

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

Annual Report  
1980

Lewis (P)

Palmer G. Lewis Co., Inc. 1980

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# Palmer G. Lewis Co., Inc.

The Palmer G. Lewis Company, through its several divisions, distributes a wide variety of building materials to retail dealers, mass merchandisers and certain commercial accounts. Supplied by many national manufacturers, these products are familiar to all who have had any contact with various building projects. A brief look at a PGL product catalog would reveal that these items range from adhesives, insulation products, lumber, nails, plasterboard, plywood (prefinished and fir), polyethylene, roofing . . . to Z-Brick decorative brick.

Your Company is very selective about what lines they distribute, but new products are being constantly analyzed for their future potential. Only merchandise that has sales appeal for the professional builder, do-it-yourselfers, and/or commercial applicator market . . . and that gives both our customers and ourselves that all-important "return on investment" . . . is considered.

On Tuesday, November 11, in Washington, D.C. at the National Building Materials Distributor Association Convention, Palmer G. Lewis Company was again honored as the recipient of the 1980 Van Kirk Award. This prestigious award is for the top building materials distributor in the nation . . . as determined by a national vote of dealers and manufacturers. This is the second consecutive year that your company has received this award.



*Receiving plaque are PGL top executives: Robert D. Peterson, Chairman of the Board and Chief Executive Officer; Richard E. Lundgren, President and Chief Operating Officer; and center—S.M. VanKirk, for whom the award is named.*

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# Financial Highlights

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	Jan. 30, 1981	Jan. 25, 1980	% Change
Net Sales . . . . .	\$95,477,777	\$99,829,570	- 4
Net Income:			
Continuing Operations . . . . .	1,325,683	2,205,713	- 40
Discontinued Operations . . . . .	(19,542)	31,792	n/a
Sale of Discontinued Operations . . . . .	615,798	—	n/a
Net Income . . . . .	\$ 1,921,939	\$ 2,237,505	- 14
Net Income Per Share . . . . .	\$ 1.16	\$ 1.37	- 15
Cash Dividends . . . . .	\$ .28	\$ .26	+ 8
Stock Dividends . . . . .	4%	4%	—
Total Assets . . . . .	\$40,017,941	\$37,902,006	+ 6
Stockholders' Investment . . . . .	\$16,328,680	\$14,737,959	+ 11
Average Shares Outstanding . . . . .	1,663,921	1,630,828	+ 2

\*Earnings per share and average shares outstanding during the year have been adjusted for the 4% stock dividends paid in October 1980 and October 1979.

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 1981 and 1980, adjusted for the 4% stock dividends in October 1980 and October 1979, were as shown below:

	Bid		Ask		Cash Dividends Per Share
	High	Low	High	Low	
Fiscal 1981					
1st Quarter . . . . .	\$11.06	\$ 6.73	\$12.02	\$ 7.69	\$.07
2nd Quarter . . . . .	10.82	8.17	11.54	9.13	.07
3rd Quarter . . . . .	10.82	9.50	11.54	10.00	.07
4th Quarter . . . . .	10.00	8.50	10.75	9.00	.07
Fiscal 1980					
1st Quarter . . . . .	\$12.71	\$11.79	\$13.63	\$12.71	\$.06
2nd Quarter . . . . .	11.79	10.63	12.71	11.56	.06
3rd Quarter . . . . .	13.76	10.10	14.42	11.06	.07
4th Quarter . . . . .	10.50	9.62	11.54	10.58	.07

## Message to PGL Stockholders

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1980 was certainly a challenging year. Sales didn't come easily and inflation continued its relentless upward pressure on expenses. In spite of all the obstacles, however, our corporate ship successfully sailed across some very troubled waters. We feel that the worst is behind us.

There's absolutely no doubt about the major cause of our mediocre performance in 1980. The culprit was the spectacular skyrocketing of interest rates that occurred in the first quarter of the year, followed by a fast fall from the heights into a nice little valley before they soared to even more astronomical levels in December. Most of us tend to forget how earth shattering those interest rates became.

For example, going back over 30 years, it's hard to believe that the prime rate was only about 2% all during the 50's. During the next 20 years, it rose gradually; however, it never got above 10% except for a quick burst to the 12% level at the end of 1974. That 12% prime was the historic high until everything went berserk in late 1979. Then it soared up to 20% last April. Practically all short term rates rose with it to over 100 year records—exceeded only by pre-civil war highs. The prime did fall during last summer, to the 11% area—but soared again in late fall, reaching 21- $\frac{1}{2}$ % last December. Those unprecedented interest rates were both the direct and the indirect cause of the difficult business conditions that PGL Company faced in 1980.

In spite of well publicized adverse factors, 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 this means that PGL Company is smack 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 is growing, and will continue to grow, simply because, as a professional distributor, we can perform the necessary middleman functions better than anyone else. That's because it's our only business.

Our top management team sees plenty of opportunity for PGL to keep things moving forward in 1981 and in the decades ahead. We aren't expecting great things in '81, but we do expect to do better than last year. As we see it, PGL Company has strengthened its position in the marketplace, and we intend to enhance our market share even more through an aggressive and sustained marketing approach.

In reviewing last year's performance, it's easy to see that our low point occurred in the April-May period. First of all, the prime hit 20% in April, and then Mount St. Helens erupted in May. PGL suffered no really significant damage from this disaster, but we did have 4 branches (Yakima, Wenatchee, Spokane, and Missoula) directly affected, with some closed down for about a week.

In spite of all the pessimistic developments in 1980, PGL took two very significant steps in the latter part of the year. First of all, we seized an opportunity and purchased a branch warehouse in Boise from D.G. Shelter Products, a division of the Di Giorgio Corporation. We have a favorable lease, with an option to buy, on a well located 40,000 sq. ft. warehouse with an attached office. Even more important, we acquired a going business in a brand new marketing area.

In addition, the sale of PGL's retail subsidiary, coupled to the acquisition of Galco Wood Products in Tacoma, took place on December 31, 1980. As we stated before, we're confident that this transaction will have a positive long term influence on the company. It will also strengthen our balance sheet and improve our liquidity. This new Tacoma branch will specialize in serving the Alaska market, and we're happy to report that the Alaska economy, after particularly depressed years in '79 and '80, is looking very bright for 1981. Finally, and perhaps most important of all, PGL Company is now in a position where it can devote all of its thought and effort to its primary and most profitable business—wholesale distribution.



While we're high on the long term effects of the Galco-Superior transaction, we must confess that we felt some sadness in selling Superior Building Supply simply because we've known some of the Superior employees for almost a quarter of a century. We also know how much hard work and hope went into that company. We are very pleased that, with rare exceptions, all employees at both Superior and Galco continued in their same positions.

Our diesel truck repair facility continues to grow. It services not only the PGL fleet of trucks, but also those of many other firms. Furthermore, this company, Truck Service, Inc., will be distributing Marmon diesel trucks in Washington in 1981. We expect to expand this company to other areas in the future. It definitely fits into the scheme of things.

In conclusion, we expect that business will be better for PGL in '81 and that it will pick up some real momentum in '82 and '83. We intend to keep expanding—whenever the circumstances are right. We're looking hard at Bend and Medford in Oregon. We're also definitely interested in the Salt Lake City area, and additional outlets will be considered in the future for Montana. In looking back, it's obvious that 1980 was a testing year for many companies, including PGL. It was probably the most difficult year that we've faced in a long, long time. But we feel that we've emerged as a stronger company and are definitely planning for better things in 1981 and the years ahead. In short, we expect to keep this company growing.



Robert D. Peterson  
Chairman and Chief Executive Officer



Richard E. Lundgren  
President and Chief Operating Officer

#### BOARD OF DIRECTORS NEWS

William H. Gee, who was the company's first outside Director, recently chose to retire from the Board. Bill admirably served as a PGL Director for over 20 years. During this time, his sage advice and guidance helped this company grow from a 2-branch business to 19 branches located in Washington, Oregon, California, Idaho, Montana, Nevada, and Alaska. Sales increased by 25-fold during his tenure. We wish to acknowledge Bill's many contributions to the company during his decades of dedicated service.

Douglas S. Gamble has been elected to fill this vacancy on the Board. Doug is the president and chief executive officer of Pacific Gamble Robinson. The company he heads is one of North America's largest distributors of fresh fruits and vegetables. In addition, they operate a large retail grocery division in the Pacific Northwest, as well as being involved in extensive trucking operations. We welcome Doug to our PGL Board and are looking forward to working with him.



# Management's Discussion

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Our fiscal 1981 sales declined 4 % from the previous year. This represents the first decline in sales that the company has experienced since fiscal 1971, 10 years ago. The decrease can be directly attributed to the impact of record high interest rates on the building materials industry. As a result of the depressed condition of the building materials industry, the company experienced only about a 4 % rate of inflation in its product lines during the fiscal year just ended. However, it is estimated that inflation averaged approximately 8 % to 10 % per year for the previous four fiscal years.

In fiscal 1980, total net income was down 14 % from the previous year. However, our total year's profit included a gain on the sale of Superior Building Supply. Profits from continuing operations were down 40 %.

The year just ended represents the first decrease in net income from continuing operations that the company has experienced since fiscal 1971. The primary reason for this decrease was the drop in sales volume, coupled to inflationary increases in our expenses and record high interest rates. As a result of the decreased operating earnings, the contribution to the employees' profit sharing plan was reduced to 50 % of the total allowed by law.

The results of Superior Building Supply, separately stated as discontinued operations, had declined steadily since fiscal 1978 as a result of the general slowdown in business following the completion of the trans-Alaska pipeline. However, the real property owned by Superior had realized significant appreciation which is represented by the \$616,000 gain on the sale of the company. Coinciding with the sale of Superior was the company's acquisition of Galco Wood Products, a building materials distributor located in Tacoma, Washington. This firm specializes in wholesale distribution to Alaska.

## Dividends

PGL Company initiated its cash dividend policy 21 years ago. Since then dividends have been paid every year and have never been lowered. The cash dividend rate, after adjustments for stock dividends and splits, has grown each year since 1968. The current indicated annual rate is 28 cents per share (7 cents per quarter). In addition to cash dividends, the company has distributed an annual 4 % stock dividend since 1968.

## Balance Sheet Data

Over the years, the company's liquidity and capital resources have grown steadily. Total assets have reached an all-time high of approximately \$40,000,000, while working capital reached a record high of \$9,875,000. Not included within working capital is a \$1,800,000 note receivable which is scheduled to be paid February 15, 1982. Receipt of this payment will further strengthen the company's balance sheet and liquidity. Receivables, exclusive of the amounts associated with the Superior sale, increased primarily due to the Galco and Boise acquisitions, while inventories went up about 1 %. The company plans to continue tight controls on these two vital assets.

The company's long term debt remained constant from the previous year and primarily consists of mortgages on branch warehouses and notes payable associated with the acquisition of the PYS division and the Reno branch. Capital leases increased during the current fiscal year as a result of the acquisition of the branch in Boise, Idaho. The terms of the lease are considered favorable, and the company has an option to buy the facility, after April 30, 1988, at an attractive fixed price.

During the year the company had lines of credit with banks to borrow, primarily at  $\frac{1}{2}$  % over prime, up to \$14,000,000 under unsecured arrangements. During the year the company borrowed a maximum of \$11,000,000 under these arrangements.

## Other Data

During the period 1976 through 1979, the company embarked on a substantial capital improvement program primarily associated with the upgrading or replacement of branch warehouses and related operating equipment. As a result of these investments, the company was able to substantially reduce its capital expenditures during the fiscal year just ended, with the exception of capital equipment associated with the purchase of the Boise and Tacoma branch operations. In addition, all branch facilities, except for Missoula, are considered more than adequate to handle business levels projected for the near term. It is anticipated that an upgrade to the Missoula facility will be required within the near future.

During the current fiscal year, the company contributed a total of \$371,000 to the employees' profit sharing plan. This was a reduction from the previous year, reflecting the pause in the company's growth in profitability during fiscal 1981. By law, the company has 5 years to make up this difference, and we fully intend to do everything within our power to do so. In addition to the contribution, the trust earned \$282,292 on its investments during the previous year, bringing the total value of the trust to \$4,317,473.

Our total number of employees, exclusive of Superior Building Supply, was 391 at the end of our fiscal



# Selected Consolidated Financial Information

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Fiscal Years Ended	Jan. 30, 1981	Jan. 25, 1980	Jan. 26, 1979	Jan. 27, 1978	Jan. 28, 1977
<b>Income Statement Data:</b>					
Net Sales . . . . .	\$95,478,000	\$99,830,000	\$89,663,000	\$72,160,000	\$58,265,000
Gross Profit % . . . . .	19.1%	19.2%	19.0%	18.9%	19.1%
Interest Expense . . . . .	1,761,000	1,523,000	1,292,000	889,000	732,000
Depreciation & Amortization . . .	1,174,000	1,029,000	832,000	619,000	509,000
Income Taxes—Continuing Operations . . . . .	1,030,000	1,650,000	1,341,000	963,000	768,000
Net Income:					
Continuing Operations . . . . .	1,326,000	2,206,000	1,920,000	1,243,000	922,000
Discontinued Operations . . . .	(20,000)	32,000	59,000	165,000	106,000
Sale of Discontinued Operations . . . . .	616,000	—	—	—	—
Net Income . . . . .	1,922,000	2,238,000	1,978,000	1,408,000	1,028,000
Net Income Per Share . . . . .	1.16	1.37	1.46	1.14	.84
Average Shares Outstanding . . .	1,664,000	1,631,000	1,352,000	1,240,000	1,222,000
<b>Dividends Per Common Share</b>					
Cash . . . . .	.28	.26	.19	.12	.08
Stock . . . . .	4%	4%	4%	4%	4%
<b>Balance Sheet Data:</b>					
Total Assets . . . . .	40,018,000	37,902,000	32,657,000	23,214,000	17,755,000
Working Capital . . . . .	9,875,000	9,456,000	8,261,000	4,937,000	4,165,000
Long Term Debt (net of Current Portion) . . . . .	5,634,000	5,667,000	5,421,000	4,450,000	3,859,000
Capitalized Leases (net of Current Portion) . . . . .	2,767,000	2,314,000	2,428,000	1,839,000	1,888,000
Stockholders' Investment . . . . .	16,329,000	14,738,000	12,786,000	7,231,000	5,851,000
<b>Other Data:</b>					
Net Capital Expenditures . . . . .	1,624,000	2,065,000	4,513,000	2,022,000	1,874,000
Cash Flow (net income + non-cash items) . . . . .	2,514,000	3,430,000	2,722,000	2,021,000	1,564,000
Profit Sharing Trust Value . . . . .	4,340,000	4,017,000	3,443,000	2,691,000	2,167,000
Profit Sharing Disbursements . . .	353,000	221,000	86,000	60,000	28,000
Number of Employees (continuing operations) . . . . .	391	364	359	329	269
Net Income:					
As a % of Stockholders Investment . . . . .	13.0%	17.5%	27.4%	24.1%	21.1%
Continuing Operations As a % of Sales . . . . .	1.39%	2.21%	2.14%	1.72%	1.58%

year. However, this includes 30 people associated with the acquisition of Boise and Tacoma. Allowance for that addition means that the company's total employment actually declined during the year.

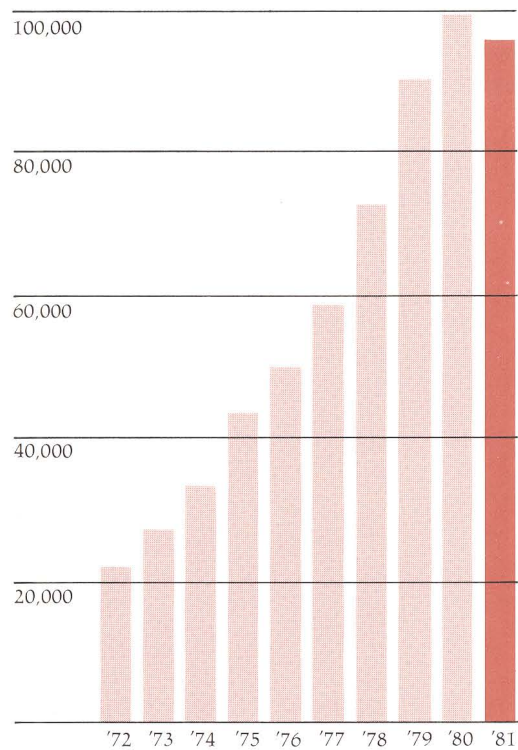
We've often stated that our dedicated career-oriented employees spell the difference between mediocrity and excellence in our performance, and it's definitely true. As a result, we're delighted to report that approximately 80 % of our employees are stockholders in their company, with the vast majority being enrolled, on a continuous basis, in our Employee Stock Purchase Plan.



# Ten Year Review

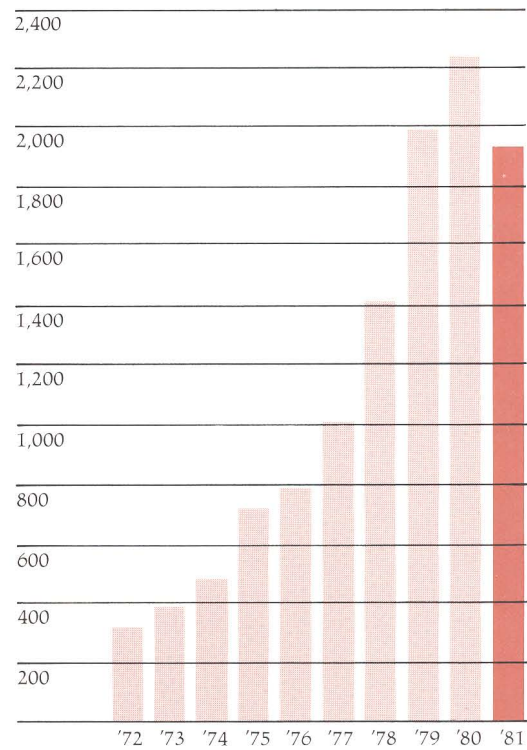
## Sales

\$ in thousands



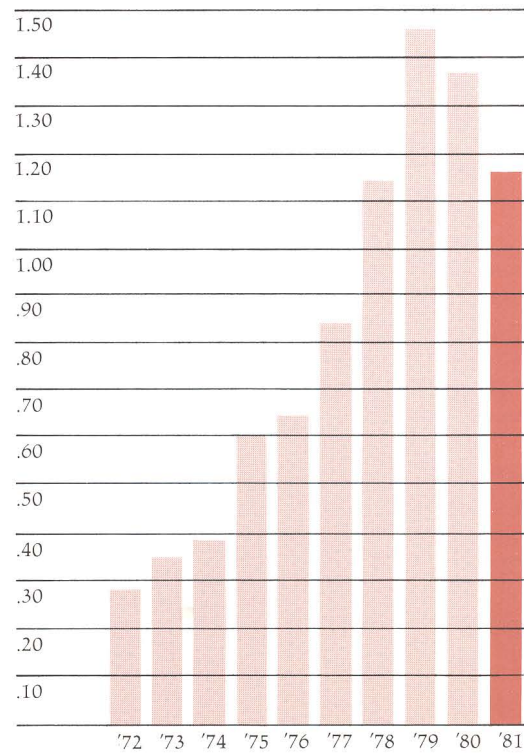
## Net Income

\$ in thousands



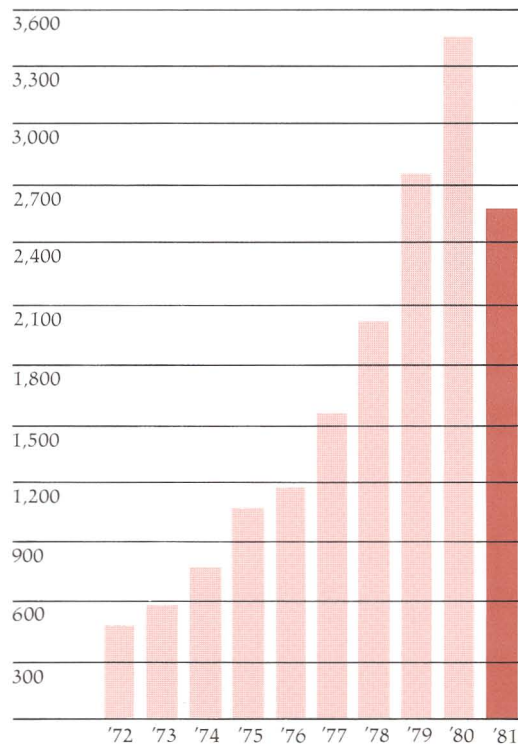
## Net Income Per Share

in \$

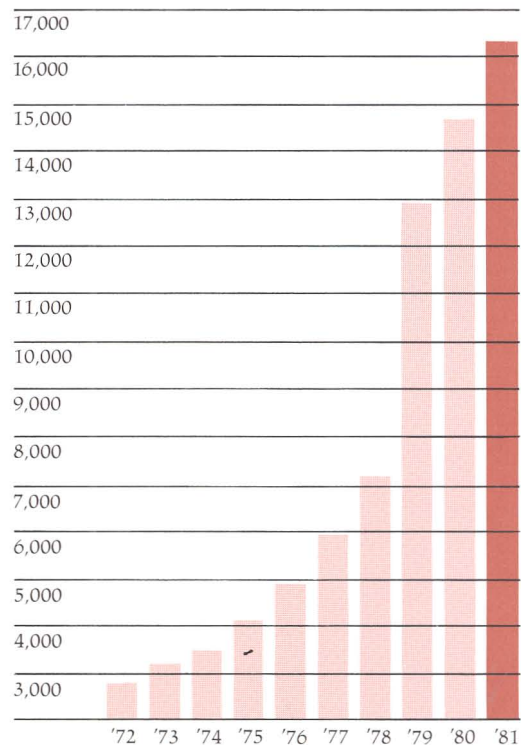




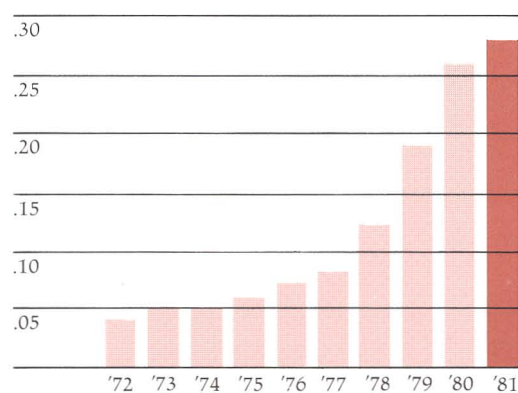
**Cash Flow**  
\$ in thousands



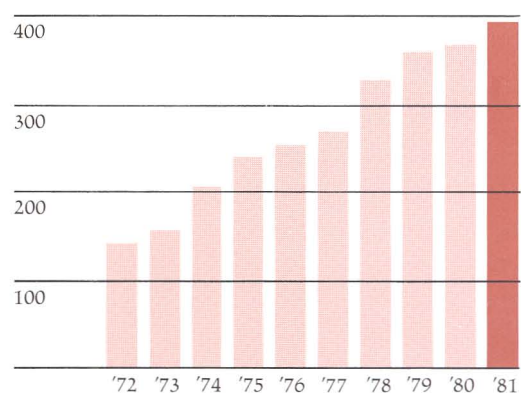
**Net Worth**  
\$ in thousands



**Cash Dividends Per Share**  
in \$



**Number of Employees**





# Consolidated Balance Sheets

Palmer G. Lewis Co., Inc.  
and Subsidiaries

## ASSETS

	1981	1980 (Note 1)
January 30, 1981, and January 25, 1980		
<b>CURRENT ASSETS:</b>		
Cash	\$ 192,863	\$ 158,582
Receivables, less allowance for doubtful accounts of \$439,000 in 1981 and \$419,000 in 1980	11,213,476	9,307,313
Advances to Superior Building Supply, Inc. (Note 1)	—	2,079,705
Inventories (Note 1)	12,864,597	12,685,227
Prepaid expenses	146,689	83,187
Total current assets	<u>24,417,625</u>	<u>24,314,014</u>
<b>LAND, BUILDINGS AND EQUIPMENT, at cost</b> (Notes 1 and 2):		
Land and land improvements	1,428,968	1,391,794
Buildings	6,294,168	6,141,906
Equipment	6,213,004	5,777,029
Leased property under capital leases	3,259,477	2,711,127
Furniture and fixtures	1,135,621	777,547
	18,331,238	16,799,403
Less-accumulated depreciation and amortization	(5,381,291)	(4,299,872)
	<u>12,949,947</u>	<u>12,499,531</u>
<b>OTHER ASSETS:</b>		
Notes receivable, net of current portion of \$385,000 in 1981 included in receivables above (Note 1)	1,981,568	31,300
Net assets of Superior Building Supply, Inc., excluding advances shown separately above (Note 1)	—	722,363
Investments, at cost	450,057	163,529
Other	218,744	171,269
	<u>2,650,369</u>	<u>1,088,461</u>
	<u>\$40,017,941</u>	<u>\$37,902,006</u>

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

## LIABILITIES AND STOCKHOLDERS' INVESTMENT

	1981	1980 (Note 1)
<b>CURRENT LIABILITIES:</b>		
Short-term notes payable (Notes 1 and 3)	\$ 6,440,488	\$ 6,250,000
Current portion of long-term debt and obligations under capital leases	375,030	307,396
Accounts payable	6,189,039	6,359,265
Accrued liabilities	1,309,619	1,700,818
Income taxes payable	228,565	240,157
Total current liabilities	<u>14,542,741</u>	<u>14,857,636</u>
<b>LONG-TERM DEBT (Note 2)</b>	5,914,295	5,888,593
<b>OBLIGATIONS UNDER CAPITAL LEASES</b> (Note 2)	2,862,255	2,400,214
Less-current portion shown above	(375,030)	(307,396)
	<u>8,401,520</u>	<u>7,981,411</u>
<b>DEFERRED INCOME TAXES PAYABLE (Note 1)</b>	745,000	325,000
<b>COMMITMENTS (Note 4)</b>	—	—
<b>STOCKHOLDERS' INVESTMENT (Notes 1 and 5):</b>		
Common stock par value \$1.00, authorized 2,000,000 shares; outstanding 1,680,596 shares in 1981 and 1,579,875 shares in 1980	1,680,596	1,579,875
Paid-in capital	8,232,388	7,479,712
Retained earnings	6,474,446	5,713,978
	16,387,430	14,773,565
Less-treasury stock 6,000 shares in 1981 and 3,200 shares in 1980, at cost	(58,750)	(35,606)
	<u>16,328,680</u>	<u>14,737,959</u>
	<u>\$40,017,941</u>	<u>\$37,902,006</u>



# Consolidated Statements of Income

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Palmer G. Lewis Co., Inc.  
and Subsidiaries

For the years ended January 30, 1981, January 25, 1980, and January 26, 1979	1981	1980 (Note 1)	1979 (Note 1)
NET SALES . . . . .	<u>\$95,477,777</u>	<u>\$99,829,570</u>	<u>\$89,662,826</u>
COSTS AND EXPENSES (Note 1):			
Cost of goods sold . . . . .	77,276,905	80,640,379	72,642,189
Selling, general and administrative expenses . . . . .	13,112,100	12,741,052	11,564,148
Interest . . . . .	1,760,719	1,523,461	1,292,083
Depreciation and amortization . . . . .	1,173,631	1,029,013	832,116
Employees' profit sharing plan . . . . .	371,068	499,310	541,167
Other income . . . . .	(572,329)	(459,358)	(469,386)
	<u>93,122,094</u>	<u>95,973,857</u>	<u>86,402,317</u>
Income before provision for income taxes . . . . .	2,355,683	3,855,713	3,260,509
PROVISION FOR INCOME TAXES (Note 1) . . . . .	<u>1,030,000</u>	<u>1,650,000</u>	<u>1,341,000</u>
INCOME FROM CONTINUING OPERATIONS . . . . .	<u>1,325,683</u>	<u>2,205,713</u>	<u>1,919,509</u>
DISCONTINUED OPERATIONS (Note 1):			
Income (loss) from discontinued operations net of related income taxes . . . . .	(19,542)	31,792	58,517
Gain on sale of Superior Building Supply, Inc. net of related income taxes of \$333,000 . . . . .	615,798	—	—
NET INCOME . . . . .	<u>\$ 1,921,939</u>	<u>\$ 2,237,505</u>	<u>\$ 1,978,026</u>
PER SHARE DATA (Note 1):			
Continuing operations . . . . .	\$ .80	\$ 1.35	\$ 1.42
Discontinued operations . . . . .	(.01)	.02	.04
Gain on sale of discontinued operations . . . . .	.37	—	—
Net income . . . . .	<u>\$ 1.16</u>	<u>\$ 1.37</u>	<u>\$ 1.46</u>
Dividends			
Cash . . . . .	<u>\$ .28</u>	<u>\$ .26</u>	<u>\$ .19</u>
Stock . . . . .	<u>4%</u>	<u>4%</u>	<u>4%</u>

The accompanying notes are an integral part of these statements.



# Consolidated Statements of Stockholders' Investment

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

For the years ended January 30, 1981,  
January 25, 1980, and January 26, 1979

	Common Shares	Stock Amount	Paid-in Capital	Retained Earnings	Treasury Shares	Amount
BALANCE, JANUARY 27, 1978	894,469	\$ 894,469	\$2,318,059	\$4,032,317	(1,149)	\$(14,203)
Sale of common stock under stock purchase and stock option plans (Note 5)	41,815	41,815	234,403	—	3,499	42,253
Sale of common stock by public offering, net of expenses of approximately \$134,000	300,000	300,000	3,304,054	—	—	—
Purchase of treasury stock	—	—	—	—	(4,550)	(53,975)
Common stock split (25 %) effected in the form of a dividend	223,948	223,948	—	(223,948)	—	—
Common stock dividend	44,673	44,673	681,263	(725,936)	—	—
Cash dividends	—	—	—	(290,865)	—	—
Net income	—	—	—	1,978,026	—	—
BALANCE JANUARY 26, 1979	1,504,905	1,504,905	6,537,779	4,769,594	(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	—	—	—	2,237,505	—	—
BALANCE JANUARY 25, 1980	1,579,875	1,579,875	7,479,712	5,713,978	(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	—	—	—	1,921,939	—	—
BALANCE, JANUARY 30, 1981	1,680,596	\$1,680,596	\$8,232,388	\$6,474,446	(6,000)	\$(58,750)

The accompanying notes are an integral part of these statements.



# Consolidated Statements of Changes in Financial Position

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Palmer G. Lewis Co., Inc.  
and Subsidiaries

For the years ended January 30, 1981, January 25, 1980, and January 26, 1979	1981	1980 (Note 1)	1979 (Note 1)
<b>SOURCES OF WORKING CAPITAL</b>			
Operations			
Income from continuing operations . . . . .	\$1,325,683	\$2,205,713	\$1,919,509
Income (loss) from discontinued operations . . . . .	(19,542)	31,792	58,517
Charges (credits) not affecting working capital:			
Depreciation and amortization . . . . .	1,173,631	1,029,013	832,116
Provision (credit) for deferred income taxes . . . . .	87,000	217,000	(26,000)
Other . . . . .	(53,000)	(54,000)	(62,000)
	<u>2,513,772</u>	<u>3,429,518</u>	<u>2,722,142</u>
Proceeds from—			
Gain on sale of Superior Building Supply, Inc. (SBS), plus deferred taxes (\$333,000) . . . . .	948,798	—	—
Net assets of SBS including cost of minority interest purchased in 1981 . . . . .	1,297,019	—	—
Sale of common stock . . . . .	322,881	188,994	3,922,525
Long-term debt and obligations under capital leases . . . . .	789,720	460,469	2,482,433
	<u>5,872,190</u>	<u>4,078,981</u>	<u>9,127,100</u>
<b>APPLICATIONS OF WORKING CAPITAL</b>			
Note receivable from the sale of SBS . . . . .	1,950,268	—	—
Purchase of SBS minority interest . . . . .	594,108	—	—
Purchases of land, buildings and equipment . . . . .	1,624,047	2,065,468	4,512,578
Reduction of long-term debt and obligations under capital leases . . . . .	369,610	328,128	213,505
Cash dividends . . . . .	467,679	425,486	290,865
Purchase of treasury stock . . . . .	186,421	49,407	53,975
Other . . . . .	261,551	15,067	24,202
	<u>5,453,684</u>	<u>2,883,556</u>	<u>5,095,125</u>
<b>INCREASE IN WORKING CAPITAL . . . . .</b>	<b>\$ 418,506</b>	<b>\$1,195,425</b>	<b>\$4,031,975</b>
<b>WORKING CAPITAL INCREASED (DECREASED) AS FOLLOWS:</b>			
Current assets			
Cash . . . . .	\$ 34,281	\$ (114,348)	\$ 52,152
Receivables . . . . .	(173,542)	2,759,368	1,963,295
Inventories . . . . .	179,370	1,493,307	3,693,489
Prepaid expenses . . . . .	63,502	17,750	(18,488)
	<u>103,611</u>	<u>4,156,077</u>	<u>5,690,448</u>
Current liabilities:			
Short-term notes payable . . . . .	(190,488)	(1,865,000)	(815,000)
Current portion of long-term debt . . . . .	(67,634)	(75,566)	(14,115)
Accounts payable . . . . .	170,226	(1,152,207)	(554,091)
Accrued liabilities . . . . .	391,199	(112,715)	(78,791)
Income taxes payable . . . . .	11,592	244,836	(196,476)
	<u>314,895</u>	<u>(2,960,652)</u>	<u>(1,658,473)</u>
<b>INCREASE IN WORKING CAPITAL . . . . .</b>	<b>\$ 418,506</b>	<b>\$1,195,425</b>	<b>\$4,031,975</b>

The accompanying notes are an integral part of these statements.



# 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 subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

### Acquisitions

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 the current year and 19% for the prior year. The aggregate net income of these acquisitions was not significant for the same periods. Also, in March, 1979, the Company acquired all of the outstanding stock of Ponderosa Wholesale, Inc., a distributor of building materials for approximately \$650,000. These acquisitions were recorded using the purchase method of accounting.

### 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 have been restated to reflect the investment in and income (loss) from Superior as separate items.

### Inventories

Inventories only 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

For financial statement purposes, buildings, equipment, furniture and fixtures are depreciated using the straight-line method over the estimated useful lives of the assets. For income tax purposes, depreciation is reported using primarily declining balance methods. Estimated useful lives are summarized below:

#### Estimated Useful Lives

Land improvements and buildings	10-40 years
Equipment	3-10 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.

Leased property under capital leases is amortized over periods ranging from 20 to 25 years, the terms of the related leases or the life of the assets, using the straight-line method.



### Income Taxes

For the three fiscal years ended 1981, the provision for income taxes consisted of the following:

January 30, 1981	Federal	State	Total
Current taxes payable . . . . .	\$ 577,000	\$105,000	\$ 682,000
Less investment tax credits . . . . .	(72,000)	—	(72,000)
Deferred taxes payable . . . . .	420,000	—	420,000
Provision for income taxes . . . . .	<u>\$925,000</u>	<u>\$105,000</u>	<u>\$1,030,000</u>
January 25, 1980			
Current taxes payable . . . . .	\$1,426,000	\$125,000	\$1,551,000
Less investment tax credits . . . . .	(118,000)	—	(118,000)
Deferred taxes payable . . . . .	217,000	—	217,000
Provision for income taxes . . . . .	<u>\$1,525,000</u>	<u>\$125,000</u>	<u>\$1,650,000</u>
January 26, 1979			
Current taxes payable . . . . .	\$1,411,000	\$121,000	\$1,532,000
Less investment and job tax credits . . . . .	(165,000)	—	(165,000)
Deferred taxes payable . . . . .	(26,000)	—	(26,000)
Provision for income taxes . . . . .	<u>\$1,220,000</u>	<u>\$121,000</u>	<u>\$1,341,000</u>

The difference between the provision for income taxes computed using the "statutory rates" and the "effective rates" (44 % in 1981, 43 % in 1980, and 41 % in 1979) is principally from the utilization of investment and job tax credits and state income taxes. The provisions for deferred income taxes in the three fiscal years ended January 1981 consisted primarily of differences between income tax and financial statement reporting of depreciation, capital leases, and a non-qualified stock option as described in Note 5.

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 (1,663,921 shares in 1981, 1,630,828 shares in 1980, and 1,352,216 in 1979) after giving effect to the stock dividends or stock split 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 30, 1981, January 25, 1980, and January 26, 1979, was \$53,000, \$54,000, and \$62,000, 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 30, 1981, and January 25, 1980, long-term debt and obligations under capital leases consisted of the following:

	1981	1980
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 . . . . .	\$3,168,598	\$3,212,077
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 \$18,000, including interest, to 1994 . . . . .	1,892,051	1,870,173
8 % and 9-1/2 % unsecured notes and other . . . . .	853,646	806,343
Total long-term debt . . . . .	5,914,295	5,888,593
Capital lease obligations, \$31,000 payable monthly, including interest imputed at rates from 9 % to 14.5 % to 1996 . . . . .	2,862,255	2,400,214
Less-current portion . . . . .	(375,030)	(307,396)
	<u>\$8,401,520</u>	<u>\$7,981,411</u>

The capital leases are for branch and office facilities under long-term agreements. Two are with related parties. These leases are with partnerships in which partners are officers and stockholders.

Following is a summary of long-term debt maturities for the five fiscal years ending 1986 and subsequent years.

Fiscal year ending	Long-Term Debt	Capital Lease Obligations	Total
1982 . . . . .	\$ 280,000	\$ 95,000	\$ 375,000
1983 . . . . .	294,000	105,000	399,000
1984 . . . . .	3,009,000	115,000	3,124,000
1985 . . . . .	116,000	127,000	243,000
1986 . . . . .	123,000	139,000	262,000
Subsequent years . . . . .	2,092,000	2,281,000	4,373,000
	<u>\$5,914,000</u>	<u>\$2,862,000</u>	<u>\$8,776,000</u>

## 3. Short-Term Notes Payable to Banks

At January 30, 1981, the Company had lines of credit with banks to borrow, primarily at 1/2 % over prime, up to \$8,500,000 under unsecured arrangements. During 1981, the Company had an additional line of credit with a bank for up to \$5,500,000 under unsecured arrangements, which was discontinued by the Company in December, 1980. The interest rate as of January 30, 1981, was 20.5 %. During the fiscal years ended 1981, and 1980, information regarding short term borrowings was as follows:

	1981	1980
Weighted average interest rate . . . . .	15.9%	14.0%
Average borrowings . . . . .	\$ 7,862,000	\$ 7,000,000
Maximum amount of short-term borrowings at any month-end . . . . .	10,600,000	11,200,000
Year end short-term notes payable to banks . . . . .	5,450,000	6,250,000



#### 4. Commitments

The Company leases certain other branch facilities, and vehicles which are accounted for as "operating leases." Following is a summary of the future minimum lease payments:

Fiscal year ending	
1982 .....	\$ 475,000
1983 .....	476,000
1984 .....	463,000
1985 .....	481,000
1986 .....	496,000
Subsequent years .....	740,000
	<u>\$3,131,000</u>

Substantially all of the above lease obligations are for branch facilities. The lease obligations for all office and branch facilities also extend to property taxes, insurance, and repairs and maintenance. Total lease expense charged to operations in fiscal years ended January 30, 1981, January 25, 1980, and January 26, 1979, was \$335,000, \$330,000, and \$294,000, 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 1981 follows:

Shares Purchased	Shares	Average Price	Total
		Per Share	
<b>1981</b> .....	<b>18,619</b>	<b>\$ 8.36</b>	<b>\$155,600</b>
1980 .....	16,904	10.80	182,600
1979 .....	14,407	10.37	149,400

At January 30, 1981, common stock reserved for issuance under this plan was 86,297 shares.

##### Stock Options

The Company also has a qualified stock option plan for officers and other key employees. Options for common stock are exercisable over five years from the date of grant. No options were granted under the plan during fiscal years ended 1981, 1980 and 1979.

Options have been exercised as follows:

Fiscal Year Ended	Number of Shares	Options Price		Market Price	
		Per Share	Total	Per Share	Total
<b>1981</b> .....	<b>21,339</b>	<b>\$3.93</b>	<b>\$ 83,900</b>	<b>\$ 7.50</b>	<b>\$160,000</b>
1980 .....	1,668	3.93	6,600	13.41	22,400
1979 .....	25,317	4.29	108,600	11.38	288,100

At January 30, 1981, 18,060 shares were exercisable at \$144,052 (\$7.98 average per share). There are no shares reserved for future issuance.

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 30, 1981, options for 40,200 shares were exercisable.



## 6. Unaudited Quarterly Financial Results (in 000's)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales of Continuing Operations:				
<b>1981</b> .....	<b>\$20,739</b>	<b>\$23,388</b>	<b>\$29,159</b>	<b>\$22,192</b>
1980 .....	22,363	27,082	30,799	19,586
1979 .....	20,147	23,454	26,406	19,656
Cost of Goods Sold of Continuing Operations:				
<b>1981</b> .....	<b>16,638</b>	<b>19,065</b>	<b>23,921</b>	<b>17,652</b>
1980 .....	18,307	21,846	25,130	15,358
1979 .....	16,529	19,085	21,504	15,524
Net Income of Continuing Operations:				
<b>1981</b> .....	<b>276</b>	<b>388</b>	<b>483</b>	<b>178</b>
1980 .....	361	684	803	358
1979 .....	260	525	638	497
Net Income:****				
<b>1981</b> .....	<b>226</b>	<b>404</b>	<b>618</b>	<b>674***</b>
1980 .....	332	716	873	316*
1979 .....	245	563	709	461*
Net Income Per Share:**				
<b>1981</b> .....	<b>\$.14</b>	<b>\$.25</b>	<b>\$.37</b>	<b>\$.40</b>
1980 .....	.21	.44	.53	.19
1979 .....	.19	.44	.55	.28

\*During the fourth quarter ended January 25, 1980, the provisions for bad debts, employees' profit sharing plan and income taxes were significantly less than the preceding quarters and the fourth quarter ended January 26, 1979, reflecting the slowdown in the construction industry and tightening of credit policies.

\*\*Adjusted for stock split and stock dividends.

\*\*\*The fourth quarter ended January 30, 1981 includes the gain on the sale of Superior Building Supply, Inc.

\*\*\*\*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 30, 1981, and January 25, 1980, 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 30, 1981. 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 30, 1981, and January 25, 1980, and the results of their operations and the changes in their financial position for each of the three years in the period ended January 30, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

Seattle, Washington,  
March 27, 1981.

ARTHUR ANDERSEN & CO.



## Board of Directors

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### **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*

### **Larry 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*

## Corporate Officers

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*(Left to Right)*

### **Ronald J. Pulliam**

*Vice President  
PYS Division*

### **John E. Glover**

*Vice President  
Ponderosa Division*

### **Philip R. Harris**

*Vice President  
Sales Manager*

### **Gilbert R. Halley**

*Secretary-Treasurer*

### **Richard E. Lundgren**

*President and  
Chief Operating Officer*

### **Palmer G. Lewis**

*Chairman of the Board  
Emeritus*

### **Robert D. Peterson**

*Chairman of the Board and  
Chief Executive Officer*

### **Schell Harmon**

*Vice President  
Inventory Control*

### **J. Cutler Lewis**

*Executive Vice President*

### **Charles D. Lauber**

*Vice President  
Advertising/Promotion Manager*

### **Louise W. Lewis**

*Assistant Secretary  
(Not pictured)*