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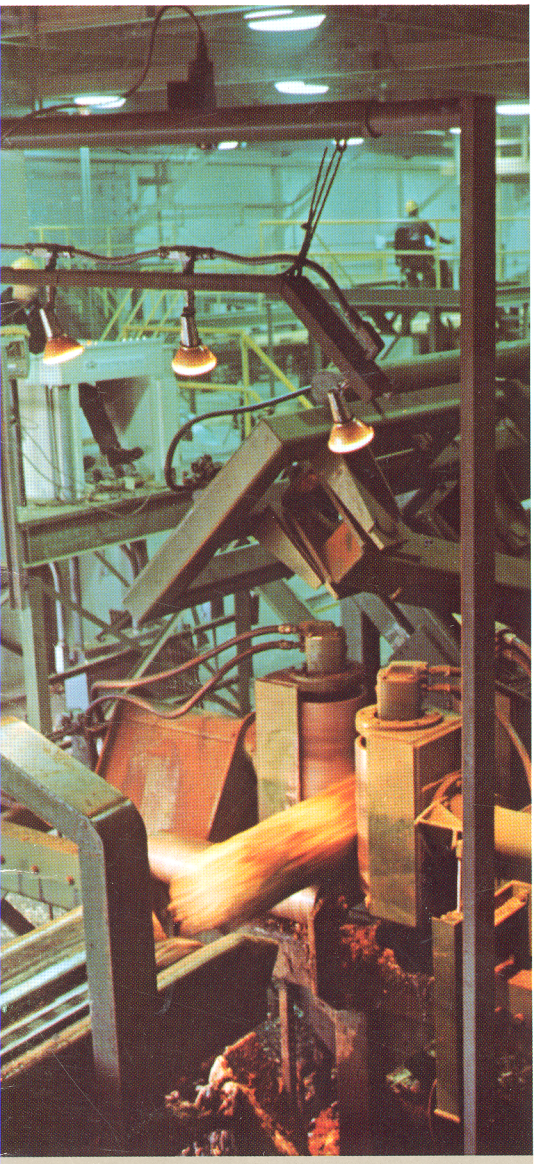
Simlog CORPORATION

ANNUAL REPORT 1973



STETSON-ROSS: Process control and production machinery for the forest products industry worldwide.

SIMLOG LEASING: Capital equipment leasing in the western United States.

SIMPAK: Vitamin and consumer product packaging for major wholesalers and drug chains in the West.

Highlights

Year Ended September 30	1973	1972	1971
Net sales and lease revenue	**$12,946,702**	$10,280,845	$8,027,482
Net earnings after tax	**703,273**	558,339	365,390
Earnings per share	**6.30**	5.07	3.27
Shareholders' equity at year-end	**4,517,775**	3,859,341	3,296,127
Book Value per share	**40.50**	34.57	29.86
Return on Beginning Equity	**18.2%**	16.9%	12.3%
Dividends per share	**$ .35**	$ .30	—

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Simlog Corporation is deliberately diversified. Our earnings flow from diverse markets, thus limiting corporate exposure to cyclical fluctuations.

In each area of operation our products or marketing programs afford our subsidiaries a proprietary position through which they have obtained a significant share of the market they serve.

In our major activities —

- we are in the forest products process control and machinery business through Stetson-Ross and its newly acquired subsidiary, Atmospheric Sciences, Inc.,
- we are the leading regional packagers of private label vitamins and other over-the-counter pharmaceutical products through Simpak Corporation,
- and we are a well financed general leasing company operating within a well-defined geographic and product market through Simlog Leasing Corporation.

We expect to achieve superior earnings performance through using the full capabilities of a superior management team. We seek the acquisition of companies or product lines that relate to, and integrate with, our present subsidiaries, or of diverse activities which possess significant growth opportunity and which fit within our overall management capability.

Simlog
CORPORATION

To Our Shareholders

Simlog continued to make significant progress in 1973 — progress in the growth of earnings and sales, the development of new products, the expansion of marketing capabilities, and the broadening of opportunities for an increasingly strong and able group of employees.

Our fiscal 1973 net profit was $703,273 or $6.30 per share, a 24% increase over 1972. This was our third consecutive year in which earnings per share increases have exceeded our 20% per year growth goal.

Sales and lease revenue increased 26% to $12,946,702 from 1972's $10,280,845. Virtually all of this increase came from established product lines and the marketing of new internally developed products and services.

These increases have produced on 18.2% return on beginning shareholders' equity in 1973, as compared with 16.9% in 1972.

This was also a year of increased focus on our corporate objectives and further definition of the Corporation's activities.

We continue to be a diversified organization offering products, services or marketing programs that afford us some proprietary or special market position. Each of our operations has a significant share of its particular market, and each is expanding that position through related product and geographic growth.

We have also sought new courses in situations where we lacked a unique technical competence or where a subsidiary has approached market saturation. Thus, our small geo-physical instrumentation product line was sold during the year to a new company, Terra Technology Corp., which has uncommonly strong technical management. The new company, in turn, has benefited by having our financial assistance as a 40% owner.

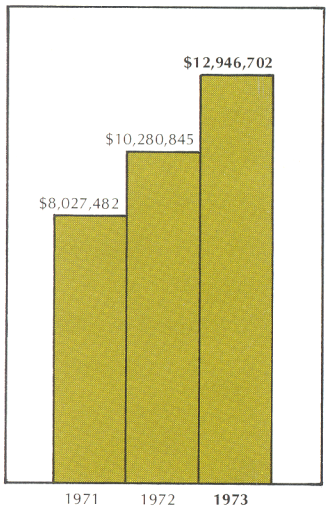
Each year since 1969, the Corporation has made significant investments, relative to earnings, in new products and services. In 1973 we reaped a number of specific benefits from this program.

Stetson-Ross benefited from sales of an altogether newly designed Narrow Lumber Planer system. This subsidiary has long dominated the large heavy-duty planer field and through this new model has already made significant sales to mills which process dimension or narrow lumber exclusively.

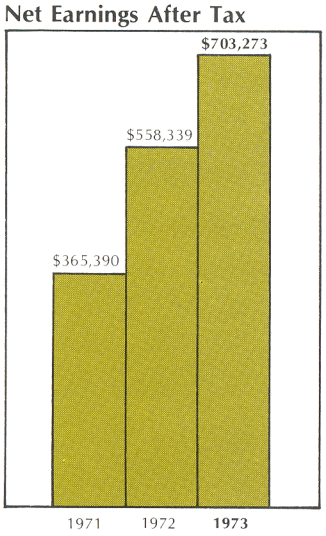
Stetson's new chipping canter with its unique double taper feed has been well accepted and allows higher lumber recovery and better chips from logs than other systems marketed here or abroad.

From left to right, Keith T. Riffle, Director of Finance and Robert L. Wiley, President, and the presidents of the corporation's three major subsidiaries, Stephen K. Henkel, Simpak, Gilbert W. Anderson, Stetson-Ross and E. Bruce Woodruff, Simlog Leasing.

Net Sales and Lease Revenues



Net Earnings After Tax



Earnings per Share

In addition to growth from new products, each subsidiary expanded its sales coverage. Stetson-Ross added two new people to its sales office in the southeastern United States and retained a skilled sales representative in Norway. Equipment was demonstrated at a large forest machinery trade show in Moscow, and our major machine on demonstration was purchased by the Russians. We are studying this market, for it offers dramatic growth opportunity for qualified American companies over the next decade.

Stetson's sales expansion also benefited from agency sales arrangements with several leading domestic and foreign firms which manufacture complementary non-competitive machinery which our sales force now sells on a commission basis.

Simpak expanded its private label vitamins and over-the-counter pharmaceutical products coverage into California. Our initial success indicates that our marketing programs and the personal service of our sales personnel will lead to our becoming a major factor in that market. A warehouse will be opened in this area shortly.

New vitamin and health food products were added selectively to the line. This gives our men more to sell and allows our customers to obtain more products from a single, reliable source.

Simlog Leasing also expanded its coverage through increased business from its Spokane and Portland offices. Simlog Leasing primarily seeks leases of under $100,000 with a concentration under $25,000. Thus it often is able to become the leasing arm of both local and national sales organizations in the Northwest which need prompt, decisive leasing support.

Auto leasing has been added, too, since it is integrative and many of our present customers are interested in this added service.

Subsequent to the year end closing, Stetson-Ross had an opportunity to acquire a leading manufacturer of sawmill process control systems, Atmospheric Sciences, Inc. of Sunnyvale, California. Management was quite familiar with Atmospheric Sciences since its systems are being increasingly accepted as the means of setting and controlling Double Taper Chipping Canters, competitive machines and other machinery within the sawmill. Management saw this as an unusual opportunity to be associated with highly skilled, well motivated new employees in a very dynamic area of the forest products machinery business. Thus, Atmospheric Sciences was acquired as a subsidiary of Stetson-Ross in November, 1973.

It is significant to note that major technological changes are being accepted at an accelerating rate by forest products companies. These companies are planning and starting large capital expenditure programs that may significantly alter the traditional capital equipment cycle. Stetson-Ross' new machinery, coupled with new process control expertise, places them in an excellent position to benefit from these aggressive capital programs.

Thus 1974 looks good, provided the general economy remains at all stable. We cannot fully anticipate the effect an energy shortage and a broad economic slowdown would have. But we currently expect that these, plus specific material shortages and cost inflation, will not be overpowering.

In April Keith T. Riffle joined the Company as Director of Finance and is a strong addition to corporate management. In August George DeBon, President of Loomis Corporation, was elected to the Board of Directors and is already making a steady and valued contribution to the direction of the Company.

Basically, though, Simlog consists of people who have been with us since the present organization came together in January, 1969. These people are loyal, ambitious and able. We seek to keep opportunity and challenge before them and to recognize and reward their achievements. Our sales and earnings have increased greatly over this time period. So has our ability to keep making progress.

Robert L. Wiley

Robert L. Wiley, *President*

Stetson-Ross

Stetson-Ross is a major manufacturer of wood processing machinery, electronics, electro optical process control systems and coated fibers for the forest products industry.

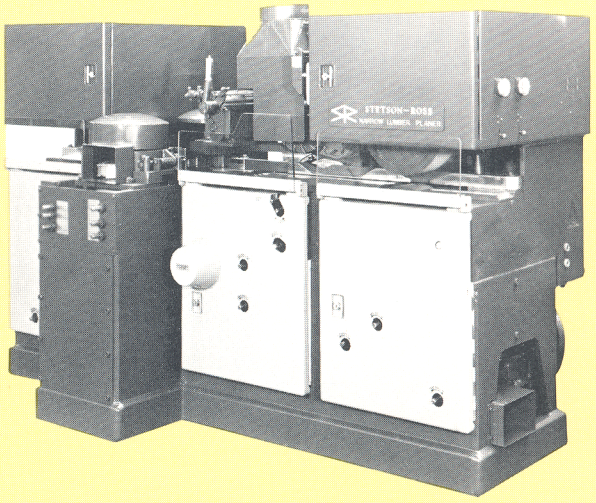
The company has served the industry since 1898 and is an innovative organization with a worldwide reputation for leadership in the development of new techniques and equipment.

Both qualities — solid experience and innovation in design — are essential to meet the needs of this rapidly changing industry. The world demand for wood and wood fiber products is increasing at an accelerating rate, and there is a corresponding requirement for development of processing equipment that operates at high speed and with maximum fiber utilization.

From our standpoint, the challenge is clear: research and development that produces new designs to meet those basic customer objectives in a way that also makes the highest use of increasingly valuable raw material.

Stetson-Ross serves the international forest products industry with a broad range of products for sawmills, planing mills, plywood plants and the remanufacturing industry for furniture manufacturers, cut-up plants, mobile home factories and moulding plants. The company has the capability of designing and supplying all the machinery and material handling equipment for small log sawmills and planing mills.

A number of new products were developed and brought to market during the year. The increased recovery possible from the Double Taper Chipper Canter for small log sawmills made possible additional sales. The prototype "Koch" chipping lathe was completed and the design of a second lathe to process low grade southern hardwood into usable lumber and chips was started for the U. S. Forest Service. The design of a revolutionary new planer was completed and deliveries made. This machine was developed specifically to process narrow lumber at high speed, with minimum fiber removal, with reduced maintenance and comparatively easy setup. A unique three-level grading system was designed and installed in a high speed, mixed specie planing mill to increase grading



The new Narrow Lumber Planer, engineered specifically for today's small log lumber industry.

Visitors at the Moscow, Russia machinery exposition, Lesdrevmash '74, view a Stetson-Ross chipping edger in operation.

accuracy while processing lumber at high speeds. A new coated fiber product line was added which results in a lower cost to the customer. A glue manufacturing capability was added to the Sim-Strand plant. A prototype of a computer to increase the output of plywood dryers was completed and is being field tested. The test program for a continuous moisture measurement system for pulp chips was completed successfully under operating conditions in a local pulp mill. Development work on a digital setwork control system and a solid state memory device was initiated.

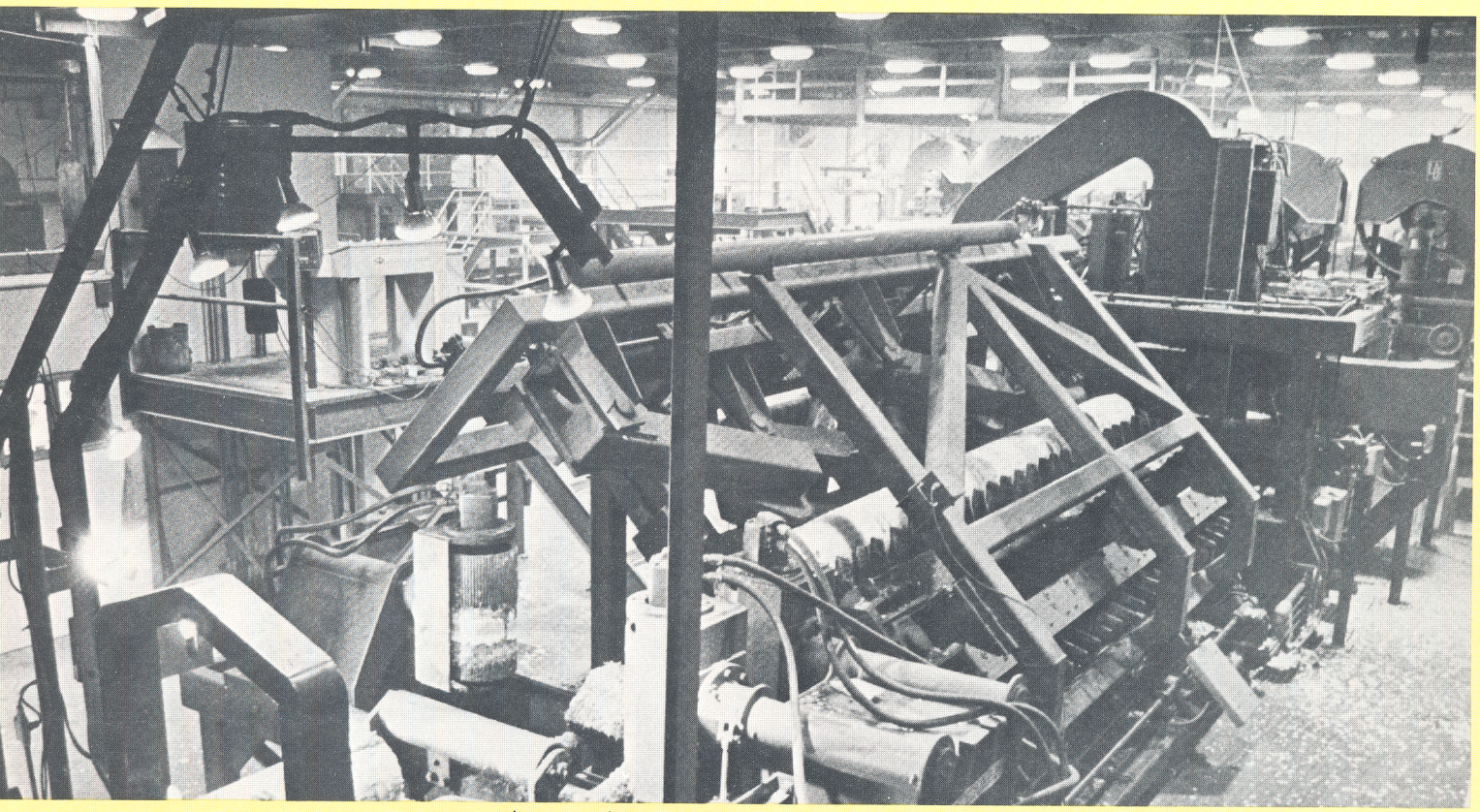
The acquisition of Atmospheric Sciences, Inc. will further Stetson-Ross's entrance into process control. This electro optical capability, coupled with a mini computer or micro processor brings Stetson to the forefront of a technology that has great potential.

Stetson-Ross expanded its agency relationships from selling stacking and sorting systems to bandsaws and stress grading machines. Presentations on the Double Taper Chipper Canter was made at two major sawmill clinics.

The company also exhibited machinery at major machinery expositions, including one in Moscow, Russia.

A school to teach planermen how to operate and maintain their machinery was established. There have been ten separate classes presented, attracting students from Europe and Canada, as well as the U. S.

The company's organization was strengthened with the addition of new people and the continued development of our long term employees. These employees will make possible our continued growth pattern.



The optical scanning section of Atmospheric Sciences' process control system develops data for automatically setting the Double Taper Chipping Canter for maximum lumber recovery.

Simpak Corporation

Simpak, which packages and distributes over-the-counter pharmaceuticals, vitamins and family health aids, continued its long range growth program this year. Emphasis was placed on product line and geographical expansion, organizational development and improved internal controls. The activities in each of these areas should ensure Simpak's successful operation in the highly competitive consumer products marketing field.

Several new over-the-counter pharmaceutical products and vitamins were placed in distribution to private label customers during the year. We constantly search for products to extend customers' private label programs with profitable items. Other popular, natural source products were introduced to Simpak customers, the most successful being our Terra Copia Granola Cereal product line.

A program has also been initiated to develop a line of economy priced cosmetics to be distributed to our customers. High priority is being given to broaden Simpak's product base thereby lessening dependency on any one category of product.

A sales office was established in the San Francisco Bay area during the fiscal year. A substantial effort is underway to penetrate this large market. We are pleased to this point with our ability to be competitive in Northern California. Plans are underway to open a warehouse in the Bay Area during 1974. This step should significantly enhance our sales efforts on the West Coast. Other geographical expansion is planned during the year.

Simpak's Terra Copia natural vitamins in the cereal section of a supermarket.

Organizational changes were made to strengthen Simpak's marketing and financial controls functions. Future growth is dependent upon our ability to penetrate and make a profit in non-traditional markets and we are confident the addition of a Vice President for Sales and Marketing with a strong consumer products background and Controller will help assure our success.

A substantial investment was made during the year to develop and implement improved internal control systems at Simpak. A computer based cost accounting, accounts receivable and inventory control systems are providing improved information.

Simpak's high speed liquid filling line.

Simlog Leasing

Simlog Leasing Company enjoys a long standing reputation for integrity and service to business, industry, professions and individuals in the Western United States. In 1973 it broadened its operations significantly.

The company serves customers throughout the western states, and has entered into leases with a wide range of clients, including health science professionals and institutions, primary manufacturers and secondary producers and service industries.

The company's leasing program is served from established offices in Bellevue (Seattle), Spokane and Portland. The company anticipates continued expansion to meet the growing capital requirements of its market area.

In addition to the broadening geographical base, the company has expanded its automobile leasing activities significantly, establishing a special department to develop this business.

In all areas Simlog Leasing has established its market positions on the basis of intensive customer service and prompt decisions. Because of these characteristics the company can develop flexible leasing arrangements, with the specific payment levels tailored to meet the client's business and tax needs.

In addition to providing prompt and efficient service to its clients, Simlog also has established a reputation as a reliable business partner among equipment suppliers. The company has developed expertise in a wide range of business areas, and this knowledge of processes and operation, plus experience in the performance and characteristics of the specialized equipment itself, provides vendors with a knowledgeable organization through which to establish leasing arrangements quickly and equitably.

As leasing becomes more attractive as an alternate source of capital equipment financing, Simlog Leasing anticipates continued expansion in professional and business areas. In general terms, the high cost of money and the investment tax credit regulations have combined to make leasing especially attractive in recent years. Although each individual situation requires specific analysis to determine the extent of leasing benefits, there is little question but that such analysis tips the balance toward leasing in an increasing number of situations.

Sirco Manufacturing, Inc.

Sirco Manufacturing, Inc., is a leading producer of patented sewing machine tables and utility furniture for home and commercial use. The company operates from facilities in Missoula, Montana, and Stevens Point, Wisconsin. By having western and midwestern shipping points, Sirco has gained an excellent reputation for very prompt customer service. In many instances, Sirco deals with small sewing machine dealers and office supply stores which maintain relatively small inventories. Hence prompt dependable service is a vital consideration to such customers. Sirco sales coverage extends throughout the country, and the company maintains a national sales office in Chicago.

The company continues to be an innovator in utility furniture and during the year introduced professionally designed knock-down office furniture that is shipped flat and unassembled in a carton to customers. A new and highly successful mechanical joining system allows for easy assembly, and is becoming increasingly popular and practical. Our line consists of three desk styles and matching credenza and filing cabinets.

Medistor Instrument Co.

Medistor has completed design and now has in production its new M-010 Pulmonary Function Analyzer. This was completed at mid-year and a number of units are now being used throughout this country and abroad. This compact, self contained instrument measures twelve pulmonary functions with accuracy and reliability. Through the additions of plug-in modular accessory equipment the M-010 is the key component of a complete, relatively low cost pulmonary measurement system which includes a chart recorder, digital card printer and a predicted value computer.

Medistor instruments are sold nationwide through a network of carefully selected sales representatives.

Simlog Corporation and Consolidated Subsidiaries

Consolidated Balance Sheet

September 30, 1973 and 1972

Assets

	1973	1972
Current Assets:		
Cash	**$ 191,867**	$ 54,394
Trade accounts receivable	**2,003,390**	1,432,561
Allowance for doubtful accounts	**(41,392)**	(38,372)
Inventories (Note 2)	**2,220,723**	2,187,210
Prepaid expenses and deposits	**96,796**	179,823
Deferred Federal income tax charges		55,410
Total current assets	**4,471,384**	3,871,026
Investment in Simlog Leasing Company — At equity in net assets	**1,863,881**	1,636,403
Property, Plant, and Equipment — At cost less accumulated depreciation (Note 3)	**1,283,794**	1,123,770
Other Assets:		
Deferred Federal income tax benefit — net	**88,580**	
Unamortized cost of non-competition agreement (Note 10)		302,792
Other — principally patents, at cost less accumulated amortization	**333,690**	385,008
Total other assets	**422,270**	687,800
Total	**$8,041,329**	$7,318,999

Liabilities

	1973	1972
Current Liabilities:		
Notes payable	**$ 837,330**	$ 731,270
Accounts payable	**979,792**	555,640
Advance deposits by customers	**403,946**	501,505
Accrued interest	**4,896**	18,257
Accrued income taxes	**198,572**	51,632
Other accrued expenses	**463,434**	388,702
Installation and warranty expense reserve	**56,507**	279,872
Total current liabilities	**2,944,477**	2,526,878
Long-Term Notes Payable (Note 5)	**579,077**	920,970
Deferred Federal Income Taxes		11,810
Commitments and Contingencies (Notes 4 and 6)		
Shareholders' Equity (Notes 7 and 8):		
Common stock — par value, $10.00 a share; authorized, 200,000 shares	**1,115,460**	1,116,470
Additional paid-in capital	**228,543**	233,295
Retained earnings	**3,173,772**	2,509,576
Total shareholders' equity	**4,517,775**	3,859,341
Total	**$8,041,329**	$7,318,999

See Notes to Consolidated Financial Statements.

Simlog Corporation and Consolidated Subsidiaries

Statements of Consolidated Income and Retained Earnings

For the Years Ended September 30, 1973 and 1972

	1973	1972
Revenues:		
Net sales of manufactured products	**$11,037,283**	$8,487,923
Other sales and income	**228,215**	259,057
Total	**11,265,498**	8,746,980
Costs and Expenses:		
Cost of manufactured products sold (exclusive of depreciation)	**7,428,158**	5,759,551
Depreciation and amortization	**274,342**	151,775
Selling, general, and administrative expenses	**2,675,428**	2,338,222
Write-off of non-competition agreement (Note 10)	**218,292**	
Interest expense	**114,423**	85,127
Total	**10,710,643**	8,334,675
Income Before Income Taxes	**554,855**	412,305
Provision for Income Taxes:		
Current	**285,700**	155,400
Deferred	**(16,640)**	28,900
Total	**269,060**	184,300
Income Before Income from Leasing Operations	**285,795**	228,005
Income from Leasing Operations	**377,478**	314,734
Income Before Extraordinary Credit	**663,273**	542,739
Extraordinary Credit — Tax Benefit Resulting from Carryover of Prior Years' Operating Losses	**40,000**	15,600
Net Income for the Year	**$ 703,273**	$ 558,339
Per Share of Common Stock:		
Income before extraordinary credit	**$5.94**	$4.93
Extraordinary credit	**.36**	.14
Net income	**$6.30**	$5.07
Retained Earnings, Beginning of Year	**$ 2,509,576**	$1,984,330
Net Income for the Year	**703,273**	558,339
Cash Dividends (per share: 1973-$.35; 1972-$.30)	**(39,077)**	(33,093)
Retained Earnings, End of Year	**$ 3,173,772**	$2,509,576

See Notes to Consolidated Financial Statements.

Simlog Corporation and Consolidated Subsidiaries

Statement of Changes in Consolidated Financial Position

For the Years Ended September 30, 1973 and 1972

	1973	1972
Working Capital Was Provided from:		
Current operations:		
Income excluding leasing operations and extraordinary credit	**$ 285,795**	$ 228,005
Add expenses not requiring a current outlay of working capital:		
Depreciation and amortization	**274,342**	151,775
Write-off of non-competition agreement (Note 10)	**218,292**	
Deferral of non-current income taxes		8,310
Dividends received from Simlog Leasing Company	**150,000**	
Less provision for deferred income tax benefit	**(100,390)**	
Total from current operations	**828,039**	388,090
Other sources:		
Tax benefit from utilization of carryover of prior years' operating losses	**40,000**	170,800
Sales of other assets	**53,359**	115,574
Increase in long-term borrowings		402,768
Sale of common stock — net of stock reacquired		37,968
Total working capital provided	**921,398**	1,115,200
Working Capital Was Used for:		
Purchase of property, plant, and equipment — net of normal disposals	**318,355**	694,658
Reduction of long-term borrowings	**341,893**	
Acquisition of patents, etc.	**33,552**	34,816
Acquisition of non-competition agreement		341,990
Acquisitions of common stock — net	**5,762**	
Cash dividends	**39,077**	33,093
Total working capital used	**738,639**	1,104,557
Increase in Working Capital	**$ 182,759**	$ 10,643
Changes in Working Capital:		
Increase (decrease) in current assets:		
Cash	**$ 137,473**	$ 6,012
Accounts receivable and advances	**567,809**	45,494
Inventories	**33,513**	890,907
Prepaid expenses and deposits	**(83,027)**	134,174
Deferred taxes	**(55,410)**	55,410
Total	**600,358**	1,131,997
Increase (decrease) in current liabilities:		
Current portion of notes payable	**106,060**	173,339
Accounts payable and accrued expenses	**409,098**	533,734
Customer deposits	**(97,559)**	414,281
Total	**417,599**	1,121,354
Increase in Working Capital	**$ 182,759**	$ 10,643

See Notes to Consolidated Financial Statements.

Simlog Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

For the Year Ended September 30, 1973

1. Summary of Significant Accounting Policies

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. Dividends received from Simlog Leasing Company are credited to the Company's equity in net assets.

All significant intercompany transactions and balances between Simlog Corporation and its consolidated subsidiaries have been eliminated.

Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market.

Depreciation and Amortization

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.

Patents are amortized on a straight-line basis over their estimated useful lives.

Income Taxes

The Company and its subsidiaries (including Simlog Leasing Company) report for Federal income tax purposes on a consolidated basis. Current provision for income taxes includes $125,000 in 1973 for income tax benefits received from Simlog Leasing Company.

Income taxes have been provided based on book income which differs from taxable income because of certain timing differences, including the periods in which installation and warranty expense, non-competition expense, and depreciation expense are recorded for accounting and tax purposes.

The Company accounts for investment tax credits as a reduction of income tax expense in the year the tax credits are utilized. Investment tax credits of approximately $14,500 were utilized in 1973 and $9,400 in 1972.

Research and Development Expense

The companies charge research and development costs to expense in the periods in which incurred for financial and income tax purposes.

Warranty Costs

Estimated warranty costs are accrued during the period of the related sale for financial statement purposes.

Income Per Share

Income per share is based on the weighted average number of common shares outstanding during the year.

2. Inventories

Inventories at September 30, 1973 and 1972 are summarized below:

	1973	1972
Finished products	**$1,338,296**	$1,312,052
Work in process	**168,091**	219,690
Materials and supplies	**714,336**	655,468
Total	**$2,220,723**	$2,187,210

3. Property, Plant, and Equipment

The cost and accumulated depreciation of property, plant, and equipment at September 30, 1973 and 1972 is summarized below:

	1973	1972
Cost:		
Land, buildings, and improvements	**$ 827,125**	$ 826,800
Machinery and equipment	**995,292**	759,768
Furniture and fixtures	**121,843**	101,598
Total	**1,944,260**	1,688,166
Accumulated depreciation	**660,466**	564,396
Property, plant, and equipment — net	**$1,283,794**	$1,123,770

Properties carried at an adjusted basis of $539,016 are pledged as collateral to related mortgage notes payable aggregating $296,076 at September 30, 1973.

4. Federal Income Tax

The Internal Revenue Service has examined the 1969 return of a subsidiary and has raised questions concerning deductions which, if not allowed, would reduce its loss carryover used by the Company in prior years by $203,420. The Company believes the deductions in questions to be proper and allowable. In the event that the deduction is disallowed, the related tax effect would be restored as goodwill since the benefits of the loss carryovers previously recognized had been accounted for as a reduction of goodwill amounts existing in prior years.

5. Long-Term Notes Payable

	Total	Current
To bank:		
8%, payable in monthly installments of $812 including interest	$ 31,505	$ 7,500
8% and 8½%, collateralized by a first mortgage on plant building (depreciated cost, $372,746); payable in monthly installments aggregating $2,464 including interest	174,861	15,650
To shareholders:		
6½% and 7% demand notes ($200,000 to be paid in one year)	300,000	200,000
Others:		
8% real estate contract, collateralized by plant building (depreciated cost, $166,270); payable in quarterly installments of $4,753 including interest	121,215	9,600
Amount due under non-competition agreement (face amount $300,000) (Note 10); non-interest-bearing, $100,000 minimum payable annually; net of unamortized imputed 7% discount of $32,264	267,736	86,990
6% note, payable $2,500 plus interest on January 1, 1974; balance plus interest due on January 1, 1975	6,000	2,500
Total	901,317	$322,240
Less current portion	322,240	
Long-term portion	$579,077	

6. Commitments

Simlog Corporation has guaranteed the notes payable of Simlog Leasing Company which aggregated $10,127,367 at September 30, 1973. In addition, Simlog Corporation has guaranteed the bank line of credit of an affiliated company which amounted to $75,000 at September 30, 1973.

During 1972 the Company sold 2,700 shares of its common stock to officers and employees and agreed to repurchase any of these shares at their net book value in the event they are offered for resale to the Company. In addition, the Company guaranteed the debts incurred by the officers and employees to purchase such shares. The Company's maximum contingent liability relating to the above was approximately $103,000 at September 30, 1973.

7. Common Stock and Additional Paid-In Capital

Transactions in the Company's common stock during 1973 were as follows:

	Common Stock		Additional
	Number of Shares	Amount	Paid-In Capital
Balance, October 1, 1972	111,647	$1,116,470	$233,295
Common stock sold during year	500	5,000	12,500
Common stock acquired and retired during year	(601)	(6,010)	(17,252)
Balance, September 30, 1973	111,546	$1,115,460	$228,543

8. Stock Option Plan

The Company has a qualified stock option plan for officers and key employees. During 1973 options on 750 shares were granted at $37.50 a share and 500 shares under option at $35.00 a share were exercised. At September 30, 1973 options on 7,950 shares at prices ranging from $30.00 to $37.50 a share were outstanding of which 7,200 were exercisable. Options may be exercised after one year from date of grant and must be exercised within the following four years. At September 30, 1973, 1,550 shares were available for grant and 9,500 shares of unissued common stock were reserved under the plan.

9. Profit Sharing Plan

The Company has a qualified profit sharing plan which covers substantially all salaried employees. The amount of the annual contribution under the plan is determined by the Board of Directors but in no event shall exceed the maximum deductible for Federal income tax purposes. Profit sharing expense was approximately $138,000 in 1973 and $66,000 in 1972 (exclusive of Simlog Leasing Company). It is the Company's policy to fund profit sharing expenses accrued.

10. Simstrand Purchase Agreement

In 1972 a subsidiary entered into an agreement for the acquisition of certain manufacturing and marketing rights together with related equipment and inventory. Incident to the agreement was a covenant from the seller not to compete for four years which was recorded at its discounted cash value to be amortized over the four years.

During 1973 other competitors entered the market adversely affecting the Company's position. As a result the non-competition agreement was deemed worthless and accordingly the unamortized cost ($218,292) was written off to operations.

11. Subsequent Event

Effective October 31, 1973 a subsidiary purchased 100% of the outstanding common stock of Atmospheric Sciences, Inc. (ASI) for $133,400. At October 31, 1973 ASI had total assets of $553,456 and a stockholders' deficiency of $200,918.

Auditors' Opinion

Simlog Corporation:

We have examined the balance sheet of Simlog Corporation and consolidated subsidiaries as of September 30, 1973 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 of Simlog Corporation) as of September 30, 1973 and the related statements of income, retained earnings, 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, the accompanying financial statements of Simlog Corporation and consolidated subsidiaries present fairly the financial position of the companies at September 30, 1973 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.

Also, in our opinion, the accompanying financial statements of Simlog Leasing Company present fairly its financial position at September 30, 1973 and the results of its operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied, except for the change in accounting for investment tax credits described in Note 1 to its financial statements, on a basis consistent with that of the preceding year.

Haskins & Sells

Seattle, Washington
December 7, 1973

Simlog Leasing Company

Balance Sheet

September 30, 1973 and 1972

Assets

	1973	1972
Cash	**$ 126,311**	$ 115,359
Investment in Leases (Note 3):		
Installment lease contracts	**13,916,924**	13,022,859
Estimated residual value of leased equipment accounted for on the financing method	**1,965,496**	1,635,701
Undepreciated cost of leased equipment accounted for on the operating method		244,717
Unearned lease income	**(2,733,863)**	(2,521,086)
Allowance for doubtful receivables	**(171,839)**	(135,000)
Total investment in leases	**12,976,718**	12,247,191
Current Federal Income Tax Benefits Due from Simlog Corporation (Parent)	**125,000**	9,500
Advances — Equipment Acquisitions	**174,871**	60,984
Other Receivables	**86,157**	74,107
Other Assets	**21,111**	11,285
Total	**$13,510,168**	$12,518,426

Liabilities

	1973	1972
Notes Payable to Banks (Note 3)	**$10,127,367**	$ 9,724,327
Accounts Payable and Accrued Expenses	**204,783**	237,493
Lease Rental Deposits	**230,337**	241,403
Total liabilities	**10,562,487**	10,203,223
Deferred Federal Income Taxes	**1,083,800**	678,800
Shareholder's Equity:		
Common stock — par value $100; authorized and outstanding, 500 shares	**50,000**	50,000
Additional paid-in capital	**1,271,669**	1,271,669
Retained earnings	**542,212**	314,734
Total shareholder's equity	**1,863,881**	1,636,403
Total	**$13,510,168**	$12,518,426

See Notes to Financial Statements.

Simlog Leasing Company

Statements of Income and Retained Earnings

For the Years Ended September 30, 1973 and 1972

	1973	1972
Revenues:		
Installment lease contract income	**$1,612,578**	$1,367,076
Operating lease income, less depreciation of $10,488 in 1973 and $158,508 in 1972	**22,401**	84,158
Other	**46,225**	82,631
Total revenues	**1,681,204**	1,533,865
Expenses:		
Interest	**662,262**	651,458
Salaries and related costs	**115,834**	97,553
Provision for losses on lease contracts receivable	**50,562**	82,385
Taxes other than taxes on income	**23,179**	21,054
Other operating expenses	**113,113**	103,081
Total expenses	**964,950**	955,531
Income Before Income Taxes	**716,254**	578,334
Provision for (Reduction of) Income Taxes:		
Current	**(66,224)**	(9,500)
Deferred	**405,000**	273,100
Total provision for income taxes	**338,776**	263,600
Net Income for the Year	**$ 377,478**	$ 314,734
Retained Earnings, Beginning of Year	**$ 314,734**	Nil
Net Income for the Year	**377,478**	$ 314,734
Cash Dividends ($300 a share)	**(150,000)**	
Retained Earnings, End of Year	**$ 542,212**	$ 314,734

Statement of Changes in Financial Position

For the Years Ended September 30, 1973 and 1972

	1973	1972
Funds Were Provided by:		
Current operations:		
Net income for the year	**$ 377,478**	$ 314,734
Depreciation on leased equipment accounted for on the operating method	**10,488**	158,508
Unearned tax credits utilized	**58,776**	
Deferred income taxes	**405,000**	273,100
Total from current operations	**851,742**	746,342
Increase in borrowings from banks	**403,040**	1,386,859
Increase in accounts payable and accrued expenses		103,137
Disposal of equipment accounted for on the operating method	**234,229**	16,910
Other — net		307
Total funds provided	**$1,489,011**	$2,253,555
Funds Were Applied to:		
Increase in investment in installment lease contracts — net of disposals and unearned income	**$ 715,275**	$1,848,124
Increase in residual value of leased equipment — net of disposals	**329,795**	405,431
Increase in advances for equipment acquisitions	**113,887**	
Increase in current Federal income tax benefit due from Simlog Corporation (Parent)	**115,500**	
Cash dividends paid to Simlog Corporation	**150,000**	
Other — net	**64,554**	
Total funds applied	**$1,489,011**	$2,253,555

See Notes to Financial Statements.

Simlog Leasing Company

Notes to Financial Statements

For the Year Ended September 30, 1973

1. Summary of Significant Accounting Policies

Lease Contract Accounting

The Company accounts for personal property leases which went into effect subsequent to September 30, 1967 under the financing method whereby the total amount of lease contract installments to be received is recorded as a receivable and the excess of the lease contract receivable plus estimated residual value over the cost of the equipment is recorded as unearned income.

Certain costs are incurred in the acquisition and consummation of leases; accordingly, an amount of unearned revenue equal to three to six per cent of the related equipment cost is recognized as earned during the first month of a lease. The remaining unearned income is recognized as income during the term of the lease in decreasing amounts related to the declining balance of the receivable. This procedure provides for an approximate level rate of return on the Company's unrecovered lease investment cost.

The Company accounted for leases which went into effect prior to September 30, 1967 under the operating method. In 1973 all such leased equipment was disposed of.

Income Taxes

For financial reporting purposes income is recognized in the manner described above. For income tax purposes lease rentals and residuals are reported as revenue 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.

The inclusion of Simlog Leasing Company in the consolidated Federal income tax return of Simlog Corporation (parent company) has resulted in realization of tax benefits (from tax losses resulting from the timing difference discussed above and from investment tax credits) in excess of amounts which would have been realized had separate returns been filed. The amounts of these benefits are received from the parent company, Simlog Corporation.

For years prior to 1973 the amount of investment tax credit utilized was not significant and was accounted for on the flow-through method. In 1973 the Company changed its method of accounting to recognize such tax credits as a reduction of equipment cost, because the Company believes the tax credits received on equipment leased represent an integral part of lease profitability. Accordingly, investment tax credits used to reduce Federal income taxes are recorded as unearned income and are recognized as a reduction of income tax expense ($11,755 in 1973) over the average lives of the related leases on a declining basis. The effect of this change was to reduce net income for the year ended September 30, 1973 by $58,776. Had the change been made in 1972 its effect on net income would not have been significant.

2. Transactions With Affiliated Company

A significant portion of the Company's business is with an affiliated company. Included in the financial statements are the following amounts resulting from transactions with the affiliate.

	September 30	
	1973	1972
Installment lease contracts and other receivables	**$6,799,663**	$6,898,541
Unearned income	**$1,182,892**	$1,196,084
Estimated residual value of leased equipment accounted for on the financing method	**$1,070,114**	$ 896,806
Undepreciated cost of leased equipment accounted for on the operating method		$ 244,717
Revenues	**$ 776,160**	$ 675,943

3. Notes Payable to Banks

Notes payable to banks bear interest at rates from 5¾% to 9¾% and are payable as lease payments are scheduled to be received. Substantially all equipment lease contracts are pledged as collateral to the notes.

4. Unused Investment Tax Credits

At September 30, 1973 the Company had unused investment tax credits of approximately $60,000 which are available to offset Federal income taxes in future years. If such credits are utilized they will be credited to unearned income and recognized as revenue as described in Note 1.

Simlog Corporation Subsidiaries

STETSON-ROSS

3200 First Avenue S.
Seattle, Washington 98134
(206) 622-4188

Belleville, Michigan
Birmingham, Alabama
DeQueen, Arkansas
Molalla, Oregon
Redmond, Washington
Sacramento, California
Seattle, Washington
Springfield, Oregon
Sunnyvale, California
Vancouver, B.C.

Gilbert W. Anderson, President and General Manager

Designs, manufactures and sells electronic and mechanical machinery systems to the forest products industry. Products include planing mill machinery, small log sawmill machinery, remanufacturing multiple ripsaws, bandsaws and molders, plywood core composing machinery, vacuum stackers, transfer equipment, Sim-Strand coated fibers and electronic process control systems.

Simlog LEASING COMPANY

Suite 208
1309 - 114th Avenue S.E.
Bellevue, Washington 98004
(206) 454-9727

Bellevue, Washington
Portland, Oregon
Spokane, Washington

E. Bruce Woodruff, President and General Manager

A major lessor of capital equipment to business, industry, professions and individuals in the western United States. The company leases a variety of equipment to highly diversified lessees and has expanded its services to include automobile and truck leasing through its newly formed Transportation Division.

Simpak

2021 - 15th Avenue W.
Seattle, Washington 98119
(206) 285-3800

Sacramento, California
Seattle, Washington

Stephen K. Henkel, President and General Manager

A leading supplier of over-the-counter pharmaceuticals and vitamins. The company packages both regional and private brand products and distributes these and other proprietary products to major wholesalers and drug chains in the western United States. Product quality and superior service are key elements in customer relations.

sirco manufacturing inc.

1919 North Avenue W.
Missoula, Montana 59801
(406) 543-8211

Missoula, Montana
Stevens Point, Wisconsin

Kenneth A. Blevins, President and General Manager

Designs and manufactures patented sewing machine tables and cabinets, and utility furniture of unique design or construction for home, school and commercial uses.

MEDISTOR

Overlake Industrial Park
Redmond, Washington 98052
(206) 885-4118

Bengt Eskilsson, Product Manager

Medistor medical diagnostic instruments are used to measure, record and predict vital pulmonary functions.

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Gene Davis, Design

Simlog
CORPORATION

5566 White-Henry-Stuart Building
Seattle, Washington 98101
(206) 624-4055

Cover photos left to right

A Stetson-Ross Double Taper Chipping Canter small log processing machine controlled by an Atmospheric Science, Inc. optical sensing process control system.

A Simlog Leasing representative discusses lease financing of production equipment with a client.

Chewable multiple vitamins on Simpak Corporation's automatic filling, cottoning and capping line.

Board of Directors

C. Henry Bacon, Jr. — Vice Chairman, Simpson Timber Company
George A. DeBon — President, Loomis Corporation
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
Keith T. Riffle, Secretary-Treasurer