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TEMPLE-INLAND INC.



ANNUAL 1990 REPORT

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About Our Company

Temple-Inland Inc. is a holding company with major interests in paper, packaging, building products and financial services.

Our largest manufacturing group—container and containerboard—operates as Inland Container Corporation. Two other groups—bleached paperboard and building products—market their products and operate under the name Temple-Inland Forest Products Corporation. The fourth operating group is Temple-Inland Financial Services.

In 1990, Inland Container produced 2,034,000 tons of containerboard (linerboard and corrugating medium) at its six paper mills, and shipped 1,678,000 tons of boxes from its 40 box plants. The Company ranks in the top five in the U.S. in both containerboard and corrugated box production.

The Company's bleached paperboard mill in Evadale, Texas produces a large number of paper grades and is one of the largest specialty mills in the country. Last year it produced 591,000 tons of paperboard and pulp.

Temple-Inland produces a wide variety of building materials, including lumber, plywood, particleboard, gypsum wallboard and fiberboard.

Temple-Inland is a major landowner with about 1.8 million acres of timberland in east Texas, Louisiana, Georgia and Alabama.

The Financial Services group concentrates in two areas—mortgage financing and consumer banking. Lumbermen's Investment Corporation of Texas, the mortgage banking firm based in Austin, Texas, services a $3.3 billion loan portfolio. Guaranty Federal Savings Bank, based in Dallas, and Kilgore Federal Savings & Loan Association, based in Kilgore, Texas, have combined assets of $5.4 billion, and deposits at the end of 1990 totaled $4.5 billion.

Temple-Inland is based in Diboll, Texas. Its common stock is traded on the New York and Pacific Stock Exchanges under the ticker symbol TIN.

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Financial Highlights
(in millions, except per share data)

	1990	1989	Percent Increase (Decrease)
Total Revenues	**$2,401.1***	$1,943.6	24%
Manufacturing Net Sales	**$1,892.5**	$1,894.2	—%
Operating Income	**$ 288.1***	$ 331.3	(13)%
Net Income	**$ 232.5***	$ 207.4	12%
Earnings Per Share	**$ 4.20***	$ 3.75	12%
Dividends Per Share	**$ .80**	$ .58	38%
Shareholders' Equity	**$1,439.3**	$1,258.9	14%
Book Value Per Share	**$ 26.37**	$ 22.95	15%
Average Shares Outstanding	**55.4**	55.3	—%
Common Shares Outstanding at Year End	**54.6**	54.9	(1)%

Selected Business Segment Data
(in millions)

	1990	1989	Percent Increase (Decrease)
Manufacturing Net Sales			
Container and containerboard	**$1,144.2**	$1,138.4	1%
Bleached paperboard	**$ 373.0**	$ 368.3	1%
Building products	**$ 305.3**	$ 320.3	(5)%
Operating Income (Loss)			
Container and containerboard	**$ 150.9**	$ 208.4	(28)%
Bleached paperboard	**$ 98.8**	$ 114.9	(14)%
Building products	**$ 9.4**	$ 23.7	(60)%
Financial services	**$ 51.4***	$ (2.1)	—%

Combined Operating Earnings

Combined operating earnings for Temple-Inland Inc. in 1990 and 1989 totaled $288.1 million and $331.3 million respectively. These charts show the percentage contributed by each of the Company's four operating groups.



**The operating results for 1990 reflect the operating income and lower tax rate from the consolidation of Guaranty Federal Savings Bank beginning January 1, 1990.*

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TO OUR SHAREHOLDERS

1990 was our fourth consecutive record year with earnings per share of $4.20, up 12 percent over last year. Cash dividends of $.80 per share were up 38 percent from the previous year.

The board of directors in February of 1991 increased the dividend on our common stock by 10 percent to an annual rate of $.88 per share, representing the seventh dividend increase since our company became an independent corporation.

Consolidated revenues of $2.4 billion were up 24 percent from last year, but pretax income was down 14 percent largely as a result of margin erosion in our manufacturing operations, which was not completely offset by the recovery of our Financial Services activities. The inclusion of Guaranty Federal Savings Bank's operations in our consolidated income for the entire year added $32 million in pretax income to our Financial Services Group.

Temple-Inland is a timber-based company manufacturing containerboard, corrugated packaging, bleached paperboard and building materials. The Company also has major ventures in consumer banking and mortgage financing.

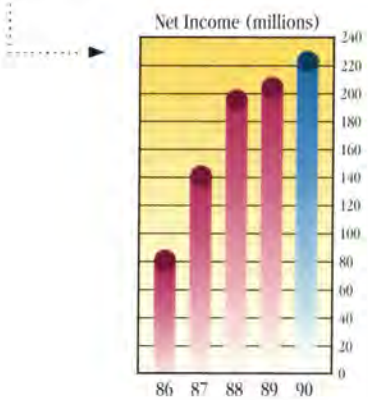
Temple-Inland consists of several forest product manufacturing units, most of which use fiber from our 1.8 million acres of southern timberland, and other ventures in consumer banking and mortgage financing. Although many of our businesses may not appear to be synergistic, it is our belief that they provide a less cyclical stream of earnings than the independent segment contributors. For instance, if we had not enjoyed the benefits of our Financial Services Group in 1990, we would not have shown record earnings.

Last year was also our second consecutive year of record capital expenditures with a combined total of $382 million invested by our forest products groups, including the acquisition of two corrugated container converting companies. An additional $45 million was invested to allow our savings banks to acquire in 13 transactions an additional $1.3 billion in core deposits bringing our combined totals to $4.5 billion.

During the last three years, we completed major modifications to most of our paper mills, increasing our production of containerboard to over 2,000,000 tons in 1990, and expect another increase of about 100,000 tons in 1991.

Major projects currently in process include a new recycle linerboard mill in Maysville, Kentucky and an upgrade of our existing recycle mill in Ontario, California. When these projects are completed, our containerboard capacity will be approaching 2.5 million tons of which about 40 percent will be from recycled containers. Our strategy is to continue to maintain a fiber balance between virgin and recycle boxes.

Temple-Inland



Late in 1991, we should complete the conversion of a paper machine at our Orange linerboard mill to a two-ply process that will allow us to produce a new product generally referred to as white top. This process combines a normal brown linerboard sheet with a bleached paper top providing a white surface that is more attractive for printing multi-color graphics.

Today, it is estimated that one out of seven corrugated shipping boxes has a white surface and many forecast that one out of three will be white in the future. Therefore, with our current bleached board mill at Evadale and this converted machine, we will be able to provide a wider variety of higher quality packaging materials to fill our customers' box needs.

Another major capital program is construction of a new pulp mill at the Evadale mill. This process will provide a better grade of pulp at a lower cost and at the same time significantly lower chemical emissions. Our existing pulp mill will then be able to manufacture recycle bleached pulp for a new group of products.

The new DeQuincy, LA sawmill began production in the second quarter and achieved excellent operating results by the fourth quarter. With the addition of the mill, our lumber capacity now exceeds 500 million board feet a

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Clifford J. Grum
President and Chief Executive Officer

year and is our largest single wood building product. Unfortunately, lumber, along with our other building materials, suffered during the year from the severe contraction of construction markets. Prices declined and profit margins eroded throughout the year.

Our additional lumber converting capacity in east Texas will be very important to our long-term strategy to maximize the value of timber harvested from our own timberlands. Approximately 70 percent of our 1.8 million acres of timberland is in this geographic area and the quality of timber on these lands is above average. The future is difficult to accurately forecast, but it appears that logging timber from lands owned by the Federal government will be restricted somewhat. Therefore, those companies owning a well-timbered forest will benefit from the contraction of supply, and our goal is to maximize this profit potential for our shareholders.

Last year was a significant period for our Financial Services Group. We began the year reaching the difficult decision to exit the life insurance business and concentrate our activities in mortgage banking and operation of our savings banks. In 1989, we sold a portion of our insurance business, electing to remain only in one special segment where we felt we could be a low-cost producer. Unfortunately, the overhead reduction necessary to generate adequate profitability was not, in our opinion, achievable; therefore, we sold the remaining company and recovered our capital. The reinvestment of the capital will more than offset the profits that our insurance operation was generating.

The deflation of prices of single family residences in Texas generally abated in 1990, and our mortgage banking company capitalized on the opportunity to generate new mortgages while also benefiting from a major reduction in the cost to carry problem loans and foreclosed homes. New mortgage generations of $553 million was the second best year in the Company's history.

Financial Services income also benefited from the inclusion of the results of Guaranty Federal Savings Bank, which before this period was considered a non-consolidated investment. When we acquired Guaranty and two other savings and loans in 1988 under an assisted transaction from an agency of the Federal government, we recognized that during the initial period, the consolidation and restructuring of the three banks would significantly change the size and character of the assets and liabilities. A major portion of this effort was concluded by the end of 1989 and, therefore, consolidation of the bank's earnings started in 1990.

The nature of the assets acquired by us largely consisted of problem loans and foreclosed real estate offset by conventional deposit liabilities, many of which were attracted to our savings banks because of the premium rates. The collection of the assets was guaranteed by the Federal agency as well as an interest carry.

The deflation of real estate values has created a chaotic condition in those markets and sales of foreclosed real estate have been slower than anticipated. Also, more problem loans have been converted to foreclosed real estate. However, we have been very successful in replacing many of the high-cost deposits with core depositors living in our bank's geographic area and are now beginning to increase our volume of new loans.

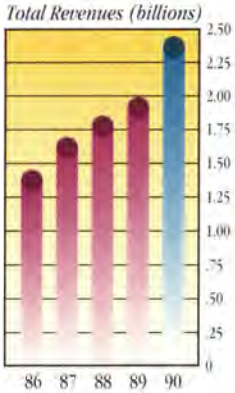
In 1988, Guaranty operated primarily in the Dallas, Houston, and Austin metropolitan areas. Our other savings bank has a facility in Kilgore, Texas.

The assets we acquired in our assisted transaction will be liquidated in the next few years, and during this period, our strategy is to build a new healthy consumer savings bank in the same metropolitan areas including adjacent communities.

Our initial deposit levels of $3.7 billion have now been reduced by about $500 million while at the same time, through additional acquisitions, we have added approximately $1.3 billion

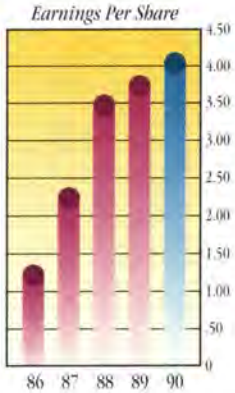
Temple-Inland

Total Revenues (billions)



Temple-Inland

Earnings Per Share



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in new deposits. Our current level of about $4.5 billion in deposits provides us with an excellent base to build one of the largest banking institutions in the state of Texas. Without the loan problems of the past, our institution should continue to be very profitable.

Our Financial Services Group had record income of $51 million in 1990, while our other operations suffered depressed earnings. Our paper mills and building material manufacturing facilities as a group are low-cost facilities, most of which recently have been modernized to an improved technological state. However, they still suffer the consequences of margin erosion in weak markets such as the current environment. Yet, they remain profitable and our continuing improvement programs are building a base for a return to record earnings from these units.

Earlier in this letter, we mentioned our new recycle linerboard mill in Maysville, Kentucky, which currently is under construction. Our Ontario, California mill is the largest recycle linerboard mill in the U.S., and its product is widely accepted by our customers. The product is not only a commercial success competing with virgin board, but also provides an environmental savings to our country. Maysville will extend our leadership position and as we locate other areas of this country which are generating excess waste corrugated boxes, we plan to continue to add to our network.

Approximately 40 percent of our bleached board is used to package food products, a majority of which finds its ultimate use in packaging meals, like those sold by fast food restaurants. Historically, independent entities converted our board to cups, plates, and food trays. Technological developments continue to increase capital requirements for this industry, forcing some smaller converters to seek a larger base. Therefore, in certain selected niches, we plan to consolidate a network of converting units to serve this industry and should complete our first two acquisitions in the first quarter of 1991. In addition to today's markets, these converters will assist us in the accessory product development to create more efficient paper containers which will be environmentally friendly.

Most of our businesses manufacture products which are somewhat commodity oriented, and we have an abundance of competition. We must supply quality products and superior service to succeed. 1991 will probably be another year of record capital expenditures as we continue to modernize and expand our facilities to meet our growing customer needs.

Physical plants cannot operate without a trained efficient team. We want to acknowledge the efforts of all of our employees who helped us not only in 1990, but who are working to build a better company for the future.

The recessionary environment continues to create weaker pricing for most of our manufactured products, and we will no doubt experience a continuation of margin erosion until economic activities recover. Therefore, 1991 may not be another record year, but we can assure you that our corporation is more capable today of capitalizing on the recovery of the economy. When conditions improve, we fully expect to be achieving new levels of record earnings. ■



Arthur Temple
Chairman of the Board

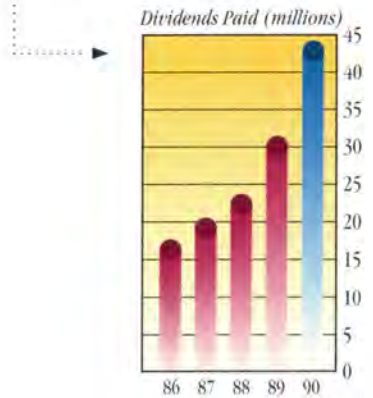
Sincerely,

Clifford J. Grum
President & Chief Executive Officer

Arthur Temple
Chairman of the Board

February 15, 1991

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REVIEW OF OPERATIONS

Container & Containerboard



Ben J. Lancashire
Group Vice President

Inland Container Corporation, Temple-Inland's largest manufacturing group, is vertically integrated with six paper mills that produced over 2 million tons of containerboard last year. Inland's objective is to process approximately 80 percent of the containerboard produced in these mills in the Company's 40 corrugated box plants. The remaining containerboard production is sold in the open market.

Inland set records in 1990 in the production of containerboard (linerboard and corrugating medium) and shipments of corrugated boxes.

Yet, despite a year when industry mill operating rates were good (averaging 95 percent for the year) and inventories relatively low, competitive pressures pushed selling prices lower. Box prices began to fall in January 1990 and continued to slide until the third quarter, squeezing profit margins.

Inland Container is a major supplier of corrugated packaging to the Coca-Cola system throughout the United States, providing everything from single color trays for soft drinks to preprint boxes for orange juice and bag-in-box dispensers for Coca-Cola syrup.

Operating profits were $151 million, down 28 percent from 1989. Revenues were virtually even at $1.1 billion.

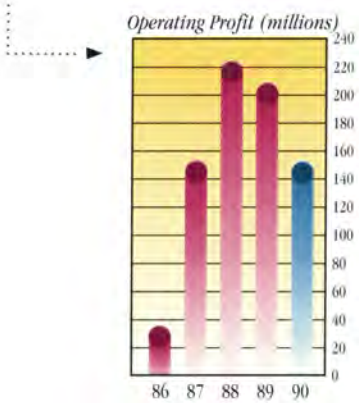
Containerboard production at Inland's six paper mills reached an all-time record, surpassing the two-million-ton mark for the first time. Production totaled 2,034,000 tons, up 7.2 percent from the previous year. Inland's containerboard production was 7.6 percent of total U.S. production of 26,846,000 tons, which was up 3.3 percent from 1989.

Inland's increased production over the previous year came mostly from its Rome, Georgia, and Orange, Texas linerboard mills where production rates are increasing as a result of major expansion and modernization programs begun in previous years. Production at the Rome mill totaled 761,000 tons, up approximately 9 percent from 1989, and the Orange mill produced 555,000 tons, up 10 percent.

Expansion and modernization programs were completed at two of Inland's corrugating medium mills in 1990. The $20 million project at New Johnsonville, Tennessee and the $42 million program at the Newport, Indiana recycle mill increased the combined capacity at the two mills by about 70,000 tons annually, or about 17 percent.

The Company's Ontario, California recycle linerboard mill, which began production in 1985, also is in the midst of an expansion and moderniza-

Container & Containerboard



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tion program. The $40 million project, which began late in 1990 and is targeted for completion in the first quarter of 1992, will increase production by about one-third to about 285,000 tons annually. The program will add new technology and additional state-of-the-art equipment which management expects will result in production of the premier recycle sheet in the industry. Both appearance and performance of the linerboard will be enhanced. Also, the addition of a new boiler will supplement the steam produced by the existing cogeneration plant.

Engineering has begun and equipment ordered for the Company's new recycle containerboard mill to be built on a 250-acre site on the Ohio River at Maysville, Kentucky. Construction on the projected $176 million facility is expected to begin in the spring of 1991 with completion and start-up scheduled for the first quarter of 1993.

The new mill will produce 200,000 tons of linerboard and corrugating medium annually using 100-percent recycle fibers (old corrugated boxes) as raw material. This is the third 100-percent recycle mill built by Inland. The Newport, Indiana mill began operations in 1975 and was the first U.S. mill built in decades specifically designed to use old corrugated boxes as its only raw material source. The second was the Ontario mill.

Technology developed at Newport and Ontario, as well as the experience gained from these operations, will be used to make Maysville the most technologically advanced recycle containerboard mill in the world.

The Company is the largest U.S. recycler of old corrugated boxes for use in manufacturing corrugated shipping containers. In 1990, Inland purchased over 720,000 tons of used boxes as raw material for its mills. When the Maysville facility is completed, Inland will be recycling over one million tons of old corrugated boxes each year—boxes which otherwise would have ended up in solid waste landfills.

Demand for corrugated boxes was strong throughout the year. Company shipments totaled 1,678,000 tons, up 6.9 percent from the previous year. Included in the 1990 total were shipments from two companies acquired late in the year—Crockett Container Corporation, headquartered in Santa Fe Springs, California, and Pakway Container Corporation, headquartered in Indianapolis, Indiana. Excluding shipments from these two companies, Inland's shipments were up 4.9 percent from last year. This compares with industry shipments which were up about 1 percent from 1989.

These acquisitions added seven plants to Inland's box plant system. Crockett Container operates both a corrugated and a sheet plant in Santa Fe Springs, California and corrugated plants in Buena Park and El Centro, California. It also has a large distribution center in National City, California. Pakway Container operates a corrugated plant in Indianapolis and sheet plants in Miamisburg, Ohio and Knoxville, Tennessee.

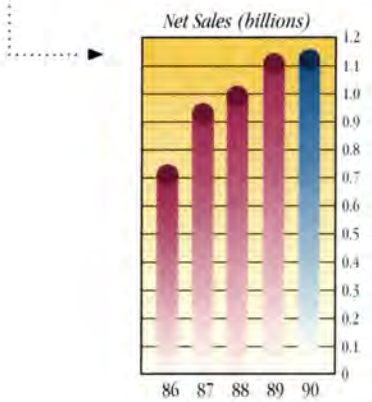
Both companies emphasize specialty-type corrugated packaging which supplements and complements the products being produced at other Inland plants.

Inland continues to modernize its box plants, increasing capacity with state-of-the-art corrugators and finishing equipment in order to maintain a high level of integration and achieve productivity gains in the present box-plant system.

New corrugators capable of running at speeds up to 1,000 feet per minute, compared with a maximum of 600 feet per minute for most corrugators in the industry, are already in place or are being installed in several Inland plants. These corrugators, and additional finishing equipment, are increasing the capacity of the Company's present box plants, allowing them to serve an expanding customer base without additional bricks and mortar.

The Company has been successful in increasing throughput in its plants in order to maximize the return on capital investments. In 1987, Inland's 32 box plants shipped 1,416,000 tons of boxes, an average of 44,250 tons per plant. Last year, those same 32 box plants shipped an average

Container & Containerboard



Inland is capable of providing boxes to customers made from a wide variety of grades of paper produced at company-owned mills, including kraft, semi and full bleached, and boxes made from 100% recycled fiber.

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of 50,612 tons. Some of these plants are now capable of producing upwards of 100,000 tons annually.

Inland continues to gain a larger position as a supplier to major national companies, many of which now concentrate their box purchases among two or three suppliers. With strategically located plants across the country, Inland is able to serve the needs of those companies which require shipping containers at a number of locations.

Quality and service are the key elements in the Company's relationship with all of its customers, whether it's the large, multi-plant national customer, or the single-location local account. Customer value is addressed by emphasizing cost and statistical process control in manufacturing, allowing Inland to sell its products competitively while maintaining its high standards of quality and service.

In addition to the mill projects already mentioned, the Company's $38 million project to produce white-top linerboard at the Orange mill is progressing and will be completed late in 1991. This product will provide customers with a cost-effective, attractive alternative to bleached linerboard and other products currently used in enhanced graphics packaging.

Also, construction will begin soon on a $17 million Graphics Resource Center in Indianapolis which will house a state-of-the-art preprint press and ancillary equipment.

The graphics center will provide design support for Inland's entire box plant system, and will allow the Company to increase its penetration into the growing preprint linerboard market and other value-added graphics opportunities. The preprint press is expected to be in operation by the fourth quarter of 1992.

The containerboard and corrugated box business is a cyclical one. Operating profits currently are being squeezed between lower box selling prices and increasing costs. The continuing challenge is to control costs and increase productivity to minimize the erosion of profits and be ready for the next up cycle. Inland management is working hard to accomplish this objective. ■

Bleached Paperboard



David L. Ashcraft
Group Vice President

Temple-Inland's bleached paperboard manufacturing is concentrated at one location in Evadale, Texas, one of the largest bleached paperboard mills in the United States. Most mills produce only a few grades of bleached paperboard while Temple-Inland manufactures a wider variety, allowing it considerable flexibility to select among markets that will generate the best return.

The Bleached Paperboard group enjoyed its second best year ever in 1990, with earnings of $98.8 million on record sales of $373 million. These results were achieved despite very unattractive pulp markets and reduced production because of extended machine downtime for scheduled maintenance and some unusual problems. At the end of the year, the mill was operating at peak efficiency.

Demand for Evadale's products remained high throughout the year. Exports, buoyed by the soft dollar, were at an all-time high.

Pricing of bleached board products was stable throughout the year. However, Evadale is limited by paper machine capacity and presently cannot fully utilize all of its pulp mill production. As a result, approximately 90,000 tons, or 15 percent of total mill production, is sold as market pulp. This market deteriorated dramatically in 1990, reducing margins substantially.

Products made from paperboard produced at Evadale fall into four distinct groups; sanitary food containers, school and office supplies, commercial printing, and packaging.

In 1990, about 40 percent of Temple-Inland's bleached board production of 485,000 tons was used for food packaging, a majority of which went to fast-food markets for cups, plates and certain types of folding cartons.

➢ **Bleached paperboard from Evadale is used for cups, plates, file folders, food trays and a wide variety of other products, including fine printing. The cover of this annual report is Temple-Inland's Texcover.**

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Temple-Inland is a supplier to most domestic cup manufacturers. Cup stock is a specialty grade that can be waxed or poly-coated, while plates, bowls and trays are all made from plate-grade stock.

File folder, tag, index and cover stocks represent grades used in office and merchandising applications, including hanging folders, lottery tickets, mail inserts, greeting cards and telephone book covers.

Texcover is a high-quality grade, coated one side, used in a wide variety of commercial printing applications. In fact, Texcover has been used for the cover of this annual report.

Bleached liner is a packaging material with all the strength characteristics of brown linerboard providing at the same time the printing surface required for high-quality graphics.

Although market shares in Temple-Inland's grades of bleached paperboard are more difficult to determine than some commodity-based products, the Company has a significant market share in most of the key grades it produces.

Although the Evadale mill was built in the early 1950s, it has continually been expanded and upgraded with state-of-the-art technology.

Currently, an $85 million project is underway to construct a new pulp mill. Utilizing a modified continuous cooking process, this new pulp mill will produce a better, brighter, stronger pulp and, at the same time, lower unit costs through production efficiencies. Modifications to the bleaching process will result in a substantial reduction of the mill's chemical emissions. This project will be completed late in 1992.

Another improvement is a new chip mill scheduled to begin production this summer. This new chip mill, which can handle 2,000 cords per day, will automate log handling and chipping operations and expand capacity at significantly lower unit costs.

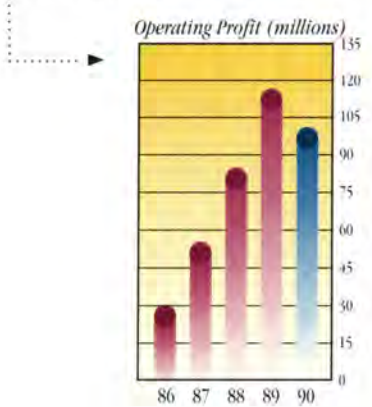
Last summer, the Company's railroad which links the Evadale and Orange paper mills and the sawmill complex at Buna, was completed. The Company already is realizing substantial savings from this railway link, and additional benefits can be expected as the Orange mill begins white-top production using nodular bleached pulp from the Evadale mill. Both paper mills now have the ability to ship and receive pulp in nodular form. Nodular pulp is pulp that has been mechanically pressed but not dried on a paper machine. Therefore, the Evadale mill can save the expense of drying and the total system can improve profitability.

A major challenge for the Bleached Paperboard group in the next few years will be development of new paperboard containers for food products, replacing plastic containers. For instance, in the fast food industry, most soft drink cups are paper while hot drink cups normally are plastic. If paper captures this segment of the cup market, it would add approximately 250,000 tons to bleached paperboard consumption annually.

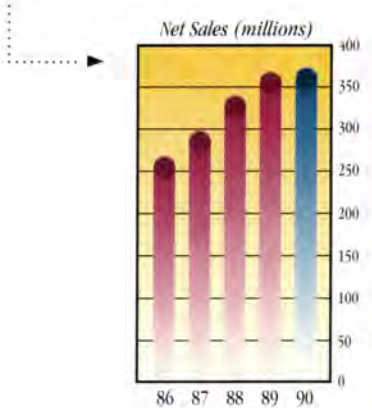
Similar opportunities are available in other types of food containers. Although the cup market consists largely of major suppliers, the other segments are served by a wide variety of smaller companies. Developing new products is too financially burdensome to these companies, in relation to their small market share. Therefore, to assure continued development of new products in these market niches, we have elected to acquire two small independent companies that specialize in fast food packaging, primarily trays and clam shells. The managerial talents of these two companies will be important to our success.

While recycled containerboard has gained wide cus-

Bleached Paperboard



Bleached Paperboard



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tomer acceptance, virtually all bleached paperboard products are made from virgin fiber. Efforts have begun to develop new technology which will enable Evadale to produce bleached paperboard using recycle fiber. Availability of recycled bleached paperboard will be important to meet the demands of customers in the future.

The objective of the Bleached Paperboard group is to be the best in its industry in gaining and maintaining customer satisfaction. Its commitment is evidenced by the group's outstanding employee training and development programs, as well as management's willingness to foster creativity through employee participation in the decision-making process.

Its commitment to customers stresses integrity, reliability and product consistency. ■

Building Products



Harold C. Maxwell
Group Vice President

Temple-Inland's Building Products group manufactures a wide range of building materials. Its conversion of sawtimber into lumber and plywood enables Temple-Inland to maximize the value of its forests. Utilizing by-products of the lumber mills, this group manufactures additional products such as fiberboard and particleboard and also generates wood chips that are used as a low-cost raw material in the Company's paper mills.

In 1990, the Building Products group had a disappointing year, earning $9.4 million, down 60 percent from the previous year, on sales of $305 million.

During 1990, new residential housing construction reached a 20-year low, and remodeling, previously a bright spot in an overall lackluster market, also declined. Selling prices for building products declined throughout the year, especially in the fourth quarter.

There is little doubt that real estate deflation and declining consumer confidence were primary reasons behind the industry downturn. Although weak real estate markets continue in certain regions of the country, recovery has begun in some areas, including Texas.

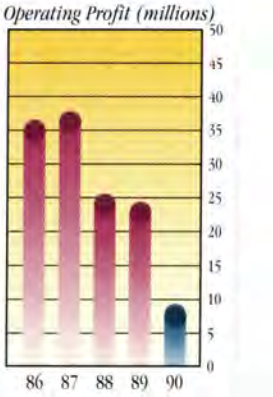
Increasingly attractive interest rates should improve consumer confidence as 1991 progresses. As a result, management anticipates a rebound in demand for building products, possibly as early as the second half of 1991. In the interim, price erosion has become so severe that industry production levels are expected to contract. Some producers may be permanently eliminated.

Conversion to lumber provides the highest value and, thus, is the best use of a mature quality tree. As a large owner of Texas and Georgia timber, the Company has sought to become a world-class converter of this timber. Two state-of-the-art lumber mills have been built in the last three years; one in east Texas and the other in western Louisiana. At the same time, upgraded technology has been installed in three other converting mills. These capital programs helped reduce the man-hours required per unit of output and thereby reduced production cost of lumber at a time when it is increasingly important to maximize productivity.

Five years ago, lumber was a relatively minor portion of the Company's building products line, but today it is the single largest product with lumber capacity having more than tripled to over 500 million board feet annually.

A growing market for our

Building Products



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lumber is its use, when treated, in decks and patios. Lumber treaters prefer southern pine since it absorbs less preservative in the treating process.

Lumber exports also are growing. To take advantage of this, the Diboll lumber mill has been upgraded to accommodate differences in dimensional specifications between domestic and export markets.

Temple-Inland's remaining building materials are panel products—fiberboard, particleboard, and gypsum. Fiberboard is a product used for both exterior and interior panel applications. Though fiberboard is a mature generic product, introduction of new innovative siding products has allowed the group to expand market share in a declining product category and sustain profitability.

Product development in the fiberboard area is just one example of the Building Products group's efforts to change product mix from commodity-oriented products to value-added products which serve not only the construction markets, but the industrial and consumer markets as well.

Prior to 1985, virtually all of the particleboard manufactured by the company was used in residential construction primarily as sub-flooring. Basically a commodity, this product was interchangeable with similar products from other wood sources which created volatile pricing. We elected to engineer an improved product that would replace lumber and plywood in the manufacture of several consumer items such as kitchen cabinets and ready to assemble furniture. These markets are expanding while new residential construction is suffering. Currently, over 80 percent of our particleboard production is being used in these new markets, and we expect further growth. On a national basis, we are now supplying about 15 percent of the particleboard used by these customers.

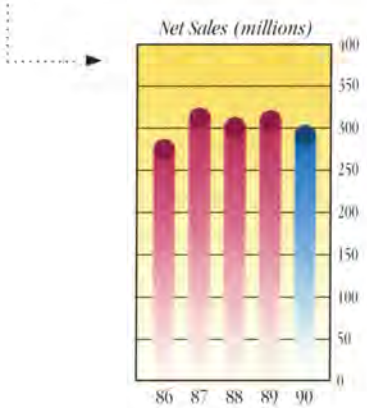
Our plywood mill has been modernized to achieve record capacity and to orient its production to specialty items which allow improved margins.

Although not a wood material, Temple-Inland manufactures gypsum wallboard, primarily because it can be substituted for some of the Company's other wood products. Temple-Inland has two mills, one in West Memphis, Arkansas and the other in Fletcher, Oklahoma, that rely on gypsum from the Fletcher quarry. While this product has been profitable in the past, the current low level of residential and commercial construction has reduced profitability to near the break-even level. 1991 is expected to be another difficult year due to continued softness in construction.

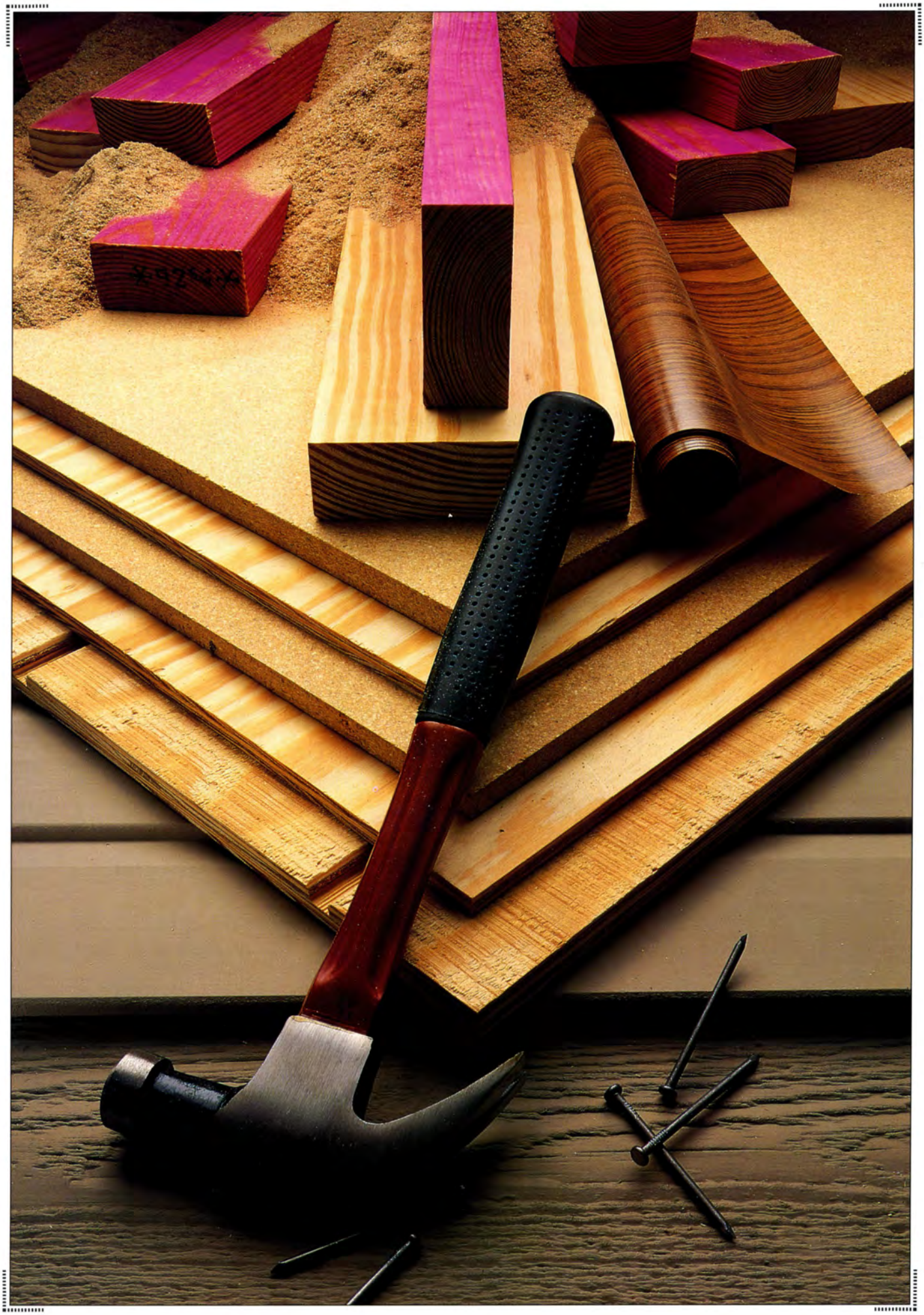
All of the Company's building material production facilities are in excellent shape. Productivity has been increased as costs have been reduced. When construction activity improves, the Building Products group can capitalize on its recent improvements and return to an acceptable level of profitability. ■

➢ **Quality building materials from Temple-Inland Forest Products include lumber, plywood, particleboard, gypsum wallboard and fiberboard.**

Building Products



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Glenn A. Chancellor
Group Vice President

The careful and responsible management of timberland assets remains a cornerstone of the Temple-Inland philosophy. Two papermills and four building products plants in eastern Texas and western Louisiana receive fiber from 1.3 million acres in their immediate vicinity. The Rome manufacturing facilities are supported by about one-half million acres in western Georgia and eastern Alabama. Most of Temple-Inland's acreage (approximately 94 percent) is owned in fee simple title with the remainder under long-term leases that extend well beyond the year 2000.

Temple-Inland's acreage is intensively managed for the production of wood fiber, but the forestry group is constantly mindful of the many environmental, wildlife and other forest amenities that accrue to its land holdings. Company timberlands are divided into individual forest management units of about 500 acres. Each unit can thus be managed to its own highest-and-best-use plan.

Approximately 85 percent of the Temple-Inland timberlands are best suited for growing pine timber. At the end of 1990, about three-fourths of these pine-type lands were in fully-stocked pine plantations ranging in age from one to 35 years. The remaining one-fourth is in mature natural forests containing a mix of pine and hardwood. All company plantations are managed on a 35 year rotation, with some interim harvests for thinning purposes. Since most of these plantations have not reached maturity, the current harvest from company lands involves mature forests that are then converted to plantations and interim "thinning" harvests on intermediate-aged plantations.

As Temple-Inland acreage is converted to pine plantations, these fast-growing trees produce an increasing amount of oxygen, benefiting the environment. Since the company plants more trees than it harvests each year, these benefits will continue to grow.

Approximately 15 percent of company lands consist of terrain better suited to growing hardwood species. Although the hardwood species found on these lands are not high-grade commercial timbers, they do provide a necessary ingredient in many paper products. In the past, this necessary fiber has been available as mature forests of mixed pine and hardwood were converted to plantations. The continued conversion of such stands will provide fiber for several more years. However, Temple-Inland has begun certain experimental projects designed to insure continued availability of these important species.

Most hardwood stands on company lands have not received intensive forest management in the past other than on an experimental basis. These under-managed stands have begun the inevitable decline in health and vigor that goes with maturity. Plans have been made to systematically replace less productive stands with new, more vigorous stands.

Consultants from both timber and wildlife disciplines, as well as experience gained from past experimental field trials, will guide the company's efforts in this area. Natural regeneration in small areas may be the preferred method for stand restoration, with emphasis on protecting the wetlands that are necessary for optimal hardwood growth. Forestry practices included in Temple-Inland's hardwood management plan have been shown, in both university and government studies, to be consistent with responsible wetlands maintenance.

Wood fiber requirements beyond those met by harvests from company lands are purchased from area landowners and other converting facilities. Increasing harvests of wood fiber and lack of reforestation on non-industrial private lands are issues of concern to Temple-Inland and the forest products industry. Growing trees requires long-term vision and commitment. The company fosters this commitment by providing a ready market for landowner efforts.

➢ **Each year, Temple-Inland regenerates thousands of acres of timberland, assuring timber supplies for future generations. Last year, over 31 million seedlings were planted on company land.**

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As mentioned previously, the continuing maturity of company plantations will allow Temple-Inland to increase the harvest of fiber on its own lands. In fact, the company has harvested less than the allowable amount of fiber for several years because of favorable pricing in outside timber markets. This strategy can be viewed as a fiber savings account. The fiber is there when needed. If, however, outside fiber is favorably priced, "interest" can be earned on company lands through additional fiber growth.

Temple-Inland's strategy of land improvement continued during 1990 with consumation of several land exchanges with industrial and governmental entities. The purpose of these exchanges is the consolidation of company holdings into more economically manageable units and the concentration of lands within short distances of company converting facilities. Recent rapid acceleration of transportation costs confirms the wisdom of this plan. Sale of land too valuable for timber growing purposes and its subsequent replacement with more acres economically suited to growing timber is another element of this strategy. One major purchase of 15,000 acres of strategically located lands was completed in Texas this year and numerous small purchases added to the Georgia land base.

Temple-Inland forests provide many opportunities beyond fiber production. Wildlife enthusiasts use the land for hunting, wildlife research and species propagation. Temple-Inland supported the successful reintroduction of the eastern wild turkey in east Texas by providing suitable habitat as well as contributing financial support. Deer, squirrels, quail and many non-game species benefit from the efforts of the company's six wildlife biologists. Temple-Inland also funds educational research in various outdoor projects with grants that allow graduate students to expand the current knowledge base on a wide variety of outdoor subjects. This conservation ethic reflects Temple-Inland's long-term commitment to perpetuation of its forest environment. ■

Financial Services



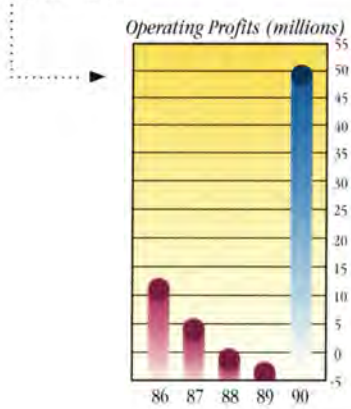
W. Wayne McDonald
Executive Vice President, Chief Financial Officer & Treasurer

The Financial Services group concentrates its efforts primarily in mortgage banking and the operation of two consumer savings banks. It has other interests in real estate and insurance.

The Financial Services group reported record earnings of $51.4 million because of the restoration of profitability in the mortgage banking operations, as well as inclusion of the operating results from Guaranty Federal Savings Bank. During 1990, the company completed its exit from the life insurance business with the sale of Great American Reserve Insurance Company.

The company was sold for $143 million and no significant gain or loss was realized on the transaction. With the sale, the company repaid all debt remaining from the insurance Company purchases, and retained $73 million in notes and other assets. These assets provided $9 million in income during 1990. The divestitures and exit from the life insurance business allows Temple-Inland Financial Service to refocus its efforts on its traditional mortgage loan servicing operations and on the development of the Texas based savings banks.

Financial Services



Real estate markets in Texas stabilized in 1990 and moderate increases in new home construction were experienced in Texas and the mid-

➢ **Temple-Inland Financial Services provides mortgage financing through Lumbermen's Investment Corporation and consumer banking at Guaranty Federal and Kilgore Savings Banks.**

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western states where mortgage banking originating offices are located. This activity in combination with resale of existing properties allowed the Company to experience a significant increase in mortgage originations. There were $553 million in loans originated during the year. The portfolio at the end of the year increased by $116 million to $3.3 billion. Significant progress was made in reducing expenses related to foreclosed real estate and delinquencies within the mortgage portfolio. Although not back to normal historical levels, the trend is very encouraging and management expects continued improvement in 1991.

The inventory of residential lots is primarily located in San Antonio and Austin, Texas. Neither of these cities enjoyed the recovery in construction experienced in other metropolitan areas in Texas and, therefore, lot sales remain depressed. Sale of the last tract within the Dallas industrial complex was completed and the profit from this transaction offset the carrying cost of the residential lot inventory.

The casualty insurance and brokerage company, Timberline Insurance Agency, enjoyed another good year. The group brokers personal and business coverage for the general public as well as serving as insurance manager for Temple-Inland.

Guaranty continued its consolidation process during 1990. It now operates through 53 branches in the metropolitan areas of Austin, Dallas and Houston.

In the 4th quarter, Guaranty's corporate headquarters was relocated to 8333 Douglas Avenue in North Dallas, and was consolidated with a recently opened branch. Guaranty consists of two operations. One is a liquidation process of loans, investments and real estate properties, the collection of which is guaranteed by the Federal Government. The other is building a good bank utilizing the existing facilities.

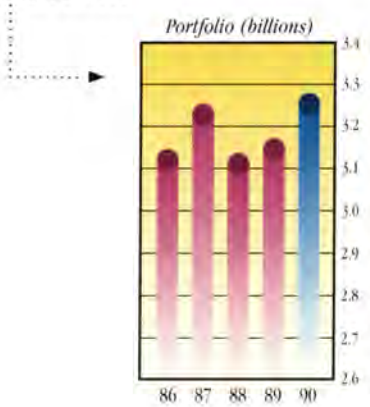
Management's strategy for operating the thrift is to develop a consumer bank, offering a wide variety of traditional and non-traditional savings & loan products with a loan portfolio concentrated in single family, first-lien mortgages. Unfortunately at this time loan demand is not sufficient to offset deposit growth; therefore, excess funds are temporarily invested in federally guaranteed securities.

In 1990, an agency of the federal government, the Resolution Trust Corporation, began to liquidate additional thrifts within the state of Texas. Kilgore Savings and Loan elected to participate in this process and acquired 49 operating branches with initial deposits of $1.8 billion. Some of these branches were closed and, as of December 31, 25 branches were operational with remaining core deposits of $1.3 billion. Although the company paid a small premium, $1.6 million, to acquire these deposits, its main outlay was the required capital contribution of $45 million, and the restructuring cost of establishing branch operations. The restructuring process requires at least six months and, during this period, the operations are generally unprofitable. However, the branches are strategically located to complement the bank's existing facilities and will be an important ingredient in its future.

Fundamental plans for the savings bank continue to be driven by a desire to have a solid base of operations within the metropolitan areas of Austin, Dallas, and Houston, as well as selected areas of East Texas. The process of adding selected locations to build deposit concentration will probably continue in 1991. This will allow the bank to gain the benefits of size and scale, as well as being more customer friendly.

The recovery of the Texas economy should present a unique opportunity to participate in a less competitive banking environment. ■

Financial Services



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Corporate Headquarters
Diboll, Texas

Subsidiaries' Headquarters

Inland Container Corporation
Indianapolis, Indiana

Temple-Inland Forest Products Corporation
Diboll, Texas

Temple-Inland Financial Services Inc.
Austin, Texas



Building Products

Fiberboard Operation
Diboll, Texas

Particleboard Operations
Diboll, Texas
Monroeville, Alabama
Thomson, Georgia

Gypsum Operations
West Memphis, Arkansas
Fletcher, Oklahoma

Plywood Operation
Pineland, Texas

Lumber Operations
Rome, Georgia
DeQuincy, Louisiana
Diboll, Texas
Pineland, Texas
Buna, Texas

Retail Distribution Operations
Diboll, Texas
Pineland, Texas
Conroe, Texas
Houston, Texas
Alexandria, Louisiana



Bleached Paperboard Mill
Evadale, Texas

Containerboard Mills

Linerboard
Ontario, California
Rome, Georgia
Maysville, Kentucky (under construction)
Orange, Texas

Corrugating Medium
Newark, California
Newport, Indiana
New Johnsonville, Tennessee



Packaging

Corrugated Container Plants
Fort Smith, Arkansas
Buena Park, California
El Centro, California
Los Angeles, California
Newark, California
Ontario, California
Santa Fe Springs, California
Tracy, California
Denver, Colorado
Orlando, Florida
Macon, Georgia
Rome, Georgia
Chicago, Illinois
Crawfordsville, Indiana
Evansville, Indiana
Indianapolis, Indiana
Garden City, Kansas
Kansas City, Kansas
Louisville, Kentucky
Minden, Louisiana
Minneapolis, Minnesota
Hattiesburg, Mississippi
St. Louis, Missouri
Edison, New Jersey
Spotswood, New Jersey
Miamisburg, Ohio
Middletown, Ohio
Biglerville, Pennsylvania
Erie, Pennsylvania
Hazleton, Pennsylvania
Vega Alta, Puerto Rico
Lexington, South Carolina
Rock Hill, South Carolina
Elizabethton, Tennessee
Knoxville, Tennessee
Dallas, Texas
Edinburg, Texas
Richmond, Virginia

Anderson Box Company
21 warehouses located throughout the country

Rexford Paper Company
Milwaukee, Wisconsin



Financial Services

Mortgage Loan Operations
Austin, Texas
Dallas, Texas
Houston, Texas
Irving, Texas
Killeen, Texas
Temple, Texas
San Antonio, Texas
Garland, Texas
Round Rock, Texas
Corpus Christi, Texas
El Paso, Texas
Lombard, Illinois
Indianapolis, Indiana
Oklahoma City, Oklahoma
Memphis, Tennessee
Southaven, Mississippi
Minneapolis, Minnesota
Denver, Colorado
Richmond, Virginia
Virginia Beach, Virginia

Savings Banks
Austin, Texas
Beaumont, Texas
Brenham, Texas
Dallas, Texas
Denton, Texas
Garland, Texas
Houston, Texas
Kilgore, Texas
Marshall, Texas
Port Arthur, Texas
Silsbee, Texas
Taylor, Texas
Tomball, Texas
Waco, Texas

★*Branch locations throughout east Texas*

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Temple-Inland Inc.

Board of Directors

James F. Beré (1) (2)
Chairman and Chief Executive Officer
Borg-Warner Corporation

Robert Cizik (4)
Chairman, President and
Chief Executive Officer
Cooper Industries, Inc.

Henry C. Goodrich (2) (3) (4)
President
Richgood Corporation

Clifford J. Grum (3)
President and Chief Executive Officer
Temple-Inland Inc.

Bobby R. Inman (1) (4)

W. Wayne McDonald (3)
Executive Vice President,
Chief Financial Officer and Treasurer
Temple-Inland Inc.

Walter P. Stern (1) (2) (3)
Chairman of the Board
Capital International, Inc.

Arthur Temple (3)
Chairman of the Board
Temple-Inland Inc.

Arthur Temple III (1) (3) (4)
Chairman of the Board and
Chief Executive Officer
Exeter Investment Company

Clinton G. Ames Jr.
Director Emeritus

Joe C. Denman Jr.
Director Emeritus

(1) Audit Committee
(2) Management Development and
Executive Compensation Committee
(3) Executive Committee
(4) Nominating Committee

Officers

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President and Chief Executive Officer

Arthur Temple
Chairman of the Board

W. Wayne McDonald
Executive Vice President,
Chief Financial Officer and Treasurer

David L. Ashcraft
Group Vice President

Ben J. Lancashire
Group Vice President

Harold C. Maxwell
Group Vice President

Roger D. Ericson
Vice President, General Counsel
and Secretary

David H. Dolben
Vice President

Joseph E. Tomlinson
Assistant Treasurer

James R. Wash
Assistant Secretary

Chester E. Winger
Assistant Treasurer

Inland Container Corporation

Corporate Group

Ben J. Lancashire
Chairman, President and
Chief Executive Officer

William B. Howes
Executive Vice President

E. Barney Ciotti
Senior Vice President

David J. Harrison
Senior Vice President—
Administration

Joseph M. Areddy
Vice President—
Public Affairs

Frederick G. Fly
Vice President—Management
Information Services

Steven L. Householder
Vice President, General Counsel,
and Assistant Secretary

Robert A. Lindemann
Vice President—Procurement and
Transportation

Joseph E. Tomlinson
Vice President—Treasurer and
Controller

John M. Vaughan
Vice President—
Engineering and Technology

Donald W. Armstrong Jr.
Assistant Vice President—
Human Resources Planning
and Development

Frank F. Hirschman
Assistant Vice President
and Assistant Secretary

Patricia A. Foley
Assistant Secretary

Containerboard Division

Ted A. Owens
Group Vice President

Alec Benson
Vice President—Operations

Bart J. Doney
Vice President—Sales and
Administration

Warren S. Flenniken
Vice President and General Manager
Inland-Orange Inc.

Robert E. Stone
Vice President—Operations

Edwin L. Wilson
Vice President and General Manager
Inland-Rome Inc.

Container Division

William A. Long
Group Vice President

James E. Cory
Senior Vice President—
Sales and Marketing

Joseph E. Turk
Senior Vice President—
Plant Operations

Charles R. Bachman Jr.
Vice President—Area Manager

James M. Givens Jr.
Vice President—
National Accounts Executive

Bruce J. Grube
Vice President—Area Manager

Harold S. King
Vice President—Manufacturing Services

Samuel E. MacNulty
Vice President—
National Accounts Executive

C. Raymond Pope
Vice President—
National Accounts Executive

R. Stephen Raine
Vice President—
National Accounts Executive

Dwight C. Schmidt
Vice President—Marketing and
Planning

Dennis J. Vesci
Vice President—Area Manager

Charles L. Wilson
Vice President—Area Manager

Anderson Box Company

James R. McConnell
President

Crockett Container Corp.

Edward R. Crockett
President

Yeghia S. (Lee) Bekiarian
Vice President

El Morro Corrugated Box Corp.

Angel A. Kock
President

Jose R. Nater
Vice President

Pakway Container Corp.

Kenneth J. Matthews
President

Lloyd M. Baldwin
Vice President

Temple-Inland Forest Products Corporation

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Vice President—Administration

George S. Vorpahl
Vice President and General Counsel

Richard A. Bennett
Vice President

Herbert J. George
Vice President—Human Resources

C. Michael Harbordt
Vice President

James R. Wash
Secretary

Jack H. McCuistion
Controller

Building Products Group

Harold C. Maxwell
Group Vice President

Joe K. Sample
Vice President—Marketing

Jack C. Sweeny
Vice President—Operations

Forests Division

Glenn A. Chancellor
Group Vice President

Kenneth G. Christopher
Vice President—Minerals

Pulp & Paperboard Group

David L. Ashcraft
Group Vice President

Aubrey W. Barlow
Vice President—Sales

W. C. Cole
Vice President—Mill Operations

E. Wayne Carr
Vice President—Administration

Sabine Investment Company of Texas, Inc.

James E. Brasse
President

Temple Associates, Inc.

Joseph C. Foy
Executive Vice President
Construction Group

William B. Fulmer III
Executive Vice President
Universal Electric Construction Group

The Angelina Free Press, Inc.

Ernie S. Murray
Editor

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Chairman, President and
Chief Executive Officer

Lumbermen's Investment Corporation of Texas

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President

J. M. Shorter
Executive Vice President—
Chief Financial Officer

David W. Turpin
Senior Vice President and Treasurer

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Senior Vice President—
Regional Manager—Southwest Region

Dennis P. Patton
Senior Vice President—
Regional Manager—Midwest Region

Richard L. McGhee
Senior Vice President—
Regional Manager—Southeast Region

Temple-Inland Properties Inc.

James L. Lassiter
President

Timberline Insurance Managers, Inc.

Gary H. Cooper
President

Kilgore Federal Savings & Loan Association

B. Rex Whitten
President

Guaranty Federal Savings Bank

Richard M. Jones
Chairman and Chief Executive Officer

M. Richard Warner
Vice Chairman

J. Michael Cornwall
President and
Chief Operating Officer

Scott H. Smith
President GSC Realty Corporation

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Results of operations including information regarding the principal business segments are shown below.

Business Segments	**1990**	1989	1988	1987	1986	1985	1984
				(in millions)			
Revenues							
Container and containerboard	**$1,144.2**	$1,138.4	$1,093.1	$ 964.2	$ 721.7	$ 684.2	$ 665.3
Bleached paperboard	**373.0**	368.3	336.0	292.5	264.9	256.7	284.5
Building products:							
Manufacturing	**263.7**	278.2	278.4	290.7	251.0	226.9	226.6
Retail	**41.6**	42.1	33.8	32.1	30.5	41.1	68.7
Other activities	**70.0**	67.2	32.2	23.2	27.7	34.2	17.8
Manufacturing Net Sales	**1,892.5**	1,894.2	1,773.5	1,602.7	1,295.8	1,243.1	1,262.9
Financial services (1) (2)	**508.6**	49.4	40.9	39.4	47.2	39.2	36.3
Total Revenues	**$2,401.1**	$1,943.6	$1,814.4	$1,642.1	$1,343.0	$1,282.3	$1,299.2
Income Before Taxes							
Container and containerboard	**$ 150.9**	$ 208.4	$ 221.3	$ 150.8	$ 38.8	$ 49.7	$ 74.8
Bleached paperboard	**98.8**	114.9	82.7	53.4	29.4	19.8	46.8
Building products:							
Manufacturing	**8.0**	22.4	24.1	36.8	36.2	23.5	40.2
Retail	**1.4**	1.3	.5	(.3)	(.3)	(1.0)	.7
Other activities	**(1.7)**	(.7)	1.2	—	(5.8)	2.5	(3.2)
Operating Profit	**257.4**	346.3	329.8	240.7	98.3	94.5	159.3
Financial services (1) (2)	**51.4**	(2.1)	.4	5.3	12.9	18.3	13.4
	308.8	344.2	330.2	246.0	111.2	112.8	172.7
Corporate expense	**(20.7)**	(12.9)	(19.9)	(11.7)	(13.1)	(8.1)	(11.9)
Parent company interest—net	**(24.0)**	(24.4)	(23.1)	(20.3)	(13.0)	1.2	(4.6)
Other income (2) (3)	**4.7**	5.0	16.3	5.5	23.4	20.3	8.7
Income Before Taxes	**$ 268.8**	$ 311.9	$ 303.5	$ 219.5	$ 108.5	$ 126.2	$ 164.9

(1) Operating results for 1990 reflect the operating income and lower tax rate from the consolidation of Guaranty Federal Savings Bank beginning January 1, 1990.

(2) Financial Services results have been restated to reflect the sale of the life insurance companies accounted for as discontinued operations. Income net of federal income taxes from life insurance operations, included in other income, was $15.3 million ($.25 per share) in 1986 and amounts were immaterial in other years.

(3) The 1988 amount includes gains of $12.4 million on the disposition of lands and $5.0 million on the sale of the AFCO Industries subsidiary. The 1985 amount includes an $11.3 million gain on the sale of the Eastex Packaging subsidiary.

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Container and Containerboard

The Container and Containerboard group manufactures linerboard and corrugating medium at six paper mills and converts these grades of containerboard into corrugated shipping containers at 40 box plants.

Earnings from the Container and Containerboard group declined 28 percent in 1990 due to continued margin erosion resulting from a combination of lower box prices and increased costs. Earnings for this group had decreased 6 percent in 1989 from the record year of 1988.

Mill production totaled 2.0 million tons in 1990, an increase of 7 percent from the previous year. Modernization and expansion of two linerboard mills, Rome and Orange, completed during 1989, accounted for most of this increase. Production of containerboard exceeded internal box plant usage by 269,000 tons in 1990, 251,000 tons in 1989 and 228,000 tons in 1988. Most of the excess production was sold on the open market.

During 1990, the Newport and New Johnsonville recycle medium mills were targeted for modernization expenditures of approximately $62 million. As a result, annual production capacity was increased by about 70,000 tons.

Scheduled to begin limited production in late 1991, the $38 million white top project at the Orange mill is Temple-Inland's response to an increasing demand for white boxes in the market place. Not only will this product replace approximately 200,000 tons per year of ordinary brown linerboard with the higher value white top linerboard, but will utilize approximately 70,000 tons of the Evadale mill's excess bleached pulp.

A $40 million expansion of the Ontario recycle linerboard mill is expected to be completed in the first quarter of 1992. This expansion will increase production by about one-third—to approximately 285,000 tons annually. In addition to modifications to the paper machine, a new boiler is being added to supplement the steam production from the existing co-generation plant.

A 250-acre site near Maysville, KY has been purchased as the location for a new $176 million recycle linerboard mill. This new mill will have the capacity to produce approximately 200,000 tons annually of linerboard and corrugating medium using old corrugated containers as its only raw material. Similar to the Newport mill, it will be located adjacent to a utility power plant. A long-term contract with the utility will guarantee the mill a source of reasonably priced steam, without many of the environmental concerns normally associated with steam production. Construction of the mill will begin in early 1991, with production start-up scheduled for the first quarter 1993.

	1990	1989	1988
Tons Mill Production	**2,034,000**	1,897,000	1,836,000

The box plants manufacture a wide range of boxes from the simplest brown box to intricate die cut containers which can be printed with many colors and attractive graphics. Average price per ton of boxes can be significantly impacted by variations in production mix at the box plant locations.

Tons of boxes sold increased by 7 percent in 1990 including 35,000 tons from plants acquired from Crockett Container Corp., Santa Fe Springs, CA, and Pakway Container Corp., Indianapolis, IN in the last half of 1990. The box plants acquired will increase containerboard consumption by 150,000 tons annually to about 1.9 million tons. Container prices were down 3 percent in 1990 after having reached record levels in early 1989.

The table below shows the container and containerboard sales in tons and dollars. The totals presented include not only boxes sold but also open market, domestic and export sales of linerboard, bag paper and related products. Changes in product mix from period to period may make historical comparisons difficult.

Container & Containerboard	**1990**	1989	1988
		(in thousands of tons)	
Unit Sales			
1st Qtr	**498**	486	471
2nd Qtr	**517**	488	470
3rd Qtr	**532**	470	471
4th Qtr	**514**	469	455
For the year	**2,061**	1,913	1,867
		(in millions)	
Net Sales			
1st Qtr	**$ 282.4**	$ 286.6	$ 264.2
2nd Qtr	**287.1**	292.6	276.6
3rd Qtr	**288.5**	283.4	283.2
4th Qtr	**286.2**	275.8	269.1
For the year	**$1,144.2**	$1,138.4	$1,093.1

Bleached Paperboard

The Bleached Paperboard group produces bleached paperboard at its mill located in Evadale, Texas. The group sells this production to manufacturers who convert the product into paper cups, plates, shopping bags, file folders and a wide range of other products.

This group earned $98.8 million in 1990, down 14 percent from the record earnings of $114.9 million in 1989. Although prices for most bleached paperboard products and tons of mill production remained stable during 1990, the 20 percent decrease in the price of market pulp and escalating manufacturing costs caused earnings to decline. The average sales price per ton decreased marginally in 1990 after climbing 15 percent in 1989 and 10 percent in 1988.

An application has been filed with the Air Control Board of the State of Texas for a construction permit to install a new $85 million hardwood pulp line and bleach plant. Designed to use less chemicals, energy and fiber; the modified bleaching process will produce a high quality pulp that is stronger and brighter than current production. Also, in addition to supplying pulp needed for the Orange white top project, the Evadale mill will add approximately 85 tons per day of incremental capacity by increasing the speed of its paper machines. Construction is expected to be completed in the second half of 1992.

Mill production was 591,000 tons in 1990 compared with 579,000 tons in 1989 and 602,000 tons in 1988. The decline in 1989 was due primarily to scheduled machine downtime for production improvements and from a weather-related outage during the fourth quarter.

The table below lists the quarterly sales by product in tonnage and dollars. Changes in product mix from period to period may make historical comparisons difficult.

Bleached Paperboard	**1990**	1989	1988
		(in thousands of tons)	
Unit Sales			
Paperboard			
1st Qtr	**128**	120	119
2nd Qtr	**109**	114	122
3rd Qtr	**117**	114	118
4th Qtr	**108**	104	118
For the year	**462**	452	477
Pulp			
1st Qtr	**31**	36	28
2nd Qtr	**28**	29	29
3rd Qtr	**34**	29	33
4th Qtr	**34**	30	32
For the year	**127**	124	122

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Bleached Paperboard	1990	1989	1988
Net Sales		*(in millions)*	
Paperboard			
1st Qtr	**$ 88.4**	$ 76.7	$ 65.6
2nd Qtr	**73.5**	74.6	69.2
3rd Qtr	**79.7**	78.4	68.2
4th Qtr	**73.1**	70.9	72.3
For the year	**$314.7**	$300.6	$275.3
Pulp			
1st Qtr	**$ 14.3**	$ 19.0	$ 11.5
2nd Qtr	**12.1**	16.1	13.2
3rd Qtr	**14.3**	15.4	16.0
4th Qtr	**13.8**	15.5	15.7
For the year	**$ 54.5**	$ 66.0	$ 56.4
Other			
1st Qtr	**$ .9**	$ .2	$ .8
2nd Qtr	**.8**	.1	1.2
3rd Qtr	**1.0**	.4	1.2
4th Qtr	**1.1**	1.0	1.1
For the year	**$ 3.8**	$ 1.7	$ 4.3

Building Products

The Building Products group manufactures a complete line of building products including lumber, plywood, fiberboard, particleboard and gypsum wallboard. The following tables provide information on sales volume and unit sales for each building product line.

Building Products	1990	1989	1988
Unit Sales		*(in millions of board feet)*	
Pine lumber (1)	**342**	308	276
		(in millions of square feet)	
Fiberboard	**452**	446	442
Particleboard	**302**	333	311
Plywood	**233**	213	208
Gypsum wallboard	**699**	685	654
Rigid foam insulation (2)	**25**	77	80
Net Sales		*(in millions)*	
Pine lumber (1)	**$ 72.7**	$ 67.4	$ 60.8
Fiberboard	**48.5**	48.0	47.1
Particleboard	**57.1**	64.6	59.3
Plywood	**33.3**	33.1	28.2
Gypsum wallboard	**40.7**	41.1	42.2
Rigid foam insulation (2)	**4.9**	17.0	17.0
Retail distribution	**41.7**	42.1	33.8
Other	**6.4**	7.0	23.8
For the year	**$305.3**	$320.3	$312.2

(1) Excludes the Rome, Georgia sawmill acquired as a result of the dissolution of a joint venture. Net sales from that facility totaled $13.3 million, $11.4 million and $10.5 million on unit sales of 67 million, 57 million and 53 million board feet, in 1990, 1989 and 1988, respectively.

(2) A three-year lease with option to purchase was negotiated for the Company's rigid foam insulation operation during the second quarter of 1990.

The Company's Building Products group earned $9.4 million in 1990, down 60 percent from the previous year. Selling prices for most building materials deteriorated during 1990, especially in the fourth quarter, reflecting continued declines in housing starts in most regions of the country. Additionally, housing repairs and remodeling expenditures are estimated to have declined at an annual rate of nearly 10 percent.

The increases in the unit sales volume of pine lumber in 1990 and 1989 are due primarily to the completion in May 1990 of a new sawmill facility near DeQuincy, LA, having a design production capacity of 100 million board feet annually and the addition of a 145 million board feet capacity Buna, TX facility which began operations in late 1987.

Increased unit sales of plywood were attributable primarily to capacity increases resulting from a $7 million plywood plant modernization completed late in 1989. Installation of an additional press and automatic lay up line in 1991 will further enhance productivity and lower unit costs. Once these planned improvements have been completed, the plywood plant's annual capacity will be approximately 265 million square feet.

Instead of expanding its rigid foam operations to increase profitability, the Building Products group elected to exit the rigid foam business. Consequently, during the second quarter 1990, the Company negotiated a three-year lease/purchase agreement with Atlas Energy Products, a major producer in the rigid foam insulation markets.

A total of 957,000 tons of internally produced chips were supplied to the East Texas paper mills in 1990 compared with 889,000 and 819,000 in 1989 and 1988 respectively. The completion of an expansion of the shortline railroad linking the Buna sawmill and the Orange and Evadale, TX paper mills provides additional freight savings on the shipment of chips and black and green liquors between the two paper mills.

Temple-Inland Financial Services

The Company's Financial Services operations in 1990 include for the first time fully consolidated results of Guaranty Federal Savings Bank ("Guaranty"). This operation was acquired in September 1988 under the terms of the federally assisted Southwest Plan. Guaranty was accounted for as an investment during 1989 and 1988, and was initially consolidated in the Company's 1989 balance sheet.

In 1987, the Company acquired Kilgore Federal Savings and Loan Association ("Kilgore") which has been fully consolidated as a part of the historical Financial Services operations since that date. During 1990, Kilgore purchased assets and assumed deposit and other liabilities of 13 failed savings institutions from the Resolution Trust Corporation.

In early 1990, the Company sold its Great American Reserve Insurance Company subsidiary. No significant gain was realized in connection with the sale. With this sale, the Company has completely exited the life insurance business and accordingly, revenues and expenses have been restated to present the life insurance business as a discontinued operation.

The following selected financial information and discussion of each business segment are provided to offer a more detailed description and explanation of the activities and operations of the Financial Services group.

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Temple-Inland Financial Services
Selected Segment Information

Years ended December 31	1990	1989	1988
		(in thousands)	
Income			
Savings banks	**$ 35,359**	$ 1,209	$ 625
Mortgage banking	**3,417**	(4,826)	(1,485)
Land development and income properties	**1,798**	(313)	(1,040)
Agency insurance	**2,199**	1,952	1,499
Other activities	**8,630**	(106)	816
Operating income (loss)	**51,403**	(2,084)	415
Taxes on operating income	**6,939**	(695)	(11)
	44,464	(1,389)	426
Life insurance operations	**—**	2,589	(4,289)
Net income (loss)	**$ 44,464**	$ 1,200	$ (3,863)
Assets			
Savings banks	**$5,299,064**	$4,136,184	$128,555
Mortgage banking	**68,565**	73,995	72,487
Land development and income properties	**84,743**	75,517	52,544
Agency insurance	**14,085**	5,911	5,092
Other	**98,614**	77,864	73,928
Total assets	**$5,565,071**	$4,369,471	$332,606
Liabilities			
Savings banks	**$5,152,222**	$4,083,570	$127,325
Mortgage banking	**57,656**	59,875	66,363
Land development and income properties	**73,665**	79,386	50,693
Agency insurance	**12,737**	4,880	4,079
Other	**45,377**	27,410	22,976
Total liabilities	**$5,341,657**	$4,255,121	$271,436
Equity			
Savings banks	**$ 146,842**	$ 52,614	$ 1,230
Mortgage banking	**10,909**	14,120	6,124
Land development and income properties	**11,078**	(3,869)	1,851
Agency insurance	**1,348**	1,031	1,013
Other	**53,237**	50,454	50,952
Total equity	**$ 223,414**	$ 114,350	$ 61,170

Savings Banks

The savings banks operations are conducted through two wholly-owned subsidiaries, Kilgore Federal Savings and Loan Association and Guaranty Federal Savings Bank. Kilgore, acquired in 1987, has actively participated in the acquisition of failed savings and loan associations placed for sale by the Resolution Trust Corporation ("RTC"). During 1990, Kilgore acquired certain assets, primarily cash, investment securities and loans, and assumed certain liabilities, primarily customer deposit liabilities of 13 failed savings and loans. In 1988, Temple-Inland acquired from the FSLIC as Receiver substantially all of the assets, deposits and secured liabilities of three savings and loan associations located in Texas. In connection with the acquisitions, Guaranty, the resulting institution, entered into an Assistance Agreement whereby the FSLIC provides substantial financial assistance and exerts significant influence over a large portion of Guaranty's assets.

Presented below is selected combined financial information of Kilgore and Guaranty:

Savings Banks
Summarized Financial
Statement Information

Year ended December 31	1990	1989
	(in thousands)	
Assets		
Investment and mortgage-backed securities	**$1,361,368**	$ 199,069
Covered assets	**1,282,387**	1,643,461
Receivable from FSLIC	**1,384,570**	1,379,950
Loans receivable	**900,688**	697,082
Liabilities		
Deposits	**4,487,279**	2,910,302
Federal Home Loan Bank advances	**526,752**	1,069,374
Income and Expenses		
Interest income	**439,635**	412,573*
Net interest income	**95,006**	68,850*
Income before taxes and amortization of goodwill	**35,359**	19,963*

**Includes on a pro forma basis the results of operations of Guaranty which was accounted for as a nonconsolidated investment in 1989.*

The increase in income before taxes and amortization of goodwill for the savings banks in 1990 compared with the previous year is due primarily to improved net interest spreads, additional earnings on $45 million of capital infused by Temple-Inland and significant reduction in interest expense resulting from reductions in the outstanding balances of FHLB advances.

Due to the interest rate sensitivity of the savings bank's assets and liabilities, future changes in interest rates could have an impact on the results of operations. Also, future FSLIC directed writedowns of covered assets or prepayments of FSLIC receivables could have an impact on the results of future operations depending on the reinvestment yields obtainable on the redeployment of such proceeds.

The noncovered loans receivable portfolio is comprised primarily of $781 million of single family mortgages and $121 million of consumer loans at December 31, 1990. Of these portfolios, less than 1.40 percent and .50 percent, respectively, were delinquent more than 60 days at December 31, 1990.

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Acquisitions

During 1990, Kilgore assumed deposit and other liabilities and purchased certain assets of 13 failed savings institutions from the Resolution Trust Corporation. The following table summarizes these purchases:

Acquired Institution	Date of Purchase	As of Purchase Date	Pro Forma As Stabilized*
		(dollars in millions)	
		Deposits/Branches	Deposits/Branches
First Equity Savings Assoc., Tomball, Texas	5/11/90	$ 114.0/ 2	$ 65.0/ 1
First Federal S&LA of Brenham, Texas	5/25/90	118.8/ 2	109.0/ 2
Federal Savings Association of the Southwest, Kilgore, Texas	6/08/90	39.4/ 1	25.0/ 0
First S&LA of Waco, FA, Waco, Texas	6/15/90	397.5/ 8	300.0/ 4
First Garland Federal S&LA, Garland, Texas	6/22/90	93.7/ 3	60.0/ 1
Denton Federal S&LA, Denton, Texas	6/22/90	142.0/ 4	72.0/ 1
TaylorBanc Federal S&LA, Taylor, Texas	6/22/90	97.2/ 7	50.0/ 2
Marshall Savings, Marshall, Texas	6/29/90	50.0/ 1	36.0/ 1
Jefferson S&LA, Beaumont, Texas	8/24/90	114.1/ 3	90.0/ 3
MeritBanc Savings Association, Houston, Texas	9/14/90	259.7/ 8	200.0/ 4
Central Texas S&L, Waco, Texas	11/02/90	133.5/ 5	76.0/ 2
First Savings Assoc. of SE Texas, Silsbee, Texas	11/30/90	26.4/ 1	15.0/ 0
Fidelity Federal Savings Assoc., Port Arthur, Texas	11/30/90	192.0/ 4	168.0/ 4
		$1,778.3/49	$1,266.0/25

**The decrease in deposit levels is due to normal maturities, branch closings and the reduction in interest rate paid on deposits subsequent to the purchase date.*

The total premiums paid for these acquisitions was $1.6 million or less than 1/10th of 1 percent of deposits. The primary emphasis of these acquisitions has been to obtain low cost core deposits in areas of the state that will provide economy of scale efficiencies in operations and marketing.

The assets purchased as a result of these transactions have been fairly insignificant, with only approximately $114 million of loans retained. The RTC has provided cash in the amount of $1.1 billion in connection with the liabilities assumed. Kilgore has invested a substantial portion of this cash in adjustable rate mortgage-backed securities with rates indexed monthly to the Federal Home Loan Bank Eleventh District cost of funds. At December 31, 1990, such mortgage-backed securities totaled $1 billion with an average coupon rate of 9.4 percent. Because of this significant increase in mortgage-backed securities during the last half of 1990, Kilgore increased its revenues from investments from $3.9 million in 1989 to $16.9 million in 1990, an increase of over 300 percent. Guaranty, however, had reduced revenues from investments and mortgage-backed securities from $20.9 million in 1989 to $10.6 million in 1990. Guaranty disposed of a significant portion of its investments in mortgage-backed securities in late 1989 while maintaining a constant level of investments during 1990.

Deposit balances increased from $2.9 billion at December 31, 1989 to $4.5 billion at December 31, 1990, an increase of $1.6 billion, or 55%. Of the deposit total at December 31, 1990, $1.3 billion relates to deposits assumed as a result of the acquisitions. Repricing of these deposits to market rates of interest at the date of acquisition has allowed the savings banks to substantially lower their overall costs of funds. This lower cost of funds, coupled with the investment activities mentioned above, and the repayment of over $500 million of FHLB advances has allowed the savings banks to enjoy a net interest margin of $95 million for the year ended December 31, 1990. Note H on page 43 has additional information concerning composition and costs of the deposit portfolio.

Covered Asset Activity

At the time of Guaranty's acquisition in 1988, the total of assets subject to yield assistance and loss coverage from the FSLIC was $2.9 billion or about 69 percent of Guaranty's total assets. These covered assets and other FSLIC receivables total $2.7 billion or 73 percent of total assets at December 31, 1990 and $3 billion or 75 percent of total assets at December 31, 1989. The amount of covered assets decreased due to asset sales and RTC directed adjustments of book value to reflect current market values. The book value of asset sales totaled $172.7 million, $26.7 million and $1.7 million during 1990, 1989 and 1988, respectively. In addition to these sales, the FSLIC directed Guaranty as of December 31, 1990 to write down certain covered assets by $159 million to their estimated current value. Guaranty is paid cash equal to the loss on asset sales or the writedowns as part of the next quarterly payment received from FSLIC. These receivables are nonearning from the date of sale or writedown until the cash is collected. Guaranty is unable to accurately forecast future asset sales or additional writedowns.

As of December 31, 1990, the $2.7 billion of guaranteed assets consisted of about $1.3 billion in loans and investments and $1.4 billion in notes receivable and other receivables from FSLIC. The yield of these assets is based on a moving average of the "Average Cost of Funds for Texas Savings and Loan Associations" plus an agreed premium of up to 210 basis points at December 31, 1990. The combined effective interest rate on these assets at December 31, 1990 is estimated to be 9.6 percent.

Reference is made to Notes to the Financial Services Financial Statements on pages 39 through 44 for additional detailed information relating to Guaranty's assistance agreement.

When the Company acquired Guaranty, it accounted for the acquisition as a nonconsolidated investment for the first 15 months of operation in order to restructure the three savings and loans into a viable business entity before consolidation. During this period, the tax benefits received by Temple-Inland as a result of it ownership of Guaranty were used to decrease the carrying value of its investment. As of December 31, 1989, approximately $74 million had been applied to reduce the investment. The impact of this accounting treatment has been to substantially eliminate goodwill and the amortization thereof in future consolidated financial statements. As of December 1989, the Company's consolidated balance sheet included the assets and liabilities of Guaranty. Beginning in January 1990, Guaranty's income was consolidated and its tax benefits reduced the Company's federal income taxes payable.

Liquidity and Capital

The savings banks have several sources from which they can raise funds for operations and lending including customer accounts, FSLIC assistance payments, FHLB borrowings and other sources as indicated in the statements of cash flows on page 38. The amount and timing of the FSLIC assistance payments may fluctuate significantly due to the matters addressed in the covered asset activity section above. Cash and certain marketable securities totaled $811 million at year end 1990, which was well in excess of required liquidity levels.

Office of Thrift Supervision regulations require savings institutions to maintain leverage capital of at least 3 percent of adjusted total assets, tangible capital of at least 1.5 percent of adjusted total assets and risk-weighted capital of at least 7.2 percent of risk-weighted assets as of December 31, 1990, increasing to 8 percent as of December 31, 1992. Kilgore and Guaranty are in compliance with all regulatory capital requirements at December 31, 1990. Refer to Note K on page 44 for additional information concerning capital requirements, including capital ratios of Kilgore and Guaranty.

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Mortgage Banking

The mortgage banking operations of Financial Services are conducted through Lumbermen's Investment Corporation of Texas. The mortgage banking group arranges the financing for purchasers of real estate and services the mortgage loans after origination. The cost of originating a mortgage loan normally exceeds the fees charged while the profit is earned by servicing the loan.

The servicing portfolio totals 83,200 loans with a balance of $3.3 billion in 1990 compared with 83,300 loans with a balance of $3.2 billion in 1989 and 84,000 loans with a balance of $3.1 billion in 1988.

Costs associated with foreclosure including the foreclosure cost, economic losses, management and sales expenses and interest carry were $6.1 million in 1990, down from $11.5 million in 1989 and $9.1 million in 1988.

The rate of foreclosure and the number of residential properties owned (REO) by virtue of foreclosure improved in 1990. The Company now holds 42 REO's which is down from 145 in 1989 and from 197 at the end of 1988.

A summary of selected financial information for the years 1990, 1989 and 1988 is provided below.

Mortgage Banking
Operations Summary

Years ended December 31	1990	1989	1988
		(in thousands)	
Revenues	**$29,072**	$28,007	$24,023
Income (Loss) Before Taxes	**3,417**	(4,826)	(1,485)

Mortgage Banking
Loan Administration Summary

Years ended December 31	1990	1989	1988
		(in millions)	
Beginning Servicing Portfolio	**$3,154**	$3,136	$3,246
New Loans:			
Residential	**550**	337	217
Commercial	**3**	8	15
	553	345	232
Run-off	**(437)**	(327)	(342)
Ending Servicing Portfolio	**$3,270**	$3,154	$3,136
Servicing Portfolio Growth	**3.7%**	.6%	(3.4%)
Run-off Factor	**13.9%**	10.4%	10.5%

Land Development and Income Properties

This segment of Financial Services consists of nine active residential subdivisions in Texas, commercial acreage adjoining those subdivisions, one commercial land project in Dallas, Texas, and several commercial buildings.

Temple-Inland Properties has typically taken the position of a financial partner in various joint ventures with home builders or land owners who are responsible for development. These ventures are accounted for by the equity method. Lots sold in 1990 totaled 236 compared with 229 sold in 1989 and 90 in 1988. At year end 1990, the completed residential lot inventory was 1,265, along with 4,630 undeveloped acres and 173 unsold commercial acres.

Selected financial information related to these activities is shown below.

Temple-Inland Properties
Operations Summary

Years ended December 31	1990	1989	1988
		(in thousands)	
Revenues:			
Residential	**$ 7,258**	$ 3,398	$ 2,143
Commercial	**11,483**	5,154	4,666
	$18,741	$ 8,552	$ 6,809
Income (Loss) Before Taxes:			
Residential	**$ (3,863)**	$(4,023)	$ (526)
Commercial	**5,661**	3,710	(514)
	$ 1,798	$ (313)	$(1,040)

Shown below is Temple-Inland Properties pro rata share of the assets, liabilities and equity of joint ventures in which it is a partner.

Temple-Inland Properties
Investment in Joint Ventures

As of December 31	1990	1989	1988
		(in thousands)	
Assets	**$43,302**	$42,156	$65,309
Liabilities (a)	**$38,762**	$39,922	$65,206
Equity	**4,540**	2,234	103
	$43,302	$42,156	$65,309

(a) Although the Company's pro rata share of joint venture liabilities total $31.2 million, the joint venture partners are in most instances jointly and severally liable for notes payable. The gross balance of these notes was $72.2 million at December 31, 1990. Where a venture partner is jointly and severally liable for notes payable, the partner also has rights against the other partners' interests in joint venture assets if payments above the normal partnership percentage are required.

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Agency Insurance

This business is operated as a general agency providing insurance sales to homeowners as well as technical expertise and advice to a broad spectrum of retail and commercial clients. The agency insurance operation also provides the placement of significant reinsurance for the Company.

A summary of the revenues and income before taxes for the years 1990, 1989 and 1988 is shown below.

Agency Insurance Operations Summary Years ended December 31	1990	1989	1988
		(in thousands)	
Revenues	**$5,706**	$4,694	$4,064
Income Before Taxes	**2,199**	1,952	1,499

Additional Comments Regarding Results of Operations and Financial Condition

The Company's financial condition continues to be strong. Internally generated funds and the capacity to issue long-term debt are sufficient to fund expected capital expenditures, to service existing debt, to pay dividends, to repurchase shares of stock under authorized repurchase programs, and to meet normal working capital requirements.

Pursuant to a prospectus dated December 27, 1990, the Company may offer up to $200 million of medium-term notes maturing from nine months to thirty years from the date of issue at terms determined by market conditions at the time of sale. Through February 15, 1991, the Company had issued $80 million of such notes maturing in five years at an interest rate of 8.875 percent payable semiannually on March 1 and September 1.

A summary of capital expenditures is shown below.

	1990	1989	1988
		(in millions)	
Capital Expenditures			
Container and containerboard	**$192.2**	$163.0	$155.9
Bleached paperboard	**65.5**	33.3	24.7
Building products	**27.9**	38.5	16.0
Timber and timerlands	**34.0**	21.4	20.7
Other activities	**4.1**	3.6	1.9
Total manufacturing group	**$323.7**	$259.8	$219.2

In 1990, the Company purchased Crockett Container Corp. and Pakway Container Corp. for $58 million. Also during the year, an additional $65 million was invested to expand the savings banks.

Net interest expense incurred by the Parent Company is shown below.

	1990	1989	1988
Net Interest Expense		*(in thousands)*	
Parent Company interest—net			
Interest expense	**$36,982**	$34,970	$33,737
Interest income	**(1,778)**	(1,681)	(1,100)
Capitalized interest	**(11,185)**	(8,848)	(9,529)
Interest expense—net	**$24,019**	$24,441	$23,108

Interest expense increased during 1990 and 1989 due to increased capital spending levels, the increased borrowings to fund shares repurchase activity and the additional investment in savings banks. The increase in capitalized interest during 1990 resulted from the higher levels of capital expenditures.

Parent Company interest paid during 1990, 1989 and 1988 was $34.9 million, $36.9 million, and $31.1 million, respectively.

See Note D of Notes to Consolidated Financial Statements for a discussion of the future impact of new accounting rules for income taxes and Note C regarding postretirement benefits.

The 1990 tax rate declined to 13.5% as a result of consolidation of Guaranty which included substantial revenues from nontaxable FSLIC assistance and recoveries of income taxes paid in prior years. The Company expects to be in the alternative minimum tax position again in 1991 resulting in a tax rate of approximately 15-20%.

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Seven Year Selected Financial Data

The following table provides selected data for the periods indicated.

For The Year	**1990**	1989	1988	1987	1986	1985	1984
				(in millions)			
Total revenues (1)	**$2,401**	$1,943	$1,814	$1,642	$1,343	$1,282	$1,299
Manufacturing net sales	**1,892**	1,894	1,774	1,603	1,296	1,243	1,263
Net income	**232**	207	199	141	81	85	103
Capital expenditures:							
Manufacturing	**324**	260	219	139	103	184	130
Financial Services (1)	**4**	9	4	1	1	—	—
Depreciation and depletion:							
Manufacturing	**140**	126	112	94	79	66	63
Financial Services (1)	**5**	2	2	1	1	1	1
Earnings per share	**4.20**	3.75	3.58	2.34	1.32	1.40	1.69
Dividends per common share	**.80**	.58	.42	.35	.29	.26	.20
Average shares outstanding (in thousands)	**55,361**	55,324	55,696	60,324	61,132	60,780	60,600
Common shares outstanding at year end (in thousands)	**54,589**	54,851	55,167	55,338	60,694	60,458	60,304
				(in millions)			
At Year End							
Total assets (1) (2)	**$7,834**	$6,390	$2,247	$2,020	$1,894	$1,594	$1,510
Long-Term Debt:							
Parent Company	**501**	399	417	416	366	248	251
Financial Services (1)	**94**	30	25	30	25	14	13
Ratio of total debt to total capitalization—							
Parent Company	**28%**	24%	29%	31%	28%	23%	24%
Shareholders' equity	**1,439**	1,259	1,096	927	929	864	793

Selected financial data are shown only since 1984, the year Temple-Inland became an independent company as a result of a spinoff.

(1) Operating results for 1990 reflect the operating income and lower tax rate from the consolidation of Guaranty Federal Savings Bank beginning January 1, 1990. Financial Services results have been restated to reflect the sale of the life insurance companies accounted for as discontinued operations.

(2) Includes approximately $3.7 billion and $4.0 billion assets of Guaranty at year end 1990 and 1989 and $1.3 billion assets of savings banks acquired in 1990.

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Summarized Statements of Income

Parent Company (Temple-Inland Inc.)

For the year	1990	1989	1988
		(in thousands)	
Revenues			
Net sales	**$1,892,531**	$1,894,230	$1,773,460
Financial services earnings	**51,403**	(2,084)	415
	1,943,934	1,892,146	1,773,875
Costs and Expenses			
Cost of sales	**1,489,996**	1,408,044	1,313,691
Selling and administrative	**165,813**	152,791	149,840
	1,655,809	1,560,835	1,463,531
Operating Income	**288,125**	331,311	310,344
Interest—net	**(24,019)**	(24,441)	(23,108)
Other	**4,649**	4,999	16,293
Income Before Taxes	**268,755**	311,869	303,529
Taxes on income	**36,282**	104,495	104,349
Net Income	**$ 232,473**	$ 207,374	$ 199,180

See the notes to the Parent Company summarized financial statements.

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Summarized Balance Sheets

Parent Company (Temple-Inland Inc.)

At year end	1990	1989
	(in thousands)	
Assets		
Current Assets		
Cash and cash equivalents	**$ 13,265**	$ 18,221
Refundable Federal income taxes	**13,357**	—
Receivables, less allowances of $5,267,000 in 1990 and $4,890,000 in 1989	**205,882**	199,965
Inventories:		
Work in process and finished goods	**57,249**	51,350
Raw materials	**139,483**	115,615
	196,732	166,965
Prepaid expenses	**21,875**	22,418
Total Current Assets	**451,111**	407,569
Investment in Financial Services	**219,521**	117,834
Property and Equipment		
Buildings	**292,319**	259,668
Machinery and equipment	**1,985,761**	1,722,890
Less allowances for depreciation and amortization	**(1,065,148)**	(961,389)
	1,212,932	1,021,169
Construction in progress	**172,582**	156,908
	1,385,514	1,178,077
Timber and timberlands—less depletion	**358,494**	346,871
Land	**27,960**	25,668
Total Property and Equipment	**1,771,968**	1,550,616
Other Assets	**63,001**	62,441
Total Assets	**$2,505,601**	$2,138,460

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	1990	1989
	(in thousands)	
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued expenses	**$ 164,942**	$ 154,709
Employee compensation and benefits	**17,540**	17,078
Short-term borrowings	**64,000**	—
Current portion of long-term debt	**3,813**	3,635
Total Current Liabilities	**250,295**	175,422
Long-Term Debt	**501,027**	398,777
Deferred Investment Tax Credits	**14,662**	19,556
Deferred Federal Income Taxes	**282,163**	258,184
Other Liabilities	**18,138**	27,596
Shareholders' Equity	**1,439,316**	1,258,925
Total Liabilities and Shareholders' Equity	**$2,505,601**	$2,138,460

See the notes to the Parent Company summarized financial statements.

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Summarized Statements of Cash Flows

Parent Company (Temple-Inland Inc.)

For the year	1990	1989	1988
		(in thousands)	
Cash Provided by (Used for) Operations			
Net income	**$ 232,473**	$ 207,374	$ 199,180
Adjustments to reconcile net income to net cash:			
Depreciation and depletion	**139,798**	126,487	112,059
Deferred taxes and deferred tax credits	**23,285**	36,197	11,350
Unremitted earnings of affiliated companies	**(44,464)**	(1,200)	3,259
Receivables	**(9,372)**	(5,395)	(17,671)
Inventories	**(19,808)**	(9,222)	(7,041)
Prepaid expenses	**664**	(7,817)	7,203
Accounts payable and accrued expenses	**4,824**	(13,901)	(27,081)
Other assets and liabilities	**(4,191)**	(13,551)	(10,751)
Other	**6,994**	3,742	174
	330,203	322,714	270,681
Cash Provided by (Used for) Investments			
Capital expenditures	**(323,667)**	(259,786)	(219,180)
Sale of property and equipment, net	**11,131**	15,622	25,755
Box plant acquisitions	**(58,546)**	—	—
Investment in Financial Services	**(64,600)**	(50,788)	(75,000)
Tax savings credited to Financial Services	**—**	56,796	17,012
Investments in other affiliated companies	**—**	—	(16,841)
	(435,682)	(238,156)	(268,254)
Cash Provided by (Used for) Financing			
Additions to debt	**269,227**	165,121	75,057
Payments of debt	**(116,622)**	(208,548)	(49,359)
Construction funds held by trustees	**—**	5,155	(312)
Issuance of common stock for stock plans	**4,323**	5,988	3,734
Purchase of stock for treasury	**(12,520)**	(18,404)	(11,501)
Cash dividends paid to shareholders	**(43,885)**	(31,815)	(23,116)
	100,523	(82,503)	(5,497)
Net increase (decrease) in cash and cash equivalents	**(4,956)**	2,055	(3,070)
Cash and cash equivalents at beginning of year	**18,221**	16,166	19,236
Cash and cash equivalents at end of year	**$ 13,265**	$ 18,221	$ 16,166

See the notes to the Parent Company summarized financial statements.

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Notes to the Parent Company (Temple-Inland Inc.) Summarized Financial Statements

Note A—Summary of Significant Accounting Policies

Basis of Presentation

The Parent Company (Temple-Inland Inc.) summarized financial statements include the accounts of Temple-Inland Inc. (the "Company") and its manufacturing subsidiaries. The Financial Services subsidiaries including savings and loan, mortgage banking and real estate development operations are reflected in the financial statements on the equity basis. Refer to pages 36 through 38 for the Temple-Inland Financial Services summarized financial statements. All material intercompany amounts and transactions have been eliminated. These financial statements should be read in conjunction with the Temple-Inland Inc. consolidated financial statements.

Inventories

Inventories are stated at the lower of cost or market. Cost of inventories amounting to $78.5 million in 1990 and $62.0 million in 1989 was determined by the last-in, first-out method (LIFO). The cost of the remaining inventories of $118.2 million in 1990 and $105.0 million in 1989 was determined principally by the first-in, first-out method (FIFO).

If the FIFO method of accounting had been applied to those inventories which were costed on the LIFO method, inventories would have been $16.6 and $17.2 million higher than reported at year end 1990 and 1989, respectively.

Property and Equipment

Property and equipment are stated at cost less allowances for accumulated depreciation and depletion. Depreciation is generally provided on the straight-line method based on estimated useful lives as follows:

Classification	Estimated Useful Lives
Buildings	**5 to 40 years**
Machinery and equipment:	
Manufacturing and production equipment	**2 to 25 years**
Automobiles and aircraft	**2 to 12 years**
Office and other equipment	**2 to 25 years**

Certain properties are being depreciated based on operating hours because they depreciate primarily through use rather than merely through elapsed time.

Timberlands, including long-term timber harvesting rights, are stated at cost, less accumulated cost of timber harvested. The portion of the cost of timberlands attributed to standing timber is charged against income as timber is cut at rates determined annually, based on the relationship of unamortized timber costs to the estimated volume of recoverable timber. The costs of seedlings and reforestation of timberlands are capitalized.

Note B—Long-Term Debt

Long-term debt consists of the following:

	1990	1989
	(in thousands)	
Bank Loans—Weighted average interest rate was 8.21% and 9.11% during 1990 and 1989, respectively	**$325,000**	$220,000
8.375% Notes Payable due 1996	**70,000**	70,000
Revenue Bonds due 2014—Average interest rate was 5.91% and 6.68% during 1990 and 1989, respectively	**34,500**	34,500
8% Revenue Bonds due through 2009	**11,665**	11,665
Other Revenue Bonds due through 2015, weighted average interest rate of 8.10% and 8.00% as of year end 1990 and 1989, respectively	**47,600**	48,107
Other indebtedness due through 2000, weighted average interest rate of 9.04% and 8.96% as of year end 1990 and 1989, respectively	**12,262**	14,505
	$501,027	$398,777

At December 31, 1990, $325 million of bank loans were in the form of unsecured notes or drafts growing out of transactions involving the domestic shipment of goods, drawn on unsecured Banker's Acceptance lines with various banks. These borrowings are supported by a long-term revolving credit agreement and accordingly are classified as long-term debt. Under the agreement, borrowings of up to $325 million, repayable in January 1992, are available to the Company at floating rates of interest.

To offset a portion of the floating rate characteristic of the bank borrowings, an interest rate conversion agreement was negotiated for $50 million. Under this agreement, the Company is required to pay interest at fixed rates averaging 8.2 percent. In return, the Company will receive interest payments on the same declining principal balances calculated at the 30-day commercial paper rate. This agreement expires in 1994.

Pursuant to a prospectus dated December 27, 1990, the Company may offer up to $200 million of medium-term notes maturing from nine months to thirty years from the date of issue at terms determined by market conditions at the time of sale. Through February 15, 1991, the Company had issued $80 million of such notes maturing in five years at an interest rate of 8.875 percent payable semiannually on March 1 and September 1.

At year end 1990, property and equipment of approximately $20.9 million was subject to liens in connection with $25.8 million of debt.

Aggregate maturities of the Parent Company's long-term debt during the next five years are as follows (in millions): 1991—$3.6; 1992—$327.7; 1993—$3.5; 1994—$2.9; and 1995—$.9. It is the Company's current intention to extend maturities by refinancing and renewing the long-term revolving credit agreements upon maturity. For an analysis of net interest expense, see page 29.

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Summarized Statements of Income

Temple-Inland Financial Services Group

For the year	1990	1989	1988
		(in thousands)	
Interest income:			
Interest on covered assets (includes FSLIC assistance of $151,761,000 in 1990)	**$161,590**	$ —	$ —
Interest on FSLIC notes	**106,651**	—	—
Interest on noncovered assets:			
Interest and fees on loans	**105,443**	7,101	7,821
Interest on investment securities	**27,579**	10,692	6,385
Interest on other earning assets	**49,051**	418	80
Total interest income	**450,314**	18,211	14,286
Interest expense:			
Interest on deposits	**283,308**	6,304	4,606
Interest on borrowed funds	**68,652**	6,344	3,679
Total interest expense	**351,960**	12,648	8,285
Net interest income	**98,354**	5,563	6,001
Provision for loan losses	**1,374**	409	111
Net interest income after provision for loan losses	**96,980**	5,154	5,890
Noninterest income	**58,311**	31,175	26,660
Noninterest expense:			
Compensation and benefits	**41,516**	12,038	9,511
Other (net of reimbursements from FSLIC of $272,837,000 in 1990)	**62,372**	26,375	22,624
Total noninterest expense	**103,888**	38,413	32,135
Operating income (loss)	**51,403**	(2,084)	415
Taxes on operating income	**6,939**	(695)	(11)
	44,464	(1,389)	426
Life insurance operations—net of tax		2,589	(4,289)
Net Income (Loss)	**$ 44,464**	$ 1,200	$(3,863)

See the notes to the Temple-Inland Financial Services Group summarized financial statements.

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Summarized Balance Sheets

Temple-Inland Financial Services Group

At year end	1990	1989
	(in thousands)	
Assets		
Cash and Cash Equivalents	**$ 166,591**	$ 120,802
Investment and Mortgage-Backed Securities	**1,365,123**	204,451
Covered Assets	**1,282,387**	1,643,461
Receivable from FSLIC	**1,384,570**	1,379,950
Loans Receivable	**967,675**	707,676
Mortgage Loans Held for Sale	**90,157**	100,140
Other Assets	**308,568**	212,991
Total Assets	**$5,565,071**	$4,369,471
Liabilities		
Deposits	**$4,487,279**	$2,910,302
Federal Home Loan Bank Advances	**526,752**	1,069,374
Short-Term Borrowings	**83,599**	106,833
Long-Term Debt	**94,445**	30,437
Other Liabilities	**149,582**	138,175
Total Liabilities	**5,341,657**	4,255,121
Shareholder's Equity	**223,414**	114,350
Total Liabilities and Shareholder's Equity	**$5,565,071**	$4,369,471

See the notes to the Temple-Inland Financial Services Group summarized financial statements.
Certain amounts have been reclassified to conform with current year's classification.

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Summarized Statements of Cash Flows

Temple-Inland Financial Services Group

For the year	1990	1989	1988
		(in thousands)	
Cash Provided by (Used for) Operations			
Net income	**$ 44,464**	$ 1,200	$ (3,863)
Adjustments to reconcile net income to net cash:			
Depreciation	**4,716**	1,646	1,989
Amortization of purchase accounting adjustments	**(20,472)**	—	—
Receivable from FSLIC	**(3,483)**	—	—
Mortgage loans held for sale	**(4,539)**	(57,613)	(1,988)
Real estate held for sale	**9,321**	(17,093)	2,787
Other	**(53,437)**	13,458	24,370
	(23,430)	(58,402)	23,295
Cash Provided by (Used for) Investments			
Purchase of investment and mortgage-backed securities	**(1,233,316)**	(17,622)	(116,330)
Sale or maturity of investment and mortgage-backed securities	**80,603**	31,986	93,605
Proceeds from sales of loans	**338,893**	—	—
Loans originated or acquired net of principal collected on loans	**(23,677)**	—	—
Reduction in Covered Assets	**384,141**	—	—
Consolidation of Guaranty Federal Savings Bank	**—**	91,236	—
Cash received on sale of subsidiary	**70,683**	—	—
Savings Bank acquisitions	**1,220,437**	—	—
Capital expenditures	**(4,593)**	(9,022)	(4,268)
Other	**(2,744)**	782	—
	830,427	97,360	(26,993)
Cash Provided by (Used for) Financing			
Net (decrease) increase in deposits	**(196,616)**	35,668	35,647
Net (decrease) in FHLB advances	**(544,930)**	—	—
Capital contributions from parent	**45,000**	—	—
Additions to debt	**82,048**	124,321	14,021
Payments of debt	**(135,174)**	(95,783)	(34,891)
Other	**(11,536)**	—	—
	(761,208)	64,206	14,777
Net increase in cash and cash equivalents	**45,789**	103,164	11,079
Cash and cash equivalents at beginning of year	**120,802**	17,638	6,559
Cash and cash equivalents at end of year	**$ 166,591**	$120,802	$ 17,638

See the notes to the Temple-Inland Financial Services Group summarized financial statements.
Certain amounts have been reclassified to conform with current year's classification.

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Notes to the Temple-Inland Financial Services Group Summarized Financial Statements

Note A—Summary of Significant Accounting Policies

Basis of Presentation

The Temple-Inland Financial Services Group summarized financial statements include savings banks, mortgage banking and real estate development activities. The investment in Guaranty Federal Savings Bank ("Guaranty") has been transferred to the Financial Services Group by the parent company. The parent company accounted for its investment in Guaranty under the cost method until December 31, 1989. Accordingly, Guaranty has been consolidated in the accompanying 1990 and 1989 summarized balance sheets while the results of operations are reflected in the summarized statements of income and cash flows for the year 1990 only. In order to enhance comparability, data contained in the notes to the summarized financial statements include results of operations of Guaranty for the year 1989. See Note M regarding the disposition of the life insurance operations. All material intercompany amounts and transactions have been eliminated. These financial statements should be read in conjunction with the Temple-Inland Inc. consolidated financial statements.

Investment and Mortgage-Backed Securities

Investment and mortgage-backed securities, all of which management has both the positive intent and ability to hold until maturity, are carried at cost, adjusted for amortization of premiums and accretion of discounts by a method which approximates the interest method over the estimated lives of the securities.

The specific identification method is used in determining gains or losses on sales of investment and mortgage-backed securities.

Loans Receivable

Loans receivable are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan origination fees and discounts. Interest on loans receivable is credited to income as earned. The accrual of interest ceases when collection becomes doubtful. Discounts on mortgage loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts on consumer loans are recognized over the lives of the loans using methods that approximate the interest method. Loan origination fees, net of certain direct origination and acquisition costs, are deferred and amortized using the interest method as an adjustment of the yield of the related loans. Any unamortized loan fees are credited to income in the event a loan is sold or repaid. Commitment fees are deferred and recognized into income over the life of the commitment.

The allowance for loan losses is increased by charges to income and decreased by charge-offs (net of recoveries). Management's periodic evaluation of the adequacy of the allowance is based on the Company's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions.

Mortgage Loans Held For Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or market in the aggregate. Net unrealized losses are recognized in a valuation allowance by charges to income.

Federal Income Taxes

The group is included in the consolidated income tax returns filed by the Parent. Under an agreement with the Parent, the group provides an income tax provision on its income, based on an allocation from its Parent which takes into consideration the tax rate of the consolidated group.

Additionally, FSLIC's 25 percent share of the income tax benefits recognized by the Parent in excess of a 0.10 percent reduction in guaranteed yield, plus interest, will be credited to the amount of the FSLIC assistance receivable at December 31, 1993 as prescribed by the Assistance Agreement and described in Note C. This is accrued for currently and is part of the consolidated tax provision of Temple-Inland Inc.

Note B—Savings Bank Acquisitions

The Company initially invested $75 million for its majority interest in Guaranty in 1988, and in September 1989 made an additional capital contribution of $50 million in exchange for preferred stock. Early in 1990 the Company increased its majority interest by purchasing the interests of minority investors for a total of $19.6 million. The remaining minority interest is comprised of warrants held by FSLIC to acquire 20 percent of the common stock of Guaranty for nominal consideration at any time during the five-year period beginning September 30, 1998. The Company is currently discussing with FSLIC its intentions regarding future ownership of these warrants.

Due to the many uncertainties surrounding operation and control of assets acquired under the FSLIC Southwest Plan, the Company did not initially consolidate Guaranty and accounted for its investment under the cost method adjusted for any recovery. Under this method, the recovery resulting from the consolidated tax benefits arising from the nontaxable FSLIC payments were credited to the Company's investment. Such benefits totaled $57 and $17 million in 1989 and 1988, respectively. During this same period, the Company did not record its pro rata share of the net income of Guaranty which amounts were not material. The Company consolidated Guaranty in its December 30, 1989 balance sheet and has fully consolidated Guaranty in its financial statements beginning in 1990. Many of the uncertainties surrounding the acquisition, operation and control of the assets have been resolved. However, there continues to be uncertainty surrounding the regulatory aspects of this investment.

The acquisition produced substantial amounts of goodwill at Guaranty and the Company. After crediting the tax benefits to the investment, the remaining goodwill pertaining to the acquisition of Guaranty was nominal. Management believes the delay in fully consolidating Guaranty was prudent due to the significant uncertainties which initially existed and that the impact of this delay on prior (1988 and 1989) and future financial statements (including 1990) is not material.

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Additionally, during 1990, the Company purchased approximately $661 million in assets and assumed approximately $1.8 billion in deposits and other liabilities of 13 failed savings banks from the Resolution Trust Corporation, Receiver of the banks. The RTC paid the Company $1.1 billion in cash, representing the difference between assets purchased, liabilities assumed and the premium paid.

In connection with the acquisitions, the following assets were purchased: (a) cash and receivables from financial institutions, (b) investment grade securities and mortgage-backed securities, (c) and certain loans, primarily mortgage loans and loans secured by deposits, and (d) any credit card, safe deposit, safekeeping and trust businesses conducted by the banks. Within 60 days after the acquisition dates, the Company could sell back to RTC certain loans purchased. Additionally, the Company received options expiring within 60 to 120 days of each bank's acquisition date to purchase the following assets: (a) loans not purchased at the acquisition dates, (b) owned premises, fixtures, furniture and equipment, and (c) other real estate.

The following table presents selected pro forma revenues and expense information assuming Guaranty was consolidated beginning in 1989.

	1990	1989
Revenues	*(in thousands)*	
FSLIC assisted	**$268,241**	$282,030
Other interest	**182,073**	134,779
Expenses		
Interest on deposits	**283,308**	233,900
Interest on borrowings	**68,652**	116,203
Noninterest expense	**103,888**	93,911

Note C—FSLIC Assistance

In connection with the 1988 acquisition, Guaranty entered into an assistance agreement with the FSLIC (the "Assistance Agreement") whereby, for a period of ten years from the date of acquisition, the FSLIC will provide substantial financial assistance to Guaranty and exert significant influence over a substantial portion of Guaranty's assets. Such assets (the "Covered Assets") were generally all of Guaranty's assets at the date of acquisition except cash, marketable securities, performing one- to four-family mortgage loans and certain premises and equipment. While assets of subsidiaries are not Covered Assets, Guaranty's advances to and investments in its subsidiaries are Covered Assets and for purposes of determining FSLIC assistance are to be accounted for using the equity method of accounting.

On August 9, 1989, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") was signed into law. Under provisions of FIRREA, the FSLIC was dissolved and its assets and liabilities, except for those expressly transferred or assumed by the Resolution Trust Corporation ("RTC") were transferred to the FSLIC Resolution Fund. Funding sources, including the U.S. Treasury, subject to appropriation by Congress, are available to satisfy the FSLIC Resolution Fund liabilities. Throughout these financial statements, the terms FSLIC and FSLIC Resolution Fund are used interchangeably to refer to the successor to the FSLIC responsible for funding the FSLIC notes and other financial obligations and for monitoring compliance with the Assistance Agreement.

Financial assistance includes guaranteed yields and loss coverage on Covered Assets, certain expense reimbursements and indemnification from certain claims and litigation. Guaranty must obtain regulatory approval for substantially all matters relating to claims or litigation and the maintenance and/or disposition of Covered Assets and assets of subsidiaries. FSLIC assistance will be reduced by 25 percent of the income tax benefits recognized by the Parent from the inclusion of Guaranty's operations in the Parent's consolidated income tax returns. As a means of currently funding a portion of the tax benefit arrangement with the FSLIC, Guaranty has agreed to reduce guaranteed yields by 0.10 percent.

Guaranteed yields are based upon Texas Cost of Funds, as defined, plus certain margins ranging from 2.40 percent to 1.70 percent, decreasing annually. FSLIC assistance is reduced by actual yields and increased by actual losses realized on Covered Assets. Equity in subsidiaries' net earnings or losses is considered either actual yields or actual losses, respectively, under terms of the Assistance Agreement.

The FSLIC has agreed to indemnify Guaranty for amounts incurred in connection with the satisfaction and defense of litigation and claims relating to the Closed Associations and Covered Assets of Guaranty and for challenges to the acquisition. Additionally, any such approved expenses incurred by Guaranty's subsidiaries are reimbursable from the FSLIC to the extent the FSLIC provides yield maintenance or actual loss coverage on Guaranty's investments in subsidiaries.

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Indemnities for claims in excess of $10 million, interest payments on FSLIC notes receivable, guaranteed yields, and actual losses are payable quarterly. At the FSLIC's option, all other FSLIC financial assistance is due either quarterly or at the expiration of the Assistance Agreement. Amounts deferred for future payment earn interest at the guaranteed yield rate.

The following summarizes the components of FSLIC assistance income:

	Year ended December 31, 1990		
	Actual Yield	FSLIC Assistance	Guaranteed Yield
	(in thousands)		
Interest on Covered Assets:			
Loans	**$ 40,616**	**$ 32,759**	**$ 73,375**
Investments in real estate	**208**	**60,661**	**60,869**
Investments in subsidiaries	**(31,876)**	**55,077**	**23,201**
Other assets	**881**	**3,264**	**4,145**
	$ 9,829	**151,761**	**$161,590**
Loss coverage and expense reimbursement on Covered Assets		**256,982**	
Amortization of cost in excess of fair value of net assets acquired		**15,855**	
Interest on receivables from the FSLIC Resolution Fund		**106,651**	
		$531,249	

	Year ended December 31, 1989		
	Actual Yield	FSLIC Assistance	Guaranteed Yield
	(in thousands)		
Interest on Covered Assets:			
Loans	$ 27,002	$ 68,362	$ 95,364
Investments in real estate	3,789	41,761	45,550
Investments in subsidiaries	(23,833)	48,577	24,744
Other assets	1,257	4,717	5,974
	$ 8,215	163,417	$171,632
Loss coverage and expense reimbursements on Covered Assets		36,058	
Amortization of cost in excess of fair value of net assets acquired		17,902	
Interest on receivables from the FSLIC Resolution Fund		110,398	
		$327,775	

The amounts receivable under the Assistance Agreement have a significant impact on Guaranty's statements of financial condition and also on current and future operations. As mandated by FIRREA, Guaranty's Assistance Agreement is subject to review by thrift regulators and other governmental agencies. The Company expects the government to take certain actions in 1991 that will substantially reduce the future assistance payments.

Note D—Investment and Mortgage-Backed Securities

Investment and mortgage-backed securities consist of the following at December 31, 1990:

	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
	(in thousands)			
Debt securities:				
U.S. Government (including agencies)	$ 6,805	$ 98	$ (3)	$ 6,900
Corporate securities	1,075	2	—	1,077
	7,880	100	(3)	7,977
Mortgage-backed securities	1,323,017	20,079	(1,765)	1,341,331
Equity securities:				
Federal Home Loan Bank stock	33,345	—	—	33,345
Other	881	4	(152)	733
	34,226	4	(152)	34,078
	$1,365,123	$20,183	$(1,920)	$1,383,386

Investment and mortgage-backed securities consist of the following at December 31, 1989:

	Carrying Value	Estimated Market Value
	(in thousands)	
Debt securities:		
U.S. Government (including agencies)	$ 4,886	$ 5,021
Corporate securities	1,085	1,085
	5,971	6,106
Mortgage-backed securities	113,364	114,560
Equity securities:		
Federal Home Loan Bank stock	83,395	83,395
Other	1,721	1,784
	85,116	85,179
	$204,451	$205,845

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Note E—Covered Assets

As discussed in Note C, certain assets acquired by Guaranty are considered Covered Assets. FSLIC provides yield assistance on Covered Assets as well as assures the ultimate recovery of the book value. Under the provisions of the Assistance Agreement in December of 1990, Guaranty was required to reduce the value of Covered Assets by $159 million. Covered Assets are summarized as follows:

December 31	1990	1989
	(in thousands)	
Loans	**$ 582,929**	$ 788,550
Investments in real estate	**477,719**	546,969
Advances to and investments in subsidiaries	**198,223**	238,053
Other assets	**23,516**	69,889
	$1,282,387	$1,643,461

Guaranty's management estimates the fair market value of Covered Assets without the FSLIC's assistance would be approximately $427 million and $550 million less than their carrying value at December 31, 1990 and 1989, respectively.

Note F—Receivables From the FSLIC Resolution Fund

Receivables from the FSLIC Resolution Fund consist of:

December 31	1990	1989
	(in thousands)	
Initial notes receivable due for excess of liabilities assumed over assets acquired, based on June 30, 1988 amounts, interest due quarterly at Texas Cost of Funds plus .40%, due September 30, 1998	**$ 679,306***	$ 710,146
Notes receivable from sale of certain assets, interest due quarterly at Texas Cost of Funds plus certain defined margins, due September 30, 1998	**384,342**	384,342
Estimated additional amounts receivable due for excess of liabilities assumed over assets acquired based upon September 30, 1988 amounts, interest due quarterly at Texas Cost of Funds plus certain defined margins	**—**	77,022
Assistance receivable due quarterly, primarily for guaranteed yields on Covered Assets	**37,044**	58,202
Other assistance payments receivable, due either quarterly or at the expiration of the Assistance Agreement, interest (if any) payable quarterly at Texas Cost of Funds plus certain defined margins, due no later than September 30, 1998	**210,348**	52,927
Amounts to be recoverable from FSLIC for reimbursement of certain amortization of cost in excess of fair value of net assets acquired	**54,591**	70,446
Accrued interest on notes receivable	**18,939**	26,865
	$1,384,570	$1,379,950

**On February 15, 1991, Guaranty was notified by FSLIC of its intent to exercise its option on March 6, 1991 to prepay this note.*

Amounts recoverable from FSLIC under terms of the Assistance Agreement relating to cost in excess of fair value of net assets acquired were created primarily by purchase discounts on one- to four-family mortgage loans and mortgage-backed securities.

The Texas Cost of Funds applicable for each quarter during 1990 and 1989 follows:

	1990	1989
March 31	**8.75%**	8.16%
June 30	**8.75%**	8.33%
September 30	**8.21%**	8.78%
December 31	**8.21%**	8.92%

In addition, the estimated amounts of the assistance payments receivable are subject to review by the FSLIC. Guaranty management believes that the final determination of the amount of such receivables from FSLIC will not be materially different from that estimated.

Note G—Loans Receivable

Loans receivable consist of the following:

December 31,	1990	1989
	(in thousands)	
Real estate mortgage	**$ 782,482**	$682,830
Construction and development	**66,737**	26,001
Commercial	**41,555**	1,785
Consumer and other	**184,692**	79,763
	1,075,466	790,379
Less:		
Unfunded portion of loans	**51,911**	15,502
Unearned discount	**3,383**	2,108
Unamortized purchase discount	**49,455**	63,517
Net deferred fees	**1,088**	349
Allowance for loan losses	**1,954**	1,227
	107,791	82,703
	$ 967,675	$707,676

Activity in the allowance for loan losses is as follows:

Years Ended December 31,	1990	1989
	(in thousands)	
Balance, beginning of year	**$1,227**	$1,166
Provision for loan losses	**1,374**	409
Charge-offs, net of recoveries	**(647)**	(348)
Balance, end of year	**$1,954**	$1,227

As discussed in Note B, the Company has the option to sell back to the Receivers certain loans. During 1990, the Company sold back to the Receivers $339 million of such mortgage loans and sold an additional $54 million in January 1991.

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Note H—Deposits

Deposits consist of:

December 31,	1990 Rate	1990 Amount	1989 Rate	1989 Amount
		(in thousands)		
Non-interest bearing demand	**—%**	**$ 159,595**	—%	$ 96,577
Interest bearing demand	**6.53%**	**715,492**	7.31%	471,628
Savings deposits	**5.31%**	**90,540**	5.50%	54,761
Time deposits	**8.20%**	**3,509,505**	9.05%	2,269,902
		4,475,132		2,892,868
Deposit premium		**12,147**		17,434
		$4,487,279		$2,910,302

Scheduled maturities of time deposits outstanding at December 31, 1990, are as follows:

	Time deposits in amounts of: $100,000 or more	Less than $100,000	Total
	(in thousands)		
3 months or less	$148,459	$ 896,238	$1,044,697
Over 3 through 6 months	87,306	725,401	812,707
Over 6 through 12 months	69,162	697,006	766,168
Over 12 months	154,345	731,588	885,933
	$459,272	$3,050,223	$3,509,505

Note I—Federal Home Loan Bank Advances

Pursuant to collateral agreements with the Federal Home Loan Bank of Dallas (the "FHLB"), advances are secured by the FSLIC notes receivable, investment in FHLB stock, and $154.6 million of qualifying first mortgage loans. Interest rates on the advances at December 31, 1990 ranged from 7.73 percent to 8.97 percent. Aggregate maturities of FHLB advances during the next five years are as follows (in millions): 1991—$470.0; and 1993—$10.0.

Note J—Short-Term Borrowings and Long-Term Debt

Short-term borrowings consist of the following:

	1990	1989
	(in thousands)	
Short-term borrowings:		
Secured	**$82,868**	$101,775
Unsecured	**731**	5,058
	$83,599	$106,833

Long-term debt consists of the following:

	1990	1989
	(in thousands)	
Long-term debt: (at varying interest rates which approximate prime):		
Notes payable to banks	**$57,705**	$ 9,896
Other indebtedness	**36,740**	20,541
	$94,445	$ 30,437

Aggregate maturities of the Group's long-term debt during the next five years are as follows (in millions): 1991—$.5; 1992—$31.1; 1993—$27.9; 1994—$.6; 1995—$17.2.

A summary of interest paid by the Financial Services Group is shown below:

	1990	1989	1988
		(in thousands)	
Corporate interest	**$ 71,528**	$ 5,081	$ 3,920
Interest on deposits	**304,253**	6,278	4,581
	375,781	11,359	8,501
Other interest	**4,523**	7,340	2,190
Total Interest Paid	**$380,304**	$18,699	$10,691

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Note K—Regulatory Capital Matters

Under FIRREA, the savings banks are subject to certain capital requirements which are expected to be finalized in 1991. The banks are required to maintain a minimum regulatory tangible capital equal to 1.5 percent of total assets, a minimum 3 percent leverage capital ratio, and for December 31, 1990, a 7.2 percent risk-based capital ratio. The risk-based capital ratio requirement will be increased to 8 percent on December 31, 1992. Failure to meet these capital requirements exposes an institution to regulatory sanctions, including limitation on asset growth. The following table presents the Savings Banks' capital ratios as compared to the regulatory requirement at December 31, 1990:

	Guaranty		Kilgore	
	(dollars in thousands)			
Tangible capital:				
Actual	$105,290	2.88%	$53,412	3.14%
Minimum required	54,311	1.50%	25,509	1.50%
Leverage capital:				
Actual	136,727	3.77%	54,786	3.22%
Minimum required	108,622	3.00%	51,059	3.00%
Risk-based capital:				
Actual	137,853	28.71%	55,026	12.78%
Minimum required	34,567	7.20%	31,002	7.20%

The banks are limited to dividend payments in any year of no more than 50 percent on net earnings without specific regulatory approval.

Note L—Concentration of Credit Risk

A significant portion of the group's assets, including covered assets, receivables from the FSLIC Resolution Fund, mortgage-backed securities and certain investment securities, is guaranteed by the U.S. Government or its agencies. Additionally, the group has granted real estate, commercial and consumer loans to its customers. Almost all of the real estate loans are secured by owner-occupied, one- to four-family residential or commercial properties, which are located in Texas.

Note M—Sale of Insurance Subsidiaries

Effective June 30, 1989, the National Fidelity Life Insurance Company subsidiary was sold for $74 million. The sales price consisted of $40 million in cash and a $34 million note payable over seven years with interest at 11 percent per annum. A loss of $4.1 million was realized including certain costs and expenses relating to the sale.

In early 1990, the Great American Reserve Insurance Company ("GARCO") subsidiary was sold for $143.5 million less assets retained totaling $37.9 million. The sales price consisted of $70.6 million in cash and a $35.0 million 11.25 percent note payable. No significant gain was realized in connection with the sale. With the sale of this life insurance company, the Company has completely exited the life insurance business. The revenues and expenses have been restated to present the Company's life insurance business as a discontinued operation. GARCO's operating results for the periods presented were not material. Revenues for the life insurance operations were $177.5 million and $202.4 million for the years 1989 and 1988, respectively.

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Consolidated Statements of Income

Temple-Inland Inc. and Subsidiaries

For the year	1990	1989	1988
		(in thousands)	
Revenues			
Manufacturing net sales	**$1,892,531**	$1,894,230	$1,773,460
Financial services revenues	**508,625**	49,386	40,946
	2,401,156	1,943,616	1,814,406
Costs and Expenses			
Manufacturing costs and expenses	**1,655,809**	1,560,835	1,463,531
Financial services expenses	**457,222**	51,470	40,531
	2,113,031	1,612,305	1,504,062
Operating Income	**288,125**	331,311	310,344
Parent Company Interest—net	**(24,019)**	(24,441)	(23,108)
Other	**4,649**	4,999	16,293
Income Before Taxes	**268,755**	311,869	303,529
Taxes on Income	**36,282**	104,495	104,349
Net Income	**$ 232,473**	$ 207,374	$ 199,180
Earnings per Share	**$ 4.20**	$ 3.75	$ 3.58

See the notes to the consolidated financial statements.

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Consolidating Balance Sheets

Temple-Inland Inc. and Subsidiaries

At year end 1990	Parent Company	Financial Services	Consolidated
		(in thousands)	
Assets			
Cash	$ 13,265	$ 166,591	$ 179,856
Investments	—	1,365,123	1,365,123
Covered Assets	—	1,282,387	1,282,387
Receivable from FSLIC	—	1,384,570	1,384,570
Loans Receivable	—	967,675	967,675
Trade and other receivables	219,239	—	219,239
Inventories	196,732	90,157	286,889
Property and Equipment	1,771,968	20,742	1,792,710
Other Assets	84,876	287,826	356,019
Investment in Affiliates	219,521	—	—
Total Assets	$2,505,601	$5,565,071	$7,834,468
Liabilities			
Deposits	$ —	$4,487,279	$4,487,279
Federal Home Loan Bank Advances	—	526,752	526,752
Long-Term Debt	501,027	94,445	595,472
Deferred Federal Income Taxes	282,163	11,692	293,855
Short-Term Borrowings	64,000	83,599	147,599
Other Liabilities	219,095	137,890	344,195
Total Liabilities	$1,066,285	$5,341,657	$6,395,152
Shareholders' Equity			
Preferred stock—par value $1 per share: authorized 25,000,000 shares; none issued			
Common stock—par value $1 per share: authorized 200,000,000 shares; issued 61,389,552 shares including shares held in the treasury			61,390
Additional Paid-In Capital			298,188
Retained Earnings			1,235,932
			1,595,510
Cost of shares held in the treasury: 6,800,271 shares			(156,194)
Total Shareholders' Equity			1,439,316
Total Liabilities and Shareholders' Equity			$7,834,468

See the notes to the consolidated financial statements.

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Consolidating Balance Sheets

Temple-Inland Inc. and Subsidiaries

At year end 1989	Parent Company	Financial Services	Consolidated
		(in thousands)	
Assets			
Cash	$ 18,221	$ 120,802	$ 139,023
Investments	—	204,451	204,451
Covered Assets	—	1,643,461	1,643,461
Receivable from FSLIC	—	1,379,950	1,379,950
Loans Receivable	—	707,676	707,676
Trade and other receivables	199,965	—	199,965
Inventories	166,965	100,140	267,105
Property and Equipment	1,550,616	20,587	1,571,203
Other Assets	84,859	192,404	277,263
Investment in Affiliates	117,834	—	—
Total Assets	$2,138,460	$4,369,471	$6,390,097
Liabilities			
Deposits	$ —	$2,910,302	$2,910,302
Federal Home Loan Bank Advances	—	1,069,374	1,069,374
Long-Term Debt	398,777	30,437	429,214
Deferred Federal Income Taxes	258,184	11,692	269,876
Short-Term Borrowings	—	106,833	106,833
Other Liabilities	222,574	126,483	345,573
Total Liabilities	$ 879,535	$4,255,121	$5,131,172
Shareholders' Equity			
Preferred stock—par value $1 per share: authorized 25,000,000 shares; none issued			
Common stock—par value $1 per share: authorized 100,000,000 shares; issued 61,389,552 shares including shares held in the treasury			61,390
Additional Paid-In Capital			298,799
Retained Earnings			1,047,344
			1,407,533
Cost of shares held in the treasury: 6,538,738 shares			(148,608)
Total Shareholders' Equity			1,258,925
Total Liabilities and Shareholders' Equity			$6,390,097

See the notes to the consolidated financial statements.

Certain amounts have been reclassified to conform with current year's classification.

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Consolidated Statements of Cash Flows
Temple-Inland Inc. and Subsidiaries

For the year	1990	1989	1988
		(in thousands)	
Cash Provided by (Used for) Operations			
Net income	**$ 232,473**	$ 207,374	$ 199,180
Adjustments to reconcile net income to net cash:			
Depreciation and depletion	**144,514**	128,133	114,048
Deferred taxes and tax credits	**23,285**	36,197	11,350
Amortization of purchase accounting adjustment	**(20,472)**	—	—
Receivable from FSLIC	**(3,483)**	—	—
Receivables	**(9,372)**	(5,395)	(17,671)
Inventories	**(24,347)**	(66,835)	(9,029)
Other	**(35,825)**	(35,162)	(3,902)
	306,773	264,312	293,976
Cash Provided by (Used for) Investments			
Capital expenditures	**(328,260)**	(268,808)	(223,448)
Sale of property and equipment, net	**11,190**	16,404	25,755
Proceeds from sale of loans	**338,893**	—	—
Loans originated net of principal collected	**(23,677)**	—	—
Reduction in covered assets	**384,141**	—	—
Savings Bank acquisitions	**1,220,437**	—	—
Box plants acquisitions	**(58,546)**	—	—
Investment in Financial Services	**(19,600)**	(50,788)	(75,000)
Tax savings credited to Financial Services	**—**	56,796	17,012
Consolidation of Savings Banks	**—**	91,236	—
Purchase of investments	**(1,233,316)**	(17,622)	(116,330)
Sale or maturity of investments	**80,603**	31,986	93,605
Cash received on disposal of insurance operations	**70,683**	—	—
Other	**(2,803)**	—	(16,841)
	439,745	(140,796)	(295,247)
Cash Provided by (Used for) Financing			
Additions to debt	**351,275**	289,442	89,078
Payments of debt	**(251,796)**	(304,331)	(84,250)
Purchase of stock for treasury	**(12,520)**	(18,404)	(11,501)
Cash dividends paid to shareholders	**(43,885)**	(31,815)	(23,116)
Net decrease in FHLB advances	**(544,930)**	—	—
Net increase in deposits	**(196,616)**	35,668	35,647
Other	**(7,213)**	11,143	3,422
	(705,685)	(18,297)	9,280
Net increase in cash	**40,833**	105,219	8,009
Cash at beginning of year	**139,023**	33,804	25,795
Cash at end of year	**$ 179,856**	$ 139,023	$ 33,804

See the notes to the consolidated financial statements.
Certain amounts have been reclassified to conform with current year's classification.

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Consolidated Statements of Shareholders' Equity

Temple-Inland Inc. and Subsidiaries

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
		(in thousands)		
Balance at January 2, 1988	$30,615	$331,974	$ 695,721	$(130,825)
Net income	—	—	199,180	—
Dividends paid on Common Stock—$.42 per share	—	—	(23,116)	—
Stock issued for stock plans—175,280 shares reissued from treasury at cost	69	(543)	—	4,208
Stock reacquired for treasury—485,294 shares at cost	—	—	—	(11,501)
Balance at December 31, 1988	$30,684	$331,431	$ 871,785	$(138,118)
Net income	—	—	207,374	—
Dividends paid on Common Stock—$.58 per share	—	—	(31,815)	—
Stock issued for stock plans—348,520 shares reissued from treasury at cost	11	(1,937)	—	7,914
Stock reacquired for treasury—685,728 shares at cost	—	—	—	(18,404)
Effect of two-for-one stock split	30,695	(30,695)	—	—
Balance at December 30, 1989	$61,390	$298,799	$1,047,344	$(148,608)
Net income	—	—	232,473	—
Dividends paid on Common Stock—$.80 per share	—	—	(43,885)	—
Stock issued for stock plans—216,559 shares reissued from treasury at cost	—	(611)	—	4,934
Stock reacquired for treasury—478,092 shares at cost	—	—	—	(12,520)
Balance at December 29, 1990	$61,390	$298,188	$1,235,932	$(156,194)

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Notes to the Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles and with current financial reporting requirements. However, because certain assets and liabilities are in separate corporate entities, the consolidated assets are not available to satisfy all consolidated liabilities.

The consolidated financial statements include the accounts of Temple-Inland Inc. (the "Company") and all subsidiaries in which the Company has more than a 50 percent equity ownership. Due to many uncertainties, the Company did not initially consolidate Guaranty and accounted for its investment using the cost method adjusted for any recovery. The Company consolidated Guaranty in its 1989 balance sheet and has fully consolidated Guaranty beginning in 1990. See Note B on page 39. All material intercompany amounts and transactions have been eliminated.

Included as an integral part of the consolidated financial statements are separate summarized financial statements and notes for the Company's primary business groups as well as the significant accounting policies unique to each group.

Earnings Per Share

Earnings per share are based upon the weighted average number of shares outstanding, including common stock equivalents, during the period. The weighted average shares outstanding was 55,361,000 in 1990, 55,324,000 in 1989 and 55,696,000 in 1988.

Cash Equivalents

Cash equivalents consist of investments with a maturity of three months or less.

Note B—Stock Option and Purchase Plans

The Company has established stock option plans for key employees and directors. The plans provide for the granting of incentive stock options and/or non-qualified stock options, and permit the grant of stock appreciation rights with all or part of any options so granted.

Options for 1,071,083, 979,608 and 1,081,196 shares were exercisable at year end 1990, 1989 and 1988, respectively. An additional 2,510,005, 2,818,374 and 3,053,128 shares of common stock were available for grants at year end 1990, 1989 and 1988, respectively.

A summary of activity under the option plans is presented below:

	Common Stock	
	Number of Shares	Price Range Per Share
Outstanding at January 2, 1988	2,050,996	$ 4-$32
Granted	162,780	$21-$25
Exercised	(312,506)	$ 4-$22
Forfeited	(131,010)	$12-$22
Outstanding at December 31, 1988	1,770,260	$ 5-$32
Granted	282,652	$12-$28
Exercised	(348,520)	$ 5-$32
Forfeited	(47,898)	$22-$32
Outstanding at December 30, 1989	1,656,494	$ 8-$32
Granted	415,883	$19-$33
Exercised	(162,199)	$ 8-$28
Forfeited	(107,514)	$14-$31
Outstanding at December 29, 1990	1,802,664	$ 8-$33

Additionally, an Incentive Stock Plan provides for a maximum of 625,000 shares of common stock to be reserved for awards at the discretion of the Board of Directors. At year end 1990, awards of 145,322 shares of common stock were outstanding at an average price of $27.51 per share.

The Company has Savings and Stock Purchase Plans which permit participating employees to invest in the Company's common stock and other funds.

On February 1, 1991, options to purchase 262,484 shares of stock at a price of $35.88 per share were granted and 25,936 shares were awarded under the Incentive Stock Plan.

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Note C—Pension Plans and Other Postretirement Benefits

The Company and its subsidiaries have several pension plans covering substantially all employees. Plans covering salaried and non-union hourly employees provide benefits based on compensation and years of service, while union hourly plans are based on negotiated benefits and years of service. The Company's policy is to fund amounts as are necessary on an actuarial basis to provide assets sufficient to meet the benefits to be paid to plan members in accordance with the requirements of ERISA.

A summary of the components of net pension cost in 1990, 1989 and 1988 follows:

	1990	1989	1988
Charges (Credits)		*(in millions)*	
Service cost—benefits earned during the period	**$ 8.6**	$ 7.6	$ 8.4
Interest cost on projected benefit obligation	**21.3**	19.5	17.8
Actual return on plan assets	**2.0**	(48.1)	(27.7)
Net amortization and deferral	**(34.3)**	20.1	1.0
Net Pension Credit	**$ (2.4)**	$ (.9)	$ (.5)

The actuarial computations for the years 1990, 1989 and 1988 assumed a discount rate on benefit obligations of 9 percent, an expected long-term rate of return on plan assets of 9 percent and annual salary/benefit increases of 5 percent to 6 percent over the average remaining service lives of employees covered by the plans.

The status of employee pension benefit plans at year end 1990 and 1989 is summarized below:

	1990	1989
	(in millions)	
Actuarial present value of benefit obligations:		
Vested benefits	**$ 196.5**	$ 177.5
Nonvested benefits	**19.6**	17.5
Accumulated benefit obligation	**$ 216.1**	$ 195.0
Projected benefit obligation for service rendered to date	**$(264.9)**	$(241.6)
Plan assets at fair value, primarily fixed income securities	**305.3**	313.9
Plan assets in excess of projected benefit obligation	**40.4**	72.3
Prior service cost not yet recognized in net periodic pension cost	**.6**	.5
Unrecognized net (gain) loss from past experience different from that assumed	**24.2**	(10.4)
Unrecognized net asset at begining of period less amortization to date	**(44.4)**	(48.9)
Net pension asset included in the balance sheet	**$ 20.8**	$ 13.5

The assets of the plans at December 31, 1990 include 380,998 shares of common stock of the Company having a market value of $12.1 million at that date.

In addition, certain health care and life insurance benefits are provided for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while employed by the Company. The cost of providing the benefits is recognized by expensing the insurance premiums as incurred. These costs totaled approximately $2.4, $1.6 and $1.5 million in 1990, 1989 and 1988, respectively.

In December 1990, the Financial Accounting Standards Board issued Statement No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The new standard will require employers to switch from pay-as-you-go to accrual accounting for postretirement benefits (primarily medical coverage) no later than 1993. The Company presently expects to adopt the Statement in 1993. While the adoption of the new Statement is expected to increase annual postretirement benefit expense, the impact on the Company's financial position will not be material.

Note D—Taxes on Income

Taxes on income consisted of the following:

	Current	Deferred
	(in thousands)	
1990		
Federal	**$28,606**	**$ 6,518**
Investment tax credit deferred	**—**	**(4,894)**
State and other	**3,852**	**2,200**
	$32,458	**$ 3,824**
1989		
Federal	$84,121	$22,552
Investment tax credit deferred	—	(5,847)
State and other	5,877	(2,208)
	$89,998	$14,497
1988		
Federal	$66,512	$33,185
Investment tax credit deferred	—	(6,635)
State and other	13,547	(2,260)
	$80,059	$24,290

The provision for deferred income taxes reflects timing differences between financial and tax reporting related to the following items:

	1990	1989	1988
		(in thousands)	
Depreciation	**$ 15,799**	$21,126	$17,580
Investment tax credits	**(4,894)**	(5,847)	(6,635)
Pension expense	**2,595**	2,605	2,410
Other employee benefit plans	**808**	528	4,233
Other—net	**(10,484)**	(3,915)	6,702
	$ 3,824	$14,497	$24,290

The differences between the consolidated effective income tax rate and the federal statutory income tax rates include the following:

	1990	1989	1988
		(in thousands)	
Taxes on income at statutory rate	**$ 91,377**	$106,035	$103,200
Book benefit of FSLIC assistance and other permanent items	**(55,197)**	—	—
Investment tax credits	**(4,894)**	(5,831)	(6,522)
State and foreign taxes	**3,852**	6,363	6,505
All other	**1,144**	(2,072)	1,166
	$ 36,282	$104,495	$104,349

Income tax payments, net of refunds received, were $4 million, $13 million and $76 million during 1990, 1989 and 1988, respectively.

Investment tax credits were deferred and are being amortized as a reduction of income tax expense over the estimated useful lives of the related assets.

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Equity in the earnings of 20-50 percent owned affiliates is reinvested; accordingly, no provision for income taxes is made on the undistributed earnings.

In December 1987, the Financial Accounting Standards Board issued Statement No. 96, "Accounting for Income Taxes". Under the guidelines, companies are required to adopt the liability method for computing deferred income taxes no later than 1993. The Company presently expects to adopt the Statement in 1993. The adoption of the new guidelines is not expected to have an adverse impact on financial position.

Temple-Inland and Guaranty have net operating loss carryforwards of $173 million and $300 million, respectively, at December 1990 which will, if unused, expire through the year 2005. The utilization of Guaranty's loss carryforwards is limited to the future taxable income of the Guaranty group. The Company also has alternative minimum tax credits of $118 million which may be carried forward indefinitely. The Company has not recognized benefits from these credits since their utilization may be limited by complex tax laws and other uncertainties.

Note E—Business Segment Information

Refer to "Business Segments" on page 23 for information relating to Revenues and Income Before Taxes, and page 29 for information relating to Capital Expenditures for the principal segments of business for the three years 1990, 1989 and 1988.

Additional business segment information is presented below.

For the year	**1990**	1989	1988
		(in millions)	
Identifiable Assets			
Container and containerboard	**$1,309.5**	$1,088.0	$ 967.9
Bleached paperboard	**281.6**	245.1	245.6
Building products	**193.5**	208.4	187.1
Timber and timberlands	**404.2**	364.8	377.8
Corporate and other activities	**80.6**	114.3	136.4
	2,269.4	2,020.6	1,914.8
Financial Services*	**5,565.1**	4,369.5	332.6
Total	**$7,834.5**	$6,390.1	$2,247.4
Depreciation, Amortization and Depletion			
Container and containerboard	**$ 74.5**	$ 61.9	$ 52.1
Bleached paperboard	**29.8**	28.7	28.8
Building products	**21.6**	22.4	18.8
Timber and timberlands	**11.8**	11.7	10.9
Other activities	**2.1**	1.8	1.5
	139.8	126.5	112.1
Financial Services	**4.7**	1.6	1.9
Total	**$ 144.5**	$ 128.1	$ 114.0

*Includes approximately $3.7 billion and $4.0 billion assets of Guaranty at year end 1990 and 1989 and $1.3 billion assets of saving banks acquired in 1990.

Note F—Summary of Quarterly Results of Operations (Unaudited)

Selected quarterly financial results for the years 1990 and 1989 are summarized below:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in millions except per share amounts)			
1990				
Total Revenues	**$591.2**	**$587.4**	**$604.5**	**$618.0**
Manufacturing Net Sales	**477.0**	**475.3**	**475.0**	**465.2**
Manufacturing Gross Profit	**112.0**	**103.3**	**97.7**	**89.5**
Financial Services Operating Income Before Taxes	**12.1**	**15.1**	**12.7**	**11.5**
Net Income	**62.2**	**65.7**	**56.5**	**48.1**
Earnings Per Share	**1.12**	**1.18**	**1.02**	**.88**
1989				
Total Revenues	$473.5	$489.1	$491.9	$489.1
Manufacturing Net Sales	462.6	476.6	479.9	475.1
Manufacturing Gross Profit	126.3	124.3	126.1	109.5
Financial Services Operating Income (Loss) Before Taxes	.8	1.1	(1.3)	(2.7)
Net Income	54.5	52.9	55.6	44.4
Earnings Per Share	.98	.96	1.01	.80

Note G—Shareholder Rights Plan

During 1989, the Board of Directors adopted a Shareholder Rights Plan in which one preferred stock purchase right ("the Right") was declared as a dividend for each common share outstanding. Each one-half right entitles shareholders to purchase, under certain conditions, one-hundredth of a share of newly issued Series A Junior Participating Preferred Stock at an exercise price of $200. The Rights will be exercisable only if a person or group acquires beneficial ownership of 20 percent or more of the common shares or commences a tender or exchange offer, upon consummation of which such person or group would beneficially own 25 percent or more of the common shares. The Company will generally be entitled to redeem the Rights of $.01 per Right at any time until the 10th business day following public announcement that a 20 percent position has been acquired. The Rights will expire on February 20, 1999.

Note H—Commitments and Contingencies

There are pending against the Company and its subsidiaries lawsuits and claims arising in the regular course of business.

In the opinion of management, recoveries, if any, by plaintiffs or claimants that may result from the foregoing litigation and claims will not be material in relation to the consolidated financial position of the Company and its subsidiaries.

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Report of Management

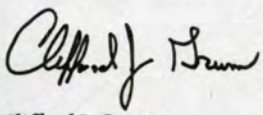
Management Report on Financial Statements

Management has prepared and is responsible for the Company's financial statements, including the notes thereto. They have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on judgments and estimates by management. All financial information in this annual report is consistent with that in the financial statements.

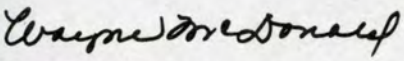
The Company maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The design, monitoring, and revision of internal accounting control systems involve, among other things, management's judgment with respect to the relative cost and expected benefits of specific control measures. The Company also maintains an internal auditing function which evaluates and formally reports on the adequacy and effectiveness of internal accounting controls, policies and procedures.

The Company's financial statements have been examined by Ernst & Young, independent auditors, who have expressed their opinion with respect to the fairness of the presentation of the statements.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets with the independent auditors and internal auditors to evaluate the effectiveness of the work performed by them in discharging their respective responsibilities and to assure their independent and free access to the Committee.



Clifford J. Grum
President & Chief Executive Officer



Wayne McDonald
Executive Vice President
Chief Financial Officer
& Treasurer

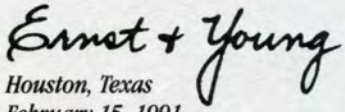
Report of Independent Auditors

To the Board of Directors and Shareholders of Temple-Inland Inc.:

We have audited the accompanying consolidated balance sheets of Temple-Inland Inc. and subsidiaries as of December 29, 1990 and December 30, 1989, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 29, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Temple-Inland Inc. and subsidiaries at December 29, 1990 and December 30, 1989, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 29, 1990, in conformity with generally accepted accounting principles.



Houston, Texas
February 15, 1991

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Shareholder Information

Transfer Agent and Registrar
NCNB Texas National Bank
P.O. Box 831402
Dallas, Texas 75283-1402

Independent Accountants
Ernst & Young
Houston, Texas

Annual Meeting
The annual meeting of shareholders of Temple-Inland Inc. will be held at our corporate headquarters, 303 South Temple Drive, Diboll, Texas on Friday, May 3, 1991 at 9:00 a.m. local time.

Stock Listing
Temple-Inland Inc. Common Stock is listed on the New York and Pacific Stock Exchanges, Ticker Symbol: TIN.

Common Stock Prices and Dividend Information

	Price Range		Dividends
	High	**Low**	
1990			
First Quarter	**$34 11/16**	**$29 1/2**	**$.20**
Second Quarter	**36 1/2**	**30 1/8**	**.20**
Third Quarter	**38 5/8**	**25 1/2**	**.20**
Fourth Quarter	**32 3/4**	**24 1/8**	**.20**
Year	**38 5/8**	**24 1/8**	**.80**
1989			
First Quarter	$29 1/8	$23 3/8	$.145
Second Quarter	30 7/8	25 1/2	.145
Third Quarter	34 1/8	27 15/16	.145
Fourth Quarter	35 1/2	28 15/16	.145
Year	35 1/2	23 3/8	.58

Number of Shareholders
As of December 31, 1990, there were 10,093 shareholders of record of the Company's common stock.

Dividends' Reinvestment Plan
The Company offers its shareholders a convenient and economical way to increase their investment in our Common Stock through the purchase of additional shares with quarterly dividends and optional cash payments. Under the Temple-Inland Inc. Dividend Reinvestment Plan administered by NCNB Texas National Bank, Temple-Inland pays the brokerage fees and service charges, and the shareholder receives the benefit of larger quantity purchases and optional free custodial services. For more information on the Plan, contact NCNB Texas National Bank, Dividend Reinvestment Department, P.O. Box 831402, Dallas, Texas 75283-1402.

Form 10-K
A copy of Temple-Inland Inc.'s annual report on Form 10-K as filed with the Securities and Exchange Commission will be sent without charge upon written request to the Company's Shareholder Relations Department.

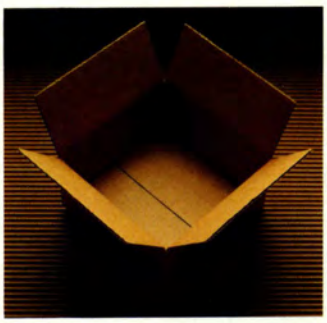
Mailing Address
Temple-Inland Inc.
Drawer N
Diboll, Texas 75941

Telephone Number
(409) 829-1313

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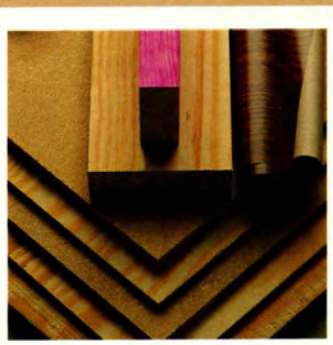
Temple-Inland Inc.
Drawer N
Diboll, Texas 75941



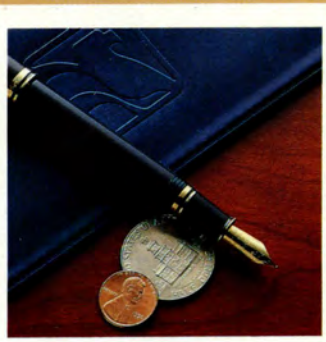
Container and Containerboard



Bleached Paperboard



Building Products



Financial Services