

3048
Palmer G. Lewis Co., Inc.

1976 ANNUAL REPORT

Lewis (Palmer G.)

*37 Years of Continued
In Building Materials Distribution*

ANNUAL REPORTS
Palmer G. Lewis Co., Inc. 1976

Foster Business Library
University of Washington



Contents

Financial Highlights	1
Message to PGL Stockholders ..	2
Financial Review	4
Five Year Review	6
Ten Years of Growth	8
Consolidated Balance Sheets ...	10
Consolidated Statements of Income	12
Consolidated Statements of Stockholders' Investments ...	13
Consolidated Statements of Changes in Financial Position	14
Notes to Consolidated Financial Statements	15
Board of Directors, and Department Managers, Supervisors	18
Corporate Officers	2-5

Important Tax Information:

The Tax Reform Act of 1976, which was signed into law on October 4, 1976, made important changes with respect to the estates of persons dying after December 31, 1976. Of great significance to holders of marketable securities, such as Palmer G. Lewis Co., Inc., common stock, is the use of the fair market value of the marketable security on December 31, 1976 as the basis for calculating gain, if any, on the security from the deceased.

The price of PGL Co., Inc. \$1.00 par value company stock on December 31, 1976 was \$8⁷/₈ Bid and \$9³/₈ Ask, as quoted by the National Association of Security Dealers, Inc. and reported in the *Wall Street Journal* of January 3, 1977.



Palmer G. Lewis Co., Inc.

1

The Palmer G. Lewis Company is a distributor of a wide range of building materials—servicing primarily the retail building material dealers, the large retail general merchandise chains, roofing and drywall companies, and certain approved industrial and government accounts. The Company serves the entire Pacific Northwest and Alaska through ten Palmer G. Lewis Branches in Washington and Alaska, and three Pacific Yard Service Branches in Oregon. In addition, the Company owns 70% of Superior Building Supply, Inc., which services the Kenai Peninsula in Alaska with three retail outlets.

With the proper combination of warehousing, trucking and an outstanding marketing team, the Company offers its many customers a single wholesale source of building materials, while providing its many suppliers a major single outlet for their products.

Financial Highlights

Years Ended	Jan. 28, 1977	Jan. 30, 1976	% Change
Net Sales	\$56,436,257	\$47,666,852	+18
Income Before Income Taxes	\$ 1,853,725	\$ 1,353,866	+37
Income Taxes	\$ 872,000	\$ 609,500	+43
Net Income	\$ 981,725	\$ 744,366	+32
*Per Share	\$ 1.31	\$ 1.00	+31
Stock Dividends	4%	4%	—
Total Assets	\$16,185,609	\$14,199,633	+14
Average Shares Outstanding	751,002	742,460	+ 1
Stockholders' Investment	\$ 5,371,885	\$ 4,440,370	+21

*Based on average number of shares outstanding and adjusted for the 2-for-1 stock split in June 1976 and the 4% stock dividends paid in October 1975 and October 1976.

The Company's common stock is traded on the Northwest over-the-counter market. The high and low stock quotations, for each quarter of 1975 and 1976 adjusted for the 2-for-1 stock split in June 1976, the 4% stock dividends in October 1975 and October 1976 were as shown to the right:

	Bid		Ask		Cash Dividends Per Share
	High	Low	High	Low	
1975					
1st Quarter	\$5.30	\$4.61	\$ 5.76	\$5.07	\$.020
2nd Quarter	5.53	4.72	5.99	5.18	.025
3rd Quarter	5.52	5.13	6.00	5.59	.025
4th Quarter	5.64	5.52	6.12	6.00	.025
1976					
1st Quarter	7.92	5.64	8.40	6.12	.025
2nd Quarter	7.92	7.68	8.40	8.16	.030
3rd Quarter	8.00	7.50	8.50	8.00	.030
4th Quarter	9.50	7.75	10.00	8.25	.030

Message to PGL Stockholders

Your company experienced a very satisfactory growth pattern in 1976 with both sales and earnings setting new records for the 6th consecutive year. Sales of \$56.4 million were up 18% over last year. Even more satisfying was an increase of 32% in our net income—from \$744,366 (\$1.00 per share) up to \$981,725 (\$1.31 per share). Some interesting observations about our 1976 results are summarized in the Financial Review shown on pages 4 and 5.

We feel that PGL is a good solid company staffed with people who take pride in our hard earned reputation. We're pleased to feature a "PGL people" theme in this Annual Report. Our record proves that we can weather the storms and that we have the staying power to

produce satisfactory results in both good times and bad. We're going to do our best to maintain this dedication to results in the future.

While PGL is in the building materials business, our financial results are definitely not tied to the housing cycles. For example, national housing starts fell 51% from '72 to '75—all the way from 2.4 million to 1.1 million units. However, nationally, the demand for most building materials remained relatively firm. In our own area, our PGL business grew steadily. What's the explanation?

The primary reason is the big growth in remodeling and in the "do-it-yourself" business. After all, over 80 million homes already exist in this country. Every single one of them is a candidate for the use of some type of building material. For example, here's a recent estimate of

the size of this residential remodeling market: 1975 - \$25 billion; 1976 - \$30 billion; 1978 - \$40 billion.

This would represent a 60% increase between '75 and '78, and we feel that these figures may even be on the conservative side. As the cost of new homes spirals upward every year, there is more and more interest in remodeling older homes. On top of this, the "do-it-yourself" business will also continue to grow due to a combination of the following factors—high cost of construction trade labor, families having more discretionary income, and people having more time to do the work. All of this bodes well for our business.

PGL's growth has been dependable and consistent, and we're planning to continue this growth in 1977. As a result, the following expansion programs are in the works for the year ahead:

1. Pacific Yard Service, our Oregon division, moved into their new quarters in Eugene in 1976. In addition, they have purchased approximately 7 acres of land just south of Portland, near the freeway. Plans are being made to construct a new warehouse on this 7 acre site. Completion date will probably be in 1978.
2. Work is also underway at Auburn on a new outside storage and truck marshalling area. In addition, plans are being made for expansion of our Auburn warehouses in 1978.

3. Our Bremerton branch is also planning for immediate construction of a new large outside storage area to help them keep up with their expanding business.

4. We have also purchased the site for a new Yakima branch and plan to immediately construct the new facility. We hope to occupy the new quarters before the end of 1977.

5. In Alaska, Superior Building Supply has purchased 5.7 acres and is now developing plans for a new modern store in Soldotna.

Your company was off to a good fast start in February and March. There's no question that some of this brisk sales volume was attributable to the balmy winter experienced throughout the Pacific Northwest and Alaska. The fact remains, however, that the general building materials business was

extremely strong during the first quarter.

After 6 record breaking years in a row, it seems prudent to anticipate a possible slowdown in construction and general economic activity toward the end of the year. We don't predict this event, but we do allow for the possibility in our planning. On the other hand, all branches are doing well, including Alaska. As a result, we have budgeted 1977 for continued growth in sales and earnings—and expect to hit or exceed our budgets.

Palmer G. Lewis
Palmer G. Lewis
Chairman of the Board

Robert D. Peterson
Robert D. Peterson, President
& Chief Executive Officer

RICHARD E. LUNDGREN
Executive
Vice President

J. CUTLER LEWIS
Senior
Vice-President

JAMES F. FARMLEY
Vice-President
and Secretary-Treasurer

ROBERT D. PETERSON
President & Chief
Executive Officer

PALMER G. LEWIS
Chairman
of the Board

GILBERT R. HALLEY
Assistant
Secretary-Treasurer

CHARLES D. LAUBER
Vice-President and
Adv./Promotion Mgr.

O. A. MOSLEY
Vice-President and
Credit Manager

OFFICERS NOT PICTURED:
ZACK T. BRANDON
Vice-President
Oregon Operations
LOUISE W. LEWIS
Assistant Secretary

Financial Review

4

Net Sales

\$56.4 million—an 18% increase over the previous year. PGL sales growth continues to be impressive. Sales have increased every year during the past 20 years—except for one 3% sales dip in 1970. Sales in 1976 were almost 27 times higher than they were in 1956 (2.1 million). Our annual compound growth rate, over the past 5 years ('71-'76) has been 22%.

Net Income

\$981,725—a 32% increase over last year. Growth in PGL earnings has been even faster than our sales growth. For example, net income in 1976 was about 40 times higher than it was in 1956. During the most recent 5-year period ('71-'76) PGL's annual compound growth rate in earnings has been 28%.

Earnings per share amounted to \$1.31—31% over last year.

Net income, as a % of sales, worked up to 1.74%. Our long term goal has been 2.0%. We still intend to get there. Net income, as a % return on net worth at the beginning of the year, was 22.1%. This is a new high. Our long term goal is to average 15% or better.

Cash Flow

Cash flow (net income + non-cash items, primarily depreciation) amounted to \$1,515,035—also a new record.

Depreciation in 1976 amounted to \$432,048. Our continued rise in depreciation reflects amortization of regular investments in PGL fixed assets—which better position us to efficiently handle a growing volume of business.

Dividends

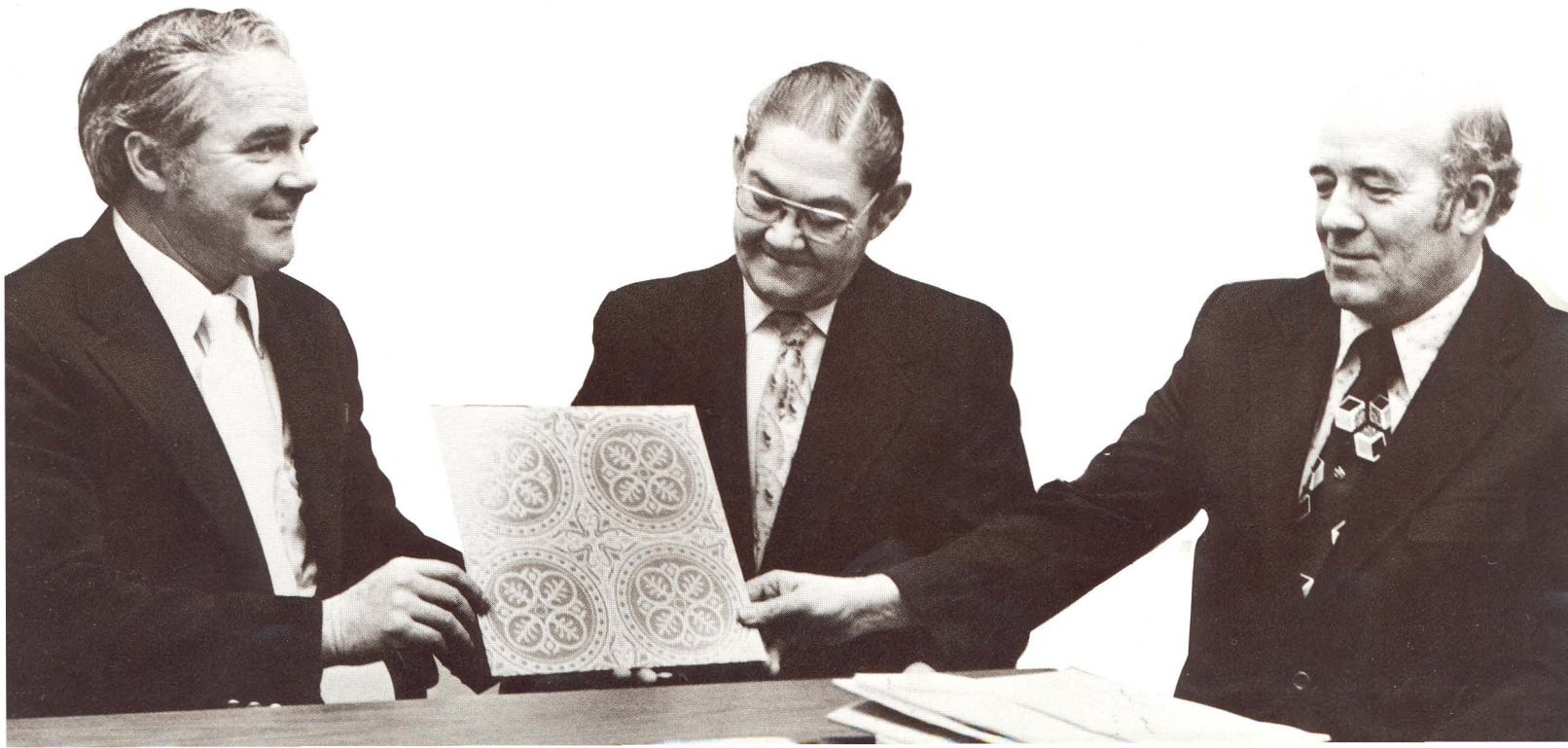
PGL has now paid cash dividends for 17 consecutive years. Prior to 1968, they were paid annually. Starting with the third quarter of 1968, the year PGL went

public, dividends have been paid quarterly for 34 consecutive quarters. The current annual rate is 12¢. In addition to cash dividends, the company has paid an annual 4% stock dividend since 1968.

Working Capital

The Company's working capital showed a substantial increase last year. This was largely the result of a \$3 million 7-year loan consummated with Washington Mutual Savings Bank in late December. Approximately \$1.2 million was used to remortgage existing company-owned warehouses. Approximately \$550,000 was used to finance our beautiful new Eugene facility. The balance of \$1.25 million was added to our working capital.

PHILIP R. HARRIS
Vice-President
and Sales Manager



Net Worth (Stockholders Investment)

\$5,371,885—an increase of 21% over the previous year. This amounts to \$7.09 per share, based on the number of shares outstanding at year end. Our net worth continues to grow each year.

Profit Sharing Trust

We have always felt that our greatest asset is the spirit of our people. In the final analysis, this has been the most important factor in our steady growth over the past 37 years. That's why we decided to use a "PGL is People" theme in this annual report.

As our PGL Profit Sharing Trust grows and prospers, it becomes an even more important factor in attracting and holding the large number of ambitious employees that every good company needs. As a result, we're really delighted to report the wonderful profit sharing news for 1976. The total company contribution for last year was \$389,964. In addition, the

Trust gained \$296,220 in 1976 from dividends, interest, and appreciation in value of investments—bringing the total value of the Profit Sharing Trust to \$2,166,835. These figures include Superior Building Supply who established their Plan in 1973. As a matter of historic interest, we always like to point out that the total PGL net worth in 1958 (the year we started the Profit Sharing Plan) was only \$268,000. The growth of *both* PGL and the Profit Sharing Trust is excellent proof that this concept of sharing profits really pays off to all concerned.

Comment on the Future

PGL Company has maintained steady growth through the years. The big question is, can we maintain this growth into the future? We think we can—for the same major reasons we've expressed before:

1. The distribution business is a good, solid business, and it's a growing industry.

2. We're located in the right geographical area—the Pacific Northwest and Alaska. Growth will continue in this region.

3. The need for building materials continues to grow. Growth in the residential remodeling area is especially impressive, and this business is the backbone of our customers' business.

4. PGL Company has a wonderful organization of people who care, with a high percentage of those being stockholders. They're the type of people who can—and will—keep this company moving.

We expect to have another good year in 1977 and will do our best to keep the curve headed in the right direction.

SCHELL HARMON
Vice-President
Inventory Manager



Five Year Review

6

Years Ended	Jan. 28, 1977	Jan. 30, 1976	Jan. 31, 1975	Jan. 25, 1974	Jan. 26, 1973
Net Sales	56,436,257	47,666,852	41,120,734	30,663,127	25,029,197
Cost of Sales	44,756,433	38,037,470	32,336,003	24,398,444	20,266,457
Interest Expense	649,840	590,059	569,909	415,778	254,686
Depreciation	432,048	353,449	304,328	264,031	198,037
Other costs and expenses, net	8,744,211	7,332,008	6,682,030	4,869,292	3,718,607
Income before Taxes	1,853,725	1,353,866	1,228,464	715,582	591,410
Income Taxes — Current	809,161	590,126	568,700	285,000	232,000
— Deferred	62,839	19,374	24,300	19,000	20,000
Net Income	981,725	744,366	635,464	411,582	339,410
Net Income:					
Per Common Share	1.31	1.00	.86	.57	.47
As a % of Sales	1.74%	1.56%	1.55%	1.34%	1.36%
As a % of Stockholders' Investment (1)	22.1%	20.0%	20.4%	15.1%	14.2%
Average Shares Outstanding Used to Compute Earnings Per Share (2) ..	751,002	742,460	735,857	725,598	718,229
Dividends per Common Share					
Cash11	.09	.08	.07	.06
Stock	4%	4%	4%	4%	4%
Shares Outstanding at Year End Used to Compute Dividends Per Share (2) .	757,607	749,038	741,071	732,736	724,583
Cash flow (net income + non-cash items)	1,515,035	1,153,046	983,696	719,370	565,258
Capital expenditures, net of retirements	1,218,785	1,273,430	751,235	608,990	252,344
Working Capital	4,444,642	2,541,941	2,771,903	2,233,613	1,356,046
Stockholders' Investment	5,371,885	4,440,370	3,728,542	3,120,857	2,725,724
Total Assets	16,185,609	14,199,633	12,314,245	10,247,536	7,544,117
Profit Sharing Trust Value (Includes current year's contribution)	2,166,835	1,516,385	1,125,257	950,822	894,224
Number of Employees	274	248	239	209	157

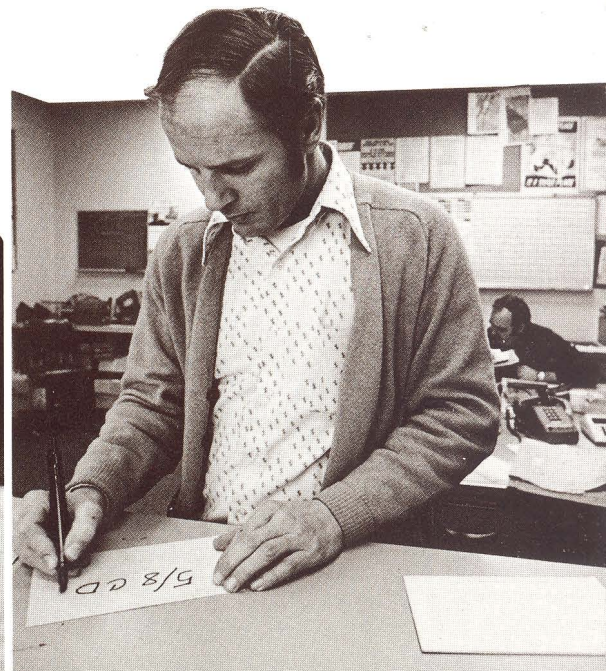
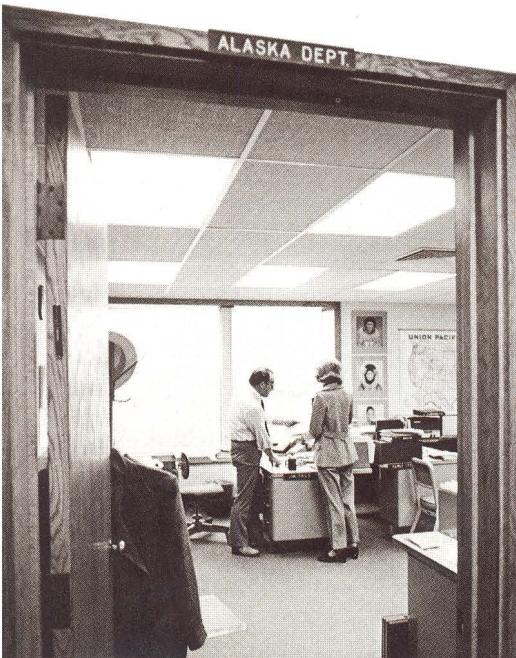
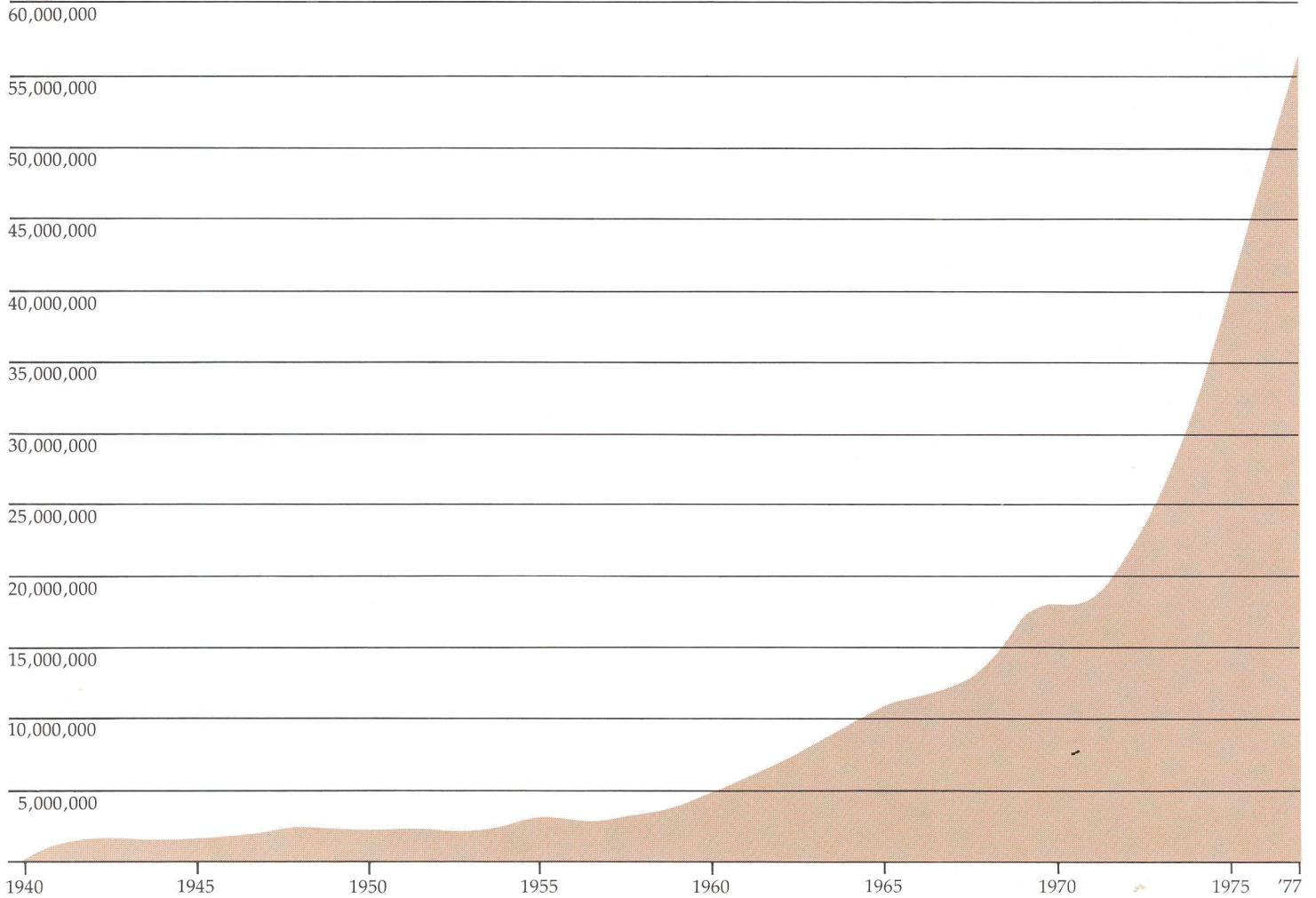
(1) Based on Stockholders' Investment at the beginning of the year.

(2) Adjustments have been made to reflect the 2-for-1 stock split in June 1976, the 3-for-2 stock split in June, 1972, and for stock dividends in October, 1976, October, 1975, September, 1974, November, 1973, and October, 1972.



PGL Sales Continue To Grow

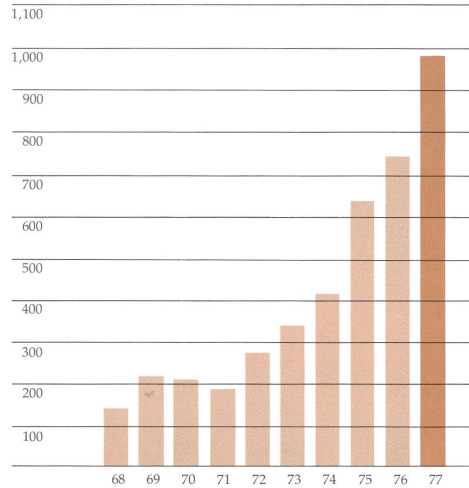
7



PGL Ten Years of Growth

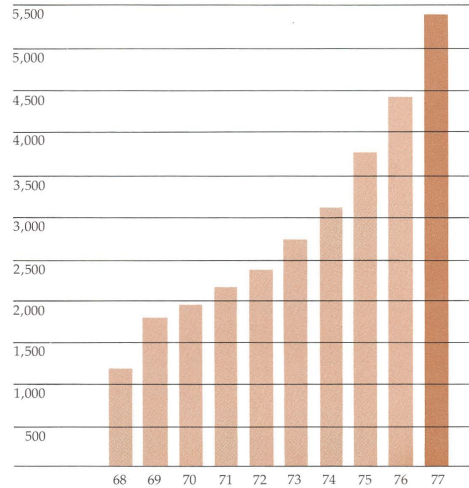
Net Income

\$ in thousands



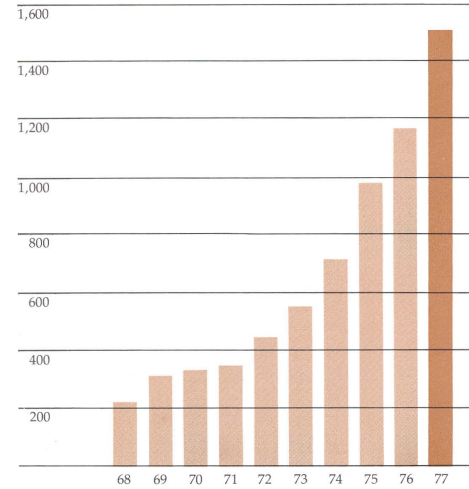
Net Worth

\$ in thousands



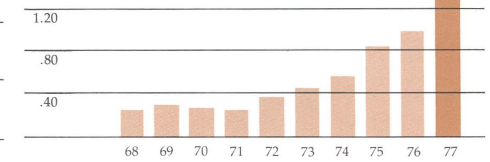
Cash Flow

\$ in thousands



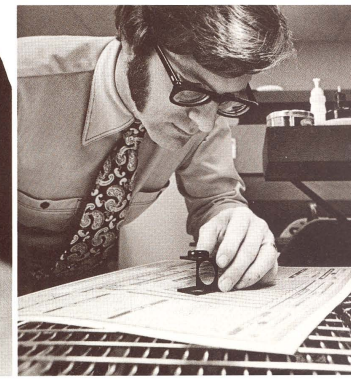
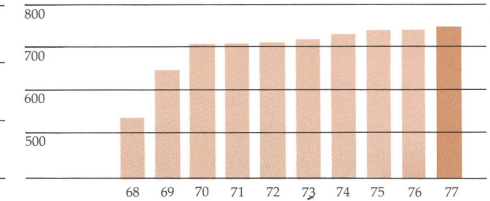
Earnings Per Share

\$1.60



Average Number of Shares Outstanding

Per thousand shares



Consolidated Balance Sheets

<i>January 28, 1977 and January 30, 1976</i>	1977	1976
ASSETS		
CURRENT ASSETS:		
Cash	\$ 238,841	\$ 84,820
Receivables, less allowance for doubtful accounts of \$255,000 in 1977 and \$206,000 in 1976	4,907,309	4,299,732
Current portion of notes receivable	37,366	63,715
Inventories, at the lower of first-in, first-out cost or market	5,642,869	5,178,500
Prepaid expenses	125,631	126,262
Total current assets	<u>\$10,952,016</u>	<u>\$ 9,753,029</u>
LAND, BUILDINGS AND EQUIPMENT, at cost (Notes 1, 2 and 6)		
Land and land improvements	\$ 828,052	\$ 778,937
Buildings	2,704,780	2,109,724
Equipment	2,606,409	2,207,907
Furniture and fixtures	475,555	464,923
Construction in progress	50,977	18,734
	\$ 6,665,773	\$ 5,580,225
Less - Accumulated depreciation	1,727,762	1,428,950
Net land, buildings and equipment	<u>\$ 4,938,011</u>	<u>\$ 4,151,275</u>
OTHER ASSETS:		
Notes receivable, net of current portion	\$ 80,257	\$ 104,536
Unamortized cost in excess of acquired tangible net assets	106,250	111,250
Other	109,075	79,543
	<u>\$ 295,582</u>	<u>\$ 295,329</u>
	<u>\$16,185,609</u>	<u>\$14,199,633</u>

The accompanying notes are an integral part of these balance sheets.

	1977	1976
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES:		
Notes payable to banks (Note 7)	\$ 1,700,000	\$ 2,930,000
Current portion of long-term debt (Note 2)	153,235	455,644
Accounts payable	3,109,320	2,764,217
Accrued liabilities	1,279,284	997,926
Accrued income taxes	265,535	63,301
Total current liabilities	<u>\$ 6,507,374</u>	<u>\$ 7,211,088</u>
LONG-TERM DEBT, net of current portion (Note 2)	\$ 3,862,408	\$ 2,200,495
DEFERRED ITEMS (Note 1):		
Deferred taxes on income	\$ 192,993	\$ 130,154
Other	45,969	59,357
	<u>\$ 238,962</u>	<u>\$ 189,511</u>
COMMITMENTS (Note 6)		
MINORITY INTEREST IN SUBSIDIARY	\$ 204,980	\$ 158,169
STOCKHOLDERS' INVESTMENT (Note 3):		
Common stock, par value \$1.00, authorized 2,000,000 shares	\$ 758,467	\$ 600,401
Paid-in capital	1,686,476	1,564,280
Retained earnings	2,933,822	2,275,689
	\$ 5,378,765	\$ 4,440,370
Less - Treasury stock, 860 shares, at cost	(6,880)	—
Total stockholders' investment	<u>\$ 5,371,885</u>	<u>\$ 4,440,370</u>
	<u>\$16,185,609</u>	<u>\$14,199,633</u>

Consolidated Statements of Income

12

<i>For the years ended January 28, 1977 and January 30, 1976</i>	1977	1976
NET SALES	\$56,436,257	\$47,666,852
COSTS AND EXPENSES:		
Cost of goods sold	\$44,756,433	\$38,037,470
Depreciation (Note 1)	432,048	353,449
Selling and handling expenses	4,369,178	3,583,009
General and administrative expenses	4,058,192	3,614,054
Employees' profit sharing plans	389,964	218,144
Interest	649,840	590,059
Minority interest in earnings	46,811	43,314
	<u>\$54,702,466</u>	<u>\$46,439,499</u>
Income from operations	\$ 1,733,791	\$ 1,227,353
OTHER INCOME, principally from sale of assets and interest	<u>119,934</u>	<u>126,513</u>
Income before income taxes	\$ 1,853,725	\$ 1,353,866
INCOME TAXES (Notes 1 and 4)	<u>872,000</u>	<u>609,500</u>
Net income	<u>\$ 981,725</u>	<u>\$ 744,366</u>
EARNINGS PER SHARE (Note 5)	<u>\$1.31</u>	<u>\$1.00</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Stockholders' Investment

For the years ended January 28, 1977 and January 30, 1976

	1977	1976	1977	1976
Common Stock	Shares		Amount	
BALANCE AT BEGINNING				
OF YEAR	360,241	343,169	\$ 600,401	\$ 571,948
Issued for 4% common stock dividends	28,472	13,387	28,472	22,312
Issued for stock purchase plan (Note 3)	5,393	3,685	5,408	6,141
Issued for stock options exercised (Note 3)	4,098	—	4,098	—
To record common stock split and related change in par value (Note 5)	360,263	—	120,088	—
BALANCE AT END OF YEAR	758,467	360,241	\$ 758,467	\$ 600,401
Treasury Stock				
BALANCE AT BEGINNING				
OF YEAR	—	600	\$ —	\$ 6,055
Purchases, at cost	6,000	1,493	49,783	16,895
Used for stock options exercised (Note 3)	—	(1,179)	—	(12,262)
Used for stock purchase plan (Note 3)	(5,140)	(914)	(42,903)	(10,688)
BALANCE AT END OF YEAR	860	—	\$ 6,880	\$ —
Paid-In Capital				
BALANCE AT BEGINNING				
OF YEAR			\$1,564,280	\$1,404,547
Cash proceeds over par value and cost of treasury stock in excess of purchase price of common stock issued upon exercise of stock options (Note 3)			16,585	(1,238)
Cash proceeds over par value of common stock issued under the employee stock purchase plan (Note 3)			19,277	27,592
Fair value over par value of common stock issued as stock dividends			206,422	133,379
To record change in par value after common stock split (Note 5)			(120,088)	—
BALANCE AT END OF YEAR			\$1,686,476	\$1,564,280
Retained Earnings				
BALANCE AT BEGINNING OF YEAR			\$2,275,689	\$1,758,102
Net income			981,725	744,366
Dividends declared:				
Cash—\$.11 per share in 1977 and \$.09 per share in 1976			(85,028)	(66,814)
Common stock—4%			(238,564)	(159,965)
BALANCE AT END OF YEAR			\$2,933,822	\$2,275,689

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

14

For the years ended January 28, 1977 and January 30, 1976

	1977	1976
WORKING CAPITAL WAS INCREASED BY:		
Operations —		
Net income	\$ 981,725	\$ 744,366
Charges (credits) not affecting working capital:		
Depreciation and amortization	437,048	358,449
Deferred taxes on income	62,839	19,374
Minority interest in earnings	46,811	43,314
Deferred income	(13,388)	(12,457)
	<u>\$1,515,035</u>	<u>\$ 1,153,046</u>
Proceeds from sale of stock	88,271	55,445
Proceeds from long-term borrowings	3,036,826	210,558
Proceeds from notes receivable and others	—	167,570
	<u>\$4,640,132</u>	<u>\$ 1,586,619</u>
WORKING CAPITAL WAS DECREASED BY:		
Buildings and equipment additions, net	\$1,218,785	\$ 1,273,430
Reduction of long-term debt	1,374,913	455,168
Cash dividends and payments for fractional shares	88,698	71,088
Other	5,252	—
Purchase of treasury stock	49,783	16,895
	<u>\$2,737,431</u>	<u>\$ 1,816,581</u>
NET INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$1,902,701</u>	<u>\$ (229,962)</u>
WORKING CAPITAL WAS INCREASED (DECREASED) AS FOLLOWS: -		
Current assests —		
Cash	\$ 154,021	\$ (57,287)
Receivables	607,577	654,765
Current portion of notes receivable	(26,349)	10,021
Inventories	464,369	485,619
Prepaid expenses	(631)	44,859
	<u>\$1,198,987</u>	<u>\$ 1,137,977</u>
Current liabilities —		
Notes payable to banks	\$1,230,000	\$ (920,000)
Current portion of long-term debt	302,409	(84,935)
Accounts payable	(345,103)	(635,327)
Accrued liabilities	(281,358)	11,856
Accrued income taxes	(202,234)	260,467
	<u>\$ 703,714</u>	<u>\$(1,367,939)</u>
NET INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$1,902,701</u>	<u>\$ (229,962)</u>

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

15

January 28, 1977 and January 30, 1976

1. Summary of Accounting Policies:

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its majority-owned subsidiary after elimination of significant intercompany accounts and transactions.

Properties

Maintenance, repairs and minor replacements are expensed as incurred. Betterments and replacements of major units of property are capitalized. The cost of property sold or retired is removed from the asset accounts, the related depreciation is removed from the accumulated depreciation accounts and the resultant gain or loss is recorded.

Depreciation

Buildings, equipment, furniture and fixtures are depreciated on the straight-line method for financial statement purposes based upon the estimated useful lives of the properties.

Income Taxes

For tax purposes, buildings, equipment, furniture and fixtures are depreciated on the declining balance method. Deferred income taxes have been provided for the difference between tax depreciation and financial statement depreciation. Investment tax credits are taken into income in the year in which income taxes are reduced by the credit.

Reclassifications

Certain reclassifications of prior year's data have been made to conform with the current format.

2. Long-Term Debt:

	1977	1976
Note payable to bank, 10 $\frac{1}{4}$ %, secured by a mortgage on certain land, buildings and equipment with an approximate book value of \$898,819, payable in monthly installments of \$14,283, including interest, with final payment of \$1,416,267 in 1983	\$1,591,917	\$ —
Notes payable to bank, 9 $\frac{5}{8}$ %, secured by mortgages on certain land, buildings and equipment with an approximate book value of \$1,143,456, payable in monthly installments aggregating \$12,646, including interest, with final payments of \$1,283,353 in 1983	1,425,898	—
Notes payable with interest rates ranging from 7% to 10 $\frac{5}{8}$ %, refinanced with the issuance of the above bank notes	—	1,427,999
Notes payable with interest rates ranging from 8% to 8 $\frac{3}{4}$ %, secured by mortgages on certain land, buildings and equipment with an approximate book value of \$961,810, payable in monthly installments aggregating \$4984, including interest	364,946	426,681
Unsecured notes, 8%, payable to officers, employees and others arising from acquisitions, payable in installments over an eight year period	562,483	644,947
Other	70,399	156,512
	<u>\$4,015,643</u>	<u>\$2,656,139</u>
Less - Current portion	<u>153,235</u>	<u>455,644</u>
	<u>\$3,862,408</u>	<u>\$2,200,495</u>

Included in notes payable secured by mortgages is a note for \$162,947 payable to a partnership consisting of Robert D. Peterson, who is the president and a director of the Company, and two other individual partners. In December 1975, the Company purchased land for \$296,000 from the partnership.

3. Stock Purchase and Stock Option Plans:

Stock Purchase

In June, 1973, the Company established a stock purchase plan for officers and employees of the Company and its subsidiary. Participation in the plan is voluntary. As of January 28, 1977, 40,185 shares of the Company's common stock were reserved for issuance under the plan. The option price is the lesser of 90% of the fair market value of the stock at the date of grant or 100% of the fair market value of the stock at the date exercised, but not less than par value of the stock. During the year ended January 28, 1977, 10,533

shares were purchased at option prices varying from \$5.51 to \$11.03 per share; during the year ended January 30, 1976, 4,599 shares were purchased at option prices varying from \$9.00 to \$10.37 per share.

Stock Option

The Company has a stock option plan for officers and key employees. Options are granted at the prevailing market price at date of grant and are exercisable from that date for a period of five years. A summary of stock option activity follows:

	1977		1976	
	Shares	Average Per Share	Shares	Average Per Share
Options granted	4,500	\$8.70	11,180	\$11.50
Options exercised	4,098	5.05	1,179	9.35
Market value at date of exercise	—	8.42	—	12.00
Options outstanding at year end	48,741	5.87	23,290	11.54
Reserved for issuance	59,095	—	30,381	—

Both Plans

All options exercised may be satisfied by delivery of either treasury or original issue common stock. Gains and losses on delivery of treasury shares upon exercise of stock options are credited or charged to paid-in capital. Upon delivery of original issue common stock, the par value of the stock is recorded in the common stock account with the remainder of the option price over par credited to paid-in capital. No charge is made to income in connection with these plans.

4. Income Taxes:

Income taxes in the consolidated statements of income include the following:

	Federal	State	Total
1977			
Current	\$801,782	\$60,203	\$861,985
Less - Investment tax credits	52,824	—	52,824
	<u>\$748,958</u>	<u>\$60,203</u>	<u>\$809,161</u>
Deferred	59,457	3,382	62,839
	<u>\$808,415</u>	<u>\$63,585</u>	<u>\$872,000</u>
1976			
Current	\$609,223	\$48,820	\$658,043
Less - Investment tax credits	67,917	—	67,917
	<u>\$541,306</u>	<u>\$48,820</u>	<u>\$590,126</u>
Deferred	18,010	1,364	19,374
	<u>\$559,316</u>	<u>\$50,184</u>	<u>\$609,500</u>

The deferred income taxes result principally from differences in depreciation for book and tax purposes. The difference between the 48% Federal tax rate and the effective tax rate of 47% in 1977 arises principally from investment tax credits.

5. Earnings Per Share:

Earnings per share are based on the weighted average number of shares of common stock outstanding during each year after giving retroactive effect to the 4% stock dividends in October, 1975, and October 1976, and the two-for-one stock split in June, 1976.

Outstanding stock options had no dilutive effect on earnings per share.

6. Commitments:

The present value of the aggregate minimum commitments relating to the noncapitalized financing lease amounted to \$1,282,000 at January 28, 1977, based on an interest rate of 9½%. Had the company capitalized this leased property, the unamortized leasehold at January 28, 1977, would be \$1,102,000 based upon the original present value of future lease payments amortized on the straight-line method over the term of the lease.

If the lease rights were amortized on a straight-line basis and interest expense accrued on the basis of the outstanding lease liability, net income would not have been reduced by a material amount.

The leases include a lease entered into in 1973 covering the new headquarters building. The lessor is a partnership consisting of Robert D. Peterson, who is the president and a director of the Company, and two other individual partners. Mr. Peterson owns a one-third interest in the partnership. The basic term of the lease is for a period of twenty years with a minimum annual rental of approximately \$154,080.

7. Notes Payable to Banks:

At January 28, 1977, the Company had short-term bank borrowings of \$1,475,000 at an interest rate of 6.75% and \$225,000 at an interest rate of 9.50%. The interest rates vary in relation to the prime rate. During 1976, the Company had short-term borrowings averaging approximately \$5,314,000 at an average annual interest rate of 7.6%. The maximum amount of short-term bank borrowings at any month end during 1976 was \$8,025,000. The total line of credit amounted to \$8,500,000 as of January 28, 1977, with an unused portion amounting to \$6,800,000.

Auditors' Report

To the Stockholders and
Board of Directors of
Palmer G. Lewis Co., Inc.

We have examined the consolidated balance sheets of Palmer G. Lewis Co., Inc. (a Washington Corporation) and subsidiary as of January 28, 1977, and January 30, 1976, and the related consolidated statements of income, stockholders' investment and changes in financial position for the years then ended. Our examination was 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 consolidated financial statements present fairly the financial position of Palmer G. Lewis Co., Inc. and subsidiary as of January 28, 1977, and January 30, 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Seattle, Washington,
March 22, 1977

Board of Directors**Palmer G. Lewis**

Chairman of the Board
Palmer G. Lewis Co., Inc.
Auburn, Washington

William H. Gee

Investments
Seattle, Washington

J. Cutler Lewis

Senior Vice-President
Palmer G. Lewis Co., Inc.
Auburn, Wash.

Richard E. Lundgren,

Executive Vice-President
Palmer G. Lewis Co., Inc.
Auburn, Wash.

James F. Parmley

Vice President and
Secretary-Treasurer
Palmer G. Lewis Co., Inc.
Auburn, Wash.

Robert D. Peterson

President
Palmer G. Lewis Co., Inc.
Auburn, Wash.

L. W. Wells

Senior Vice President
Winmar Company, Inc.,
(Financial Services)
Seattle, Wash.

Alfred W. White

Chairman of the Board
Frank B. Hall and
Co. of Washington
(Insurance Brokers)
Seattle, Wash.

**Auburn Distribution Center
Managers and Supervisors****John A. Fetch**

Invoicing & Data Processing

Stephen P. Parmley

Supervisor of Trucking

Clifford Schattenkerk

Supervisor of Warehousing

PGL Branch Managers**Robert Anderson, Jr.**

Lacey, Wash.

J. J. Apostolou

Anchorage, Alaska

Ted DeMarcé

Wenatchee, Wash.

Pearson Hillius

Bremerton, Wash.

Thomas Jenkins

Seattle, Wash.

Robert E. Johnson

Everett, Wash.

Walter Maes

Spokane, Wash.

Robert A. Ruud

Yakima, Wash.

J. R. Schiller

Kenmore, Wash.

Pacific Yard Service Division**Ronald Pulliam**

General Manager

Mark Balfour

Sales Manager

Ted Igl

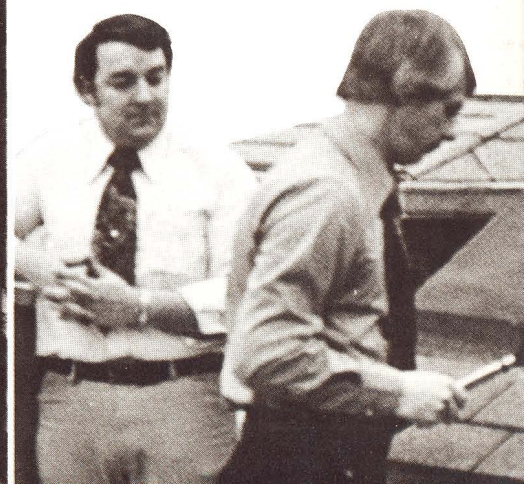
Eugene Branch Manager

Earl W. Van Buskirk

Tigard Branch Manager

Superior Building Supply, Inc.**Ted Grainge**

General Manager



Annual Meeting:

The annual meeting of shareholders of Palmer G. Lewis Co., Inc. will be held on Thursday, May 26, 1977, at 2:00 P.M., at the Seattle-First National Bank Building, 1000 - Fourth Avenue, Seattle, Washington, Third Avenue Level Auditorium.

Attorneys

Cartano, Botzer and Chapman,
Seattle, Wash.

Registrar and Transfer Agent

Seattle-First National Bank, Seattle,
Wash.

Additional Information:

A copy of the Company's Form 10-K report for the year ended January 28, 1977 including financial statements and schedules, which will be filed with the Securities and Exchange Commission by April 28, 1977 is available to shareholders, without charge, upon written request to:

Mr. James F. Parmley,
Secretary
Palmer G. Lewis Co., Inc.
525 C Street N.W.
Auburn, Washington 98002



Product Lines

Doors

- Clopay Folding Doors
- Wood Bifold Doors
- Spacesaver Folding Doors

Floorcovering

- (Pacific Yard Service Division)
- Adhesives
- Flintkote Floor Tile
- High Pressure Laminates

Hardware

- (Pacific Yard Service Division)
- General Hardware
- Locks
- Tools—Hand and Power

Insulation Board

- Asphalt Impregnated Sheathing
- Ceiling Tile and Board Products
- Fiberglass Ceilings
- Grid Ceiling

Lumber

- Common Dimension Lumber
- 1" Boards
- Studs

Marlite

- Adhesive and Accessories
- Board, Plank, Block
- Metal Mouldings

Nails and Steel Products

- Canadian Nails
- Domestic Nails
- Fence Posts Barbed Wire
- Import and Parkerhead Nails
- Poultry Netting
- Rebar
- Simpson Strong-Tie
- Stronghold, Helyx and other Specialty Nails
- Wire Mesh

Plasterboard

- Board Items including Lath and Sheathing
- Metal Trim and Metal Studs
- Plasterboard Accessories
- Sound Deadening Board

Plywood

- Fir Sanded-Graded
- Fir Sheathing-Graded
- Marine Plywood
- Plywood Sidings
- Shop Plywood

Prefinished Wood Panels and Accessories

- D. G. Woodgrain Mouldings
- Jarrow Mouldings
- Prefinished Panels

Rigid Insulation

- Fesco Roof Insulation
- Fiberglass Roof Insulation

Roofing

- Aluminum Sheets and Accessories
- Asphalt Shingle Products
- Building Papers
- Fiberglass
- Gutter Systems
- Pail and Canned Coatings

Soft Insulation

- Aerocor Household Insulation
- Certainteed
- Johns Manville
- Owens Corning

Specialty Building Products

- Adhesives
- Colotrym
- Cork
- Fiberglass Panels
- K-Lux
- Metalbestos Chimney Systems
- Olympic Stain
- Polyethylene Film
- Shelving
- Z-Brick

Wallboards

- Canfor Hardboard
- Cement Asbestos Board
- Domestic Hardboard
- Particle Board

Wood Mouldings, Jambs, Frames

- Hemlock
- Mahogany

Wood Shakes, Shingles

- and Specialty Items
- Shim Shingles and Undercourse
- Wood Lath
- Wood Shakes and Shingles
- Wood Strip

Service Centers

- PGL Warehouses
- Pacific Yard Service Division
- ★ Superior Building Supply, Inc.



PGL Warehouses

Strategically located for maximum coverage of the market area.

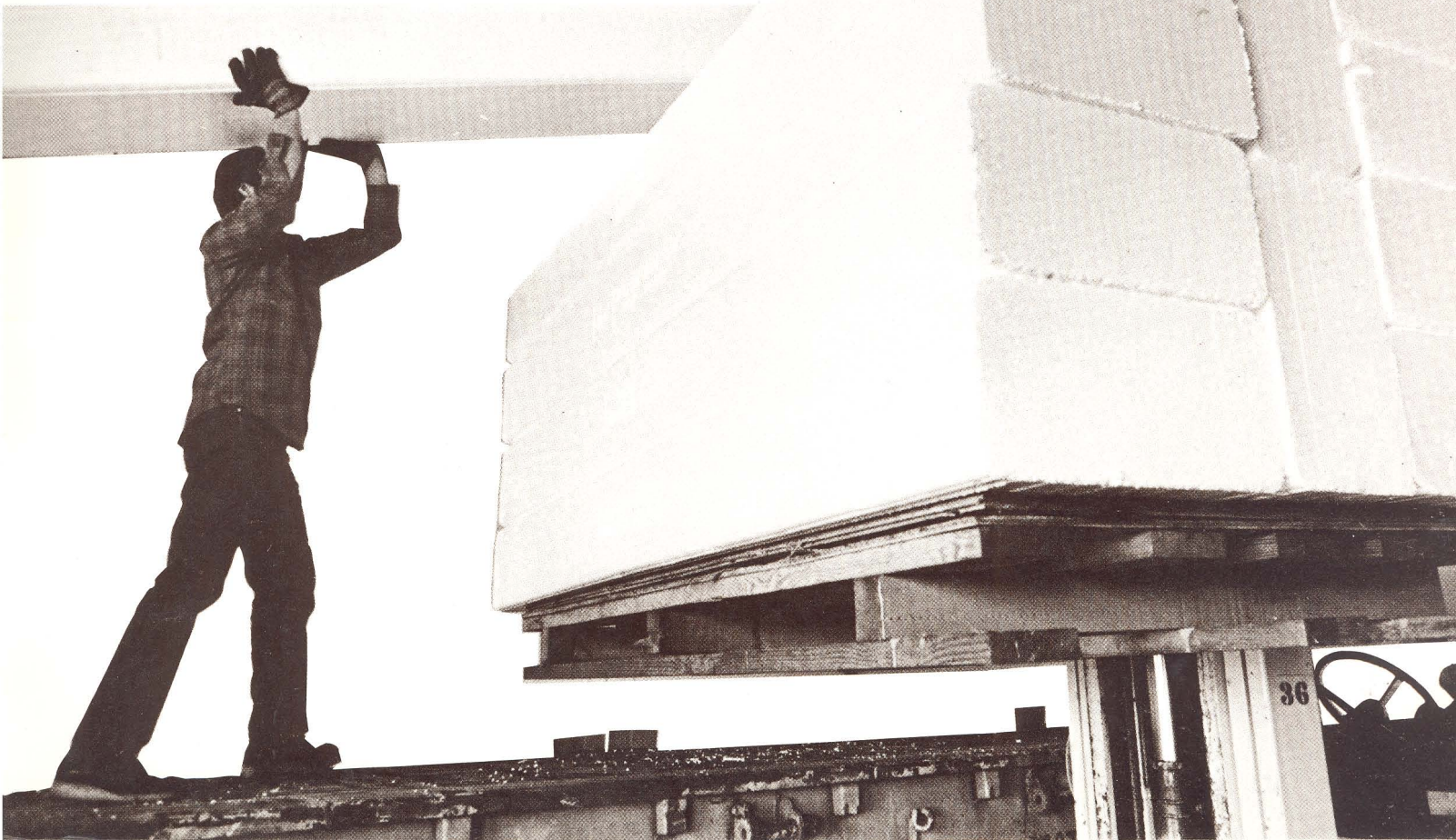
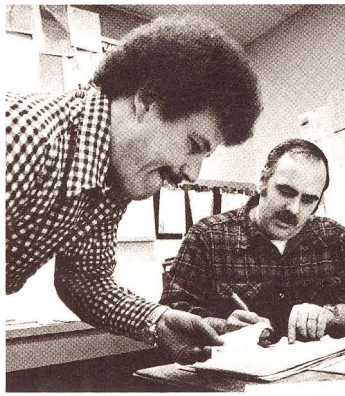
- **AUBURN** (Company Headquarters)
525 C Street N.W., Auburn, WA 98002
- **ANCHORAGE**
5900 Arctic Blvd.,
Anchorage, AK 99502
- **BREMERTON**
Old Belfair Road,
Bremerton, WA 98310
- **EVERETT**
3013 Walnut St., Everett, WA 98201
- **KENMORE**
6820 N.E. 175th St.,
Kenmore, WA 98028
- **LACEY**
1215 Carpenter Road S.E.,
Lacey, WA 98503
- **SEATTLE**
3518 West Marginal Way S.,
Seattle, WA 98134
- **SPOKANE**
E. 4001 Broadway Ave.,
Spokane, WA 99202
- **WENATCHEE**
2717 Euclid Ave., Wenatchee, WA
98801
- **YAKIMA**
4308 Main St., Union Gap, WA 98903

Superior Building Supply, Inc.

- ★ **KENAI** (Main Office)
3 Mile North Road, Kenai, AK 99611
- ★ **HOMER**
P. O. Box 395, Homer, AK 99603
- ★ **SOLDOTNA**
P. O. Box 268, Soldotna, AK 99669

Pacific Yard Service Division

- **PORTLAND** (Main Office)
539 S.E. Division Place,
Portland, OR 97242
- **EUGENE**
3455 West 1st Ave.
Eugene, OR 97402
- **TIGARD**
16255 S.W. Upper Boones
Ferry Road,
Portland, OR 97223





~~DEC 6 1979~~

~~DEC 5 1979 9:15 AM~~

Palmer G. Lewis Co., Inc.
525 C Street N.W.
Auburn, Washington 98002

Del
~~JAN 26 1985~~