 1,675	$ 1,043	$ 348	$ 534	$ 292
EARNINGS BEFORE TAXES AND EXTRAORDINARY ITEM	$15,513	$10,532	$ 5,789	$ 8,752	$ 7,247
PROVISION FOR FEDERAL INCOME TAXES	5,900	3,732	1,352	3,063	2,748
EARNINGS BEFORE EXTRAORDINARY ITEM	$ 9,613	$ 6,800	$ 4,437	$ 5,689	$ 4,499
EXTRAORDINARY ITEM:					
Loss of investment in an abandoned venture, less applicable Federal income tax reduction of $99,000	—	—	—	—	(262)
NET EARNINGS	$ 9,613	$ 6,800	$ 4,437	$ 5,689	$ 4,237
CASH DIVIDENDS DECLARED	1,645	1,427	1,409	1,360	919
EARNINGS RETAINED IN THE BUSINESS	$ 7,968	$ 5,373	$ 3,028	$ 4,329	$ 3,318
AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING (Note 1)	6,161	6,119	6,068	5,757	5,254
PER COMMON AND COMMON EQUIVALENT SHARE (Note 1)					
Earnings before extraordinary item	$ 1.56	$ 1.11	$ .73	$ .99	$ .86
Extraordinary item	—	—	—	—	(.05)
Net earnings	$ 1.56	$ 1.11	$ .73	$ .99	$ .81
PER SHARE OF COMMON STOCK (Note 2)					
Shareholders' investment	$ 12.12	$ 10.76	$ 9.69	$ 9.67	$ 6.79
Dividends declared	.28	.25	.25	.25	.19
COSTS AND EXPENSES ABOVE INCLUDE:					
Depreciation	$ 4,753	$ 3,871	$ 2,364	$ 2,096	$ 1,822
Depletion of company timber	372	451	415	146	58
Purchased timber and logs	2,654	1,358	298	692	671
Property taxes	953	929	679	548	449

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, a two-for-one stock split in March, 1969, and the poolings-of-interests of AFCO Industries, Inc. and Loper Mortgage Company in 1972. (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. (3) Prior year amounts have been restated to reflect the poolings-of-interests of AFCO Industries, Inc. and Loper Mortgage Company in 1972.

Directors

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

*Joe C. Denman, Jr.
President

Michael D. Dingman
President
Wheelabrator-Frye, Inc.

Robert W. Halliday
Chairman of the Board
Allied Equities Corporation

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
Senior Executive Vice President
Burnham & Company

*Arthur Temple
Chairman of the Board & Chief Executive Officer

R. Clyde Thompson
Vice President

*W. Temple Webber
Chairman of the Executive Committee

Julian H. Zimmerman
Chairman of the Board
Lumbermen's Investment Corporation

**Members of Executive Committee*

***Deceased*

Officers

Arthur Temple
Chairman of the Board & Chief Executive Officer

Joe C. Denman, Jr.
President

W. Temple Webber
Chairman of the Executive Committee

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

Registrar and Transfer Agent

The Republic National Bank of Dallas

Products and Services

Lumber
Fiberboard
Particleboard
Plywood
Gypsum Wallboard
Decorative Wall Paneling
Wooden Beverage Cases
Furniture
Mobile/Modular Homes
Mortgage Banking
Land Development
General Contracting

Subsidiaries and Affiliates

AFCO Industries, Inc.
The Angelina Free Press, Inc.
Austin Crest Hotel, Inc.
Chattanooga Container Corporation
Fleishel Lumber Company
Home Owners Trust Company
Loper Mortgage Company
Love Wood Products Co.
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, Inc.
Texas Gypsum Company, Inc.
Woodward, Inc.


TEMPLE INDUSTRIES
Drawer N, Diboll, Texas 75941
(713) 829-5511