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**SIMLOG  
CORPORATION  
ANNUAL  
REPORT**

ANNUAL REPTS.

PACIFIC

MAR 26 1975

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# SIMLOG OPERATIONS



Stephen K. Henkel

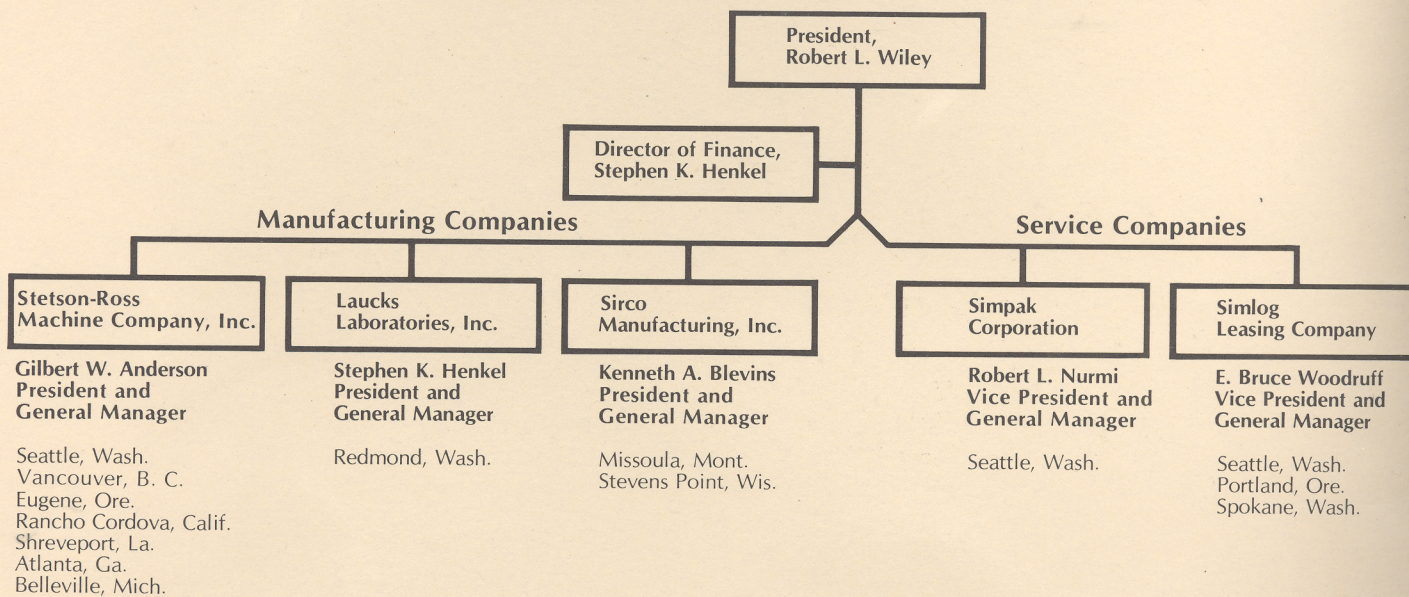
Kenneth A. Blevins

Robert L. Nurmi

Robert L. Wiley

Gilbert W. Anderson

E. Bruce Woodruff



## SIMLOG CORPORATION HIGHLIGHTS

	1971	1970
Netsales & lease revenues . . . . .	\$8,027,482	\$9,160,846
Net earnings after tax . . . . .	\$ 365,390	\$ 94,472
Earnings per share . . . . .	\$3.27	\$.83
Shareholders equity . . . . .	\$3,296,127	\$2,972,824
Book value per share . . . . .	\$29.86	\$26.34



## TO OUR SHAREHOLDERS

During fiscal 1971 our net earnings after tax increased nearly fourfold to \$365,390, or \$3.27 per share, representing an 11.7% return on average net worth.

By comparison, fiscal 1970 earnings were \$94,472, or \$.83 per share.

This earnings increase occurred despite a reduction in sales and lease revenues to \$8,027,482 in 1971 from \$9,160,846 in 1970.

The rise in earnings is significant. But even more important, we broadened our earnings base and achieved the management control we sought when establishing our corporate structure three years ago. By fiscal year end on September 30, 1971, all five wholly owned subsidiaries were operating profitably, and each general manager expressed confidence in the coming fiscal year.

This improvement—both in performance and in near-term prospects—is particularly noteworthy because the gains were made in an uncertain economic climate.

Two of our manufacturing operations—Stetson-Ross Machine Company, Inc., and Laucks Laboratories, Inc.—produce mechanical and electronic equipment used by the forest products industry throughout the world. Stetson-Ross sales were depressed, but earnings improved significantly through greater cost control and improved operating efficiencies.

Laucks increased sales of electronic moisture control systems despite a generally soft market for capital equipment. In addition, sales of the Laucks line of Terra Tec geo-physical test instruments grew rapidly in world-wide markets.

Our third manufacturing operation—Sirco Manufacturing, Inc.—enjoyed a strong sales year. The firm manufactures a patented line of household sewing and utility

tables, and demand for these products has grown with national trends in the home sewing field. Sirco began construction of a new factory during the year at Stevens Point, Wisconsin in order to be closer to major mid-west and eastern markets. During the year Sirco also introduced a new line of cabinets that incorporate several of the company's patented features which have proven so successful in the company's table designs.

Our other two subsidiaries are in the service field. Simlog Leasing Company (formerly called Leasing For Industry) continued to grow, and outstanding installment lease contracts increased from \$8,340,014 to \$10,612,147 by year end. New lease contracts amounting to \$5,686,881 were written in 1971, compared with \$4,344,004 in 1970.

A branch was opened in Portland in June, 1971, which adds to our geographic coverage and should provide significant business in 1972.

Credit management is a particularly critical function in this subsidiary, and delinquency ratio and credit control were excellent at year end.

Our second service activity is Simpak Corporation. Simpak, which was acquired on October 1, 1969, as Howe Products, Inc., is the Northwest's largest packager of private label vitamins and over-the-counter pharmaceutical products. Simpak buys in bulk from leading drug and pharmaceutical companies which have quality control procedures that fully comply with the requirements of the Food and Drug Administration.

During the year the demand for Vitamin C and E and natural vitamins increased greatly. Simpak both participated in this growth, and expanded its share of the market as customers became increasingly aware of Simpak product quality, merchandising programs, and dependable service. Thus, in the two years since Simpak was acquired sales have nearly doubled, and significant future growth is anticipated.

One common element to all our activities in 1971 was that the growth in earnings came from internal improvement, rather than acquisition, despite a mixed economic climate. It also is significant that during the year several new products were brought to market, and others moved nearer to introduction. As in the past, regular development programs were expensed as they occurred even though returns on such projects may not be realized until future years. During fiscal 1971, approximately \$200,000 was spent on such development work.

The financial reports that follow contain separate financial statements for Simlog Leasing Company. Formerly, when the leasing activity was a division, it was necessary to report the entire corporation with the account classifications and format of a leasing company. Leasing and manufacturing financial ratios customarily differ substantially. Therefore, Simlog Leasing Company, as a subsidiary, is now reported upon separately, and brought into the Simlog Corporation Balance Sheet as a one-line asset item: Investment in Simlog Leasing Company. Similarly, leasing income is brought in as a one-line item on the Consolidated Income Statement.

In fiscal 1971 we made a satisfactory return on invested capital. More important, we demonstrated that we can select, direct and motivate diverse business activities. Relative to the past, our progress was significant. Relative to our goals, we still have a long way to go. We expect continued improvement in 1972, through superior products and services for our customers, superior results for our shareholders, and a challenging, rewarding work experience for our employees.



Robert L. Wiley, President



## STETSON-ROSS MACHINE COMPANY, INC.

## LAUCKS LABORATORIES, INC.

### SIMLOG CORPORATION

Simlog is a diversified corporation that is striving to achieve superior performance for its customers, employees and shareholders. The earnings base of the company spans several diverse industries and limits the company's exposure to cyclical fluctuations.

Though diverse, the company's separate operations are tied together by carefully chosen unifying elements.

One is that each subsidiary company is a recognized leader in its field. Our manufacturing subsidiaries have achieved such leadership on a national or world basis. Our service activities currently limit themselves to regional markets where they maintain leadership through firsthand knowledge of, and response to, customer requirements.

Another unifying element is a management excellence that allows a relatively high degree of autonomy at the subsidiary level. Nevertheless, these subsidiaries operate within a framework of well-defined objectives, financial projections and central financial controls.

Our corporate goal is superior performance in earnings per share, and this requires the full capabilities of a superior management team.

We seek added opportunities through acquisition of companies or product lines that relate to, and integrate with, our present subsidiaries.

Stetson-Ross has earned and maintained a reputation for excellence in the design and manufacture of custom forest products machinery since the firm was established in 1898.

The firm has staff sales engineers in all United States softwood timber producing regions and in Canada. In addition, Stetson-Ross serves world markets through a network of agents based in other forest product centers.

The company's products have a high engineering content, and Stetson-Ross is able to supply entire planing mills as well as the essential components for small log sawmills. It also manufactures and sells woodworking remanufacturing equipment along with specialized equipment for joining, stacking and conveying plywood veneer. This highly successful product mix provides the base for future expansion, both through acquisition of complementary firms and through internal development.

*Stetson-Ross introduced its first planer for the wood products industry in 1898. Today the company makes a broad line of processing machinery, including this planer-matcher-profiler installed in Ngongotaha, New Zealand recently.*

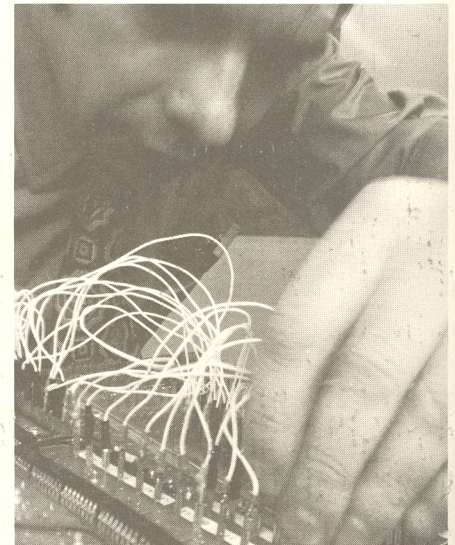


A manufacturer of proprietary instrumentation equipment, Laucks is most widely known for its Sentry line of moisture measuring systems which have earned the firm a world wide reputation in the forest products process instrumentation field.

The Terra Tec product line of soil and foundation stability monitoring devices is experiencing a rapid growth. The company plans additional expansion to increase this product line and enable greater penetration of the market.

As part of Simlog, Laucks has begun an expansion program aimed at substantially broadening its product base. In addition to efforts to expand existing product lines, the firm is exploring opportunities within the medical electronics field.

*Established in the field of instrumentation for the forest products industry, Laucks Laboratories has begun expansion into new fields, including products for the soil instrumentation industry and the bio-engineering field. This is a component of a re-dry computer developed by Laucks in fiscal 71 for testing early in 1972.*





## SIRCO MANUFACTURING, INC.

Sirco produces a line of patented sewing machine tables and cabinets, utility tables and specialized office machine stands. These are available in decorator colors as well as the more conventional wood grain patterns.

The firm, since its beginning in 1957, has enjoyed continuous growth through the extension of its basic patented and proprietary features to additional products.

In 1971 demand for the company's products reached and exceeded the capacity of the Missoula, Montana plant built in 1968. It had been planned to build a Midwestern plant when this occurred, and a new facility was started at Stevens Point, Wisconsin. The new plant will double Sirco's capacity and do so within easy shipping range of the company's major Midwest and Eastern markets.

The firm has achieved dominance in the sewing machine table field, and its most recent cabinet additions are designed to increase that market share while expanding the company's line of fixed and roll-around tables and cabinets for office use.

*Sirco recently introduced a new line of sewing cabinets which are based on the highly successful proprietary features of Sirco tables.*



## SIMPAK CORPORATION

Simpak is the Pacific Northwest's largest packager of over-the-counter pharmaceuticals and vitamins. The company supplies more than 150 high quality products to retail chains and wholesalers in the Pacific Northwest, California, Alaska and Hawaii. The products are packed under house labels and under more than 15 private labels.

Simpak is a modern descendent of a firm which was founded in 1913. In the two years since acquisition by Simlog Corporation, Simpak has demonstrated strong growth capability and has doubled its sales.

In 1971 Simpak introduced a highly successful new line of Terra Copia natural vitamins and installed a new packaging line that doubled plant capacity.

Even so, at calendar year end the company was in the process of moving to a new, larger plant and has additional high-speed packaging equipment on order.

*Terra Copia natural vitamins introduced by Simpak in 1971 contributed to the firm's continuing strong growth pattern. Simpak continues to expand plant capacity to meet growing demand.*



## SIMLOG LEASING COMPANY

Simlog Leasing is a lessor of capital equipment serving business and industry in Washington, Idaho and Oregon through offices in Seattle, Spokane and Portland.

The firm's customers are diversified, and leased equipment includes business machines, data processing equipment, engineering and surveying equipment, dental and medical equipment, and manufacturing machinery.

Simlog Leasing has directed a major portion of its marketing toward establishing itself as the preferred and sole lessor for substantial companies in the Pacific Northwest.

The company also works directly with vendors, enabling them to offer Simlog leases to their customers. Prompt, decisive action has earned the company a significant share of the available market.



SIMLOG CORPORATION AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 1971 and 1970

Assets	1971	1970 (Note 1)
CURRENT ASSETS:		
Cash	\$ 48,382	\$ 147,216
Trade accounts receivable	1,388,194	1,582,295
Allowance for doubtful accounts	(39,499)	(87,767)
Refundable Federal income taxes		20,768
Note receivable from an associated company		300,000
Inventories—at the lower of first-in, first-out cost or market (Note 2)	1,296,303	1,517,181
Prepaid expenses	45,649	55,091
Total current assets	2,739,029	3,534,784
NOTE RECEIVABLE FROM AN ASSOCIATED COMPANY		700,000
INVESTMENT IN SIMLOG LEASING COMPANY— At equity in net assets (Note 1)	1,321,669	1,399,412
PROPERTY, PLANT, AND EQUIPMENT— At cost less accumulated depreciation (Note 3)	579,003	559,479
OTHER ASSETS:		
Deferred Federal income tax benefit—net (Note 4)	72,500	89,300
Goodwill (Note 5)	117,924	148,624
Other—principally patents, at cost less accumulated amortization	389,728	361,003
Total other assets	580,152	598,927
TOTAL	\$5,219,853	\$6,792,602

Liabilities	1971	1970 (Note 1)
CURRENT LIABILITIES:		
Notes payable (Note 6)	\$ 557,931	\$1,071,914
Accounts payable	445,590	867,899
Advance deposits by customers	87,224	148,962
Accrued interest	6,978	20,496
Accrued income taxes	5,499	4,339
Other accrued expenses	189,028	182,579
Installation expense reserve	113,274	97,127
Total current liabilities	1,405,524	2,393,316
LONG-TERM NOTES PAYABLE (Note 6)	518,202	1,426,462
COMMITMENTS AND CONTINGENCY (Notes 7 and 8)		
SHAREHOLDERS' EQUITY (Notes 9 and 10):		
Common stock—par value, \$10.00 a share; authorized, 200,000 shares; issued and outstanding, 1971—110,399 shares; 1970—112,844 shares	1,103,990	1,128,440
Paid-in surplus	207,807	225,444
Retained earnings	1,984,330	1,618,940
Total shareholders' equity	3,296,127	2,972,824
TOTAL	\$5,219,853	\$6,792,602

See Notes to Consolidated Financial Statements.



**SIMLOG CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**STATEMENTS OF CONSOLIDATED INCOME**  
**AND RETAINED EARNINGS**

FOR THE YEARS ENDED SEPTEMBER 30, 1971 and 1970

	1971	1970 (Note 1)
REVENUES:		
Net sales of manufactured products	\$6,506,938	\$7,766,355
Other sales and income	199,846	246,234
Total	6,706,784	8,012,589
COSTS AND EXPENSES:		
Cost of manufactured products sold (exclusive of depreciation)	4,468,703	6,007,685
Depreciation and amortization	108,160	92,170
Selling, general, and administrative expenses	1,728,613	2,039,983
Interest expense	154,435	195,050
Total	6,459,911	8,334,888
INCOME (LOSS) BEFORE INCOME TAXES	246,873	(322,299)
PROVISION FOR (REDUCTION OF) INCOME TAXES (Note 4):		
Current	99,700	(181,156)
Deferred	16,800	17,700
Total	116,500	(163,456)
INCOME (LOSS) BEFORE INCOME FROM LEASING OPERATIONS	130,373	(158,843)
INCOME FROM LEASING OPERATIONS (Note 1)	209,117	241,550
INCOME BEFORE EXTRAORDINARY CREDIT	339,490	82,707
EXTRAORDINARY CREDIT — TAX BENEFIT RESULTING FROM CARRYOVER OF PRIOR YEARS' OPERATING LOSSES	25,900	11,765
NET INCOME FOR THE YEAR	\$ 365,390	\$ 94,472
PER SHARE OF COMMON STOCK (AVERAGE SHARES):		
Income before extraordinary credit	\$3.04	\$.73
Extraordinary credit	.23	.10
Net income	\$3.27	\$.83
RETAINED EARNINGS, BEGINNING OF YEAR	\$1,618,940	\$1,524,468
NET INCOME FOR THE YEAR	365,390	94,472
RETAINED EARNINGS, END OF YEAR	\$1,984,330	\$1,618,940

See Notes to Consolidated Financial Statements.



**SIMLOG CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**STATEMENT OF CHANGES**  
**IN CONSOLIDATED FINANCIAL POSITION**  
FOR THE YEARS ENDED SEPTEMBER 30, 1971 and 1970

	1971	1970 (Note 1)
WORKING CAPITAL WAS PROVIDED FROM:		
Current operations:		
Income (loss) excluding leasing operations and extraordinary credit..	\$ 130,373	\$(158,843)
Add expenses not requiring an outlay of working capital:		
Depreciation and amortization.....	108,160	92,170
Deferred income taxes.....	16,800	17,700
Funds received from Simlog Leasing Company (Note 1).....	286,860	182,833
Total from current operations.....	542,193	133,860
Other sources:		
Tax benefit from utilization of carryover of prior years' operating losses.....	56,600	11,765
Reduction in non-current note receivable.....	700,000	300,000
Sale of common stock—net of stock reacquired.....		43,500
Total working capital provided.....	1,298,793	489,125
WORKING CAPITAL WAS USED FOR:		
Purchase of property, plant, and equipment—net of normal disposals ..	95,499	142,796
Acquisition of other assets; patents, etc.—net of disposals.....	60,910	171,994
Reduction of long-term borrowings.....	908,260	297,522
Acquisitions of common stock.....	42,087	
Cost in excess of underlying book value of subsidiary acquired in 1969...		148,624
Total working capital used.....	1,106,756	760,936
INCREASE (DECREASE) IN WORKING CAPITAL.....	\$ 192,037	\$(271,811)
CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash.....	\$ (98,834)	\$ 179,702
Accounts receivable and advances.....	(166,601)	(268,983)
Current portion of notes receivable.....	(300,000)	(28,457)
Inventories.....	(220,878)	(188,312)
Prepaid expenses.....	(9,442)	(7,235)
Decrease (increase) in current liabilities:		
Current portion of notes payable.....	513,983	(681,302)
Accounts payable and accrued expenses.....	412,071	529,663
Customer deposits.....	61,738	193,113
INCREASE (DECREASE) IN WORKING CAPITAL.....	\$ 192,037	\$(271,811)

See Notes to Consolidated Financial Statements.



**SIMLOG CORPORATION AND CONSOLIDATED SUBSIDIARIES**  
**NOTES TO CONSOLIDATED**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 1971**

**1. BASIS OF REPORTING**

The consolidated financial statements include the accounts of Simlog Corporation and its wholly-owned subsidiaries except Simlog Leasing Company which has been included on a one-line basis to reflect the parent's equity in its net assets and net income.

Simlog Leasing Company was formed as of September 30, 1971, and issued its 500 authorized shares of \$100 par value common stock to Simlog Corporation in exchange for the transfer of all assets and liabilities directly associated with its leasing operations plus \$91,630 of cash. The net book value of the assets transferred was \$1,321,669.

In 1970 the Company's leasing operations were reported on a fully-consolidated basis; consequently, the comparative 1970 consolidated financial statements have been restated and are presented pro forma as if the wholly-owned leasing subsidiary had been formed at the beginning of the 1970 year.

All significant intercompany transactions and balances between Simlog Corporation and its consolidated subsidiaries have been eliminated, and the accounts of the Canadian subsidiary have been translated to U. S. dollars at the official exchange rate.

Other income includes interest charges of \$45,647 in 1971 and \$40,950 in 1970 on advances made during the year to the unconsolidated leasing subsidiary.

**2. INVENTORIES**

Inventories at September 30, 1971 and 1970 are summarized below:

	1971	1970
Finished products.....	\$ 671,942	\$ 848,653
Work in process.....	76,128	196,108
Materials and supplies.....	548,233	472,420
Total.....	<u>\$1,296,303</u>	<u>\$1,517,181</u>

**3. PROPERTY, PLANT, AND EQUIPMENT**

The cost and accumulated depreciation of property, plant, and equipment at September 30, 1971 and 1970 is summarized below:

	1971	1970
Cost:		
Land, buildings, and improvements...	\$ 357,878	\$272,328
Machinery and equipment .....	622,163	619,702
Furniture and fixtures.....	78,315	74,829
Total.....	1,058,356	966,859
Accumulated depreciation.....	479,353	407,380
Property, plant, and equipment—net...	<u>\$ 579,003</u>	<u>\$559,479</u>

The companies provide for depreciation of their property, plant, and equipment using straight-line and accelerated methods over the estimated useful lives of the assets.

A building with an aggregate cost of \$164,848 is pledged as collateral to a related first mortgage note payable having a balance due at September 30, 1971, of \$59,302.

**4. FEDERAL INCOME TAXES**

At September 30, 1971, the Company and its subsidiaries had aggregate operating loss carryovers approximating \$440,000 which may be used to offset otherwise taxable income in future years. The maximum use of these loss carryovers would result in an increase in net income in future years of approximately \$50,000 and a reduction in the assets Deferred Federal Income Tax Benefit and Goodwill (Note 5) by approximately \$87,000 and \$82,000, respectively.

The Internal Revenue Service is examining the 1969 return of a subsidiary and has raised questions concerning deductions which, if not allowed, would reduce its loss carryover by \$203,420. The Company believes the deductions in question to be proper and allowable.

The Company and its subsidiaries also had aggregate investment credit carryovers of approximately \$22,000.

**5. GOODWILL**

The excess of the value of shares issued over book value of assets received in the acquisition of Howe Products, Inc. in 1969 was reported as goodwill. At the date of acquisition, Howe Products, Inc. had unused operating tax loss carryovers of approximately \$229,000. During the year 1971 the Company recognized the tax benefit on approximately \$64,000 of such losses which has been applied as a reduction of the goodwill account. Goodwill may be further reduced by the utilization of the remaining losses.



## 6. LONG-TERM NOTES PAYABLE

	Total	Current
To bank—7-1/2%, due, 1978, collateralized by a first mortgage on plant building (cost of \$164,848); Payable in monthly installments of \$890 including interest : .....	\$ 59,302	\$ 6,100
To shareholders:		
4% note payable \$15,000 a year .....	45,000	15,000
6-1/2% and 7% demand notes (\$20,000 to be paid in one year) .....	455,000	20,000
Total .....	559,302	\$41,100
Less current portion .....	41,100	
Long-term portion .....	\$518,202	

## 7. COMMITMENTS

The subsidiaries of Simlog are obligated under lease agreements expiring from 1974 to 1988 with aggregate annual rentals of \$66,000.

Sirco Manufacturing, Inc. has entered into a contract for the construction of a new plant facility for an estimated cost of approximately \$140,000 and has arranged for necessary long-term financing.

Simlog Corporation has guaranteed payment of notes payable of Simlog Leasing Company in the aggregate amount of \$8,337,468 at September 30, 1971.

## 8. CONTINGENCY

Under the provisions of a sales contract, Stetson-Ross Machine Company, Inc. manufactured and delivered certain equipment to a customer. In connection with this contract the Company has incurred significant costs in attempting to resolve certain matters concerning the performance of the equipment and interpretations of the contract. At the present time these matters have not been resolved and it is not possible to estimate the additional costs that may be incurred in their resolution.

## 9. COMMON STOCK AND PAID-IN SURPLUS

During 1971 the Company acquired and retired 2,445 shares of its common stock for an aggregate cost of \$42,087 of which \$24,450 and \$17,637 was charged to common stock and paid-in surplus respectively.

## 10. STOCK OPTION PLAN

The Company has a qualified stock option plan for officers and key employees. At September 30, 1971, options on 5,500 shares were exercisable at a price of \$30.00 a share. Options may be exercised after one year from date of grant and must be exercised during the following four years. At September 30, 1971, no options had been exercised and an additional 4,500 shares were available for grant.

# ACCOUNTANTS' REPORT

Simlog Corporation:

We have examined the balance sheet of Simlog Corporation and consolidated subsidiaries as of September 30, 1971, and the related statements of consolidated income, retained earnings, and changes in financial position for the year then ended. We have also examined the balance sheet of Simlog Leasing Company (a wholly-owned non-consolidated subsidiary) as of September 30, 1971, and the related pro forma statements of income and equity and changes in financial position for the year then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly

included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the outcome of the contingency described in Note 8 to the consolidated financial statements, the accompanying financial statements of Simlog Corporation and consolidated subsidiaries present fairly the financial position of the companies at September 30, 1971, and the results of their operations and changes in financial position for the year then ended, in conformity with generally accepted accounting

principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the change in reporting leasing activities as explained in Note 1 to consolidated financial statements.

Also, in our opinion, the accompanying financial statements of Simlog Leasing Company present fairly its financial position at September 30, 1971, and the results of its operations and changes in financial position on a pro forma basis for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Seattle  
December 7, 1971

*Hashins & Sells*



# SIMLOG LEASING COMPANY

## BALANCE SHEET

SEPTEMBER 30, 1971 AND 1970

Assets	1971	1970 (Pro Forma Note 1)
CASH .....	\$ 91,630	\$ 91,630
INSTALLMENT LEASE CONTRACTS AND OTHER RECEIVABLES (Note 2) .....	10,823,956	8,516,460
UNEARNED INCOME .....	(2,171,200)	(1,797,766)
ALLOWANCE FOR DOUBTFUL RECEIVABLES .....	(60,000)	(35,000)
ESTIMATED RESIDUAL VALUE OF LEASED EQUIPMENT ACCOUNTED FOR ON THE FINANCING METHOD (Note 2) .....	1,230,270	852,714
ADVANCES—EQUIPMENT ACQUISITIONS .....	114,924	106,731
LEASED EQUIPMENT ACCOUNTED FOR ON THE OPERATING METHOD— At cost less accumulated depreciation of \$2,967,129 at 1971 and \$2,801,231 at 1970 (Note 3) .....	420,135	792,131
OTHER ASSETS .....	12,013	8,030
TOTAL .....	<u>\$10,461,728</u>	<u>\$8,534,930</u>

Liabilities	1971	1970 (Pro forma Note 1)
ACCOUNTS PAYABLE AND ACCRUED EXPENSES .....	\$ 134,356	\$ 113,583
NOTES PAYABLE TO BANKS—Collateralized by substantially all of the equipment leases; bearing interest at rates of from 5-1/2% to 9% and payable as lease payments are scheduled to be received .....	8,337,468	6,605,762
LEASE RENTAL DEPOSITS .....	262,535	224,373
Total liabilities .....	8,734,359	6,943,718
DEFERRED INCOME TAXES (Note 4) .....	405,700	191,800
EQUITY OF SIMLOG CORPORATION IN NET ASSETS OF SIMLOG LEASING COMPANY (consisting of 500 shares of \$100 par value common stock and \$1,271,699 of additional paid-in capital in 1971) .....	1,321,669	1,399,412
TOTAL .....	<u>\$10,461,728</u>	<u>\$8,534,930</u>

See Notes to Financial Statements.



# SIMLOG LEASING COMPANY

## PRO FORMA STATEMENTS OF INCOME AND EQUITY OF SIMLOG CORPORATION (NOTE 1)

FOR THE YEARS ENDED SEPTEMBER 30, 1971 AND 1970

	1971	1970
REVENUES:		
Installment lease contract income (Note 2) . . . . .	\$1,192,387	\$ 896,449
Operating lease income, less depreciation of \$341,861 in 1971 and \$490,020 in 1970 (Notes 2 and 3) . . . . .	115,106	232,378
Other . . . . .	13,205	19,430
Total revenues . . . . .	<u>1,320,698</u>	<u>1,148,257</u>
EXPENSES:		
Interest . . . . .	658,086	523,393
Salaries and related costs . . . . .	77,631	55,211
Provision for losses on lease contracts receivable . . . . .	96,836	38,285
Taxes other than taxes on income . . . . .	18,635	28,879
Other . . . . .	81,593	41,842
Total expenses . . . . .	<u>932,781</u>	<u>687,610</u>
INCOME BEFORE INCOME TAXES . . . . .	<u>387,917</u>	<u>460,647</u>
PROVISION FOR (REDUCTION OF) INCOME TAXES:		
Current . . . . .	(35,100)	195,297
Deferred . . . . .	213,900	23,800
Total provision for income taxes . . . . .	<u>178,800</u>	<u>219,097</u>
NET INCOME FOR THE YEAR . . . . .	<u>\$ 209,117</u>	<u>\$ 241,550</u>
EQUITY OF SIMLOG CORPORATION IN SIMLOG LEASING COMPANY:		
Beginning of year . . . . .	\$1,399,412	\$1,340,695
Add—net income for the year . . . . .	209,117	241,550
Less—distribution of funds to Simlog Corporation . . . . .	(286,860)	(182,833)
End of year . . . . .	<u>\$1,321,669</u>	<u>\$1,399,412</u>

## PRO FORMA STATEMENT OF CHANGES IN FINANCIAL POSITION (NOTE 1)

FOR THE YEARS ENDED SEPTEMBER 30, 1971 AND 1970

	1971	1970
FUNDS WERE PROVIDED BY:		
Current operations:		
Net income for the year . . . . .	\$ 209,117	\$ 241,550
Depreciation on leased equipment accounted for on the operating method . . . . .	341,861	490,020
Deferred income taxes . . . . .	213,900	23,800
Total from current operations . . . . .	<u>764,878</u>	<u>755,370</u>
Borrowings from banks . . . . .	1,731,706	1,245,032
Increase in deposits from customers . . . . .	38,162	71,142
Disposal of equipment accounted for on the operating method . . . . .	30,135	23,964
Other—net . . . . .	8,597	73,978
Total funds provided . . . . .	<u>\$2,573,478</u>	<u>\$2,169,486</u>
FUNDS WERE APPLIED TO:		
Investment in installment lease contracts— net of disposals and unearned income . . . . .	\$1,909,062	\$1,717,965
Increase in residual value of leased equipment—net of disposals . . . . .	377,556	268,688
Distribution of funds to Simlog Corporation . . . . .	286,860	182,833
Total funds applied . . . . .	<u>\$2,573,478</u>	<u>\$2,169,486</u>

See Notes to Financial Statements.



## NOTES TO

## FINANCIAL STATEMENTS

FOR THE YEAR ENDED SEPTEMBER 30, 1971

### 1. BASIS OF REPORTING AND ACCOUNTING

Simlog Leasing Company was formed as of September 30, 1971, by issuing its 500 authorized shares of \$100 par value common stock to Simlog Corporation in exchange for the transfer of all the assets and liabilities directly associated with its leasing operations plus \$91,630 of cash. The net book value of the assets transferred was \$1,321,669.

The accompanying financial statements are presented pro forma, as if the formation had occurred at the beginning of the 1970 year.

Simlog Leasing Company has adopted the same accounting policies for the assets and liabilities acquired as was used by Simlog Corporation.

### 2. LEASE CONTRACT ACCOUNTING

The Company accounts for personal property leases which went into effect subsequent to September 30, 1967, under the financing method, recording the contract as a receivable and the difference between the receivable and the cost of the related property (less estimated residual value) as unearned income. During the first month of a lease on which significant costs are incurred in its acquisition and consummation, an amount equivalent to three per cent of the cost of the related property is transferred from unearned to earned income to offset such costs.

Lease contracts generally have remaining maturities ranging from one to sixty months and are due in equal monthly installments.

The Company accounts for leases which went into effect prior to September 30, 1967, under the operating method whereby no receivable is recorded for the contract and lease income is recognized ratably over the term of the lease.

Substantially all leases are pledged as collateral to \$8,337,468 notes payable to banks.

### 3. LEASED EQUIPMENT

Leased equipment accounted for on the operating method is depreciated over its estimated useful life (generally four to ten years) using the straight-line method.

### 4. INCOME TAXES

For financial reporting purposes income is recognized in the manner described in Note 2. For income tax purposes lease rentals and residuals are reported as income when collected and deductions are taken for depreciation of leased equipment over its useful life. Deferred income taxes have been provided on the difference in income between the two methods of reporting.

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# **SIMLOG CORPORATION**

## **Board Of Directors**

---

C. Henry Bacon, Jr.—Vice Chairman, Simpson Timber Company

Chapin Henry—President, H. C. Henry Investment Company

F. C. Moseley—Chairman, Simpson Lee Paper Company

W. G. Reed—Managing Partner, Simpson Reed & Co.

W. G. Reed, Jr.—Chairman, Simpson Timber Company

Robert L. Wiley—President, Simlog Corporation

## **Officers**

---

W. G. Reed, Chairman

Robert L. Wiley, President

F. C. Moseley, Vice President

S. K. Henkel, Treasurer

A. Duane Pearson, Secretary



**SIMLOG  
CORPORATION**

5566 White-Henry-Stuart Building  
Seattle, Washington 98101

Simlog Leasing Company  
307 Broad Street  
Seattle, Washington 98121

Stetson-Ross Machine Company, Inc.  
3200 First Avenue S.  
Seattle, Washington 98134

Laucks Laboratories, Inc.  
Overlake Industrial Park  
Redmond, Washington 98052

Sirco Manufacturing, Inc.  
1919 North Avenue W.  
Missoula, Montana 59801

Simpak Corporation  
2021-15th Avenue W.  
Seattle, Washington 98119