

1972

PAC

207

Annual Report

day

Simlog
CORPORATION



Kenneth A. Blevins *E. Bruce Woodruff*
Robert L. Wiley, President *Stephen K. Henkel* *Gilbert W. Anderson*

Highlights

Year Ended September 30	1972	1971
Net sales and lease revenue	\$10,280,845	\$8,027,482
Net earnings after tax	558,339	365,390
Earnings per share	\$5.07	\$3.27
Shareholders' equity	3,859,341	3,296,127
Book Value per share	34.57	29.86
Return on average shareholders' equity . .	15.6%	11.6%
Dividends per share30	

To our shareholders

Simlog has had a good year.

The consolidated net profit of our diversified activities rose to \$558,339 or \$5.07 per share. This was a 55% increase over 1971's earnings of \$365,390 or \$3.27 per share.

We had expected continued improvement in 1972 as part of the nation's general economic improvement. Our progress, however, has significantly exceeded that of the economy alone. Substantial improvement in facilities and management controls has resulted in significant increases in productivity and profits.

Sales and lease revenues increased 28% over 1971—up to \$10,280,845 from \$8,027,482. The extent of our progress becomes even more apparent when the fiscal 1972 figures are viewed in a broader perspective. For example, our 1972 sales are only 12% ahead of our 1970 sales, but our 1972 profits exceed those of 1970 by nearly sixfold.

Highly able managers with relatively high levels of autonomy, well defined objectives and central financial controls are achieving their objectives. In 1972 these results, applied over our diversified earning base, produced superior earnings growth for the Company.

At the same time plant and production equipment were improved, new facilities were added, and more was in progress at fiscal year end. Management teams were strengthened and higher levels of efficiency were achieved. Product development programs were continued with new or improved products being added by each division. We expensed over \$300,000 during the year on these developments, though the returns lie primarily in the future.

We were deeply saddened by the death of Robert L. Nurmi in late August. Bob had managed Simpak since its acquisition in October, 1969. He was responsible for its dramatic progress, and we miss his skilled management and quiet determination. We look forward, however, to implementing the plans he had laid out for Simpak's future growth.

To carry on this program, Stephen K. Henkel has been elected President and General Manager of Simpak. Steve had been general manager of Simlog Instruments, formerly called Laucks Laboratories. He will

retain marketing responsibility for our Terra-Tec and Medistor product lines.

Full responsibility for the Sentry product line previously produced and sold through Simlog Instruments, and all electronics engineering and manufacturing was shifted to Gilbert W. Anderson, President of Stetson-Ross. This gave Gil responsibility for all mechanical and electronic forest products machinery and systems.


In terms of both performance and building for the future, 1972 was clearly a period of achievement. We met our basic objectives of superior performance for customers, employees and shareholders and provided a challenging work environment for employees.

The company has implemented a Profit Sharing Plan for the benefit of employees. The initial contribution, which was accrued this year, was \$70,000 and was the maximum allowed under the policies of the Economic Stabilization Program.

In the coming months we will continue to seek acquisition opportunities, looking primarily for superior operations that are compatible with our present subsidiaries and their product lines.

The basic qualifications we look for in a potential acquisition remain the same: industry leadership, either in regional coverage in the case of service-oriented companies or product leadership in the case of manufacturing firms, plus management excellence.

Fiscal 1973 started well for us. We anticipate increased sales and earnings, and we will continue to provide superior products and services for our customers and a challenging, rewarding work experience for our employees. In doing so, we will provide superior results for our shareholders.



Robert L. Wiley, *President*

We record with sadness the death of Chapin Henry on December 15, 1972. Mr. Henry had served as a director of the corporation since its inception. His advice, assistance and friendship will be greatly missed.

Stetson-Ross

Stetson-Ross experienced favorable market conditions during the year and made significant contributions to corporate performance.

At the same time, Stetson-Ross also extended its foundation for future growth, working through a highly competent and experienced management team. A facilities and machinery modernization program was launched, and research and development activities were greatly increased.

To meet the need for higher yield small log equipment, redesign work was completed on chipping headrigs, chipping edgers and vertical arbor gang, improving recovery opportunities. An entire small log sawmill featuring these improvements and including handling equipment was designed and delivered during the year.

We also designed and sold the world's highest production, single line, mixed species planing mill. Included was machinery and transfer equipment required to surface, grade, sort, stack and automatically tally lumber on a built-in computer.

A separate plywood systems sales organization was formed to handle Stetson-Ross core composing, vacuum transfer and stacking machinery, the Sentry electronic moisture system and Sim-Strand coated fibers. (Stetson acquired the manufacturing rights to Sim-Strand during the year and opened a new plant at Springfield, Oregon.)

During the year Stetson-Ross strengthened its position as the world's leading manufacturer of multiple rip-saws, expanding its line with a more power-

ful model for the mobile home manufacturing industry. Other items in the line were improved.

Simpak

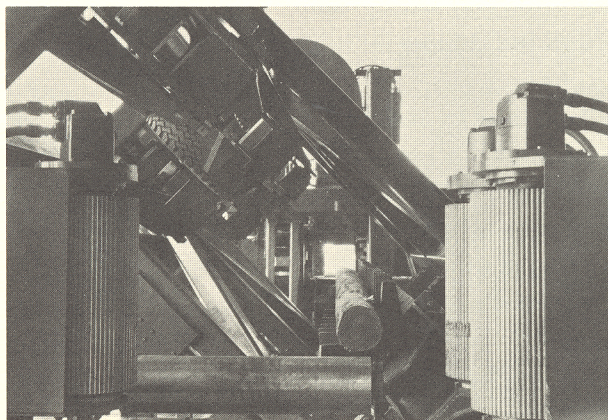
Simpak has become the Pacific Northwest's largest packager of over-the-counter pharmaceuticals and vitamins. Substantial progress was made during the year in terms of market penetration, profitability, and building a firm base for the future.

The firm moved to a new highly efficient 22,500 square foot plant and installed new high-speed packaging equipment. This equipment is the most modern on the West Coast and operates at six times the capacity of the machinery we started with just three years ago.

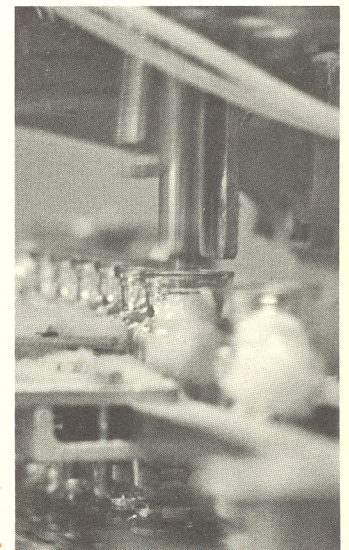
Simpak supplies well over 150 products to wholesale and retail chains in the western states. Seventy percent of Simpak's sales are derived from private label packaging. Because of our reputation for quality and service we provide most of the large chain retailers in our region with their private label requirements. The remainder of our sales are from products packaged under several house brands, such as the Terra Copia brand, a highly successful line of natural vitamins.

We are very optimistic about Simpak's future. The dramatic growth of the food supplement industry combined with the healthy economic growth of the Pacific Northwest indicates that Simpak will continue to enjoy strong markets. During the ensuing year we hope to identify opportunities to expand Simpak into other regional markets.

Stetson Ross' new double taper chipper-canter is the main piece of equipment in a modern small log saw mill.



Sterile cotton is automatically stuffed in bottles by Simpak's new high speed packaging line.



Simlog Instruments

During the year Simlog Instruments acquired Medistor Instrument Company and its operations were moved to the Simlog Overlake facility where it operates as a separate profit center. This acquisition provided the Company with an initial product entry into the important medical electronics field. Medistor had designed and we are now marketing an accurate electronic pulmonary function analyzer. This is a diagnostic instrument which tests the pulmonary system for respiratory dysfunction. The test results are calculated by an internal computer.

Considerable effort in the Terra-Tec product line of geophysical equipment was focused on the development of new products. Increased environmental concern has increased the requirements for more instrumentation in the construction field. We are aggressively designing products to meet these needs.

Both of those new product lines represent small starts in important and expanding fields. The risks of achieving success in these highly technical fields are great.

Sirco

Another of our manufacturing subsidiaries, Sirco Manufacturing, Inc., is a leading producer of patented sewing machine tables and utility furniture for home and commercial use. Sirco brought its new Midwest plant on line during the year. Located in Stevens Point, Wisconsin, the new facility was established to reduce costs and improve service to growing central and eastern markets. Sirco's main factory in Missoula, Mon-

tana, continues to supply products for markets in the western half of the country.

To take full advantage of increased capacity provided by the new plant, Sirco has expanded its sales program and established a national sales office in Chicago. Added emphasis has also been placed on new product development. For example, a line of professionally designed desks is being readied for market. A unique feature of the design is that the desk can be shipped unassembled in a carton four feet long and only 6" thick. A new and highly successful mechanical joining system allows for easy assembly.

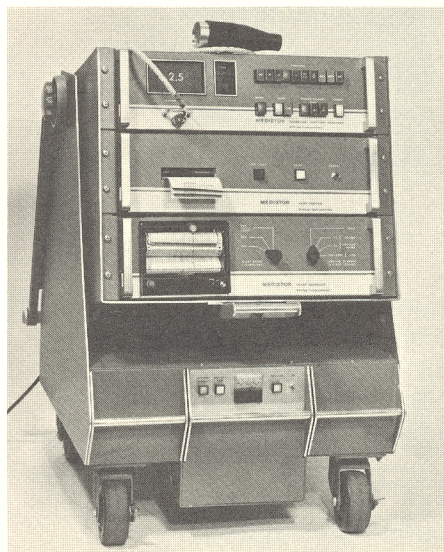
Simlog Leasing

The results for the year at Simlog Leasing Company are included in our consolidated figures. However, separate and complete financial statements for Simlog Leasing also are included, on pages 10 and 11 of the report.

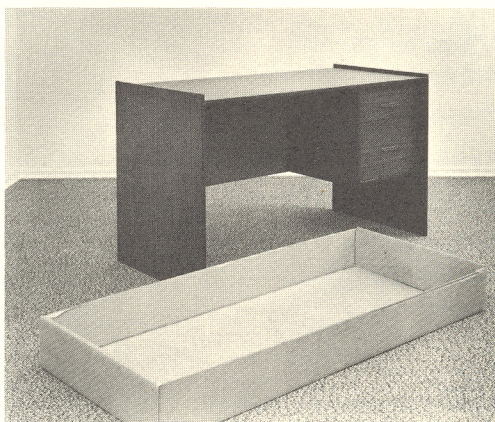
Those figures show that lease revenues increased about 16% over 1971. Net profit increased 50.5% from \$209,117 in 1971 to \$314,734 in 1972.

Outstanding installment lease contracts increased to \$13,022,859 from \$10,766,834. The long-term debt:equity ratio improved, however, to 5.9:1 in 1972 from 6.3:1 in 1971.

Simlog Leasing serves clients in Washington, Idaho, Montana and Oregon through offices in Seattle, Portland and Spokane. At present the Seattle headquarters are being moved to the new Bellefield Office Park in Bellevue, Washington.



Medistor's new portable pulmonary function analyzer allows bedside measurement of eleven vital pulmonary functions.



This newly designed Sirco desk is shipped disassembled in a carton no larger than the one shown.

Consolidated Balance Sheet

September 30, 1972 and 1971

Assets

	1972	1971
Current Assets:		
Cash	\$ 54,394	\$ 48,382
Trade accounts receivable	1,432,561	1,388,194
Allowance for doubtful accounts	(38,372)	(39,499)
Inventories—at the lower of first-in, first-out cost or market (Note 2)	2,187,210	1,296,303
Prepaid expenses and deposits	179,823	45,649
Deferred Federal income tax charges	55,410	
Total current assets	<u>3,871,026</u>	<u>2,739,029</u>
Investment in Simlog Leasing Company—At equity in net assets (Note 1)	1,636,403	1,321,669
Property, Plant, and Equipment—At cost less accumulated depreciation (Note 3)	<u>1,123,770</u>	<u>579,003</u>
Other Assets:		
Deferred Federal income tax benefit—net		72,500
Goodwill (Note 5)	69,730	117,924
Non-competition agreement (Note 6)	302,792	
Other—principally patents, at cost less accumulated amortization	315,278	389,728
Total other assets	<u>687,800</u>	<u>580,152</u>
Total	<u>\$7,318,999</u>	<u>\$5,219,853</u>

Liabilities

	1972	1971
Current Liabilities:		
Notes payable	\$ 731,270	\$ 557,931
Accounts payable	555,640	445,590
Advance deposits by customers	501,505	87,224
Accrued interest	18,257	6,978
Accrued income taxes	51,632	5,499
Other accrued expenses	388,702	189,028
Installation and warranty expense reserve	279,872	113,274
Total current liabilities	<u>2,526,878</u>	<u>1,405,524</u>
Long-Term Notes Payable (Note 7)	920,970	518,202
Deferred Federal Income Taxes	<u>11,810</u>	
Commitments and Contingencies (Notes 8 and 9)		
Shareholders' Equity (Notes 10 and 11):		
Common stock—par value, \$10.00 a share; authorized, 200,000 shares	1,116,470	1,103,990
Additional paid-in capital	233,295	207,807
Retained earnings	2,509,576	1,984,330
Total shareholders' equity	<u>3,859,341</u>	<u>3,296,127</u>
Total	<u>\$7,318,999</u>	<u>\$5,219,853</u>

See Notes to Consolidated Financial Statements.

Statements of Consolidated Income and Retained Earnings

For the Years Ended September 30, 1972 and 1971	1972	1971
Revenues:		
Net sales of manufactured products	\$8,487,923	\$6,506,938
Other sales and income	259,057	199,846
Total	<u>8,746,980</u>	<u>6,706,784</u>
Costs and Expenses:		
Cost of manufactured products sold (exclusive of depreciation)	5,759,551	4,468,703
Depreciation and amortization	151,775	108,160
Selling, general, and administrative expenses	2,338,222	1,728,613
Interest expense	85,127	154,435
Total	<u>8,334,675</u>	<u>6,459,911</u>
Income Before Income Taxes	<u>412,305</u>	<u>246,873</u>
Provision for Income Taxes (Note 4):		
Current	155,400	99,700
Deferred	28,900	16,800
Total	<u>184,300</u>	<u>116,500</u>
Income Before Income from Leasing Operations	228,005	130,373
Income from Leasing Operations (Note 1)	314,734	209,117
Income Before Extraordinary Credit	542,739	339,490
Extraordinary Credit—Tax Benefit Resulting from Carryover of		
Prior Years' Operating Losses (Note 4)	15,600	25,900
Net Income for the Year	<u>\$ 558,339</u>	<u>\$ 365,390</u>
Per Share of Common Stock (Average Shares):		
Income before extraordinary credit	\$4.93	\$3.04
Extraordinary credit14	.23
Net income	<u>\$5.07</u>	<u>\$3.27</u>
Retained Earnings, Beginning of Year	\$1,984,330	\$1,618,940
Net Income for the Year	558,339	365,390
Cash Dividends (\$.30 per share)	(33,093)	
Retained Earnings, End of Year	<u>\$2,509,576</u>	<u>\$1,984,330</u>

See Notes to Consolidated Financial Statements.

Statement of Changes in Consolidated Financial Position

For the Years Ended September 30, 1972 and 1971

1972

1971

Working Capital Was Provided from:

Current operations:

Income excluding leasing operations and extraordinary credit	\$ 228,005	\$ 130,373
Add expenses not requiring an outlay of working capital:		
Depreciation and amortization	151,775	108,160
Deferral of non-current income taxes	8,310	16,800
Funds received from Simlog Leasing Company		286,860
Total from current operations	<u>388,090</u>	<u>542,193</u>

Other sources:

Tax benefit from utilization of carryover of prior years' operating losses (Note 4)	170,800	56,600
Sales of other assets	115,574	
Increase in long-term borrowings	402,768	
Reduction in non-current note receivable		700,000
Sale of common stock—net of stock reacquired	37,968	
Total working capital provided	<u>1,115,200</u>	<u>1,298,793</u>

Working Capital Was Used for:

Purchase of property, plant, and equipment—net of normal disposals	694,658	95,499
Acquisition of patents, etc.	34,816	60,910
Acquisition of non-competition agreement	341,990	
Reduction of long-term borrowings		908,260
Acquisitions of common stock		42,087
Cash dividends	33,093	
Total working capital used	<u>1,104,557</u>	<u>1,106,756</u>

Increase in Working Capital	\$ 10,643	\$ 192,037
-----------------------------	-----------	------------

Changes in Working Capital:

Increase (decrease) in current assets:

Cash	\$ 6,012	\$ (98,834)
Accounts receivable and advances	45,494	(166,601)
Current portion of notes receivable		(300,000)
Inventories	890,907	(220,878)
Prepaid expenses and deposits	134,174	(9,442)
Deferred taxes	55,410	
Total	<u>1,131,997</u>	<u>(795,755)</u>

Increase (decrease) in current liabilities:

Current portion of notes payable	173,339	(513,983)
Accounts payable and accrued expenses	533,734	(412,071)
Customer deposits	414,281	(61,738)
Total	<u>1,121,354</u>	<u>(987,792)</u>

Increase in Working Capital	\$ 10,643	\$ 192,037
-----------------------------	-----------	------------

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

For the Year Ended September 30, 1972

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.

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

2. Inventories

Inventories at September 30, 1972 and 1971 are summarized below:

	1972	1971
Finished products	\$1,312,052	\$ 671,942
Work in process	219,690	76,128
Materials and supplies	655,468	548,233
Total	<u>\$2,187,210</u>	<u>\$1,296,303</u>

3. Property, Plant, and Equipment

The cost and accumulated depreciation of property, plant, and equipment at September 30, 1972 and 1971 is summarized below:

	1972	1971
Cost:		
Land, buildings, and improvements	\$ 826,800	\$ 357,878
Machinery and equipment	759,768	622,163
Furniture and fixtures	101,598	78,315
Total	1,688,166	1,058,356
Accumulated depreciation	564,396	479,353
Property, plant, and equipment—net	<u>\$1,123,770</u>	<u>\$ 579,003</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.

Properties carried at an adjusted basis of \$556,324 are pledged as collateral to related mortgage notes payable aggregating \$319,242 at September 30, 1972.

4. Federal 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 \$9,500 in 1972 for income tax benefits received from Simlog Leasing Company.

As amounts accrued for installation and warranty expense are not deducted for income taxes until paid, deferred tax charges have been provided for the tax effect of such timing difference. Also, deferred Federal income taxes have been provided for other timing differences, primarily the excess of depreciation claimed for income tax purposes over that charged against income for financial 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 \$9,380 were utilized in 1972 and \$7,200 in 1971. At September 30, 1972 unused credits amounted to approximately \$32,000 which are available to be carried over and utilized in future years.

At September 30, 1972 a consolidated subsidiary had an operating loss carryover from a prior year of approximately \$84,000 which may be used to reduce its otherwise taxable income for the year ending September 30, 1973.

In 1972 the Company utilized operating loss carryovers of consolidated subsidiaries of approximately \$356,000. The related tax benefit is recognized in the financial statements as a reduction in the assets Deferred Federal Income Tax Benefit (\$76,000) and Goodwill (\$79,200) and as an extraordinary credit to income (\$15,600).

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 by \$203,420. The Company believes the deductions in question to be proper and allowable. In the event that the deduction is disallowed, the related tax effect would be restored to Goodwill since the benefits of the loss carryovers previously recognized had been accounted for as a reduction of Goodwill.

5. Goodwill

Goodwill includes the value of shares issued over book value of assets received in the acquisition of Howe Products, Inc. in 1969. At the date of acquisition, Howe Products, Inc. had unused operating tax loss carryovers of approximately \$229,000. During the years 1972 and 1971 the tax benefit on approximately \$165,000 and \$64,000 respectively of such losses was realized and applied as a reduction of Goodwill.

7. Long-Term Notes Payable

	Total	Current
To bank:		
8%; payable in monthly installments of \$812 including interest	\$ 38,425	\$ 7,800
8% and 8½%, collateralized by a first mortgage on plant building (depreciated cost, \$388,066); payable in monthly installments aggregating \$2,464 including interest	189,242	14,700
To shareholders:		
4% note payable \$15,000 a year	30,000	15,000
6½% and 7% demand notes (\$100,000 to be paid in one year)	400,000	100,000
Others:		
8% real estate contract, collateralized by plant building (depreciated cost, \$168,258); payable in quarterly installments of \$4,753 including interest.	130,000	8,900
Amount due under non-competition agreement (face amount \$400,000) (Note 6); non-interest-bearing, \$50,000 payable in 1973, \$100,000 minimum payable annually thereafter; net of unamortized imputed 7% discount of \$52,097.	297,903	30,200
7% note due March 1974, interest is payable quarterly.	12,000	
Total	1,097,570	<u>\$176,600</u>
Less current portion	176,600	
Long-term portion	<u>\$ 920,970</u>	

8. Commitments

Simlog Corporation has guaranteed the notes payable of Simlog Leasing Company which aggregated \$9,724,327 at September 30, 1972.

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 \$93,000 at September 30, 1972.

6. Sim-Strand 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 has been recorded at its discounted cash value (see Note 7) and is being amortized on a straight-line basis over its four-year term of existence.

9. Contingencies

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.

The Company is subject to the Economic Stabilization Act of 1970. The accompanying financial statements include \$67,000 of compensation expense (\$35,000 net of tax) which was accrued in 1972. A request for approval to make this payment is presently pending before the regulatory authorities. The amount to be paid (if any) is subject to the approval of the Company's request.

10. Common Stock and Additional Paid-In Capital

Transactions in the Company's common stock during 1972 were as follows:

	Common Stock		Additional Paid-In Capital
	Number of Shares	Amount	
Balance, October 1, 1971	110,399	\$1,103,990	\$207,807
Common stock sold during year	2,700	27,000	54,000
Common stock acquired and retired during year	(1,452)	(14,520)	(28,512)
Balance, September 30, 1972	<u>111,647</u>	<u>\$1,116,470</u>	<u>\$233,295</u>

11. Stock Option Plan

The Company has a qualified stock option plan for officers and key employees. During 1972 options on 2,850 shares were granted at \$35.00 per share and 250 shares under option at \$30.00 per share held by a former employee were cancelled. At September 30, 1972 options on 8,100 shares were outstanding of which 5,250 were exercisable at \$30.00 per share. Options may be exercised after one year from date of grant and must be exercised within the following four years. At September 30, 1972 no options had been exercised and an additional 1,900 shares were available for grant.

12. Profit Sharing Plan

In 1972 the Company adopted 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 amount deductible for Federal income tax purposes. Profit sharing expense for 1972 was approximately \$66,000 (exclusive of Simlog Leasing Company). It is the Company's policy to fund profit sharing expense accrued.

Accountants' Report

Simlog Corporation:

We have examined the balance sheet of Simlog Corporation and consolidated subsidiaries as of September 30, 1972 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, 1972 and the related statements of income 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 contingencies described in Note 9 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, 1972 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, 1972 and the results of its 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.

Haskins + Sells

December 5, 1972
Seattle, Washington

Balance Sheet

September 30, 1972 and 1971

Assets

	1972	1971
Cash	\$ 115,359	\$ 91,630
Installment Lease Contracts and Other Receivables (Note 2)	13,096,966	10,823,956
Unearned Income	(2,521,086)	(2,171,200)
Allowance for Doubtful Receivables	(135,000)	(60,000)
Federal Income Tax Benefits Due from Simlog Corporation (Parent) (Note 4)	9,500	
Estimated Residual Value of Leased Equipment Accounted for on the Financing Method (Note 2)	1,635,701	1,230,270
Advances—Equipment Acquisitions	60,984	114,924
Leased Equipment Accounted for on the Operating Method—At cost less accumulated depreciation of \$2,998,218 at 1972 and \$2,967,129 at 1971 (Note 3)	244,717	420,135
Other Assets	11,285	12,013
Total	<u>\$12,518,426</u>	<u>\$10,461,728</u>

Liabilities

	1972	1971
Accounts Payable and Accrued Expenses	\$ 237,493	\$ 134,356
Notes Payable to Banks—Collateralized by substantially all of the equipment leases; bearing interest at rates of from 5 ¹ / ₄ % to 9% and payable as lease payments are scheduled to be received	9,724,327	8,337,468
Lease Rental Deposits	241,403	262,535
Total liabilities	<u>10,203,223</u>	<u>8,734,359</u>
Deferred Income Taxes (Note 4)	678,800	405,700
Shareholder's Equity (Note 1):		
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	314,734	
Total shareholder's equity	<u>1,636,403</u>	<u>1,321,669</u>
Total	<u>\$12,518,426</u>	<u>\$10,461,728</u>

See Notes to Financial Statements.

Statement of Income

For the Years Ended September 30, 1972 and 1971	1972	1971
Revenues:		
Installment lease contract income (Note 2)	\$1,367,076	\$1,192,387
Operating lease income, less depreciation of \$158,508 in 1972 and \$341,861 in 1971 (Notes 2 and 3)	84,158	115,106
Other	82,631	13,205
Total revenues	<u>1,533,865</u>	<u>1,320,698</u>
Expenses:		
Interest	651,458	658,086
Salaries and related costs	97,553	77,631
Provision for losses on lease contracts receivable	82,385	96,836
Taxes other than taxes on income	21,054	18,635
Other operating expenses	103,081	81,593
Total expenses	<u>955,531</u>	<u>932,781</u>
Income Before Income Taxes	<u>578,334</u>	<u>387,917</u>
Provision for (Reduction of) Income Taxes (Note 4):		
Current	(9,500)	(35,100)
Deferred	273,100	213,900
Total provision for income taxes	<u>263,600</u>	<u>178,800</u>
Net Income for the Year	<u>\$ 314,734</u>	<u>\$ 209,117</u>

Statement of Changes in Financial Position

For the Years Ended September 30, 1972 and 1971	1972	1971
Funds Were Provided by:		
Current operations:		
Net income for the year	\$ 314,734	\$ 209,117
Depreciation on leased equipment accounted for on the operating method	158,508	341,861
Deferred income taxes	273,100	213,900
Total from current operations	<u>746,342</u>	<u>764,878</u>
Borrowings from banks	1,386,859	1,731,706
Increase in accounts payable and accrued expenses	103,137	
Increase in deposits from customers		38,162
Disposal of equipment accounted for on the operating method	16,910	30,135
Other—net	307	8,597
Total funds provided	<u>\$2,253,555</u>	<u>\$2,573,478</u>
Funds Were Applied to:		
Investment in installment lease contracts— net of disposals and unearned income	\$1,848,124	\$1,909,062
Increase in residual value of leased equipment—net of disposals	405,431	377,556
Distribution of funds to Simlog Corporation		286,860
Total funds applied	<u>\$2,253,555</u>	<u>\$2,573,478</u>

See Notes to Financial Statements.

Notes to Financial Statements

For the Year Ended September 30, 1972

1. Basis of Reporting

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 assets having a net book value of \$1,321,669.

The accompanying financial statements for 1971 are presented pro forma, as if the formation had occurred at the beginning of the 1970 year. Accordingly, retained earnings at September 30, 1972 includes only net income earned since September 30, 1971.

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,	
	1972	1971
Installment lease contracts and other receivables . . .	\$6,898,541	\$5,144,212
Unearned income	\$1,196,084	\$ 874,329
Estimated residual value of leased equipment accounted for on the financing method	\$ 896,806	\$ 612,499
Leased equipment accounted for on the operating method—net	\$ 244,717	\$ 420,135
Revenues	\$ 675,943	\$ 601,465

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 \$9,724,327 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.

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.

The Company uses the flow-through method of accounting for the investment credit. Accordingly, the provision for income taxes was reduced by approximately \$12,300 in 1972 and \$7,200 in 1971 for allowable investment credit applicable to property additions in such years. The Company has investment credit carryovers of approximately \$51,000 at September 30, 1972.

Simlog Corporation Subsidiaries

Stetson-Ross Machine Company, Inc.

3200 First Avenue S.
Seattle, Washington 98134
(206) MA 2-4188

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

Gilbert W. Anderson, President and General Manager

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

Simlog Instruments

Medistor, Terra-Tec

Overlake Industrial Park
Redmond, Washington 98052
(206) TU 5-4118

Stephen K. Henkel, General Manager

Designs and markets high technology instruments. The Terra-Tec line of soil and rock mechanics instrumentation measures stability parameters such as pressure and movement. Medistor diagnostic instruments are used to obtain measurements of vital pulmonary functions.

Simlog Leasing Company

Suite 208
1309 114th Avenue S.E.
Bellevue, Washington 98004
(206) MA 2-4977

Bellevue, Washington
Portland, Oregon
Spokane, Washington

E. Bruce Woodruff, President and General Manager

A lessor of capital equipment serving business and industry in the Western United States. The company leases a variety of equipment to a highly diversified group of lessees.

Simpak Corporation

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

Stephen K. Henkel, President and General Manager

A leading packager of over-the-counter pharmaceuticals and vitamins. The company furnishes both regional and private brand products to major wholesalers and drug chains in the Western United States. Simpak stresses superior product quality and service as key elements of its success.

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.



5566 White-Henry-Stuart Building
Seattle, Washington 98101
(206) MA 4-4055

Board of Directors

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