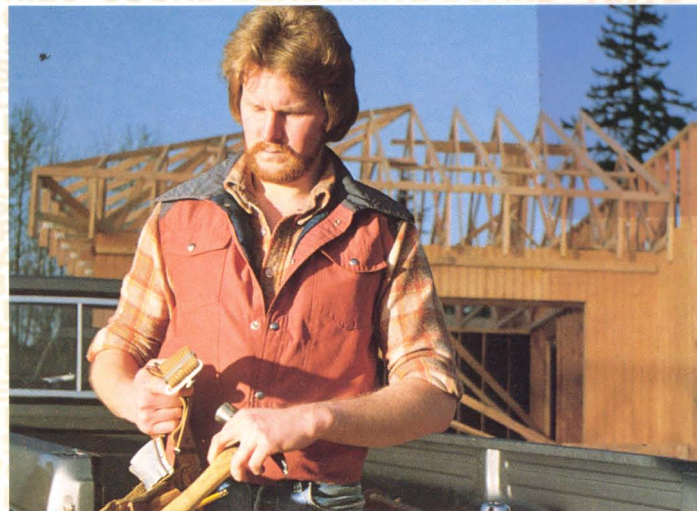


Lewis (Palmer G.)

ANNUAL REPORTS
Palmer G. Lewis Co., Inc. 1982Foster Business Library
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RECENT ACTIVITY INDICATES HOUSING IS FOLLOWING ITS HISTORIC TRENDS. ALL INDICATIONS POINT TO INCREASED STRENGTH INTO 1984.

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PGL TRADING AREA



Palmer G. Lewis Company is a wholesale distributor of a diversified line of building materials. We sell to independent retail dealers, large retail chains, qualified government agencies, industrial accounts, and specialized applicators. Eighteen strategically located warehouses and a fleet of over 50 tractor-trailers are in operation, currently servicing accounts in California, Nevada, Oregon, Idaho, Utah, Montana, Washington, and Alaska.

During the past 42 years,

the company has achieved a leading position in their industry. Marketing and servicing is performed by well-trained dedicated employees whose philosophy is to be a true "*Partner in Selling*" to both their suppliers and customers.

By inventorying a broad line of name brand merchandise, the company offers its customers a broad range of building materials—at the time, place, and in the quantity desired—from a single supply source.

IN MEMORIAM



Alfred W. White

It is with deep regret that we record the passing of Alfred W. White, our friend and long time PGL Director, on March 30, 1983. Mr. White had served as a Director for Palmer G. Lewis Company since 1973.

Al was a lifelong college friend of our founder, Palmer G. Lewis. Their friendship was constant and undiminished for the 59 years . . . 1924 to 1983. Al was one of the original investors in the PGL Company long before it became publicly owned. He established his own insurance brokerage firm, Bowles, White & Co., Inc. in 1932 and was Chairman of the Board of that company when it was sold to Frank B. Hall Company in 1970. He was Co-Chairman of the local Frank B. Hall division until he retired with the title of Chairman Emeritus.

It was the friendship, confidence, and moral support of loyal friends like Al White that was instrumental in helping this company grow. Every one of his many friends in PGL Company will miss him very much.

FINANCIAL HIGHLIGHTS

Years Ended	Jan. 28, 1983	Jan. 29, 1982	% Change
Net Sales	\$103,496,694	\$111,192,368	-7
Net Income	\$ 678,228	\$ 488,182	+39
Net Income Per Share			
Primary	\$.37	\$.27	+37
Fully Diluted	\$.36		—
Cash Dividends	\$.28	\$.27	+4
Stock Dividends	4%	4%	—
Total Assets	\$ 38,965,705	\$ 38,213,260	+2
Stockholders' Investment	\$ 16,489,779	\$ 16,290,657	+1
Average Shares Outstanding	1,831,244	1,823,509	—

Earnings per share and average shares outstanding during the year have been adjusted for the 4% stock dividend paid in September 1982 and September 1981.

QUARTERLY STOCK PRICES

The Company's common stock is traded on the National Over-the-Counter market. The high and low stock quotations, for each fiscal quarter of 1983 and 1982, adjusted for the 4% stock dividends in September 1982 and September 1981, were as shown below:

	Bid		Ask		Cash Dividends Per Share
	High	Low	High	Low	
Fiscal 1983					
1st Quarter	\$ 7.20	\$6.24	\$ 7.68	\$6.72	\$.07
2nd Quarter	6.72	5.76	7.20	6.48	.07
3rd Quarter	9.12	6.00	9.75	6.24	.07
4th Quarter	11.25	8.25	11.75	8.75	.07
Fiscal 1982					
1st Quarter	\$ 9.91	\$8.06	\$10.37	\$8.52	\$0.06
2nd Quarter	9.91	7.83	10.60	8.52	.07
3rd Quarter	8.29	6.45	8.99	7.37	.07
4th Quarter	7.68	6.96	8.40	7.44	.07

CONTENTS

Financial Highlights	1
Message to PGL Stockholders	2
Selected Consolidated Financial Information	4
Ten Year Review	5
Management's Discussion	6
Consolidated Balance Sheets	10
Consolidated Statements of Income	12
Consolidated Statements of Stockholders' Investment	13
Consolidated Statements of Changes In Financial Position	14
Notes to Consolidated Financial Statements	15
Board of Directors	20
Corporate Officers	20
Department Managers, Supervisors	IBC
Service Center Locations and Divisions	IBC

MESSAGE TO PGL STOCKHOLDERS

PGL Company broke its string of 53 consecutive record-breaking months in November '79—just one month after the Federal Reserve Board decided to fight inflation with record high interest rates. Since that time, over 3 years ago, our industry has been operating in a very difficult economic environment. However, it now appears that the turn for the better definitely occurred in the third quarter of '82.

As an example, we suffered our first quarterly loss in the last 30 years in the first quarter of '82, but this was followed by improved results in the latter half of the year. The improvement was evident in our quarterly sales statistics—which showed declines of 17% in the first quarter, 13% in the second quarter, and 5% in the third quarter—followed by a gain of 14% in the fourth quarter sales.

It's probably premature to judge the strength of the economic recovery in 1983, but lower interest and inflation rates have certainly raised expectations of improvement in our industry. Nevertheless, at this point in time, we still consider it

prudent to continue to run PGL Company as lean as possible and play everything close to our belt. We intend to fight for every sale that we can get and will continue to keep a tight rein on expenses.

In spite of the well publicized adverse factors that have been faced by our industry during the past 3 years, we're as optimistic as ever about the future. The most basic reason for our sustained confidence is that the "distribution and service" segment of our society continues to grow, and PGL Company is right in the middle of the marketing channel for building materials. We have the goods where our customers need them—when they need them—and in unit quantities they want to buy. Our business will continue to grow simply because, as an efficient professional distributor, we can perform the necessary middle man functions better than anyone else. That's because it's our only business.

We have a lot of good, positive forces working for us. Here are some examples:

1. PGL is a people-oriented company. About 80% of our employees are stockholders. They're willing to make the commitment to make things happen. Furthermore, three years of depression-type conditions have caused our people to react in a positive manner. Our esprit de corps is excellent, and this is an intangible asset that spells the difference between mediocrity and superiority in any organization.

2. The decline in interest rates has lowered our costs but, more important, has improved our business prospects. Housing starts, for example, were at the bottom of their cycle through the latter part of '81 and during the first half of '82. They rose very slowly during the second half of '82—but surprised everyone with their vigor during the winter months. At the time this was written, many industry economists were changing their '83 housing starts estimate from the 1.3-1.4 million range to about 1.6 million—which would be an increase of almost 60% over '82's depressed figure.

3. PGL distributes a product line—building materials—that fulfills one of our basic needs—the need for shelter. In addition, growth in the remodeling and do-it-yourself area continues to be impressive, and this is the real backbone of our dealers' business.

4. During the recent depressed times, our company has been able to maintain a strong balance sheet. Furthermore, the difficult conditions have strengthened our relationships with customers, suppliers, and our bankers. They have never been stronger in the company's history.

5. Our company's diversification has also been a source of added strength. Geographical diversification—stretching from California and Nevada to Alaska—is an example. We're also diversified by customer categories. Independent dealers constitute our most important customer group, but we also sell to chains, industrial and government accounts, factory-built home manufacturers, and certain sub-contractors. In addition, we're diversified by selling a very wide product line—ranging from basic building products such as lumber, plywood, plasterboard, insulation, roofing, and wire products—to a variety of specialty products such as Metalbestos Chimneys, Armstrong Ceilings, and Skylights.

6. The bulk of our sales end up in customer inventories, and under recent depressed conditions, these inventories were declining. The improved business outlook will likely result in replenishment of the inventory pipelines—which should have a positive effect on our future sales.

Our management team sees plenty of opportunity for PGL to get things moving forward in 1983 and in the years ahead. As we see it, our company has strengthened its position in the marketplace during

From left, Gilbert R. Halley, Richard E. Lundgren, J. Cutler Lewis, and Robert D. Peterson.



the past few years, and we intend to enhance our market share even more by a sustained, aggressive market approach in our improving economy.

Three years of severe recession in our industry has opened the door to many potential acquisition opportunities. Since we intend to keep this company growing, we'll be investigating these opportunities as they surface. We plan to carefully check out those that will fit our plans for geographic expansions. Economic circumstances will obviously influence timing—but we definitely intend to keep PGL Company on the move.

One year ago, we concluded the Annual Report message with the statement that we thought that 1981 marked the low point in our industry. We weren't expecting great things for 1982, but we did expect to earn higher profits than we did

in the previous year—and we did. We also stated that we were confident that the years ahead will present even greater growth opportunities to our company, and that we'd be doing our best to capitalize on the profit potential in this growing distribution business. We feel exactly the same today. We think our company is on the threshold of a very bright future.

Thanks to all of our supporters—to our employees, to our customers, to our suppliers, and to all our stockholders throughout the country. Better times lie ahead.

Robert D. Peterson
Chairman and
Chief Executive Officer

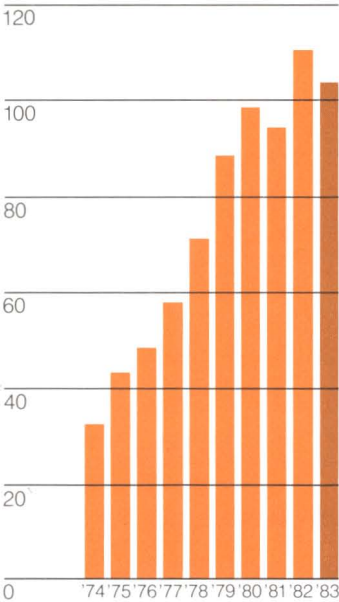
Richard E. Lundgren
President and
Chief Operating Officer

**SELECTED
CONSOLIDATED
FINANCIAL
INFORMATION**

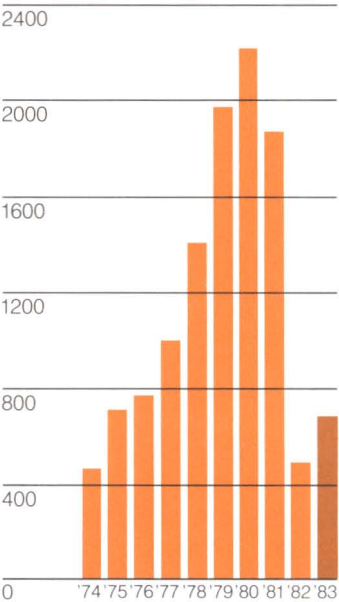
Fiscal Years Ended January	1983	1982	1981	1980	1979
Income Statement Data:					
Net Sales	\$103,497,000	\$111,192,000	\$95,478,000	\$99,830,000	\$89,663,000
Gross Profit %	19.0%	17.0%	19.1%	19.2%	19.0%
Interest Expense	1,725,000	2,384,000	1,761,000	1,523,000	1,292,000
Depreciation & Amortization	1,397,000	1,291,000	1,174,000	1,029,000	832,000
Income Taxes-Continuing Operations	335,000	329,000	998,000	1,630,000	1,331,000
Net Income:					
Continuing Operations	678,000	488,000	1,289,000	2,183,000	1,909,000
Discontinued Operations	—	—	(20,000)	32,000	59,000
Sale of Discontinued Operations	—	—	616,000	—	—
Net Income	678,000	488,000	1,885,000	2,215,000	1,968,000
Net Income Per Share					
Primary	.37	.27	1.05	1.26	1.35
Fully Diluted	.36				
Average Shares Outstanding	1,831,000	1,824,000	1,800,000	1,764,000	1,462,000
Dividends Per Common Share:					
Cash	.28	.27	.26	.24	.17
Stock	4%	4%	4%	4%	4%
Balance Sheet Data:					
Total Assets	38,966,000	38,213,000	40,187,000	38,039,000	32,774,000
Working Capital	8,115,000	11,226,000	9,676,000	9,295,000	8,123,000
Long-Term Debt (net of Current Portion)	2,360,000	5,341,000	5,634,000	5,667,000	5,421,000
Capitalized Leases (net of Current Portion)	2,620,000	2,706,000	2,767,000	2,314,000	2,428,000
Stockholders' Investment	16,490,000	16,291,000	16,130,000	14,577,000	12,648,000
Other Data:					
Net Capital Expenditures	1,579,000	1,116,000	1,544,000	2,065,000	4,513,000
Cash Flow (net income + non-cash items)	2,049,000	1,773,000	2,476,000	3,407,000	2,711,000
Profit Sharing Trust Value	4,778,000	4,288,000	4,340,000	4,017,000	3,443,000
Profit Sharing Disbursements	755,000	313,000	353,000	221,000	86,000
Number of Employees (continuing operations)	369	363	391	364	359
Net Income:					
As a % of Stockholders' Investment	4.1%	3.0%	12.9%	17.5%	27.7%
Continuing Operations As a % of Sales	.66%	.44%	1.35%	2.19%	2.13%

TEN YEAR REVIEW

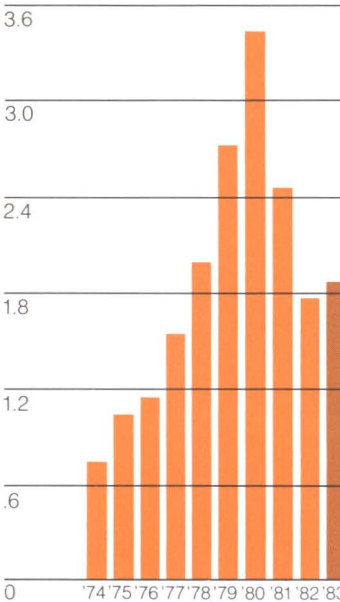
Sales
\$ in millions



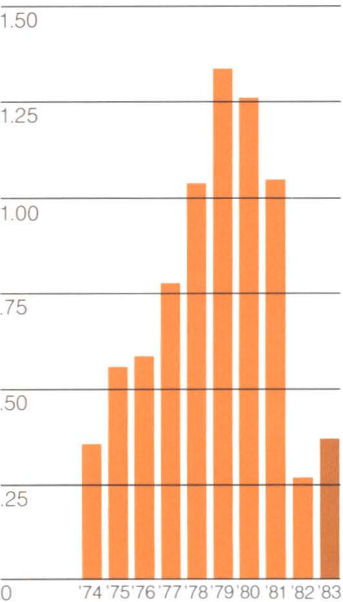
Net Income
\$ in thousands



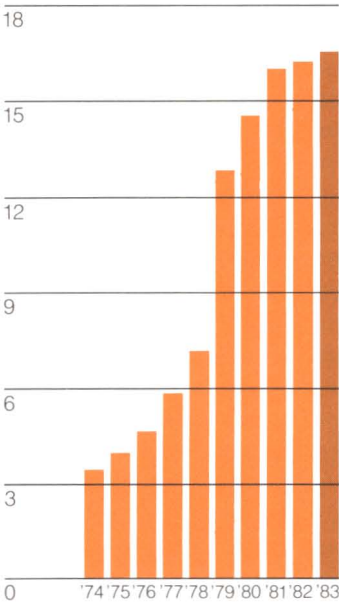
Cash Flow
\$ in millions



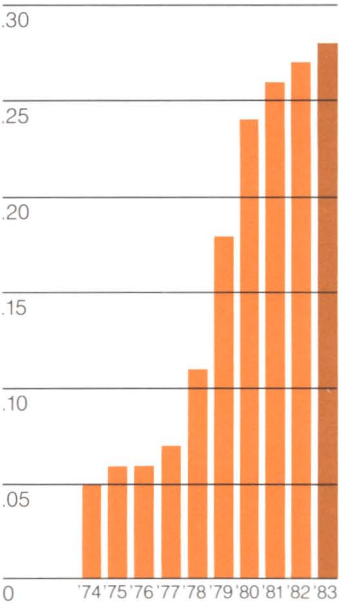
Net Income Per Share
in \$



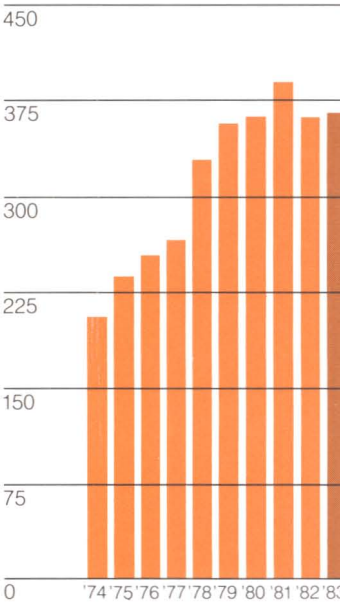
Net Worth
\$ in millions



Cash Dividends Per Share
in \$

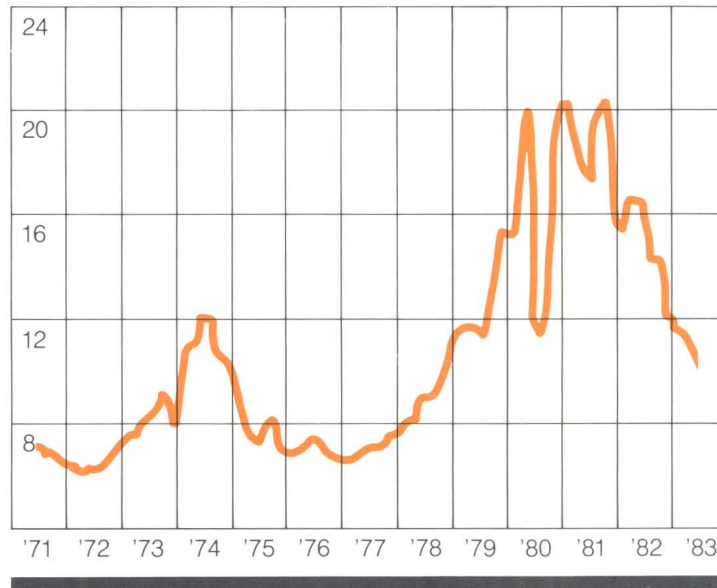


Number of Employees



U.S. Prime Interest Rates

Interest rates are the single most important factor affecting PGL's business. Their rise, during the past 3 years, to the highest levels seen since the Civil War had a negative effect on our entire industry. The return of interest rates to more normal levels has created renewed optimism.



MANAGEMENT'S DISCUSSION

Operations. Although the company reported sales of \$103.5 million, a decrease of 7% from the previous year, improvements in economic conditions resulted in an improving trend as the year unfolded. The company reported its first quarterly loss in 30 years in the first quarter of the fiscal year, with first quarter sales down 17% from the previous year. Each

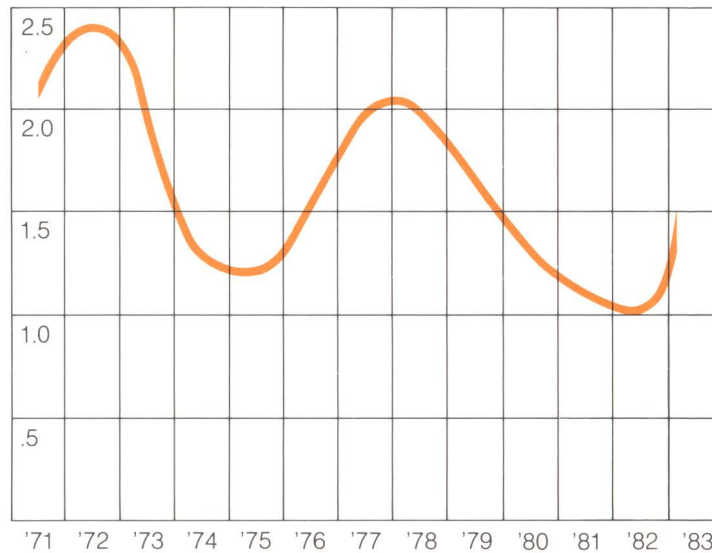
successive quarter showed an improvement from this low, with fourth quarter sales being up 14% over the previous year. In retrospect, it appears that this improving trend started in the third quarter of the year. Inflation had a negligible effect on sales in the past two fiscal years.

The primary cause of improved business conditions in your company's industry has been the moderation of interest rates. Although both short-term and long-term interest rates are still high, relative to most post-war years, they have dropped substantially from the recent record highs. The reduction in interest rates, combined with improved consumer confi-

dence and buying power resulting from dramatically lower inflation rates, has resulted in a turnaround in the nation's housing starts. In 1982, housing starts hit a recent annual low of just over 1 million units for the year. However, the rates were edging up in the company's fourth quarter and January's annualized rates surged 33% over December, 1982. Many forecasters are now changing their '83 housing starts estimate from the 1.3 million-1.4 million area to about 1.6 million units.

Housing starts in millions

Interest rates and economic activity historically affect housing starts. Recent activity indicates housing is following its historic trends. All indications point to increased strength into 1984. The demand for housing continues to grow. It's primarily a matter of affordability.



Net income increased 39% over fiscal 1982 on lower sales volume. The primary reasons for this increase were reduced interest costs as a result of lower short-term borrowing, at substantially lower interest rates, together with improved gross margins, resulting from de-emphasis of low margin wood brokering. Although profitability improved over fiscal 1982, it did not reach the levels achieved in the late 70's. As a result, only a modest contribu-

tion to the profit sharing plan was made in 1982, and contributions since fiscal 1980 have been less than the law allows.

Dividends. The company continued to pay cash dividends with the current rate being 28 cents per share (7 cents per quarter). The company has paid uninterrupted cash dividends every year since it initiated its dividend policy 23 years ago. The cash dividend rate, after adjustment for stock dividends, has grown steadily. In addition to the cash dividends, the company has distributed an annual 4% stock dividend since 1968.

Balance Sheet Data. The company continues to focus attention on strengthening its balance sheet and capital re-

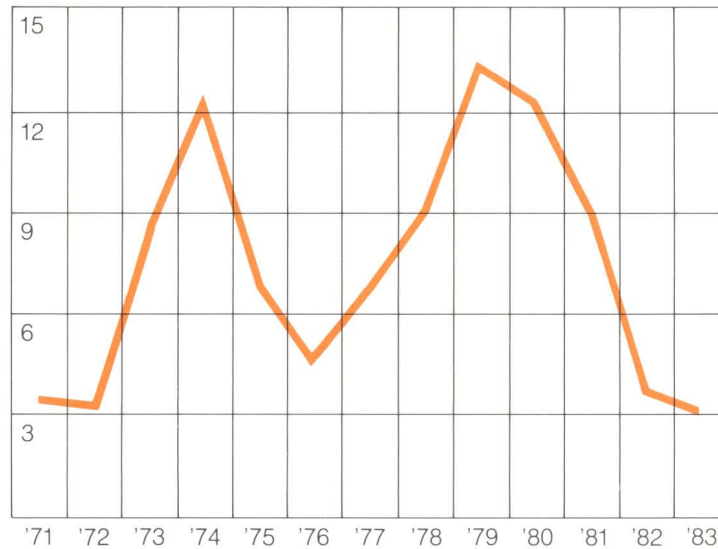
sources. Special emphasis is being placed on the control of inventory levels, and during the year the company installed a new computerized inventory control system in two of its division headquarters. This system will be installed in the other two divisions during the next fiscal year, as well as in some branch locations. As a result of this emphasis, inventories at yearend

were down from the previous year, on improved monthly sales volume.

Accounts receivable, at yearend, increased over the previous year, primarily due to the improved sales results in the fourth quarter of fiscal '83. In addition, recent economic conditions have strained many of the company's customers. The company continues to monitor its receivables very closely and its credit loss experience remains in line.

Consumer Price Index (% Change Year-to-Year)

Inflation became our nation's biggest problem during the 70's. The rate rose steadily between '76 and '79—peaking at over 13%. The inflation rate has been falling ever since, picking up some real momentum on the downside in '81 and '82. This has had a very beneficial effect on both interest rates and the consumers' buying power. It appears that this favorable trend will continue through '83 and '84, a positive sign for our industry.



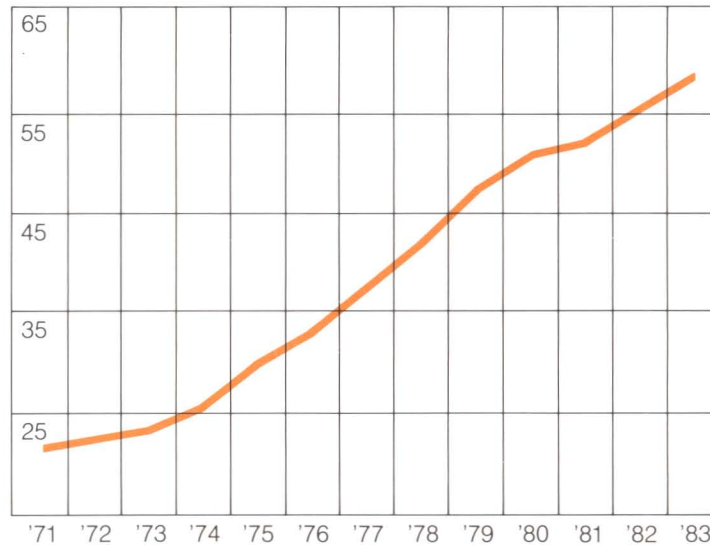
Working capital decreased for the year, primarily due to the reclassification of a note payable from long-term to short-term which is now due in less than one year. As a result of this reclassification, long-term debt decreased in excess of \$3 million. Stockholders' investment increased slightly, as a result of the improved earnings and employee participation in the employees' stock purchase plan. On March 24, 1983 the company announced that it intends to have a public offering of an additional 700,000 shares of common stock in early May, 1983.

During the year, the company had lines of credit with banks to borrow up to \$16 million under unsecured arrangements. The company's maximum usage of these lines of credit during the year totalled \$10.7 million. The interest rates on the majority of the company's borrowings is based on money market funds at rates which were under the existing prime rate.

Other Data. In view of the depressed business conditions, the company has continued to control its capital expenditures. However, in order to take advantage of higher investment tax credit rates, the company accelerated several purchases of equipment into December 1982. These purchases were originally planned for early 1983. Their purchase in December resulted in a substantially lower income tax rate for the company's fourth quarter. It is anticipated that this will

Home Modernization Expenditures (\$ Billion)

There isn't any question about the steady growth in expenditures for home repairs and modernization. Furthermore, all evidence indicates that this growth will continue in the decade ahead. The primary reason is that a home represents the single largest investment ever made by most people—and they want to take care of it. This important market accounts for a steadily growing share of our business.



result in lower capital expenditures in the coming fiscal year.

During the fiscal year, the company made only a modest contribution to the employee profit sharing plan. This was the fourth year in a row that the company's contribution has been less than that allowed and reflects the pause in the company's growth and profitability. By law, the company has five years to make up this difference and intends to make some progress in this area. The profit sharing fund had an

excellent year in its investments, reporting an increase in value of approximately 31%.

The company has continued to emphasize its cost reduction program. However, as a result of increased pay rates, utilities costs, and trucking expenses, costs for the year actually did increase. As a result of the company's cost control program, the company's manpower remained approximately constant at the yearend, totalling 369 employees. Employee morale remains excellent, with approximately 80% of our employees owning stock in the company. The majority of the employees are enrolled on a continuous

basis in our employee stock purchase plan. All of the company's personnel are encouraged by the improving economic conditions and look forward to attaining the level of profitability that has been the standard of the company in the past.

**CONSOLIDATED
BALANCE SHEETS**
Palmer G. Lewis Co., Inc.
and Subsidiaries

ASSETS		
	1983	1982
January 28, 1983 and January 29, 1982		
Current Assets:		
Cash	\$ 801,694	\$ 198,192
Receivables, less allowance for doubtful accounts of \$562,000 in 1983 and \$544,000 in 1982	11,309,759	9,216,173
Notes receivable	125,000	1,868,413
Inventories (Note 1)	12,577,547	13,031,707
Prepays	308,036	288,102
Total current assets	25,122,036	24,602,587
Land, Buildings and Equipment, at cost (Notes 1 and 3):		
Land and land improvements	1,699,977	1,465,397
Buildings	6,658,096	6,592,971
Equipment	7,508,393	6,677,380
Property held under capital leases	3,259,477	3,259,477
Furniture and fixtures	1,538,687	1,259,589
	20,664,630	19,254,814
Less-accumulated depreciation and amortization	(7,680,160)	(6,466,639)
	12,984,470	12,788,175
Other Assets:		
Notes receivable, net of current portion of \$125,000 in 1983 and \$30,000 in 1982, included in notes receivable above	251,339	193,527
Investments	424,802	429,693
Other	183,058	199,278
	859,199	822,498
	\$38,965,705	\$38,213,260

LIABILITIES AND STOCKHOLDERS' INVESTMENT		
	1983	1982
Current Liabilities:		
Short-term notes payable (Note 2)	\$ 5,350,000	\$ 5,450,000
Current portion of long-term debt and obligations under capital leases	3,268,000	439,000
Accounts payable	6,633,254	5,934,327
Accrued salaries and wages	1,059,294	641,283
Other accrued liabilities	431,711	579,393
Income taxes payable	265,037	—
Current deferred income taxes payable	—	333,000
Total current liabilities	17,007,296	13,377,003
Long-Term Debt (Note 3)	5,514,033	5,674,964
Obligations Under Capital Leases (Note 3)	2,734,381	2,810,895
Less-current portion shown above	(3,268,000)	(439,000)
	4,980,414	8,046,859
Deferred Income Taxes Payable (Note 4)	442,000	433,000
Minority Interest	46,216	65,741
Commitments (Note 5)	—	—
Stockholders' Investment (Notes 1 and 6):		
Common stock par value \$1.00— Authorized 4,000,000 shares; Issued and outstanding 1,845,777 shares in 1983 and 1,766,492 shares in 1982	1,845,777	1,766,492
Paid-in capital	9,393,800	8,825,220
Retained earnings	5,288,202	5,730,625
	16,527,779	16,322,337
Less-treasury stock 4,000 shares in 1983 and 4,016 shares in 1982, at cost	(38,000)	(31,680)
	16,489,779	16,290,657
	\$38,965,705	\$38,213,260

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

**CONSOLIDATED
STATEMENTS
OF INCOME**

Palmer G. Lewis Co., Inc.
and Subsidiaries

For the three fiscal years ended
January 28, 1983

	1983	1982	1981
Net Sales (Note 7)	\$103,496,694	\$111,192,368	\$95,477,777
Cost and Expenses:			
Cost of goods sold	83,847,465	92,298,308	77,276,905
Selling, general and administrative expenses	15,804,263	15,010,356	13,181,374
Interest	1,725,351	2,383,971	1,760,719
Depreciation and amortization	1,397,418	1,290,944	1,173,631
Employees' profit sharing plan	127,274	—	371,068
Interest income	(281,509)	(419,693)	(283,391)
Other	(136,796)	(188,700)	(288,938)
	102,483,466	110,375,186	93,191,368
Income before provision for income taxes	1,013,228	817,182	2,286,409
Provision for Income Taxes	335,000	329,000	998,000
Income from Continuing Operations	678,228	488,182	1,288,409
Discontinued Operations:			
Loss from discontinued operations net of related income taxes (Note 1)	—	—	(19,542)
Gain on sale of Superior Building Supply, Inc. net of related income taxes of \$333,000 (Note 1)	—	—	615,798
Net Income	\$ 678,228	\$ 488,182	\$ 1,884,665
Per Share Data (Note 1):			
Continuing operations	\$.37	\$.27	\$.72
Discontinued operations	—	—	(.01)
Gain on sale of discontinued operations	—	—	.34
Net income			
Primary	\$.37	\$.27	\$ 1.05
Fully diluted	.36		
Dividends			
Cash	\$.28	\$.27	\$.26
Stock	4%	4%	4%

The accompanying notes are an integral part of these statements.

**CONSOLIDATED
STATEMENTS OF
STOCKHOLDERS'
INVESTMENT**

Palmer G. Lewis Co., Inc.
and Subsidiaries

For the three fiscal years ended January 28, 1983

	Common Stock		Paid-in Capital	Retained Earnings	Treasury Stock	
	Shares	Amount			Shares	Amount
Balance, January 25, 1980	1,579,875	\$1,579,875	\$7,479,712	\$5,552,639	(3,200)	\$(35,606)
Sale of common stock under stock purchase and stock option plans (Note 6)	36,924	36,924	122,680	—	16,325	163,277
Purchase of treasury stock	—	—	—	—	(19,125)	(186,421)
Common stock dividend	63,797	63,797	629,996	(693,792)	—	—
Cash dividends	—	—	—	(467,679)	—	—
Net income	—	—	—	1,884,665	—	—
Balance, January 30, 1981	1,680,596	\$1,680,596	\$8,232,388	\$6,275,833	(6,000)	\$(58,750)
Sale of common stock under stock purchase and stock option plans (Note 6)	18,852	18,852	114,808	—	10,084	91,695
Purchase of treasury stock	—	—	—	—	(8,100)	(64,625)
Common stock dividend	67,044	67,044	478,024	(545,068)	—	—
Cash dividends	—	—	—	(488,322)	—	—
Net income	—	—	—	488,182	—	—
Balance, January 29, 1982	1,766,492	\$1,766,492	\$8,825,220	\$5,730,625	(4,016)	\$(31,680)
Sale of common stock under stock purchase and stock option plans (Note 6)	9,552	9,552	28,149	—	18,016	137,180
Purchase of treasury stock	—	—	—	—	(18,000)	(143,500)
Common stock dividend	69,733	69,733	540,431	(610,165)	—	—
Cash dividends	—	—	—	(510,486)	—	—
Net income	—	—	—	678,228	—	—
Balance, January 28, 1983	1,845,777	\$1,845,777	\$9,393,800	\$5,288,202	(4,000)	\$(38,000)

The accompanying notes are an integral part of these statements.

**CONSOLIDATED
STATEMENTS
OF CHANGES IN
FINANCIAL
POSITION**

Palmer G. Lewis Co., Inc.
and Subsidiaries

For the three fiscal years ended
January 28, 1983

	1983	1982	1981
Sources of Working Capital:			
Operations			
Income from continuing operations	\$ 678,228	\$ 488,182	\$1,288,409
Loss from discontinued operations	—	—	(19,542)
Charges (credits) not affecting working capital:			
Depreciation and amortization	1,397,418	1,290,944	1,173,631
Provision for deferred income taxes	9,000	49,000	87,000
Other	(35,525)	(55,259)	(53,000)
	2,049,121	1,772,867	2,476,498
Reclassification of note receivable, net of related deferred taxes	—	1,531,000	—
Gain on sale of Superior Building Supply, Inc. (SBS), plus deferred taxes	—	—	948,798
Net assets of SBS including cost of minority interest purchased in 1981	—	—	1,297,019
Proceeds from—			
Sale of common stock	174,881	225,355	322,881
Long-term debt and obligations under capital leases	269,097	91,090	789,720
Other, net	—	43,549	—
	2,493,099	3,663,861	5,834,916
Applications of Working Capital:			
Purchase of land, buildings and equipment	1,579,225	1,115,850	1,544,046
Note receivable from the sale of SBS	—	—	1,950,268
Purchase of SBS minority interest	—	—	594,108
Reduction of long-term debt and obligations under capital leases	3,335,542	445,751	369,610
Cash dividends	510,486	488,322	467,679
Purchase of treasury stock	143,500	64,625	186,421
Other, net	35,190	—	341,552
	5,603,943	2,114,548	5,453,684
Increase (Decrease) in Working Capital	\$(3,110,844)	\$1,549,313	\$381,232
Working Capital Increased (Decreased) as Follows:			
Current assets			
Cash	\$ 603,502	\$ 5,329	\$ 34,281
Receivables	2,093,586	(1,997,303)	(173,542)
Notes receivable	(1,743,413)	1,868,413	—
Inventories	(454,160)	167,110	179,370
Prepays	19,934	(27,587)	95,502
	519,449	15,962	135,611
Current liabilities			
Short-term notes payable	100,000	990,488	(190,488)
Current portion of long-term debt	(2,829,000)	(64,000)	(68,000)
Accounts payable	(698,927)	254,712	170,226
Accrued salaries and wages	(418,011)	(167,950)	256,274
Other accrued liabilities	147,682	624,536	66,017
Income taxes payable	(265,037)	228,565	11,592
Current deferred income taxes payable	333,000	(333,000)	—
	(3,630,293)	1,533,351	245,621
Increase (Decrease) in Working Capital	\$(3,110,844)	\$1,549,313	\$381,232

The accompanying notes are an integral part of these statements.

January 28, 1983

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**

*Palmer G. Lewis Co., Inc.
and Subsidiaries*

**1. Summary Of
Significant
Accounting Policies**

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Palmer G. Lewis Co., Inc. (the Company) and its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Acquisition

In late 1980, the Company purchased certain assets of Galco Wood Products and the Boise branch of D.G. Shelter Products, both building materials wholesalers. The aggregate purchase price was approximately \$1,836,000, consisting of cash, a note payable and a capital lease obligation.

Disposition

In December, 1980, the Company sold the stock of its wholly-owned subsidiary, Superior Building Supply, Inc. (SBS) to Spenard Builders Supply. The sale price was \$2,177,800, consisting of notes due March, 1981 and February, 1982. A gain of approximately \$616,000 net of related income taxes of \$333,000 is included in discontinued operations in the accompanying income statement for the fiscal year ended 1981.

Inventories

Inventories consist of finished goods and are stated at the lower of cost, first-in, first-out (FIFO), or market.

Depreciation and Amortization, Repairs and Maintenance

Buildings, equipment and property held under capital leases are depreciated using the straight-line method over the estimated useful lives of the assets. Estimated useful lives are summarized below:

Land improvements and buildings	10-40 years
Equipment	3-10 years
Property held under capital leases	20-25 years
Furniture and fixtures	5-10 years

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

Income Taxes

Deferred income taxes are provided for the reporting of items differently between financial statement and income tax purposes. Investment tax credits are recognized currently as a reduction of income tax expense.

Net Income Per Share

Primary net income per share is based on the weighted average number of shares of common stock and common stock equivalents outstanding during each year (1,831,244 shares in 1983, 1,823,509 shares in 1982, and 1,799,697 shares in 1981) after giving effect to the stock dividends during the years. Common stock equivalents represent stock options. Fully diluted net income per share is determined based on 1,861,539 shares during fiscal year ended 1983.

Profit Sharing Plan

Contributions to the Company's profit sharing plan are made at the discretion of the Board of Directors.

Reclassifications

Certain reclassifications have been made to conform prior years' data to the current format.

2. Short-Term Notes Payable to Banks

At January 28, 1983, the Company had unsecured lines of credit with banks to borrow up to \$16,000,000 primarily at prime or lower. Effective February 15, 1983, the Company entered into a new agreement with one bank to reduce its line of credit by \$4,000,000. Information regarding short-term borrowings during the three fiscal years ended 1983 follows:

	1983	1982	1981
Weighted average interest rate	12.9%	17.6%	15.9%
Average borrowings	\$ 6,938,000	\$ 8,362,000	\$ 7,862,000
Maximum amount of short-term borrowings at any monthend	10,650,000	12,500,000	10,600,000
Yearend short-term notes payable to banks	5,350,000	5,450,000	5,450,000
Yearend weighted average interest rate	10.5%	15.5%	20.5%

3. Long-Term Debt and Obligations under Capital Leases

At January 28, 1983, and January 29, 1982, long-term debt and obligations under capital leases consisted of the following:

	1983	1982
9-5/8% to 10-1/4% notes payable to banks, secured by mortgages on certain land, buildings and equipment, costing \$2,615,000, payable in monthly installments of \$30,000, including interest, to December, 1983.	\$3,067,855	\$3,120,706
8-1/2% to 14% notes payable, secured by mortgages on certain land, buildings and equipment, costing \$2,407,000, payable in monthly installments of \$30,000, including interest, to 1994.	1,913,335	1,803,519
Other	532,843	750,739
Total long-term debt	5,514,033	5,674,964
Capital lease obligations, \$35,000 payable monthly, including interest imputed at rates from 9% to 14-1/2%, to 1996.	2,734,381	2,810,895
Less-current portion	(3,268,000)	(439,000)
	\$4,980,414	\$8,046,859

The capital leases are for certain branch and office facilities. One of the leases is with a partnership in which a partner is the Chairman of the Board and a stockholder of the Company. At January 28, 1983, and January 29, 1982, the capital lease obligation was \$1,662,000 and \$1,750,000, respectively, and the annual payments to the partnership during each of the three fiscal years ended 1983 were \$255,000. Commencing July, 1983, the Company will have the opportunity to continue to lease the facility for ten more years at the current rate or exercise an option to purchase the property at any time during this period at fair market value. There is also a renewal option for an additional ten years at the then fair market value.

Following is a summary of long-term debt maturities for the five fiscal years ending 1988 and subsequent years:

Fiscal Year Ending	Long-Term Debt	Capital Lease Obligations	Total
1984	\$3,154,000	\$ 114,000	\$3,268,000
1985	119,000	127,000	246,000
1986	125,000	139,000	264,000
1987	100,000	153,000	253,000
1988	341,000	169,000	510,000
Subsequent years	1,675,000	2,032,000	3,707,000
	\$5,514,000	\$2,734,000	\$8,248,000

4. Income Taxes

For the three fiscal years ended 1983, the provision for income taxes consisted of the following:

January 28, 1983	Federal	State	Total
Current taxes payable	\$412,000	\$33,000	\$445,000
Less-investment tax credits	(119,000)	—	(119,000)
Deferred taxes payable	9,000	—	9,000
Provision for income taxes	\$302,000	\$33,000	\$335,000
January 29, 1982			
Current taxes payable	\$325,000	\$29,000	\$354,000
Less-investment tax credits	(74,000)	—	(74,000)
Deferred taxes payable	49,000	—	49,000
Provision for income taxes	\$300,000	\$29,000	\$329,000
January 30, 1981			
Current taxes payable	\$545,000	\$105,000	\$650,000
Less-investment tax credits	(72,000)	—	(72,000)
Deferred taxes payable	420,000	—	420,000
Provision for income taxes	\$893,000	\$105,000	\$998,000

The difference between the provision for income taxes computed using the "statutory rates" and the "effective rates" (33% in 1983, 40% in 1982, and 44% in 1981) is principally from the utilization of investment tax credits and state income taxes. The provision for deferred income taxes in the three fiscal years ended 1983 consisted primarily of differences between income tax and financial statement reporting of depreciation, capital leases and installment sales.

5. Commitments

The Company leases certain branch facilities under "operating leases." Following is a summary of the future minimum lease payments:

Fiscal Year Ending	
1984	\$ 473,000
1985	366,000
1986	351,000
1987	77,000
1988	57,000
Subsequent years	68,000
	\$1,392,000

The lease obligations also extend to property taxes, insurance, and repairs and maintenance. Total lease expense charged to operations in the three fiscal years ended 1983 was \$478,000, \$367,000 and \$335,000, respectively.

6. Stock Purchase Plan and Stock Options

Stock Purchase Plan

The Company has an employee stock purchase plan for all employees with more than one year of service. Participation in the plan is voluntary. Under the plan, the stock purchase price is established as the lesser of 90% of the market value at the date of grant, or 100% of the market value at the date exercised, but not less than par value of \$1.00. As of January 28, 1983, 351 employees were eligible to participate in the plan and 219 were enrolled.

A summary of the stock purchase plan activity for the three fiscal years ended 1983 follows:

Fiscal Year Ended	Shares Purchased	Average Price Per Share	Total
1983	22,992	\$6.12	\$140,800
1982	18,452	8.05	148,600
1981	18,619	8.36	155,600

At January 28, 1983, common stock reserved for issuance under this plan was 50,741 shares.

Stock Options

During fiscal year ended 1983, the stockholders approved an incentive stock option plan for key employees and reserved 100,000 shares of common stock. The option price for common stock was the market value at the date of grant. The options are non-transferable and are exercisable over five years from the date of grant. Options were granted to a total of 26 employees. Options for 3,480 shares of common stock were available for granting at January 28, 1983. A summary of 1983 activity, adjusted for the 4% stock dividend distributed in September, 1982, follows:

Fiscal Year Ended 1983	Number of Shares	Option Price		Market Price	
		Per Share	Total	Per Share	Total
Outstanding	95,944	\$7.72	\$740,700	\$11.00	\$1,055,400
Exercised	4,576	7.45	34,100	9.10	41,600

During fiscal year ended 1982 the Company terminated its qualified stock option plan. All outstanding options were either exercised or cancelled. Options were exercised in fiscal years ended 1982 and 1981 as follows:

Fiscal Year Ended	Number of Shares	Option Price		Market Price	
		Per Share	Total	Per Share	Total
1982	10,484	\$7.32	\$76,800	\$9.50	\$99,600
1981	21,339	3.93	83,900	7.50	160,000

In April, 1980, the Chairman of the Board exercised his remaining options to purchase 13,291 shares under a nonqualified plan. Total proceeds to the Company were approximately \$76,000 of which \$20,000 represents the tax benefit to the Company.

During 1981, a nonqualified stock option plan was adopted in which 100,000 shares were reserved and options for 40,200 shares were granted at an average price of \$8.04 per share. The difference between the option price and the market price at the date of grant was accrued and expensed as compensation during the year. This plan was cancelled during 1983, and was replaced by the incentive stock option plan described above.

7. Major Customer

Approximately 11% and 22% of net sales were to a major building materials retailer in fiscal years ended 1983 and 1982, respectively. In fiscal 1981, no one customer accounted for 10% or more of net sales.

8. Unaudited Quarterly Financial Results (in 000's)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales:				
1983	\$21,795	\$28,581	\$30,832	\$22,289
1982	26,174	32,895	32,504	19,620
1981	20,739	23,388	29,159	22,192
Cost of Goods Sold:				
1983	\$17,817	\$23,334	\$25,198	\$17,498
1982	21,541	27,721	27,224	15,812
1981	16,638	19,065	23,921	17,652
Net Income:				
1983	\$ (126)	\$ 159	\$ 471	\$ 174
1982	213	126	146	3
1981	217	395	609	664
Net Income Per Share:*				
1983—Primary	\$ (.07)	\$.09	\$.26	\$.09
—Fully Diluted				.08
1982	.12	.07	.08	—
1981	.12	.22	.34	.37

*Adjusted for stock dividends.

Fourth quarter adjustments and revisions to quarterly estimates:

1983—Contribution to the executive bonus and employee profit sharing plans was \$242,000. No contribution was made in the fiscal year ended 1982.

—Provision for income taxes decreased because of higher than expected investment tax credits.

1982—Provision for bad debts was reduced by \$221,000 reflecting lower than planned accounts receivable.

1981—Included in net income is the gain on sale of Superior Building Supply, Inc. (\$616,000 or \$.34 per share). The quarterly financial results of the discontinued operation are not separately stated because the results are not material.

Auditors' Report

To the Stockholders of Palmer G. Lewis Co., Inc.

We have examined the consolidated balance sheets of Palmer G. Lewis Co., Inc. (a Washington corporation) and subsidiaries as of January 28, 1983, and January 29, 1982, and the related consolidated statements of income, stockholders' investment and changes in financial position for each of the three years in the period ended January 28, 1983. 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 financial statements referred to above present fairly the financial position of Palmer G. Lewis Co., Inc. and subsidiaries as of January 28, 1983, and January 29, 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended January 28, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.

Seattle, Washington,
March 25, 1983.

ARTHUR ANDERSEN & CO.

BOARD OF DIRECTORS

CORPORATE OFFICERS

Board of Directors

Douglas S. Gamble*
President and Chief Executive
Officer
Pacific Gamble Robinson
Seattle, Washington

Gilbert R. Halley
Secretary-Treasurer
Palmer G. Lewis Co., Inc.
Auburn, Washington

J. Cutler Lewis
Executive Vice President
Palmer G. Lewis Co., Inc.
Auburn, Washington

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

Richard E. Lundgren
President and Chief Operating
Officer
Palmer G. Lewis Co., Inc.
Auburn, Washington

Robert D. Peterson†
Chairman of the Board and
Chief Executive Officer
Palmer G. Lewis Co., Inc.
Auburn, Washington

L.W. Wells*†
Executive Vice President
Winmar Company, Inc.
Seattle, Washington
(Financial Services)

Elliot K. Knutson *
President and
Chief Executive Officer
Washington Federal Savings
and Loan Association
of Seattle
Seattle, Washington
(Financial Services)

* Member of Audit Committee
† Member of Executive
Committee

Corporate Officers

Palmer G. Lewis
Chairman of the Board
Emeritus

Robert D. Peterson
Chairman of the Board and
Chief Executive Officer

Richard E. Lundgren
President and Chief
Operating Officer

J. Cutler Lewis
Executive Vice President

Gilbert R. Halley
Secretary-Treasurer

Schell Harmon
Vice President
Inventory Control

Philip R. Harris
Vice President
Industrial Sales

Charles D. Lauber
Vice President
Advertising/Promotion

A. Jack Petersen
Vice President
Alaska Division

Ronald J. Pulliam
Vice President
National Accounts

Louise W. Lewis
Assistant Secretary

Lee R. Singer
Assistant Treasurer
and Controller

ANNUAL MEETING:

The annual meeting of shareholders of Palmer G. Lewis Co., Inc. will be held on Thursday, June 2, 1983, at 2:00 P.M., at the Seattle-First National Bank Building, 1000 Fourth Avenue, Seattle, Washington, Third Avenue Level Auditorium.

ATTORNEYS

Cartano, Botzer, Larson
and Birkholz
Seattle, Washington

INDEPENDENT PUBLIC ACCOUNTANTS

Arthur Andersen & Co.
Seattle, Washington

REGISTRAR AND TRANSFER AGENT

Seattle-First National Bank
Seattle, Washington

ADDITIONAL INFORMATION

A copy of the Company's Form 10-K report for the year ended January 28, 1983, including financial statements and schedules, which will be filed with the Securities and Exchange Commission by April 28, 1983, is available to shareholders, without charge, upon written request to:

Gilbert R. Halley, Secretary
Palmer G. Lewis Co., Inc.
P.O. Box 1049
Auburn, Washington 98002

**MANAGERS &
SUPERVISORS
SERVICE CENTER
LOCATIONS &
DIVISIONS**

CORPORATE

Corporate Controller

Lee R. Singer

Corporate Marketing

Vaughn L. Pipes
Specialty Products

Craig M. Herrity
Commodities

Jim L. Capponi
Wire Products

Data Processing

John A. Fetch

Inventory Control

Schell Harmon

National Accounts Manager

Ronald J. Pulliam

Warehouse & Trucking Manager

H. Dean Sabey

PGL DIVISION

James C. Bender

Branch Sales & Operations
Supervisor

W. Thomas Brynn

Credit Manager

Kenneth J. Gohrick

Auburn Sales Manager

Perry W. Gorman

Personnel Manager

Phillip R. Harris

Industrial Sales Manager

Norman A. Larson

Auburn Trucking Supervisor

Charles D. Lauber

Advertising & Promotion
Manager

Donald R. Ray

Auburn Warehouse Supervisor

PGL BRANCH MANAGERS

Jim L. Capponi

Auburn

Robert E. Johnson

Everett

Dennis D. Larson

Spokane

James L. Lang

Kenmore

John C. Ruud

Bremerton

Robert A. Ruud

Yakima

Edwin E. Thomas

Wenatchee

ALASKA DIVISION

A. Jack Petersen

Division Manager

Kenneth L. Thompson

Manager, Tacoma Branch

Robert W. Anderson, Jr.

Tacoma Inside Sales Supervisor

Harro H. Brandt

Division Traffic Manager

Richard A. York, Jr.

Manager, Anchorage Branch

PONDEROSA DIVISION

Earl W. Vanbuskirk

Division Manager

Robert A. Babicky

Special Projects

N. Patricia Olmstead

Administrative Manager

Jerome W. Peterson

Sales Manager

Joseph M. Garfield

Purchasing Manager

Richard R. Clare

Manager, Redding Branch

Timothy L. Stottlemeyer

Acting Manager, Fresno Branch

G. Scott Fairchild

Manager, Reno Branch

PYS DIVISION

Carl A. Liliequist

Division Manager

Gary L. Popp

Sales Manager

William R. Fagan

Purchasing Manager

Margaret Taylor

Credit Manager

Raymond E. Ogden

Manager, Boise Branch

Bob D. Thomas

Manager, Eugene Branch

TRUCK SERVICE, INC.

James D. Kelly

Manager

COCHRANE NORTHWEST, INC.

Mark F. Smith

President & General Manager

Fred H. Smith

Vice President

Douglas Ray

Administrative Manager

PGL WAREHOUSES

Strategically located for
maximum coverage of the
market area.

Auburn (Company

Headquarters)

525 C Street N.W.

Auburn, Washington 98002

Bremerton

Old Belfair Road

Bremerton, Washington 98810

Everett

3013 Walnut St.

Everett, Washington 98201

Kenmore

6820 N.E. 175th St.

Bothell, Washington 98011

Spokane

E. 4001 Broadway Ave.

Spokane, Washington 99202

Wenatchee

2717 Euclid Ave.

Wenatchee, Washington 98801

Yakima

2703 Fruitvale Blvd.

Yakima, Washington 98902

ALASKA DIVISION

Tacoma (Main Office)

3205 Port of Tacoma Road

Tacoma, Washington 98421

Anchorage

5900 Arctic Blvd.

Anchorage, Alaska 99502

PYS DIVISION

Tigard (Main Office)

8100 S.W. Hunziker Road

Tigard, Oregon 97223

Boise

2255 Braniff St.

Boise, Idaho 83705

Eugene

3455 West 1st Ave.

Eugene, Oregon 97402

PONDEROSA DIVISION

Sacramento (Main Office)

8435 - 24th Ave.

Sacramento, California 95828

Fresno

3428 South Willow Ave.

Fresno, California 93725

Redding

4001 Eastside Road

Redding, California 96001

Reno

353 N. Park St.

Reno, Nevada 89504

TRUCK SERVICE INC.

911 W. James

Kent, Washington 98031

COCHRANE NORTHWEST, INC.

Tacoma (Main Office)

1916 Marc St.

Tacoma, Washington 98401

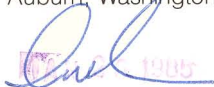
Spokane

North 110 Green Street

Spokane, Washington 98202

PALMER G. LEWIS CO., INC.

525 C Street N.W.
Auburn, Washington 98002



PRODUCT LINES

Doors

Aluminum Storm Doors
Folding Doors
Marvin Terrace Doors
Royal Oak Doors
Steel Entrance Doors
Wood Bifold Doors

Hardware

General Hardware (PYS)
Locks (PYS)
Tools - Hand (PYS)
Floor Tools & Accessories (CNI)

Insulation Board

Asphalt Impregnated Sheathing
Building Boards
Ceiling Grid Systems
Ceiling Tile and Board Products
Fiberglass Ceilings

Lumber

1" Boards
Decking
Dimension Lumber
Glu-Lam Beams
Studs
Treated Lumber

Nails and Metal Products

Aluminum and Galvanized
Sheets
Barbed Wire
Farm Gates
Fence Posts
Field Fence
Galv. Merchant Wire
Galv. Utility Fabric
Hardware Cloth
Home & Garden Fence
Horse & Paddock Fence
Livestock Water Tanks
Metal Hangers & Connectors
Nails
Poultry Netting
Rebar, Tie Wire, & Foundation
Bolts
Stronghold, Helyx & Other
Specialty Nails

Plasterboard

Board Items Including Gypsum
Sheathing
Gypsum Decorator Panels
Metal Trim and Metal Studs
Plasterboard Accessories
Sound Deadening Board
Vinyl Tack Board

Plywood

Fir Sanded
Marine Plywood
Overlay Plywood
Particle Board
Plywood Sidings

Prefinished Wood Panels and Accessories

Prefinished Panels
Prefinished Cellular Mouldings
Prefinished Vinyl Mouldings
Prefinished Wood Mouldings

Rigid Insulation

Fiberboard Roof Insulation
Fiberglass Roof Insulation
Foamboard
Mineral and Urethane Insulation

Roofing

Aluminum Sheets and Accessories
Asphalt Shingles and Roll Goods
Building Papers
Fiberglass Shingles and Roll Goods
Gutter Systems
Onduline Asphalt Roofing
Roof Coatings
Roof Vents

Soft Insulation

Blanket Insulation
Household Insulation
Insulation Accessories
Sill Sealer

Specialty Products

Acrylic and Styrene Plastics
Adhesives
Bagged Concrete Products
Caulking and Sealants
Cork
Extruded Aluminum Products
Fiberglass Panels
Fireplaces—Wood Stoves
Gas Space Heaters
High Pressure Laminates (PYS & CNI)
Marlite Products
Metalbestos Chimney Systems
Material Handling Equipment
Metal Products
Nail Bins
Olympic Stain Products
Polyethylene Film
Shelving
Shower and Tub Kits
Skylights
TYVEK Sheathing
Z-Brick Decorator Brick

Unfinished Wood Mouldings, Jambs, Frames

Hemlock
Mahogany

Wallboards

Canfor Hardboard
Cement Board
Domestic Hardboard

Windows

Marvin Wood
Rylock (Reno)

Wood Shakes, Shingles & Specialty Items

Bender Board
Cedar Closet Lining
Cedar Paneling
Hardwood Dowels
Natural Wood Wall Coverings
Peeler Cores
Railroad Ties
Shim and Undercourse Shingles
Surveyor Stakes
Wood Dowels
Wood Lath
Wood Shakes and Shingles