

# PACIFIC ~~Stock~~ Simlog CORPORATION

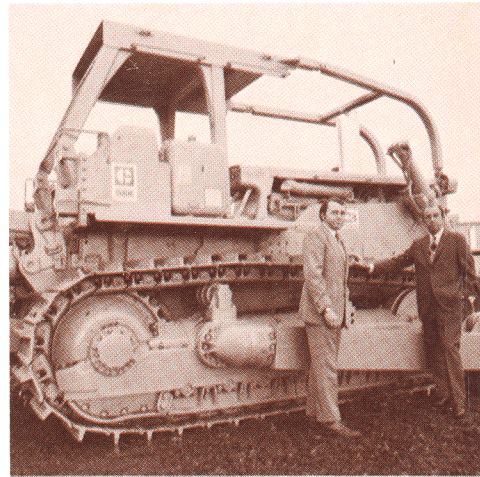
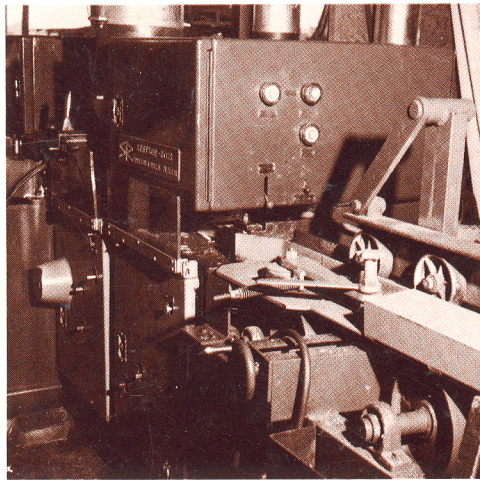
ANNUAL  
REPORT  
1974

SEATTLE PUBLIC LIBRARY  
Business & Economics  
REFERENCE COPY

ANNUAL REPORT  
PACIFIC

**Stetson-Ross:** Process control and production machinery for the forest products industry worldwide

**Simpak:** Private label packager of vitamins and consumer products for the western states



**Sirco:** Unique sewing machine and office furniture for home, school and commercial use

**Simlog Leasing:** Capital equipment lessor to business, professionals and individuals along the Pacific Coast



## Financial Highlights

Year Ended September 30	1974	1973	1972	1971	1970
Net sales and lease revenue . . . .	\$13,897,554	\$12,827,950	\$10,280,845	\$8,027,482	\$9,160,846
Net earnings after tax . . . . .	234,570	703,273	558,339	365,390	94,472
Earnings per share . . . . .	2.08	6.30	5.07	3.27	.83
Shareholders' equity at year-end	4,833,141	4,517,775	3,859,341	3,296,127	2,972,824
Book Value per share . . . . .	41.74	40.50	34.57	29.86	26.34
Return on Beginning Equity . . . .	5.2%	18.2%	16.9%	12.3%	3.3%
Dividends per share . . . . .	\$ .40	\$ .35	\$ .30	—	—

## Table of Contents

President's Letter . . . . .	page 1
Stetson Ross . . . . .	page 3
Simpak . . . . .	page 5
Simlog Leasing . . . . .	page 6
Sirco . . . . .	page 7
Simlog Corporation	
Consolidated Balance Sheet . . . . .	page 8
Statement of Consolidated Income and Retained Earnings . . . . .	page 9
Notes to Consolidated Financial Statements . . . . .	page 11
Simlog Leasing Company	
Balance Sheet . . . . .	page 14
Statement of Income and Retained Earnings . . . . .	page 15
Statement of Changes in Financial Position . . . . .	page 15
Notes to Financial Statements . . . . .	page 16

## Simlog Corporation

Simlog Corporation is deliberately diversified. Our earnings come from different markets in an attempt to limit 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 manufacture computer-based process control systems and heavy duty, high-speed machinery systems for the

forest products industry worldwide;

- we package and distribute private label vitamins and over-the-counter pharmaceuticals and beauty aid products in the West;
- we lease capital equipment to a broad range of industries on the West Coast from California to Alaska;
- and we manufacture and sell unique sewing machine and office furniture throughout the country.

Through approximately a 40% interest in subsidiaries we also -

- manufacture and distribute one of the nation's leading lines of natural vitamins - Health Rite®
- and engineer, manufacture and sell sophisticated, geo-technical instrument systems.

We strive to achieve superior earnings performance through an innovative, able management team. We seek the acquisition of companies or product lines that relate to, or integrate with, our present activities, or of diverse activities which possess significant growth opportunities and which fit within our overall management capability.



## To our Shareholders:

Three of our four wholly-owned subsidiaries showed improved profits in 1974. Earnings at our fourth were down dramatically and consolidated earnings were set back severely.

Consolidated sales and lease revenues increased 8.3% in 1974 to \$13,897,554 from 1973's level of \$12,827,950. This came principally from increased volume rather than increased prices. Profits fell to \$234,570 or \$2.08 per share from 1973's \$703,273 or \$6.30 per share. This was the first time in four years that we failed to reach our annual goal of a 20% increase in earnings.

Management recognized early in the year that 1974 would pose special problems. We watched profit margins and inventory levels carefully and on balance, successfully. However, a 47 day area-wide strike at Stetson-Ross dealt the company a serious blow. Shipments of over \$1,000,000 were delayed, cutting deeply into cash flow and profits. Resulting increases in the costs of labor and material combined with organizational disruption further eroded profit margins and control of the operation.

We considered trying to renegotiate some of Stetson's fixed price sales contracts, but felt it more important to fulfill our commitments than try to improve our earnings. We now have more experience for coping with inflation, but realize that excessive hedges against it would be counter productive if they encouraged customers to defer purchases. We are watching both costs and customers carefully.

The year's most severe financial blow came from our newly acquired computer-based process control company, Atmospheric Sciences, Incorporated (ASI), now a division of Stetson-Ross. Although the potential for its products is substantial, management seriously underestimated the installation and warranty costs of correcting inherited problems. These costs and the continuance and conclusion of certain development work resulted in a significant loss for the division in 1974.

Much of what occurred in 1974 has resulted in a stronger, more experienced management. We also have satisfactory backlogs at Stetson and ASI and believe 1975 will see the achievement of our consolidated profit goal. However, we recognize the coming year presents many problems. Stetson-Ross machinery and lumber handling systems, and especially ASI's process control system, save customers money through greater lumber recovery and more efficient production. The unanswered question is the value that will be placed upon such savings by customers during the current serious downturn in the forest products industry.

When this downturn ends, we will have well conceived, care-

fully engineered and tested machinery and systems to offer. At the end of fiscal 1974 more than 60% of all sawmill process control systems were installed by ASI. ASI has an established field service organization to install and service equipment and a regular training program to teach customers how to use, maintain and benefit from such systems. Though this is costly now, we expect our service and training programs to help us remain the leading company in this promising growth field.

Despite its problems, 1974 was a year of many positive accomplishments. Marked profit improvements were achieved at Simpak, Simlog Leasing and Sirco. At Simpak, sales of over-the-counter pharmaceuticals, food supplements and other consumer products increased 28% over the previous year. Substantial product line growth was achieved through introduction of additional private label personal care products and a dental hygiene product, dental floss.

Simpak's market expanded into the Rocky Mountain states through the February acquisition of the Aspen line of vitamins. On September 1 Simpak also acquired the packaging facilities of

From left to right: Kenneth A. Blevins, President, Sirco Manufacturing; E. Bruce Woodruff, President, Simlog Leasing; Gilbert W. Anderson, President, Stetson-Ross; Stephen K. Henkel, President, Simpak; Robert L. Wiley, President, Simlog Corporation; Ron J. Schmid, Vice President-Controller, Simlog Corporation





BBC Laboratories in El Segundo, California. This facility will allow for more efficient service to customers in California as well as along the entire Pacific Coast and into the Southwest.

On September 1 Simpak also acquired a 40% interest in Devlin Pharmaceuticals, Inc., which then acquired the pharmaceuticals manufacturing facilities of BBC Laboratories and its nationally advertised Health-Rite® brand of natural vitamins. We see this as an important step toward becoming the major source of consumer health and beauty aid products in the western states. In its highly competitive environment, Simpak strives to differentiate itself through a professional approach to packaging, customer service and marketing support.

At Simlog Leasing, the value of new equipment leased in 1974 to non-affiliated companies approximated \$5,500,000, nearly double the value of the preceding year. Sixty-four percent of our current lease revenue came from non-affiliated companies as compared to 53% in 1973 and 47% in 1972.

The Leasing Company has experienced benefits from Expo '74 in Spokane and the pipeline in Alaska. Our principal lessees in both areas are in the stable section of the economy which will continue to prosper after the fair and the eventual completion of the pipeline. We improved our ability to evaluate leases in the construction and heavy equipment fields and have an employee specifically responsible for the Alaska growth market.

The Portland office was strengthened by the addition of an able new manager. Opportunities in Oregon and northern California are significant and shall assure a continuing, orderly growth for Simlog Leasing.

While Simlog often seeks leases under \$25,000 in amount, our Alaska leases have ranged from

\$50,000 to \$200,000. In order to differentiate our capability, we make a special effort to work with companies requiring prompt evaluation and approval, or who require some specialized service.

Sirco also showed an increase in sales of 25%; profits improved significantly over the previous year, reflecting the end of start-up inefficiencies at our Stevens Point plant. Sirco continues to be the principal manufacturer of sewing machine tables in the United States with more than half of our volume now produced at Stevens Point.

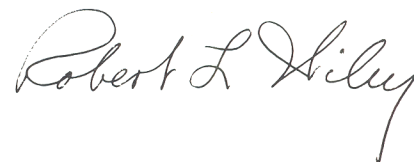
Our Millrace line of finished, but unassembled office furniture was expanded. It now consists of three desk styles, a filing cabinet, occasional tables and three sizes of book cases. Each product ships flat and can be easily assembled by the dealer or customer through a simple, rigid joining system. The bulk of our production today is used with portable home sewing machines, but we expect our most important near term growth to come in the new office products field.

In addition to Devlin Pharmaceuticals, Simlog also holds a minority position, approximately 40%, in Terra Technology Corporation, which has shown a profit at the end of its first year in business. Backlog and acceptance of new products are such that this manufacturer of precision, technical geo-physical instrumentation should show substantial growth in fiscal 1975.

Prior to year end, and as shown in the financial statements, the company entered into a \$1,500,000 loan with Seattle-First National Bank with the expectation that it would be repaid from a \$2,000,000 term loan then being discussed with Crocker National Bank in San Francisco. The company has since entered into a 5 year term loan with Crocker, calling for repayment of \$400,000 per year, plus interest.

On November 4, 1974 Ron J. Schmid joined the company as Corporate Controller-Secretary. On December 23, Mr. Schmid was elected Vice President-Controller by the Board of Directors.

Charles Dickens commented in *A Tale of Two Cities*: "These were the best of times, and the worst of times . . .". Though to some this may describe the present, our management feels that, best or worst, the present is our time and is all we have to work with. We intend to use these times and our energies well. We have high expectations, able associates, and good products that fill needs. We intend to make progress.



Robert L. Wiley  
President



## Stetson-Ross

**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 rip saws, bandsaws and molders, plywood core composing machinery, vacuum stackers, transfer equipment, Sim-Strand coated fibers, hot melt adhesives and electronic process control systems.

Each of Stetson-Ross' three divisions made significant accomplishments in fiscal 1974. These have enhanced the company's position as a leader in the development, design and manufacture of labor and material-saving machinery and equipment for the forest products industry. Stetson's customers are planing and sawmills, plywood, molding, and cut-up plants, and furniture and mobile home factories throughout the world.

The traditional heavy machinery division of Stetson-Ross continued to concentrate on the development and manufacture of machinery emphasizing high speed of operation and high recovery of the raw material being processed. This year the size range of the new Narrow Lumber Planer was expanded so that it can now process 12 inch boards. This is a significant step forward for it improves the company's competitive position in the mid-sized planer market, whereas Stetson-Ross has traditionally served and dominated the large heavy duty market.

Stetson-Ross' sophisticated and complex multi-level grading system continued to find market acceptance. Sales of the double

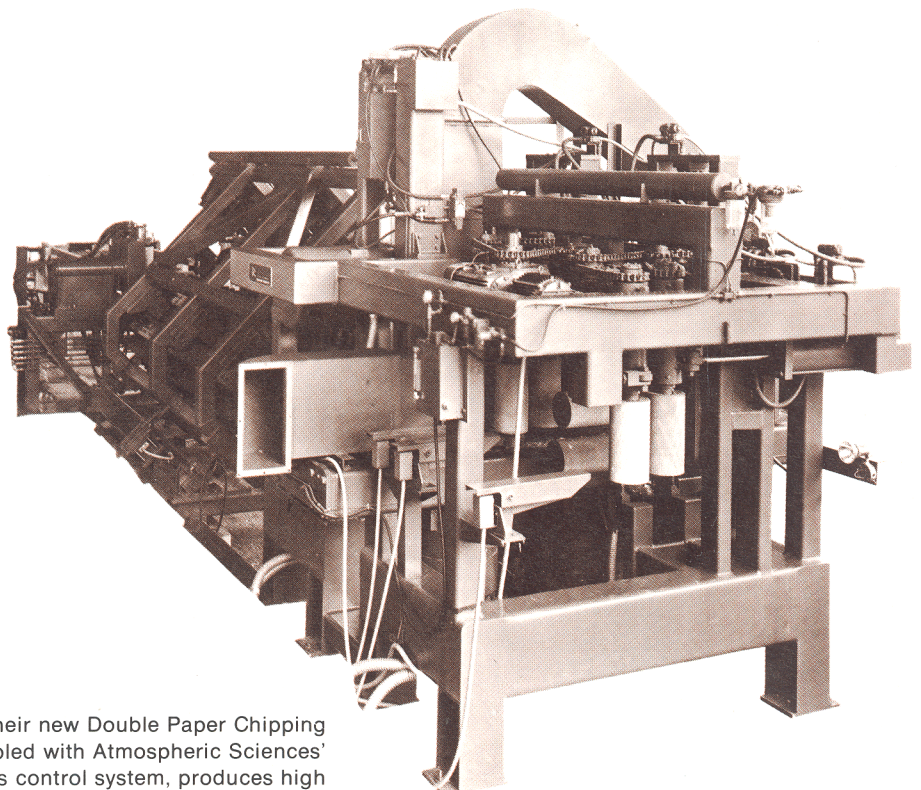
taper chipper-canter were integrated with scanning equipment from Atmospheric Science, Stetson's electronics division, making Stetson-Ross the only single company supplier of complete integrated sawmill systems. Work continued on an enlarged "Koch" chipping lathe. Tests of this promising new sawmill product will be concluded in the first quarter of 1975. Success here will provide the company a new line of sawmill products for the future. Modernization and expansion of the re-manufacturing line of equipment continued throughout the year.

Acquisition of Atmospheric Sciences, Incorporated (ASI) in November 1973 provided the company with a major division in electronics process controls systems. The Sentry line of electronic moisture detection equipment was consolidated with this new facility in Sunnyvale, California bringing Stetson's entire electronic capability under the leadership of the division's new president - general manager. ASI's

computer-based Auto-Scaler™ was refined and a new Wide Dynamic Range scanner was completed and installed in the field allowing for more accurate measurement of log diameter and configuration by either the reflective or beam breaking methods.

ASI has been the first to adapt the research findings of the Forest Products Research Laboratory of Madison, Wisconsin to actual systems operations. New cutting patterns for sawmills are thus programmed around the new Best Opening Face cutting program concept. ASI completed an extensive feasibility study for the application of Auto-Scaler™ equipment for use on sawmill headrigs. The implementation of the findings of this study will allow the company a unique position in providing sophisticated automatic controls for a large segment of the sawmill industry.

This division has also developed a training program for teaching



Their new Double Paper Chipping Canter coupled with Atmospheric Sciences' process control system, produces high lumber recovery with minimum waste



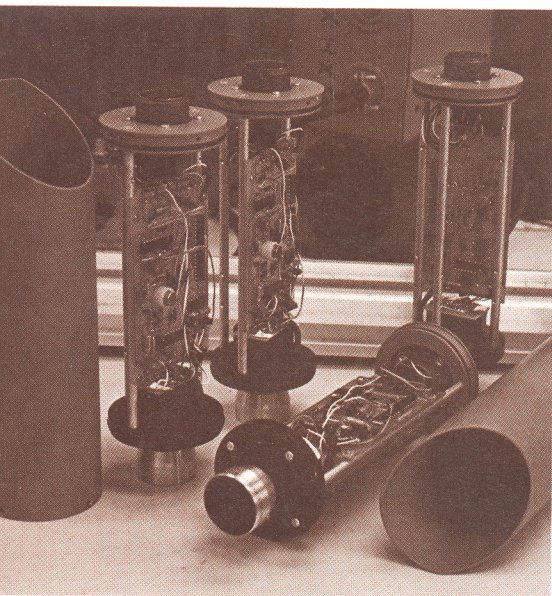
the operation, maintenance and benefits of Auto-Scaler™ equipment. A network of field service men provide prompt service for this equipment throughout North America.

Stetson's third division, Sim-Strand, manufactures pre-coated fiberglass strand for use in plywood plants and this year added a family of hot-melt adhesive products which have use in a broader range of industries.

Stetson-Ross continues to make a strong thrust for foreign business and participated in the machinery exhibit in Vancouver, B. C. and a

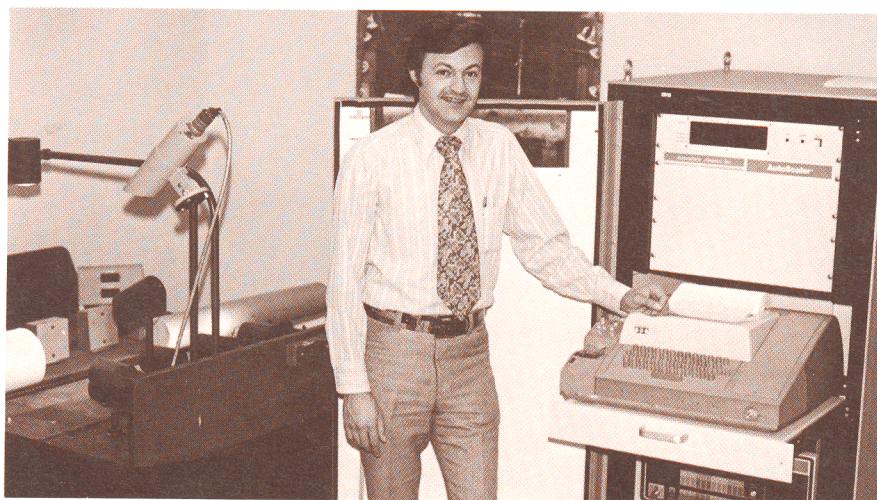
trade fair in Czechoslovakia. Our Finnish employee is responsible for Russia, Eastern and Western European countries. An agent in Norway is responsible for the Scandinavian countries. Efforts are being made to increase sales in Central and South America as well as in Asia where, because of those nations' economic interest, logs will be processed further within the nation prior to use locally or export as finished products.

Expansion of the product lines in those areas where we can generate a savings in labor and/or wood fiber for the customer is continuously being pursued. An increased emphasis is being made to expand customer awareness of the company's expanding technologies and capabilities.



Latest model Wide Dynamic Range Scanners being inspected and tested prior to shipment

ASI's school for operation and maintenance of AutoScaler™ systems attracts students from all over the U.S. and Canada



## Simpak Corporation

**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.

Simpak is the Pacific Northwest's largest packager and distributor of private label and regional brand over-the-counter pharmaceuticals, food supplements, and family health aids. The company has been able to capitalize on the substantial growing demand for food supplements and the growing demand by drug and food chains for quality products packaged specifically for them under their own private labels. This demand, combined with an expanding product line, is expected to allow continued sales growth in excess of 25% per year.

In addition to private label health and beauty aid products, the company packages Alpine®, Aspen®, Clinic® and TerraCopia® products under its own label for distribution throughout the western United States. Simpak thus provides quality products under either private or house labels in order to give the consumer a significant value for his money and provide the retailer with an improved margin as compared to equivalent nationally advertised products.

Key factors leading to Simpak's strong market position have been innovative approaches to packaging, marketing and customer service. The company has continually stressed the addition of new products and new product lines. In the past, these have included natural vitamins, beauty and



health care products, health foods and, most recently, a private label dental floss.

To insure production capabilities that meet the needs of a growing market, Simpapak this year acquired a packaging facility and an interest in a pharmaceutical manufacturing firm in southern California. Through these expanded facilities Simpapak now has the capability of becoming the leading supplier of private label health and beauty aid products in the West Coast. Integration with the pharmaceutical manufacturer will help shield the company from any serious supply disruption in the future.

While Simpapak experienced an over-all sales growth, the company's greatest increase came in the state of California. During the year sales were also expanded

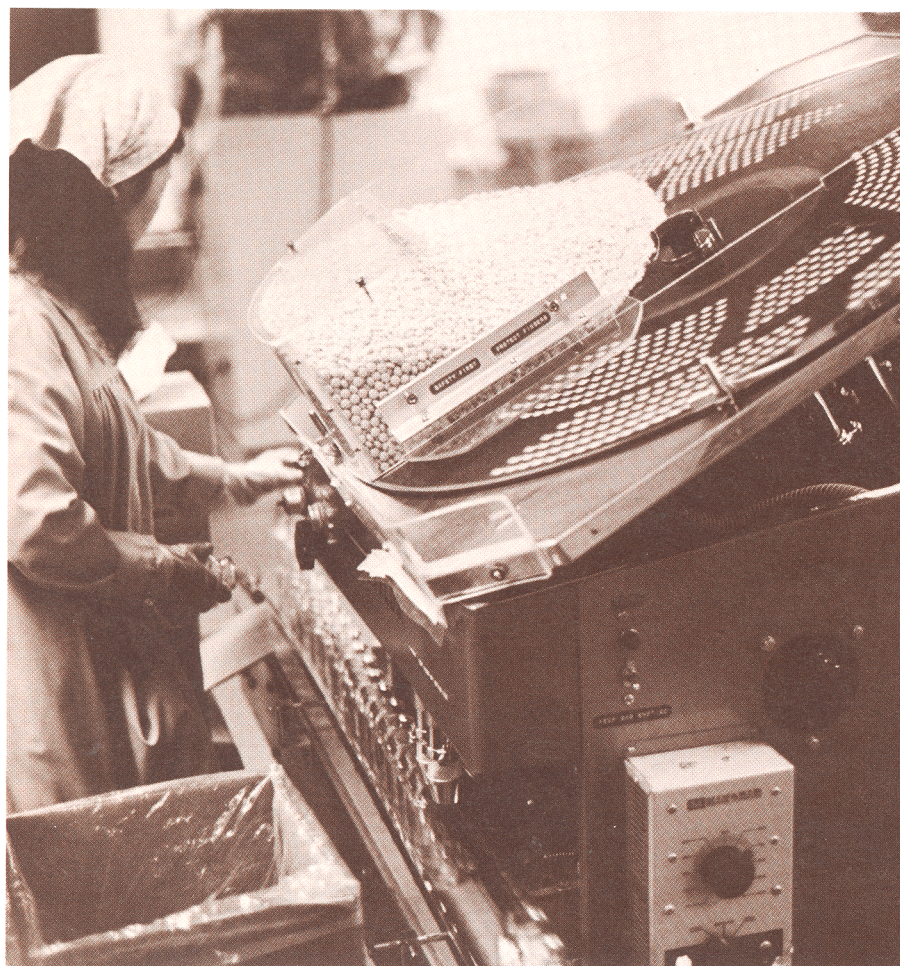
for the first time into the Rocky Mountain States and the Southwest.

Prompt, reliable information played an important part in the company's ability to maintain profitability in 1974 in the face of

In addition to its own brands, Simpapak packages and distributes for many leading retailers



unpredictable and uncontrollable material cost increases. Additional data processing systems are now being developed to control both raw material inventory and product forecasting. A goal now is to improve inventory turnover by as much as 33%. Continued management analysis, market expansion, and the introduction of new products by an outstanding and dedicated staff promise continued growth for Simpapak.



A highly successful private label display developed for grocery chains

Vitamin tablet filling operation in Seattle



## Simlog Leasing

**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 transportation and heavy equipment through newly formed divisions.

Simlog Leasing Company is a specialized subsidiary offering machinery and equipment leasing services to clients throughout the Pacific Northwest. It handles a wide variety of products, ranging from sensitive brain scanners, X-ray equipment, and high speed drills for medical and dental offices, clinics, and hospitals to furnishings and equipment for offices and heavy field and manufacturing equipment for the forest products and construction industries. In 1974, an automobile leasing division was added to take full advantage of leasing industry

trends. In general, the company's emphasis is on leases of less than \$25,000 though leases may range up to \$250,000 or more.

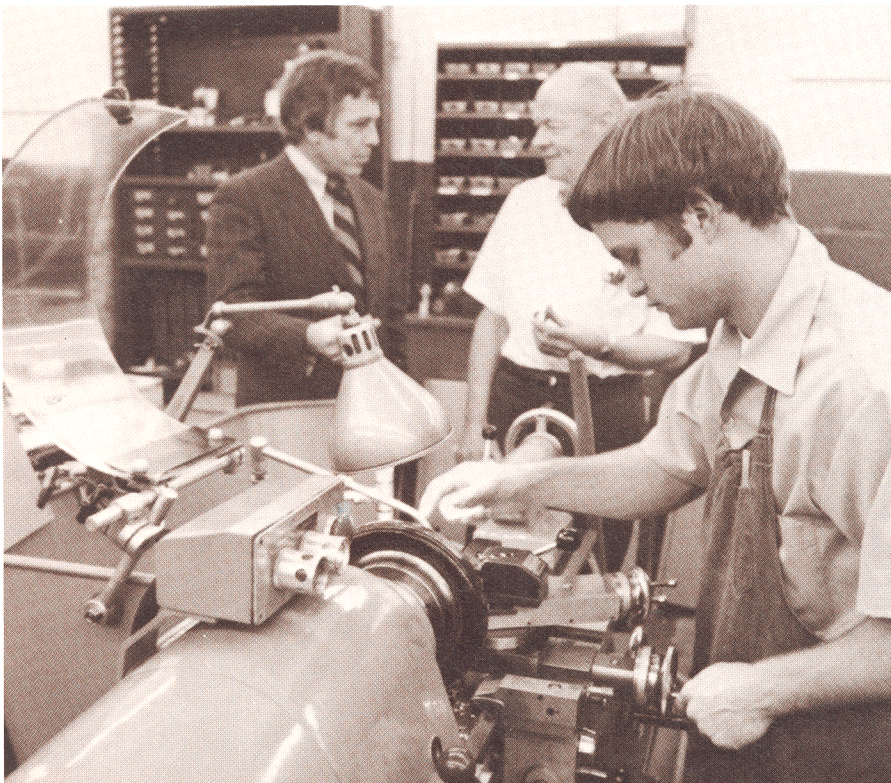
Leasing is a relatively new financial service with an annual growth rate of 15 to 20 percent nationally. Simlog Leasing's volume of leases to non-affiliated companies doubled in 1974 over 1973. Nationally, some 25% of all new equipment is financed through leasing or related methods, and it has been estimated that by 1980, fully half of all new cars will be leased.

Major advantages of leases are flexibility and convenience to the customers. Among other benefits, leasing simplifies bookkeeping, and payments are generally fully deductible. Options at the end of the lease period may allow for contract renewal, customer purchase at fair market value, or the option of exchanging outmoded equipment for improved models, which is especially important in scientific and technological fields.

The Leasing Company's growth can be attributed to strong, responsive management, which allows for rapid and efficient response to client needs, and to a commitment to personal service. Through offices in Seattle, Spokane and Portland, the company offers flexible arrangements with provisions designed to fit each client's circumstances.

In 1974, a Heavy Equipment Lease Division was established to handle the increased volume of construction activities for the pipeline as well as other industrial needs in Alaska and the Pacific Northwest. This division is expected to be a significant future source of revenue. With the appointment of a new Vice President-District Manager in Portland, business in Oregon is also expected to grow, and major efforts will be devoted to extending our service oriented business into Northern California.

1975 will be approached cautiously, but it is felt that the Northwest's economy will hold up better than the nation's on the whole. Barring a major, national economic disaster, the company thus expects continued growth. Major goals include becoming established in the Northern California and Alaska markets, and the expansion of data processing capabilities to improve customer service and provide management with additional information for the timely control of the business.



Simlog Leasing provides a high level of personal service to its lessees



## Sirco Manufacturing, Inc.

**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.

For many years Sirco Manufacturing, Inc., has been a leading producer of patented sewing machine tables and utility furniture for home and commercial use. In 1974 the company expanded its new line of finished, but unassembled, office furniture. Market response after only slightly more than a year of production indicates a good growth potential.

The Millrace office furnishings line is unique and yet well within the existing production capabilities of Sirco's plants in Missoula, Montana, and Stevens Point, Wisconsin. Designed to be attractive, economical, easily shipped, and assembled, the line now includes three desk styles, a filing cabinet, occasional tables and three sizes of bookcases. All pieces are shipped unassembled in cartons not over 6" thick. An innovative mechanical joining system allows easy assembly on delivery.

Our traditional sewing tables continued to be well received in 1974. These tables generally compete with expensive hand finished hardwood sewing cabinets. The cost of the table is substantially less whereas the utility is similar, and throughout the year our dealers reported a shifting of purchases from the more expensive hand-finished cabinets to attractive less expensive tables. The growing popularity of home sewing assures continued future markets.

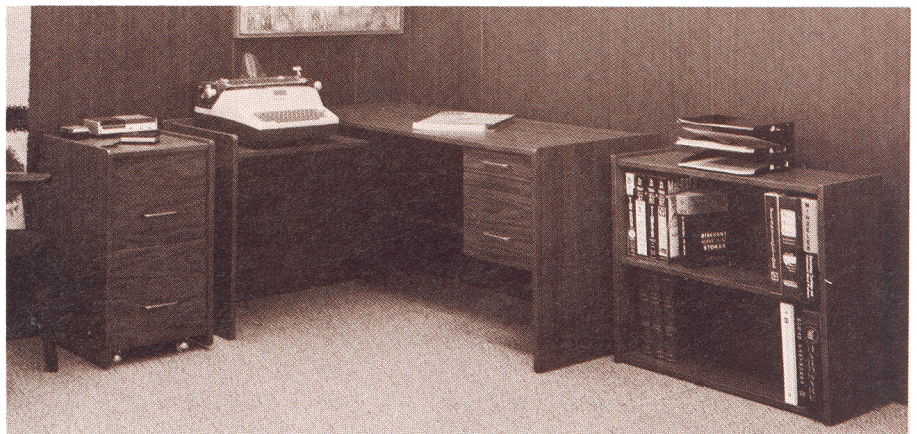
In order to have a cabinet to offer our customers our product line was expanded to include comparatively inexpensive hardwood cabinets. These help round out our product line and allow our customers to purchase more of their sewing furniture needs from Sirco as a single source.

With manufacturing facilities at key points serving both Eastern and Western United States, Sirco is able to control shipping costs and provide fast, personal, dependable service for customers throughout the nation. The company's reputation for thorough order processing and prompt delivery is a significant sales advantage, particularly among small local retailers who often maintain limited inventories.

The availability and cost of the component parts caused numerous operating problems throughout the year. However, our customers experienced little, if any, disruption and several large national businesses, as well as numerous department stores, were added as new customers.

In the coming year Sirco will continue to market its traditional sewing machine tables and utility furniture, but expects the Millrace office components to produce an increasing share of the company's revenue.

Sirco's Millrace office products ship flat, assemble into rigid attractive furniture



## Investments in Other Companies:

### Devlin Pharmaceuticals, Inc.

El Segundo, California

Bruce A. Devlin, President

Manufactures and distributes the Health-Rite® line of natural nutritional supplements and cosmetics and Vibrancy and other vitamin products. Health-Rite® is the nation's largest selling line of branded natural products and is sold in leading drug chains from coast to coast.

### Terra Technology Corporation

Seattle, Washington

E. Norman Hernandez, Ph.D., President

Designs, manufactures and sells throughout the world highly engineered geo-technical instrumentation which includes: pneumatic and electric piezometers, settlement systems, Terra Probe inclinometers and Mini Probes; Digital Cassette Accelerographs for measuring and recording strong seismic motions and Digital Cassette Seismographs for measuring and recording low level seismic disturbances.



Simlog Corporation and Consolidated Subsidiaries

## Consolidated Balance Sheet

September 30, 1974 and 1973

<b>Assets</b>	<b>1974</b>	<b>1973</b>
Current Assets:		
Cash .....	\$ 203,413	\$ 191,867
Trade accounts receivable .....	2,551,709	2,003,390
Allowance for doubtful receivables .....	(54,734)	(41,392)
Inventories (Note 2) .....	3,374,175	2,220,723
Federal income tax receivable (\$106,257 due from Simlog Leasing Company) .....	139,557	
Note receivable from Terra Technology Corp. ....	57,000	
Deferred income tax benefit .....	78,316	
Prepaid expenses and deposits .....	115,646	96,796
Total current assets .....	<u>6,465,082</u>	<u>4,471,384</u>
Non-Current Notes Receivable (Note 3) .....	311,375	
Equity in Net Assets of Simlog Leasing Company .....	2,093,757	1,863,881
Investments (Note 4):		
Devlin Pharmaceuticals, Inc. ....	119,538	
Terra Technology Corp. ....	35,087	32,016
Property, Plant, and Equipment - At cost less accumulated depreciation (Note 5) .....	1,524,183	1,283,794
Other Assets - Principally Patents - At cost less accumulated amortization .....	668,416	390,254
Total .....	<u>\$11,217,438</u>	<u>\$8,041,329</u>
<b>Liabilities</b>	<b>1974</b>	<b>1973</b>
Current Liabilities:		
Notes payable .....	\$ 1,070,893	\$ 837,330
Accounts payable .....	1,538,763	979,792
Advance deposits by customers .....	1,059,286	403,946
Accrued interest .....	20,505	4,896
Accrued income taxes .....	56,829	198,572
Other accrued expenses .....	469,555	463,434
Installation and warranty expense reserve .....	163,159	56,507
Total current liabilities .....	<u>4,378,990</u>	<u>2,944,477</u>
Long-Term Notes Payable (Note 6) .....	<u>2,005,307</u>	<u>579,077</u>
Commitments and Contingencies (Note 7)		
Shareholders' Equity (Notes 8 and 9):		
Common stock - par value, \$10.00 a share; authorized, 200,000 shares .....	1,157,960	1,115,460
Additional paid-in capital .....	311,714	228,543
Retained earnings (Note 13) .....	3,363,467	3,173,772
Total shareholders' equity .....	<u>4,833,141</u>	<u>4,517,775</u>
Total .....	<u>\$11,217,438</u>	<u>\$8,041,329</u>

See Notes to Consolidated Financial Statements.



## Statements of Consolidated Income and Retained Earnings

For the Years Ended September 30, 1974 and 1973	1974	1973*
Net Sales .....	<u>\$11,931,483</u>	<u>\$11,146,746</u>
Costs and Expenses:		
Cost of goods sold .....	8,820,910	7,500,874
Selling, general, and administrative expenses .....	3,131,618	2,640,914
Write-off of non-competition agreement .....		218,292
Interest expense .....	217,503	99,678
Total .....	<u>12,170,031</u>	<u>10,459,758</u>
Income (Loss) Before Income Taxes .....	<u>(238,548)</u>	<u>686,988</u>
Provision for (Reduction of) Income Taxes:		
Foreign .....	66,000	66,700
Federal:		
Current .....	(175,300)	279,000
Deferred .....	35,911	(16,640)
Total .....	<u>(73,389)</u>	<u>329,060</u>
Income (Loss) From Consolidated Operations .....	<u>(165,159)</u>	<u>357,928</u>
Income From Leasing Operations .....	429,876	377,478
Equity in Earnings of Devlin Pharmaceuticals, Inc. and Terra Technology Corp .....	22,609	(6,984)
Income From Continuing Operations .....	<u>287,326</u>	<u>728,422</u>
Loss From Discontinued Operations - Net of applicable income tax benefit of \$48,000 in 1974 and \$60,000 in 1973 (Note 12) .....	<u>(52,756)</u>	<u>(65,149)</u>
Income Before Extraordinary Credit .....	234,570	663,273
Extraordinary Credit - Tax benefit resulting from carryover of prior year's operating losses .....		40,000
Net Income .....	<u>\$ 234,570</u>	<u>\$ 703,273</u>
Per Share of Common Stock:		
Income from continuing operations .....	\$2.55	\$6.53
Loss from discontinued operations .....	(.47)	(.59)
Income before extraordinary credit .....	2.08	5.94
Extraordinary credit .....		.36
Net income .....	<u>\$2.08</u>	<u>\$6.30</u>
Retained Earnings, Beginning of Year .....	\$ 3,173,772	\$ 2,509,576
Net Income .....	234,570	703,273
Cash Dividends (per share: 1974 - \$.40; 1973 - \$.35) .....	<u>(44,875)</u>	<u>(39,077)</u>
Retained Earnings, End of Year .....	<u>\$ 3,363,467</u>	<u>\$ 3,173,772</u>

See Notes to Consolidated Financial Statements.

\*Restated to segregate discontinued operations and to conform to current year classifications.



Simlog Corporation and Consolidated Subsidiaries

## Statement of Changes in Consolidated Financial Position

For the Years Ended September 30, 1974 and 1973	1974	1973
Working Capital was Provided From:		
Current operations:		
Income (loss) from consolidated operations .....	\$ (165,159)	\$357,928
Add expenses not requiring a current outlay of working capital:		
Depreciation and amortization .....	214,310	274,342
Write-off of non-competition agreement .....		218,292
Deferral of non-current income taxes .....	39,040	
Dividends received from Simlog Leasing Company .....	200,000	150,000
Loss from discontinued operations .....	(52,756)	(65,149)
Provision for deferred income tax benefits .....		(100,390)
Total from current operations .....	<u>235,435</u>	<u>835,023</u>
Other sources:		
Long-term bank borrowings .....	1,500,000	
Sale of common stock - net of stock reacquired .....	125,671	
Tax benefit from utilization of prior year's operating losses .....		40,000
Other .....	11,431	53,359
Total working capital provided .....	<u>1,872,537</u>	<u>928,382</u>
Working Capital Was Used For:		
Purchase of property, plant, and equipment - net of normal disposals .....	336,391	318,355
Reduction of long-term notes payable .....	73,770	341,893
Investment in Devlin Pharmaceuticals, Inc. ....	100,000	
Cash dividends .....	44,875	39,077
Acquisition of Atmospheric Sciences, Inc.:		
Current assets .....	\$ 495,544	
Machinery and equipment .....	50,541	
Patents .....	396,400	
Current liabilities .....	\$ (809,085)	
Assumption of working capital deficiency of Atmospheric Sciences, Inc. ....	313,541	
Loans to shareholders and affiliates (Note 3) .....	311,375	
Other .....		46,298
Total working capital used .....	<u>1,313,352</u>	<u>745,623</u>
Increase in Working Capital .....	<u>\$ 559,185</u>	<u>\$182,759</u>
Changes in Working Capital:		
Increase (decrease) in current assets:		
Cash .....	\$ 11,546	\$137,473
Accounts receivable and advances .....	591,977	567,809
Federal income tax receivable .....	139,557	
Inventories .....	1,153,452	33,513
Prepaid expenses and deposits .....	18,850	(83,027)
Deferred Federal income tax benefit .....	78,316	(55,410)
Total .....	<u>1,993,698</u>	<u>600,358</u>
Increase (decrease) in current liabilities:		
Notes payable .....	233,563	106,060
Accounts payable and accrued expenses .....	545,610	409,098
Customer deposits .....	655,340	(97,559)
Total .....	<u>1,434,513</u>	<u>417,599</u>
Increase in Working Capital .....	<u>\$ 559,185</u>	<u>\$182,759</u>

See Notes to Consolidated Financial Statements.



# Notes to Consolidated Financial Statements

For the Year Ended September 30, 1974

## 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.

The companies' investments in Devlin Pharmaceuticals, Inc. and Terra Technology Corp. are carried at cost adjusted for their undistributed share of income or loss since acquisition.

### 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 (generally 10 to 17 years).

### INCOME TAX

The Company and its subsidiaries (including Simlog Leasing Company) report for Federal income tax purposes on a consolidated basis. The current provision for income tax was reduced by approximately \$231,000 in 1974 for benefits of the tax loss of Simlog Corporation and consolidated subsidiaries which offset the taxable income of Simlog Leasing Company. The current provision for income tax in 1973 included \$125,000 for income tax benefits received from Simlog Leasing Company.

Income taxes have been provided based on book income, adjusted for permanent differences (primarily amortization of certain intangibles), which differs from taxable income because of certain timing differences, including the periods in which installation and warranty expense, and depreciation and amortization expenses 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.

### RESEARCH AND DEVELOPMENT EXPENSE

The companies charge research and development costs to operations in the periods in which incurred for financial

and income tax purposes. Total research and development costs charged to operations were approximately \$148,000 in 1974 and \$107,000 in 1973.

### WARRANTY COSTS

Estimated warranty costs are accrued during the period of the related sale.

### 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, 1974 and 1973 are summarized below:

	1974	1973
Finished products .....	<u>\$1,562,961</u>	\$1,338,296
Work in process .....	<u>428,710</u>	168,091
Materials and supplies .....	<u>1,382,504</u>	714,336
Total .....	<u>\$3,374,175</u>	<u>\$2,220,723</u>

## 3. NOTES RECEIVABLE

Shareholders (the proceeds of which were used to purchase 4,550 shares of common stock), due in equal annual installments aggregating \$28,430 plus 5% interest beginning in 1975 .....

\$138,375

Terra Technology Corp.; 6½% convertible subordinated notes receivable due July 31, 1989 and convertible to 12,300 shares of Terra Technology Corp. common stock after July 31, 1979. The notes are non-interestbearing through August 1, 1976 .....

123,000

Devlin Pharmaceuticals, Inc.; principal balance due August 29, 1979; interest at 5% until August 29, 1976 and 10% thereafter payable annually. The note is subordinated to all bank debt of Devlin Pharmaceuticals, Inc. ....

50,000

Total .....

\$311,375

## 4. INVESTMENTS

On August 29, 1974 a subsidiary purchased 40% of the common stock of Devlin Pharmaceuticals, Inc. (Devlin), a manufacturer of food supplement, vitamin and cosmetic products, for \$100,000 in cash. In connection with the purchase the subsidiary loaned Devlin \$50,000 and guaranteed \$900,000 of Devlin's bank borrowings.

The company owns 39% (39,000 shares) of the outstanding common stock of Terra Technology Corp., a manufacturer of soil and rock mechanics and electronic medical diagnostic instruments. In addition, the Company owns warrants to purchase 3,200 shares of Terra Technology Corp.'s common stock at \$1.00 per share. The warrants expire on January 31, 1976.



## 5. PROPERTY, PLANT, AND EQUIPMENT

The cost and accumulated depreciation of property, plant, and equipment at September 30, 1974 and 1973 is summarized below:

	1974	1973
Cost:		
Land, buildings, and improvements .....	\$ 887,488	\$ 827,125
Machinery and equipment .	1,227,522	995,292
Furniture and fixtures .....	136,723	121,843
Total .....	2,251,733	1,944,260
Accumulated depreciation ...	(727,550)	(660,466)
Property, plant, and equipment - net .....	\$1,524,183	\$1,283,794

Properties carried at an adjusted basis of \$520,567 are pledged as collateral to related mortgage notes payable aggregating \$275,956 at September 30, 1974.

## 6. LONG-TERM NOTES PAYABLE

	Total	Current
To banks:		
8%, payable in monthly installments of \$812 including interest .....	\$ 24,011	\$ 8,116
8% and 8½%, collateralized by a first mortgage on plant building (depreciated cost, \$363,644); payable in monthly installments aggregating \$2,464 including interest .....	159,271	17,037
12%, due November 1, 1975; subsequently refinanced (Note 13) .....	1,500,000	
10%, collateralized by equipment with depreciated cost of \$5,000; payable in monthly installments of \$226 including interest .....	5,075	2,305
To shareholder:		
7% demand notes (to be paid after one year) .....	150,000	
Others:		
8% real estate contract, collateralized by plant building (depreciated cost, \$151,923); payable in quarterly installments of \$4,753 including interest ...	111,610	10,600
Amount due under non-competition agreement (face amount \$200,000) non-interest-bearing, \$100,000 minimum payable annually; net of unamortized imputed 7% discount of \$15,564 .....	184,436	91,038
Total .....	2,134,403	\$129,096
Less current portion .....	129,096	
Long-term portion .....	\$2,005,307	

## 7. COMMITMENTS AND CONTINGENCIES

Simlog Corporation has guaranteed the notes payable of Simlog Leasing Company which aggregated \$11,027,032 at September 30, 1974.

The Company has guaranteed \$900,000 of bank borrowings of Devlin Pharmaceuticals, Inc. and \$75,000 of bank borrowings of Terra Technology Corp.

During 1972 the Company sold shares of its common stock to officers and employees and agreed to repurchase any of these shares (2,400 outstanding at September 30, 1974) at their net book value if 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 \$100,000 at September 30, 1974.

In addition, in 1974 the Company agreed to repurchase any common stock acquired by employees under the Company's qualified stock option plan at the net book value of the stock if offered for resale to the Company. The Company's maximum contingent liability relating to this agreement was approximately \$222,000 at September 30, 1974.

## 8. COMMON STOCK AND ADDITIONAL PAID-IN CAPITAL

Transactions in the Company's common stock during 1974 were as follows:

	... Common Stock ... Number of Shares	Amount	Additional Paid-In Capital
Balance, October 1, 1973 ...	111,546	\$1,115,460	\$228,543
Common stock sold during year ...	4,550	45,500	92,875
Common stock acquired and retired during year .....	(300)	(3,000)	(9,704)
Balance, September 30, 1974	115,796	\$1,157,960	\$311,714

## 9. STOCK OPTION PLAN

The Company has a qualified stock option plan for officers and key employees. During 1974 options on 3,550 shares were granted at \$40.00 a share and 4,300 shares under option at \$30.00 a share were exercised. At September 30, 1974 options on 4,650 shares at prices ranging from \$30.00 to \$40.00 a share were outstanding of which 2,950 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, 1974, 5,550 shares were available for grant and 10,200 shares of unissued common stock were reserved under the plan.



## 10. 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. The Company has elected to make no contribution to the plan for 1974. Profit sharing expense for 1973 was \$138,000.

It is the Company's policy to fund profit sharing expenses accrued.

## 11. ACQUISITION OF ATMOSPHERIC SCIENCES, INC. (ASI)

On October 31, 1973 a subsidiary purchased 100% of the outstanding common stock of ASI for \$133,400 cash. ASI manufactures and markets computer-based process control equipment for sawmills. The acquisition was accounted for as a purchase and the excess of cost over the net tangible assets of ASI (\$396,400) has been allocated to patents and is being amortized over a 10-year period. The results of operations of ASI since acquisition are included in the accompanying consolidated financial statements.

It is not practicable to present financial information including ASI on a pro forma basis as if it was acquired October 1, 1972 because of different reporting periods and methods of accounting used by ASI prior to acquisition.

## 12. DISCONTINUED OPERATION

On August 1, 1974 the Company sold substantially all of the assets of Medistor Instrument Company to Terra Technology Corp. for \$123,000 (Note 3) which approximated the net book value of the assets sold.

As a result, the business activity of manufacturing electronic medical diagnostic instruments conducted by Medistor was discontinued. Revenues of Medistor Instrument Company were \$192,000 in 1974 and \$119,000 in 1973.

## 13. SUBSEQUENT EVENT

On December 16, 1974 the Company borrowed \$2,000,000 from Crocker National Bank under a loan agreement which requires quarterly principal payments of \$133,000 each from June 1, 1975 to December 1, 1975 and \$100,000 quarterly thereafter. Interest at one percent above the bank's prime rate is payable monthly.

Under the agreement the Company must maintain a compensating cash deposit of 15% of the outstanding loan balance. In addition, the agreement requires the Company to maintain certain minimum working capital balances and ratios and restricts the amount of dividends payable by the Company to \$40,000 plus 50% of consolidated net income (as defined) subsequent to September 30, 1974.

The proceeds of the loan were used as follows:

Prepayment of bank note originally due	
November 1, 1975 .....	\$1,500,000
Required compensating balance .....	300,000
Working capital .....	200,000
Total .....	<u>\$2,000,000</u>

## Auditors' Opinion

Simlog Corporation:

We have examined the balance sheet of Simlog Corporation and consolidated subsidiaries as of September 30, 1974 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, 1974 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, 1974 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, 1974 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*

Seattle, Washington  
January 2, 1975



# Simlog Leasing Company

## Balance Sheet

September 30, 1974 and 1973

ASSETS	1974	1973*
Cash .....	\$ 143,548	\$ 126,311
Investment in leases (Note 3):		
Personal property lease receivables .....	15,093,399	13,916,924
Estimated residual value of leased equipment .....	2,367,092	1,965,496
Unearned lease income .....	(3,160,570)	(2,733,863)
Allowance for doubtful lease receivables .....	(158,466)	(157,839)
Total investment in leases. ....	14,141,455	12,990,718
Current Federal Income Tax Benefits Due		
from Simlog Corporation (Parent) .....		125,000
Advances — Equipment Acquisitions .....	86,367	174,871
Estimated value of reacquired personal property		
(Substantially all re-leased or		
sold subsequent to year-end) .....	176,863	1,250
Other receivables — Net of allowance for		
doubtful receivables (1974 - \$30,000;		
1973 - \$14,000) .....	288,564	72,157
Other assets .....	36,739	19,861
TOTAL .....	<u>\$14,873,536</u>	<u>\$13,510,168</u>
LIABILITIES		
Notes payable to banks (Note 3) .....	\$11,027,032	\$10,127,367
Accounts payable and accrued expenses .....	172,316	204,783
Lease rental deposits .....	234,739	230,337
Current Federal Income Tax payable — Due to		
Simlog Corporation (Parent) .....	106,257	
Total liabilities .....	<u>11,540,344</u>	<u>10,562,487</u>
Deferred Federal Income Tax .....	1,239,435	1,083,800
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 .....	772,088	542,212
Total shareholder's equity .....	<u>2,093,757</u>	<u>1,863,881</u>
TOTAL .....	<u>\$14,873,536</u>	<u>\$13,510,168</u>

See Notes to Financial Statements.

\*Restated to conform to current year classifications.



Simlog Leasing Company

## Statements of Income and Retained Earnings

For the Years Ended September 30, 1974 and 1973

	1974	1973
Revenues:		
Personal property lease income .....	\$1,927,978	\$1,612,578
Other .....	38,093	68,626
Total revenues .....	<u>1,966,071</u>	<u>1,681,204</u>
Expenses:		
Interest .....	751,167	662,262
Salaries and related costs .....	154,101	115,834
Provision for losses on receivables .....	69,416	50,562
Taxes other than taxes on income .....	19,471	23,179
Other operating expenses .....	176,307	113,113
Total expenses .....	<u>1,170,462</u>	<u>964,950</u>
Income Before Income Tax .....	<u>795,609</u>	<u>716,254</u>
Provision for (Reduction of) Income Tax:		
Current .....	210,098	(66,224)
Deferred .....	155,635	405,000
Total provision for income tax .....	<u>365,733</u>	<u>338,776</u>
Net Income for the Year .....	<u>\$ 429,876</u>	<u>\$ 377,478</u>
Retained Earnings, Beginning of Year .....	\$ 542,212	\$ 314,734
Net Income for the Year .....	429,876	377,478
Cash Dividends (1974 - \$400 a share; 1973 - \$300 a share) .....	(200,000)	(150,000)
Retained Earnings, End of Year .....	<u>\$ 772,088</u>	<u>\$ 542,212</u>

## Statement of Changes in Financial Position

For the Years Ended September 30, 1974 and 1973

	1974	1973
Funds Were Provided By:		
Current operations:		
Net income for the year .....	\$ 429,876	\$ 377,478
Depreciation on leased equipment accounted for on the operating method .....		10,488
Earned tax credits .....	(21,159)	
Unearned tax credits utilized .....		58,776
Deferred income tax .....	155,635	405,000
Total from current operations .....	<u>564,352</u>	<u>851,742</u>
Increase in borrowings from banks .....	899,665	403,040
Increase in Federal income tax - due to Simlog Corporation (parent) .....	231,257	
Decrease in advances for equipment acquisitions .....	88,504	
Disposal of equipment accounted for on the operating method .....		234,229
Total funds provided .....	<u>\$1,783,778</u>	<u>\$1,489,011</u>
Funds Were Applied To:		
Increase in investment in installment lease contracts - net of disposals and unearned income .....	\$ 727,982	\$ 715,275
Increase in residual value of leased equipment - net of disposals ..	401,596	329,795
Increase in advances for equipment acquisitions .....		113,887
Increase in personal property reacquired .....	175,613	
Increase in other receivables .....	216,407	
Increase in current Federal income tax benefit due from Simlog Corporation (parent) .....		115,500
Cash dividends paid to Simlog Corporation .....	200,000	150,000
Other - net .....	62,180	64,554
Total funds applied .....	<u>\$1,783,778</u>	<u>\$1,489,011</u>

See Notes to Financial Statements.



## Notes to Financial Statements

For the Year Ended September 30, 1974

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### LEASE ACCOUNTING

The Company accounts for personal property leases under the financing method whereby the total amount of lease rentals to be received (primarily on a monthly basis) is recorded as a receivable and the excess of the lease 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 five percent 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.

Substantially all the lease maturities are from one to seven years, with an average maturity of approximately four years.

#### INCOME TAX

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.

Simlog Leasing Company is included in the consolidated Federal income tax return of Simlog Corporation. Tax charges or 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 are paid to or received from the parent company, Simlog Corporation.

The Company accounts for investment tax credits utilized 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 (\$21,159 in 1974 and \$11,755 in 1973) over the average lives of the related leases on a declining basis.

### 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	
	1974	1973
Personal property lease		
receivables .....	<b>\$4,343,012</b>	\$6,799,663
Unearned income .....	<b>602,168</b>	1,182,892
Estimated residual value of		
leased equipment .....	<b>900,120</b>	1,070,114
Miscellaneous receivables -		
primarily from sales of		
leased equipment .....	<b>166,521</b>	11,175
Revenues .....	<b>689,321</b>	776,160

### 3. NOTES PAYABLE TO BANKS

Notes payable to banks bear interest at rates from 6% to 12% and are payable as lease rentals are scheduled to be received. Substantially all equipment lease receivables are pledged as collateral to the notes.

### 4. UNUSED INVESTMENT TAX CREDITS

At September 30, 1974 the Company had unused investment tax credits of approximately \$185,000 which are available to offset Federal income tax 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



3200 First Avenue S.  
Seattle, Washington 98134  
(206) 223-4747

Belleville, Michigan  
DeQueen, Arkansas  
Molalla, Oregon  
Sacramento, California  
Seattle, Washington  
Spokane, Washington  
Springfield, Oregon  
Summerville, South Carolina  
Sunnyvale, California  
Vancouver, B. C.  
Lahti, Finland



Bellefield Office Park  
Suite 128  
1715 114th Avenue S. E.  
Bellevue, WA 98004  
(206) 455-9790

Bellevue, Washington  
Portland, Oregon  
Spokane, Washington



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

El Segundo, California  
Sacramento, California  
Seattle, Washington  
Suisun City, California



**sirco manufacturing inc.**

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

Missoula, Montana  
Stevens Point, Wisconsin

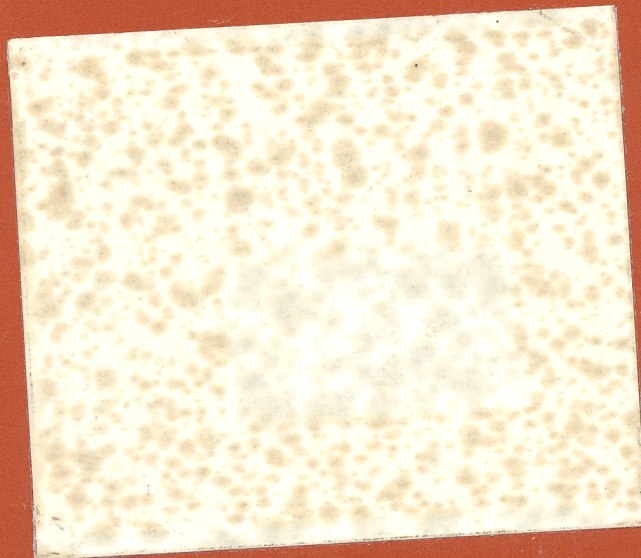
## Officers

Chairman  
W. G. Reed  
President  
Robert L. Wiley  
Vice President-Controller  
Ron J. Schmid

## Board of Directors

C. Henry Bacon, Jr.,  
President, C.H.B. 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





# **Simlog**

CORPORATION

1809 Seattle Tower  
Seattle, Washington 98101  
(206) 624-4055