

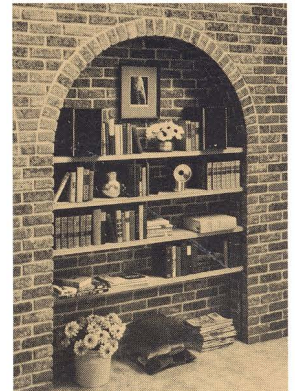
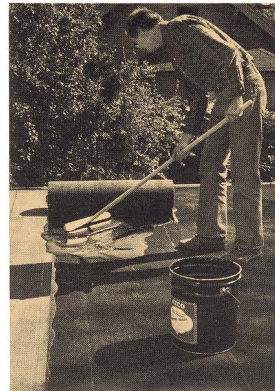
PALMER G. LEWIS CO., INC.
1981 ANNUAL REPORT

ANNUAL REPORTS
Palmer G. Lewis Co., Inc. 1981

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Lewis (Palmer G.) Co.

“With growth in the remodeling and do-it-yourself areas it seems that good broad line distributors are needed more each year.”



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Illustrated on the cover and throughout this report are applications of products distributed by Palmer G. Lewis Company.

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

The Palmer G. Lewis Company is a distributor of a wide range of building materials—primarily servicing independent retail dealers, but also selling to large retail chains, certain approved industrial and government accounts, factory-built home manufacturers, and certain sub-contractors. Our basic function is to efficiently provide our goods to our customers where they need them—when they need them—and in unit quantities they want to buy.

PGL Company performs this function through 18 service centers in an area stretching from central California and Nevada through Oregon, Idaho, Montana, Washington—and Alaska.

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

Years Ended	Jan. 29, 1982	Jan. 30, 1981	% Change
Net Sales	\$111,192,368	\$95,477,777	+16
Net Income:			
Continuing Operations	488,182	1,288,409	-62
Discontinued Operations	—	(19,542)	n/a
Sale of Discontinued Operations	—	615,798	n/a
Net Income	\$ 488,182	\$ 1,884,665	-74
Net Income Per Share	\$.28	\$ 1.09	-74
Cash Dividends	\$.28	\$.27	+4
Stock Dividends	4%	4%	—
Total Assets	\$ 38,213,260	\$40,186,941	-5
Stockholders' Investment	\$ 16,290,657	\$16,130,067	+1
Average Shares Outstanding	1,753,377	1,730,478	+1

Earnings per share and average shares outstanding during the year have been adjusted for the 4% stock dividend paid in September 1981 and October 1980.

Financial Highlights

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 1982 and 1981, adjusted for the 4% stock dividends in September 1981 and October 1980, were as shown below:

Fiscal Year	Bid		Ask		Cash Dividends Per Share
	High	Low	High	Low	
Fiscal 1982					
1st Quarter	\$10.34	\$ 8.41	\$10.82	\$ 8.89	\$.07
2nd Quarter	10.34	8.17	11.06	8.89	.07
3rd Quarter	8.65	6.73	9.37	7.69	.07
4th Quarter	8.00	7.25	8.75	7.75	.07
Fiscal 1981					
1st Quarter	\$10.63	\$ 6.47	\$11.56	\$ 7.39	\$.06
2nd Quarter	10.40	7.86	11.10	8.78	.07
3rd Quarter	10.40	9.13	11.10	9.62	.07
4th Quarter	9.62	8.17	10.34	8.65	.07

Message to PGL Stockholders

2

In retrospect, 1981 was the most difficult business year faced by the building materials industry in over 40 years. We're glad it's over. Sales were difficult to get, and inflation's constant upward pressure on expenses was relentless. The culprit—in our opinion—was, and continues to be, record-breaking high interest rates.

Our 1981 sales volume did hit a record high of \$111.2 million, an increase of 16% over the previous year. This was primarily due to the acquisition of our Tacoma branch and our branch in Boise. Without those acquisitions, our 1981 sales would have been down by 9%. Net income, however, dropped substantially—to \$488,182—a direct reflection of all the negative forces that worked against us in 1981.

Many analysts feel that the world's economic troubles can definitely be traced back to the OPEC oil "shock" of 1973. The doubling and tripling of world oil prices, combined with the inflationary forces set into motion by wasteful governments all over the world, created inflation problems that simply had to be met. Unfortunately, high and stifling interest rates appear to be carrying the whole weight of the battle in the U.S.A. And there's absolutely no doubt that sustained high crippling interest rates are the direct and indirect cause of our industry's problems.

As this "Message to Stockholders" is being written, we cannot see much change in the picture. On the other hand, we feel that we are at or very near the bottom of our business cycle. We're certainly at a point in time when we're all encountering a great deal of gloom and uncertainty. And not without plenty of justification. Nevertheless, none of us should forget that these conditions aren't going to last forever. Interest rates will come down. The turn will come.

Right now, it's certainly prudent to run PGL Company as lean as possible and play everything close to our belts. And that's exactly what we're doing. Our most important management objective in 1982 is a very simple, but powerful one—to substantially increase our net profit in 1982 on the same sales volume as we had in '81. All of our other management objectives for '82 are geared to "making it happen."

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

1. Current industry problems have caused our PGL 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. PGL Company has been able to maintain a strong balance sheet even after our acquisitions in Tacoma and Boise and after upgrading the scope of our computer system. We anticipate reducing the amount of our short term borrowing in 1982 by approximately 15%—without any additional long term debt. Anticipated lower rates in '82 will lower our interest costs even more.
3. Today's business conditions have strengthened our relationships with both customers and suppliers. They have never been stronger in the company's history.
4. Our company's diversification is an added strength in difficult times. Geographical diversification—stretching from California and Nevada to Alaska—is an example. We're also diversified by customer category. Independent retail dealers constitute our most important customer group, but we also sell to mass merchandisers, certain sub-contractors, industrial and government accounts, and factory-built home manufacturers. In addition, we also sell a very diversified product line—ranging from lumber and plywood through plasterboard, insulation, roofing, and wire products—to Olympic Stain, Z-Brick, Metalbestos chimneys, and stoves.

5. The bulk of our sales end up in customer inventories, and under today's economic conditions, these inventories are declining. Improved business conditions will require replenishment of the inventory pipelines—which will have a compounded positive effect on our future sales.

6. The inflation rate is falling! In turn, interest rates will decline as time goes by. In addition, many positive steps have been taken by our government that will improve the lot of businessmen and investors in the years ahead.

7. PGL has been running a very tight ship from a cash management standpoint. Our cash flow is adequate to take care of our requirements. Furthermore, our banking and supplier relationships are excellent.

In conclusion, we think that 1981 marked the low point in our industry. We aren't expecting great things from 1982, but we do expect to earn higher profits than we did in the previous year. We're confident that the years ahead will present even greater growth opportunities to PGL Company, and we'll be doing our best to capitalize on the profit potential in this growing distribution business.

Our sincere thanks to all of our supporters—to our employees, to our customers, to our suppliers, and to all our stockholders throughout the country. You can be confident that the turn will come.



Robert D. Peterson

Robert D. Peterson
Chairman and
Chief Executive Officer



Richard E. Lundgren

Richard E. Lundgren
President and
Chief Operating Officer

3

Selected Consolidated Financial Information

4

Fiscal Years Ended	Jan. 29, 1982	Jan. 30, 1981	Jan. 25, 1980	Jan. 26, 1979	Jan. 27, 1978
Income Statement Data:					
Net Sales	\$111,192,000	\$95,478,000	\$99,830,000	\$89,663,000	\$72,160,000
Gross Profit %	17.0%	19.1%	19.2%	19.0%	18.9%
Interest Expense	2,384,000	1,761,000	1,523,000	1,292,000	889,000
Depreciation & Amortization	1,291,000	1,174,000	1,029,000	832,000	619,000
Income Taxes—Continuing Operations	329,000	998,000	1,630,000	1,331,000	953,000
Net Income:					
Continuing Operations . .	488,000	1,289,000	2,183,000	1,909,000	1,232,000
Discontinued Operations .	—	(20,000)	32,000	59,000	165,000
Sale of Discontinued Operations	—	616,000	—	—	—
Net Income	488,000	1,885,000	2,215,000	1,968,000	1,397,000
Net Income Per Share . . . .	.28	1.09	1.31	1.40	1.08
Average Shares Outstanding	1,753,000	1,731,000	1,696,000	1,406,000	1,290,000
Dividends Per Common Share:					
Cash . . . . .	.28	.27	.25	.18	.12
Stock	4%	4%	4%	4%	4%
Balance Sheet Data:					
Total Assets	38,213,000	40,187,000	38,039,000	32,774,000	23,321,000
Working Capital	11,290,000	9,676,000	9,295,000	8,123,000	4,810,000
Long-Term Debt (net of Current Portion)	5,341,000	5,634,000	5,667,000	5,421,000	4,450,000
Capitalized Leases (net of Current Portion)	2,706,000	2,767,000	2,314,000	2,428,000	1,839,000
Stockholders' Investment . . .	16,291,000	16,130,000	14,577,000	12,648,000	7,104,000
Other Data:					
Net Capital Expenditures . . .	1,206,000	1,624,000	2,065,000	4,513,000	2,022,000
Cash Flow (net income + non-cash items)	1,773,000	2,477,000	3,407,000	2,711,000	2,010,000
Profit Sharing Trust Value . . .	4,288,000	4,340,000	4,017,000	3,443,000	2,691,000
Profit Sharing Disbursements	313,000	353,000	221,000	86,000	60,000
Number of Employees (continuing operations) . .	363	391	364	359	329
Net Income:					
As a % of Stockholders' Investment	3.0%	12.9%	17.5%	27.7%	24.3%
Continuing Operations As a % of Sales . . . . .	.44%	1.35%	2.19%	2.13%	1.71%

Installing attic and wall insulation is one important way to conserve heat and energy . . . and for the home owner or remodeler to save money. PGL sells many types of insulation as well as accessory heat savers such as weather-stripping, caulking, sealants and insulated windows.

Metal wall bracing, being installed in the photo, is used to support framed building members. Timber connector hardware . . . joist hangers, post bases, metal ties, fence clips, porch/patio/fence and louver hardware all save time and money in construction.

Management's Discussion



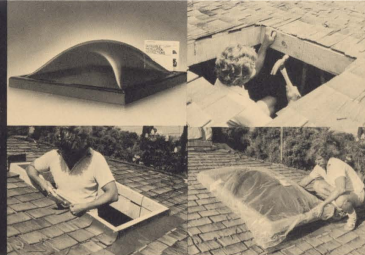
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Operations. Palmer G. Lewis Company reported sales of \$111.2 million, a new record representing a 16% increase over the previous year. The increase can be directly attributed to the recent acquisitions of the company's branches in Tacoma, Washington and Boise, Idaho. Without these acquisitions, sales would have been down approximately 9% for the year. In May of 1981, the company purchased a 60% interest in Cochrane Northwest, Inc., a newly formed company distributing specialty building products to retail dealers. Sales for the year approximated \$1,300,000.

Record interest rates continue to be the primary cause of depressed conditions in the building materials industry. Our company's performance reflects these conditions. Another reflection is the negligible effect of inflation on sales for fiscal 1982. However, in fiscal 1981, it is estimated that the company experienced about a 4% rate of inflation in its product lines, and it was estimated that this rate was 8-10% for each of the three previous fiscal years.

Net income from continuing operations was down substantially in fiscal 1982. The combined pressures of higher interest rates, lower margins resulting from increased competition, and inflationary pressures on operating expenses were the primary reasons for the reduced profitability. In fiscal 1982, interest costs alone were more than \$600,000 higher than in fiscal 1981 on a lower level of borrowing. As a result of the decreased operating earnings, no contribution was made to the employee profit sharing plan in the current year. Contributions for fiscal 1981 and 1980 were both less than the total allowed by law.

Skylights are a popular do-it-yourself product which add welcome outdoor light to practically any room in the home, and also save on the light bill. They feature all-aluminum frame construction for maintenance-free enjoyment through the years.



A complete wood burning stove and chimney system can readily be installed by the home remodeler to add warmth and style to any room in the home . . . and save in heating bills. Double-walled, preinsulated stainless steel pipe offers durability and resistance to weathering.



The roof venting system shown below illustrates special flashing, insulated pipe, chimney cap and accessories.



A versatile wall covering product, Z-Brick facing brick or stone, forms a beautiful arch, provides an accent wall, fire place or planter.

A pre-mixed acrylic sculpture coat product is available, ready-to-use, as a cover up for cracked or unsightly walls and ceilings.

Easy installation of brick shows application of adhesive mortar, setting of brick in place, smoothing mortar line and finishing the project with seal coat.



Available to the home remodeler looking for wood wall coverings is a selection of finishes, patterns and colors—from real wood to print overlays. The room setting features an embossed knotty pine with tongue and groove panels. Matching color nails, mouldings, and adhesive in handy tubes, complete the project.



Dividends. The company continued to pay cash dividends with the current annual rate being 28¢ per share (7¢ per quarter). PGL initiated its cash dividend policy 22 years ago and dividends have been paid every year since. The cash dividend rate, after adjustments for stock dividends and splits, has grown steadily. In addition to cash dividends, the company has distributed an annual 4% stock dividend since 1968.

Balance Sheet Data. The company continues to strengthen its liquidity and capital resources. Working capital reached a record high of \$11,300,000. Included in working capital is a note receivable for \$1.8 million plus accrued interest. This note was classified as a non-current asset in the previous year. Accounts receivable decreased by approximately \$2 million while inventories remained level.

Current notes payable decreased approximately 15%. Long-term debt and lease obligations decreased modestly. Stockholders' investment was up slightly in 1982 and has consistently increased since the company went public in 1968.

During the year, the company had lines of credit with banks to borrow up to \$15 million under unsecured arrangements. The company borrowed a maximum of \$12,800,000 under these arrangements. Approximately one third of the company's short-term borrowings were at ½ % over the prime rate with the remainder based on money market funds, that rate varying during the year from ¼ % to 2% under the prime rate.

Other Data. As a result of the depressed business conditions, the company has reduced its capital expenditures in the current fiscal year. This was made possible as a result of a substantial capital improvement program during the period of 1976 through 1979. It is anticipated that capital expenditures will remain at a low level during the coming fiscal year.

During the current fiscal year, the company did not make a contribution to the employee profit sharing plan. This was the third year that the company's contribution has been less than that allowed by law 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 do everything within its power to reach this objective.

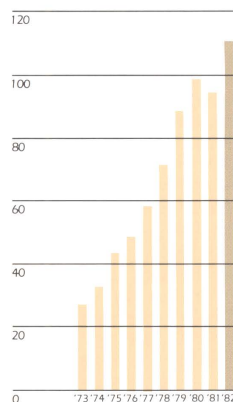
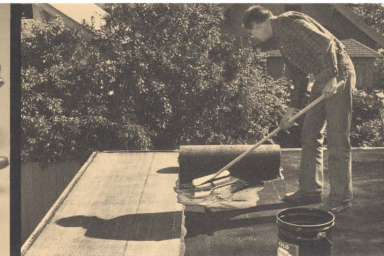
During the year, the company has continued to emphasize its cost reduction program. As a result, total manpower declined approximately 10% to 363 people at year-end. This included an addition of approximately 15 people at the company's new subsidiary, Cochrane Northwest, Inc. However, employee morale is excellent, and approximately 80% of our employees are stockholders, with the vast majority being enrolled on a continuous basis in our employee stock purchase plan.

The bathroom is an area where the home installer has help from new products on the market . . . long lasting moulded fiberglass shower and tub walls. Panels adjust to fit various size areas, come in a choice of colors, need no cutting and require only a drill, ruler and caulking gun. The complete unit comes in 1 package with easy-to-follow instructions.

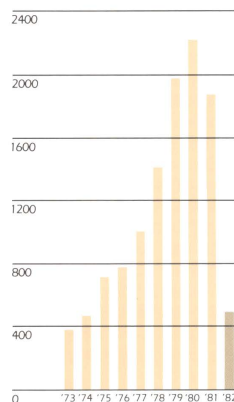
Whatever ceiling problems or projects confront the home remodeler from covering up old or damaged ceilings, adding a new room or finishing off a basement . . . help is available. A 'drop' ceiling may be the answer—adding metal grid, panels, lighting—or merely putting tile or board over the existing ceiling.



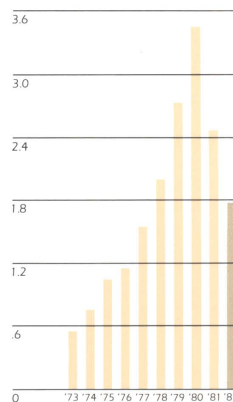
Roof repair and maintenance develops a demand for waterproof easy-to-apply asphalt protective coatings. Few tools and minimum skill are required to do the job. Also available, in addition to cold application built-up roof products, are wood preservatives, drive-way sealers, and fiberglass felts. Sealants for coating cement foundations or stopping moisture leaks come pre-mixed and ready to use.



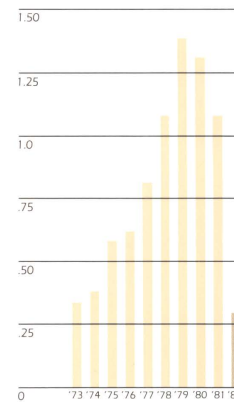
Sales
\$ in millions



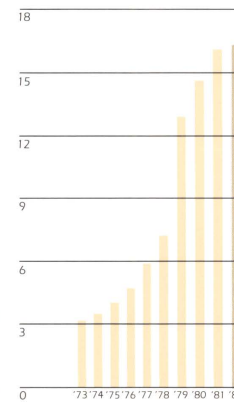
Net Income
\$ in thousands



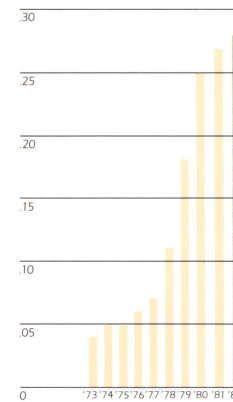
Cash Flow
\$ in millions



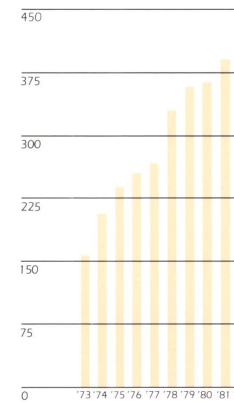
Net Income Per Share
in \$



Net Worth
\$ in millions



Cash Dividends Per Share
in \$



Number of Employees

Consolidated Balance Sheets

Palmer G. Lewis Co., Inc.
and Subsidiaries

10

Assets	1982	1981 (Note 1)
January 29, 1982 and January 30, 1981		
Current Assets:		
Cash	\$ 198,192	\$ 192,863
Receivables, less allowance for doubtful accounts of \$544,000 in 1982 and \$439,000 in 1981 ..	9,216,173	11,213,476
Note receivable	1,868,413	—
Inventories (Note 1)	13,031,707	12,864,597
Prepays	288,102	315,689
Total current assets	<u>24,602,587</u>	<u>24,586,625</u>
Land, Buildings and Equipment, at cost (Notes 1 and 2):		
Land and land improvements	1,575,067	1,428,968
Buildings	6,483,301	6,294,168
Equipment	6,677,380	6,213,004
Property held under capital leases	3,259,477	3,259,477
Furniture and fixtures	1,259,589	1,135,621
	<u>19,254,814</u>	<u>18,331,238</u>
Less accumulated depreciation and amortization	<u>(6,466,639)</u>	<u>(5,381,291)</u>
	<u>12,788,175</u>	<u>12,949,947</u>
Other Assets:		
Notes receivable, net of current portion of \$30,000 in 1982 and \$385,000 in 1981, ..	193,527	1,981,568
included in receivables above (Note 1)	429,693	450,057
Investments, at cost	199,278	218,744
Other	822,498	2,650,369
	<u>\$38,213,260</u>	<u>\$40,186,941</u>

Liabilities and Stockholders' Investment	1982	1981 (Note 1)
January 29, 1982 and January 30, 1981		
Current Liabilities:		
Short-term notes payable (Notes 1 and 3)	\$ 5,450,000	\$ 6,440,488
Current portion of long-term debt and obligations under capital leases	438,912	375,030
Accounts payable	5,934,327	6,189,039
Accrued liabilities	1,220,764	1,677,232
Income taxes payable	—	228,565
Current deferred income taxes payable	269,000	—
Total current liabilities	<u>13,313,003</u>	<u>14,910,354</u>
Long-Term Debt (Note 2)	<u>5,674,876</u>	<u>5,914,295</u>
Obligations Under Capital Leases (Note 2)	<u>2,810,895</u>	<u>2,862,255</u>
Less-current portion shown above	<u>(438,912)</u>	<u>(375,030)</u>
	<u>8,046,859</u>	<u>8,401,520</u>
Deferred Income Taxes Payable (Note 1)	<u>497,000</u>	<u>745,000</u>
Minority Interest	<u>65,741</u>	<u>—</u>
Commitments (Note 4)	<u>—</u>	<u>—</u>
Stockholders' Investment (Notes 1 and 5):		
Common stock par value \$1.00, authorized 4,000,000 shares; outstanding 1,766,492 shares in 1982 and 1,680,596 shares in 1981 ..	1,766,492	1,680,596
Paid-in capital	8,825,220	8,232,388
Retained earnings	5,730,625	6,275,833
	<u>16,322,337</u>	<u>16,188,817</u>
Less treasury stock, 4,016 shares in 1982 and 6,000 shares in 1981, at cost	<u>(31,680)</u>	<u>(58,750)</u>
	<u>16,290,657</u>	<u>16,130,067</u>
	<u>\$38,213,260</u>	<u>\$40,186,941</u>

11

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

Consolidated Statements of Income

Palmer G. Lewis Co., Inc.
and Subsidiaries

12

	1982	1981	1980
For the three fiscal years ended January 29, 1982		(Note 1)	(Note 1)
Net Sales	\$111,192,368	\$95,477,777	\$99,829,570
Costs and Expenses:			
Cost of goods sold	92,298,308	77,276,905	80,640,379
Selling, general and administrative expenses	15,010,356	13,181,374	12,784,056
Interest	2,383,971	1,760,719	1,523,461
Depreciation and amortization	1,290,944	1,173,631	1,029,013
Employees' profit sharing plan	—	371,068	499,310
Minority interest in net loss of subsidiary	(34,259)	—	—
Other Income	(574,134)	(572,329)	(459,358)
	110,375,186	93,191,368	96,016,861
Income before provision for income taxes	817,182	2,286,409	3,812,709
Provision for Income Taxes	329,000	998,000	1,630,000
Income from Continuing Operations	488,182	1,288,409	2,182,709
Discontinued Operations:			
Income (loss) from discontinued operations net of related income taxes	—	(19,542)	31,792
Gain on sale of Superior Building Supply, Inc. net of related income taxes of \$333,000	—	615,798	—
Net Income	\$ 488,182	\$ 1,884,665	\$ 2,214,501
Per Share Data:			
Continuing operations	\$.28	\$.74	\$ 1.29
Discontinued operations	—	(.01)	.02
Gain on sale of discontinued operations	—	.36	—
Net income	\$.28	\$ 1.09	\$ 1.31
Dividends			
Cash	\$.28	\$.27	\$.25
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

13

For the three fiscal years ended January 29, 1982

	Common Stock		Paid-in	Retained	Treasury Stock	
	Shares	Amount	Capital	Earnings (Note 1)	Shares	Amount
Balance, January 26, 1979 ..	1,504,905	\$ 1,504,905	\$6,537,779	\$4,631,259	(2,200)	\$(25,925)
Sale of common stock under stock purchase and stock option plans (Note 5)	15,133	15,133	134,135	—	3,375	39,726
Purchase of treasury stock . . .	—	—	—	—	(4,375)	(49,407)
Common stock dividend	59,837	59,837	807,798	(867,635)	—	—
Cash dividends	—	—	—	(425,486)	—	—
Net income	—	—	—	2,214,501	—	—
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 5)	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 5)	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)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Financial Position

Palmer G. Lewis Co., Inc.
and Subsidiaries

14

	1982	1981 (Note 1)	1980 (Note 1)
For the three fiscal years ended January 29, 1982			
SOURCES OF WORKING CAPITAL			
Operations			
Income from continuing operations	\$ 488,182	\$ 1,288,409	\$ 2,182,709
Income (loss) from discontinued operations	—	(19,542)	31,792
Charges (credits) not affecting working capital:			
Depreciation and amortization	1,290,944	1,173,631	1,029,013
Provision for deferred income taxes	49,000	87,000	217,000
Minority interest in net loss of subsidiary	(34,259)	—	—
Other	(21,000)	(53,000)	(54,000)
	<u>1,772,867</u>	<u>2,476,498</u>	<u>3,406,514</u>
Proceeds from—			
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	—
Sale of common stock	225,355	322,881	188,994
Long-term debt and obligations under capital leases	91,090	789,720	460,469
Increase in minority interests	100,000	—	—
Other	97,334	—	—
	<u>3,817,646</u>	<u>5,834,916</u>	<u>4,055,977</u>
APPLICATIONS OF WORKING CAPITAL			
Purchase of land, buildings and equipment	1,205,635	1,624,047	2,065,468
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	445,751	369,610	328,128
Cash dividends	488,322	467,679	425,486
Purchase of treasury stock	64,625	186,421	49,407
Other	—	261,551	15,067
	<u>2,204,333</u>	<u>5,453,684</u>	<u>2,883,556</u>
INCREASE IN WORKING CAPITAL	<u>\$ 1,613,313</u>	<u>\$ 381,232</u>	<u>\$ 1,172,421</u>
WORKING CAPITAL INCREASED (DECREASED) AS FOLLOWS:			
Current assets			
Cash	\$ 5,329	\$ 34,281	\$ (114,348)
Receivables	(1,997,303)	(173,542)	2,759,368
Note Receivable	1,868,413	—	—
Inventories	167,110	179,370	1,493,307
Prepays	(27,587)	95,502	37,750
	<u>15,962</u>	<u>135,611</u>	<u>4,176,077</u>
Current liabilities			
Short-term notes payable	990,488	(190,488)	(1,865,000)
Current portion of long-term debt	(63,882)	(67,634)	(75,566)
Accounts payable	254,712	170,226	(1,152,207)
Accrued liabilities	456,468	321,925	(155,719)
Income taxes payable	228,565	11,592	244,836
Current deferred income taxes payable	(269,000)	—	—
	<u>1,597,351</u>	<u>245,621</u>	<u>(3,003,656)</u>
INCREASE IN WORKING CAPITAL	<u>\$ 1,613,313</u>	<u>\$ 381,232</u>	<u>\$ 1,172,421</u>

The accompanying notes are an integral part of these statements.

January 29, 1982

Notes to Consolidated Financial Statements

Palmer G. Lewis Co., Inc.
and Subsidiaries

15

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.

Acquisitions

In May 1981, the Company and another investor formed Cochrane Northwest, Inc., a distributor of specialty building materials. The investment of the Company's 60% interest was \$150,000.

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. On an unaudited pro forma basis, the revenues of these acquisitions would have been 16% of total revenues for 1981 and 19% for 1980. The aggregate net income of these acquisitions was not significant for the same periods.

Disposition

In December 1980, the Company sold the stock of its wholly-owned subsidiary, Superior Building Supply, Inc. (Superior) 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 shown as a separate item on the income statement. The financial statements for prior years were restated to reflect the investment in and income (loss) from Superior as separate items.

Change in Accounting Method

During 1982 the Company changed its method of accounting for vacation pay as required by Financial Accounting Standards Board Statement No. 43, and has restated retained earnings and net income as follows:

	Net Income		Retained Earnings
	1981	1980	
Amount previously reported	\$1,921,939	\$2,237,505	\$ 4,769,594
Restatement for vacation pay	(69,274)	(43,004)	(255,335)
Less related income tax effect	32,000	20,000	117,000
Net restatement	(37,274)	(23,004)	\$ 4,631,259
Net income as restated	\$1,884,665	\$2,214,501	
Net restatement per share	\$ (.02)	\$ (.01)	

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
Furniture and fixtures	5-10 years
Property held under capital leases	20-25 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

For the three fiscal years ended 1982, the provision for income taxes consisted of the following:

January 29, 1982	Federal	State	Total
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	<u>\$ 300,000</u>	<u>\$ 29,000</u>	<u>\$ 329,000</u>
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	<u>\$ 893,000</u>	<u>\$ 105,000</u>	<u>\$ 998,000</u>
January 25, 1980			
Current taxes payable	\$ 1,406,000	\$ 125,000	\$ 1,531,000
Less investment tax credits	(118,000)	—	(118,000)
Deferred taxes payable	217,000	—	217,000
Provision for income taxes	<u>\$ 1,505,000</u>	<u>\$ 125,000</u>	<u>\$ 1,630,000</u>

The difference between the provision for income taxes computed using the "statutory rates" and the "effective rates" (40% in 1982, 44% in 1981, and 43% in 1980) is principally from the utilization of investment tax credits and state income taxes. The provisions for deferred income taxes in the three fiscal years ended January 1982 consisted primarily of differences between income tax and financial statement reporting of depreciation, capital leases and vacation pay.

Investment tax credits are taken into income in the year in which income taxes are reduced by the credit.

Net Income Per Share

Net income per share is based on the weighted average number of shares of common stock outstanding during each year (1,753,377 shares in 1982, 1,730,478 shares in 1981, and 1,696,061 shares in 1980) after giving effect to the stock dividends during the years. Outstanding stock options have no material dilutive effect on net income per share.

Other Income

Other income represents principally interest income and gain on sale of assets. In 1981, a deferred gain on sale of property as of January 25, 1980 was recorded in other income (\$69,000 net of income taxes or \$.04 per share) because collection of the related receivable became reasonably assured. Other income also includes the equity in income of a 40% investment in Quality Coatings, Inc., accounted for on the equity method. The equity in income in fiscal years ended January 29, 1982, January 30, 1981, and January 25, 1980 was \$21,000, \$53,000, and \$54,000 respectively.

Profit Sharing Plan

Contributions to the Company's profit sharing plan are at the discretion of the Board of Directors and are limited by federal income tax regulations.

2. Long-Term Debt and Obligations Under Capital Leases

At January 29, 1982, and January 30, 1981, long-term debt and obligations under capital leases consisted of the following:

	1982	1981
9-5/8% to 10-1/4% notes payable to banks, secured by mortgages on certain land, buildings and equipment costing \$3,069,000, payable in monthly installments of \$30,000, including interest, to 1983	\$3,120,706	\$3,168,598
8-1/2% to 10% notes payable, secured by mortgages on certain land, buildings and equipment costing \$2,090,000, payable in monthly installments of \$19,000, including interest, to 1994	1,803,519	1,892,051
Other	750,651	853,646
Total long-term debt	5,674,876	5,914,295
Capital lease obligations, \$32,000 payable monthly, including interest imputed at rates from 9% to 14.5% to 1996	2,810,895	2,862,255
Less-current portion	(438,912)	(375,030)
	<u>\$8,046,859</u>	<u>\$8,401,520</u>

The capital leases are for branch and office facilities. Two are with partnerships in which partners are officers and stockholders of the Company.

Following is a summary of long-term debt maturities for the five fiscal years ending 1987 and subsequent years.

Fiscal Year Ending	Long-Term Debt	Capital Lease Obligations	Total
1983	\$ 334,000	\$ 105,000	\$ 439,000
1984	3,020,000	115,000	3,135,000
1985	116,000	127,000	243,000
1986	121,000	139,000	260,000
1987	96,000	154,000	250,000
Subsequent years	1,988,000	2,171,000	4,159,000
	<u>\$5,675,000</u>	<u>\$2,811,000</u>	<u>\$8,486,000</u>

3. Short-Term Notes Payable to Banks

At January 29, 1982, the Company had unsecured lines of credit with banks to borrow up to \$15,000,000 at prime to prime plus 1/2%. Currently the banks have permitted the Company to select for various time periods the interest rates established by the lines of credit or rates based upon certain money market fund yields. During 1982, this latter rate was generally less than prime by 1/4% to 2%. The weighted average interest rate as of January 29, 1982 was 15.5%. Information regarding short-term borrowings during fiscal years 1982 and 1981 follows:

	1982	1981
Weighted average interest rate	17.6%	15.9%
Average borrowings	\$ 8,362,000	\$ 7,862,000
Maximum amount of short-term borrowings at any month-end	12,500,000	10,600,000
Year-end short-term notes payable to banks	5,450,000	5,450,000

4. Commitments

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

Fiscal year ending		
1983	.....	\$ 402,000
1984	.....	388,000
1985	.....	327,000
1986	.....	318,000
1987	.....	22,000
Subsequent years	.....	22,000
		<u>\$ 1,479,000</u>

The lease obligations also extend to property taxes, insurance, and repairs and maintenance. Total lease expense charged to operations in fiscal years ended January 29, 1982, January 30, 1981, and January 25, 1980, was \$367,000, \$335,000, and \$330,000 respectively.

5. Stock Purchase Plan and Stock Options

Stock Purchase Plan

The Company has an employee stock purchase plan for officers and employees. 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.

A summary of the stock purchase plan activity for the three fiscal years ended 1982 follows:

Shares Purchased	Shares	Average Price Per Share	Total
1982	18,272	\$ 8.03	\$ 146,800
1981	18,619	8.36	155,600
1980	16,904	10.80	182,600

At January 29, 1982, common stock reserved for issuance under this plan was 71,116 shares.

Stock Options

During 1982 the Company terminated its qualified stock option plan as a result of the Tax Reform Act of 1976. All outstanding options were either exercised or cancelled. Options were exercised 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
1980	1,668	3.93	6,600	13.41	22,400

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. At January 29, 1982, options for 41,809 shares were exercisable.

Under provisions of the Economic Recovery Tax Act of 1981, the Board of Directors adopted an incentive stock option plan in November 1981. Options to purchase 61,000 shares at \$7.75 per share have been granted. The plan is subject to stockholder approval and will replace the nonqualified stock option plan described above.

6. Major Customer

In fiscal 1982, approximately 22% of net sales were to a major building materials retailer. In prior years no one customer accounted for 10% or more of net sales.

7. Unaudited Quarterly Financial Results (In 000's)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales of Continuing Operations:				
1982	\$26,174	\$32,895	\$32,504	\$19,620
1981	20,739	23,388	29,159	22,192
1980	22,363	27,082	30,799	19,586
Cost of Goods Sold of Continuing Operations:				
1982	\$21,541	\$27,721	\$27,224	\$15,812
1981	16,638	19,065	23,921	17,652
1980	18,307	21,846	25,130	15,358
Net Income of Continuing Operations:				
1982	\$213	\$126	\$146	\$3**
1981	267	379	474	168
1980	356	678	797	352
Net Income:***				
1982	\$213	\$126	\$146	\$3**
1981	217	395	609	664**
1980	327	711	867	310
Net Income Per Share:*				
1982	\$.13	\$.07	\$.08	\$—
1981 .....	.13	.23	.35	.38
1980 .....	.20	.42	.51	.18

*Adjusted for stock dividends.

**The fourth quarter ended January 30, 1981 includes the gain on the sale of Superior Building Supply, Inc. During the fourth quarter ended January 29, 1982, the provision for bad debts was reduced by approximately \$221,000 reflecting the reduction in accounts receivable during the quarter.

***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 29, 1982, and January 30, 1981, 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 29, 1982. 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 29, 1982, and January 30, 1981, and the results of their operations and the changes in their financial position for each of the three years in the period ended January 29, 1982, in conformity with generally accepted accounting principles applied on a consistent basis, after restatement for the change (with which we concur) in the method of accounting for vacation pay, as explained in Note 1 to the consolidated financial statements.

Seattle, Washington,
March 26, 1982.

ARTHUR ANDERSEN & CO.

Board of Directors

Corporate Officers

20

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*†
Senior Vice President
Winmar Company, Inc.
Seattle, Washington
(Financial Services)

Alfred W. White*
Chairman of the Board,
Emeritus
Frank B. Hall and Co. of
Washington
Seattle, Washington
(Insurance Brokers)

*Member of Audit Committee
†Member of Executive Committee

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

John E. Glover
Vice President
Ponderosa Division

Schell Harmon
Vice President
Inventory Control

Philip R. Harris
Vice President
Sales

Charles D. Lauber
Vice President
Advertising/Promotion

A. Jack Petersen
Vice President
Alaska Division

Ronald J. Pulliam
Vice President
PYS Division

Louise W. Lewis
Assistant Secretary

ANNUAL MEETING:

The annual meeting of shareholders of Palmer G. Lewis Co., Inc. will be held on Thursday, June 3, 1982, 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 29, 1982, including financial statements and schedules, which will be filed with the Securities and Exchange Commission by April 29, 1982, 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



TRUCK SERVICE, INC.

Auburn (Company Headquarters)
525 C Street N.W.,
Auburn, Washington 98002

Bremerton
Old Belfair Road
Bremerton, Washington 98310

Everett
3013 Walnut St.
Everett, Washington 98201

Kenmore
6820 N.E. 175th St.
Kenmore, Washington 98028

Missoula
2880 Latimer St.
Missoula, Montana 59806

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.
1916 Marc St.
Tacoma, Washington 98401

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

PGL DIVISION

James C. Bender
Supervisor of Branches
W. Thomas Brynn
Credit Manager
Kenneth J. Gohrick
Assistant Sales Manager
Perry W. Gorman
Personnel Manager
Phillip R. Harris
Sales Manager
Norman A. Larson
Auburn Trucking Supervisor
Charles D. Lauber
Advertising & Promotion
Manager
Donald R. Ray
Auburn Warehouse Supervisor
H. Dean Sabey
Auburn Operations Manager

PGL BRANCH MANAGERS

Gary L. Bolin
Missoula
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. Van Buskirk
Division Manager
Robert A. Babicky
Sales Manager
C. Dale Montgomery
Purchasing Manager
N. Patricia Olmstead
Administrative Manager
Richard R. Clare
Manager, Redding Branch
Joseph M. Garfield
Manager, Fresno Branch
G. Scott Fairchild
Manager, Reno Branch

PYS DIVISION

Ronald J. Pulliam
Division Manager
Carl A. Lillequst
Assistant Division Manager
William R. Fagan
Purchasing Manager
Margaret Taylor
Credit Manager
Gary L. Popp
Manager, Boise Branch
Edwin S. Strother
Manager, Eugene Branch

TRUCK SERVICE, INC.

Wayne T. Daulton
Manager

COCHRANE NORTHWEST, INC.

Harry C. Scoville
President & General Manager
Douglas Ray
Administrative Manager

**Managers &
Supervisors**

**Service Center
Locations &
Divisions**

July
1985

PALMER G. LEWIS CO., INC.
1981 ANNUAL REPORT

Product Lines

DOORS

Folding Doors
Wood Bifold Doors

HARDWARE

(PYS Division)
General Hardware
Locks
Tools—Hand and Power

INSULATION BOARD

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

LUMBER

1" Boards
Decking
Dimension Lumber
Exterior Wood
Studs
Treated Lumber

NAILS AND METAL PRODUCTS

Aluminum and Galvanized Sheets
Barbed Wire
Nails
Fence Posts
Metal Hangers and Connectors
Poultry Netting
Rebar, Tie Wire, & Foundation Bolts
Stronghold, Helyx & other Specialty Nails
Wire Mesh and Hardware Cloth

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-Graded
Marine Plywood
Particle Board
Plywood Siding
Shop Plywood

PREFINISHED WOOD PANELS AND ACCESSORIES

Prefinished Panels
Prefinished Cellular Mouldings
Prefinished Vinyl Mouldings
Prefinished Wood Mouldings

RIGID INSULATION

Fiberboard Roof Insulation
Fiberglass Roof Insulation
Insulfoam
Mineral and Urethane Insulation

ROOFING

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

SOFT INSULATION

Blanket Insulation
Household Insulation
Sill Sealer

SPECIALTY PRODUCTS

Acrylic and Styrene Plastics
Adhesives
Caulking and Sealants
Cork
Deck Coatings
Extruded Aluminum Products
Fiberglass Panels
Fireplaces—Wood Stoves
High Pressure Laminates (PYS Division)
Marlite Products
Metalbestos Chimney Systems
Masonry Products and Sealers
Material Handling Equipment
Metal Products
Nail Bins
Olympic Stain Products
Polyethylene Film
Shelving
Shower and Tub Kits
Skylights
Z-Brick Decorator Brick
UNFINISHED WOOD MOULDINGS, JAMBS, FRAMES
Hemlock
Mahogany

WALLBOARDS

Canfor Hardboard
Cement Board
Domestic Hardboard
Windows
WOOD SHAKES, SHINGLES & SPECIALTY ITEMS
Bender Board
Cedar Closet Lining
Cedar Paneling
Hardwood Dowels
Natural Wood Wall Coverings
Peeler Cores
Railroad and Landscape Ties
Shim and Undercourse Shingles
Surveyor Stakes
Wood Dowels
Wood Lath
Wood Turnings
Wood Shakes and Shingles