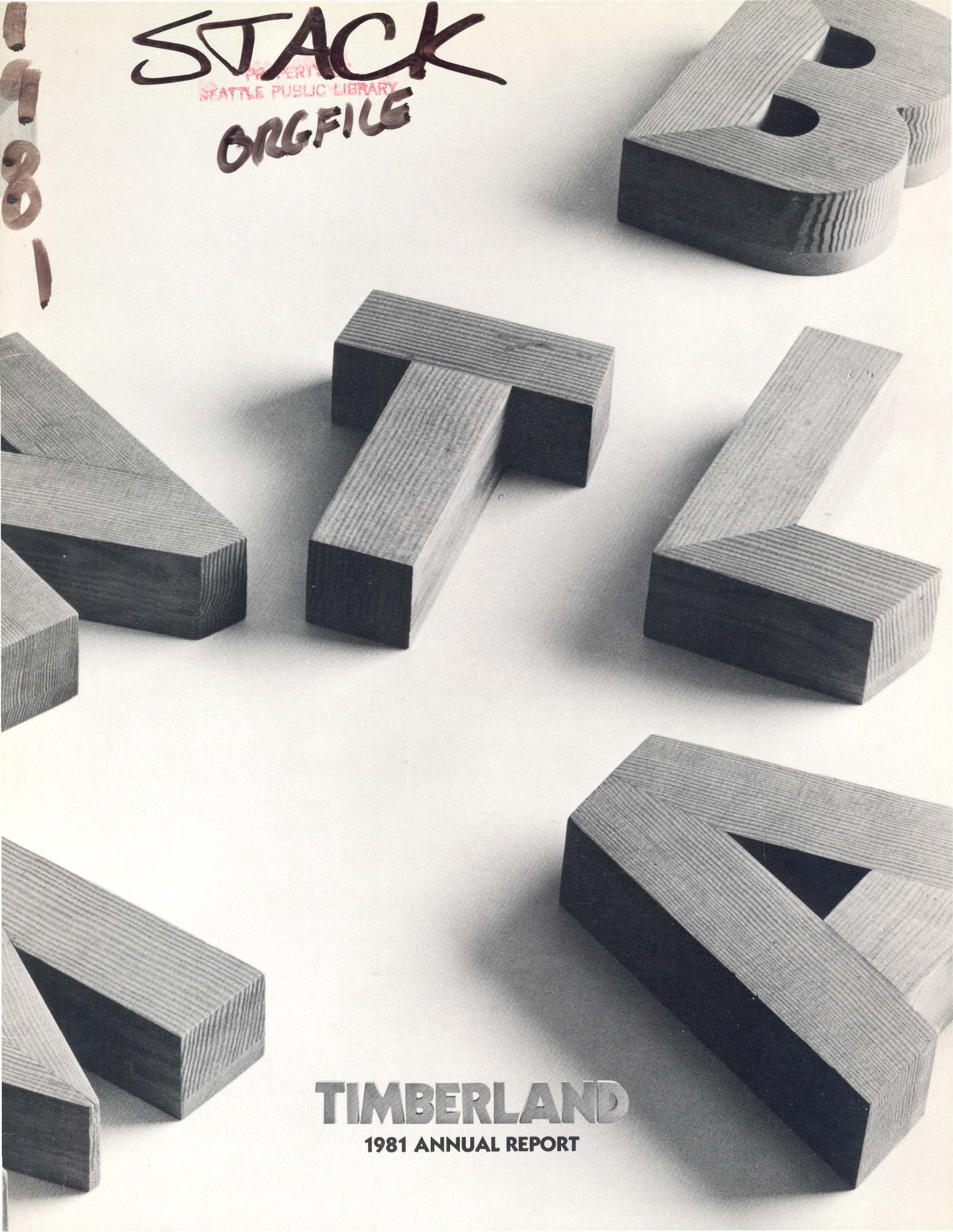


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TIMBERLAND
1981 ANNUAL REPORT



resident's Message

In the building products business, economic cycles have been a fact of life. Consequently, through the years we have had to constantly be on the alert for changes before they occurred. Unfortunately, the current recessionary period that started in mid-1979 with its drastic effect on housing starts, still has no end clearly in sight. For Timberland, it has been a three year steady diet of constant vigilance and hard decisions.

During 1981 sales were \$32.4 million, down \$1.2 million from the 1980 total of \$33.6 million, yet we were able to bring in a profit of \$60,000. The profit, while modest, is much more palatable than the losses in 1980, but more than that, our balance sheet reflects the positive results of our efforts at consolidation these past two years.

In my message to you last year, I advised you of a number of important steps that we were taking to strengthen the Company. Liquidating our plywood wholesaling division, and selling our modular home division were probably the most important steps taken. Eighty percent of our 1980 loss was directly attributable to those two divisions. Apart from eliminating the risk in these operations, it allowed management to concentrate its efforts on the remaining three divisions.

Throughout the year we had three goals constantly in mind. First of all, we would take whatever steps, including capital expenditures if necessary, to improve productivity, maintain quality and value, and to stay with the market on product design. Second, we were continuously on the lookout to trim expenses, and finally, and most important of all, we would seek new markets for our products.

1981 was the first full year of operation at Western Cabinet's new Woodinville facility. Through the year we saw a constant improvement in productivity, and many other cost saving efficiencies in spite of the low level of plant and machinery utilization. Traditionally, Western's markets are with builders of single-family homes, apartments and condominiums. Through the years Western has become a dominant force in those markets. To combat the decline in housing starts in recent years, Western expanded its efforts into the home improvement field. In 1981 over 15% of Western's sales were to this growing market area. We believe home improvement activity is going to continue at a high level through the next several years, and therefore much of our effort is directed accordingly.

Cal-Wood Door's market has traditionally been a reasonably even balance between residential and commercial door products. It was obvious that in 1981 we would experience reduced volume from the residential sector. Therefore, most of our sales effort was concentrated in the commercial building area. There are new hotels, office buildings, resorts and medical facilities from Florida to Hawaii, and from Alaska to Texas featuring Cal-Wood products, attesting to the success of

these efforts. Cal-Wood also took aim at export markets, and while the potential has not been fully realized, we have had success stories in the Middle East. These successes have encouraged Cal-Wood to expand its export efforts.

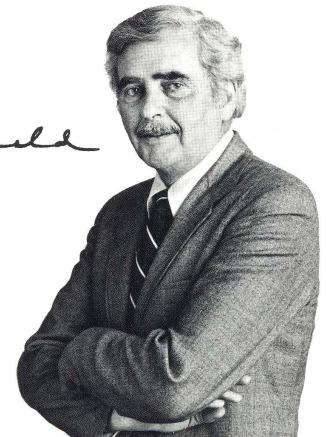
Brennan Supply sustained substantial losses in 1981. The majority of Brennan's sales generally have gone to the single-family home builder with a small proportion to retail home improvement. While we recognized that Brennan was bound to be affected by the decline in housing starts, the loss increased during the year to an unacceptable level. We instituted management and other changes. With our well established high quality product lines, the decision was made to mount a major effort to attract more retail sales through advertising and in-store improvements. Many of these changes in direction took place in the fourth quarter of 1981, and although they had no significant impact on the financial results for the year, we believe that we will see improvements in the months ahead.

Perhaps the best that can be said under present economic conditions is that we have managed to cope. I can assure you that we are not satisfied to "just cope." All of our managers are energetic and profit oriented, and in our meetings together, while we obviously discuss the problems of today, we also spend a good deal of time planning Timberland's future. We believe that in production quality and capacity and in marketing experience we are extremely well positioned. This condition will bring us many advantages and opportunities to grow during periods of greater economic activity.

We all recognize that the difficult economic conditions that exist are going to be with us during most of 1982, and while our first quarter results will continue to reflect the seasonal nature of the construction industry and be unprofitable, I believe that we are in better position than most in our industry to improve our market share and increase our profitability in 1982.

Sincerely,

J. Allan MacDonald
President





Western Cabinet & Millwork: 76,000 Kitchens With More on Order.

A lot of cabinet makers took a wait and see attitude in 1981. But not Western Cabinet & Millwork.

The company boxed and shipped the 76,000th kitchen in its history this year, while salesmen brought back orders from as far away as Texas.

Two things accounted for this relative success. A rock-solid reputation with blue chip customers in the Northwest. And a determined campaign to find and recruit new outlets.

Branching out geographically, Western went after dealer/distributors from Idaho to Arizona.

The effort was timely, and extremely worthwhile. Sales to retailers and remodelers helped pick up the slack in orders caused by the slow year in residential construction.

Of course, house builders will always be the backbone of Western's business. But now, with its expanding dealer network, the company is set up to service whatever area shows promise.

Western cabinets, vanities, doors and millwork are well known for high quality at a competitive price. The ultra-modern plant can easily out-produce the nearest competition. Orders are filled in three weeks. Often less.

And the Continental model, rolling off the line in early 1982, will fill a sizeable market need for affordable European-style kitchens.

Until then, renewed success will depend on redoubled effort — a responsibility that, fortunately, sits easily with Western's solid core of experienced people.



al-Wood Door: 26,000 Doors In One Order.

In a year when more than one company came unhinged, Cal-Wood Door made money.

A broad, innovative product line allowed the company to move where the market was. More than ever, that meant "offshore."

Strong export contacts brought Cal-Wood triple the number of overseas sales it had last year.

As many as 26,000 doors in one order left Cal-Wood loading docks for the deepwater piers of the Bay Area, just 40 miles away.

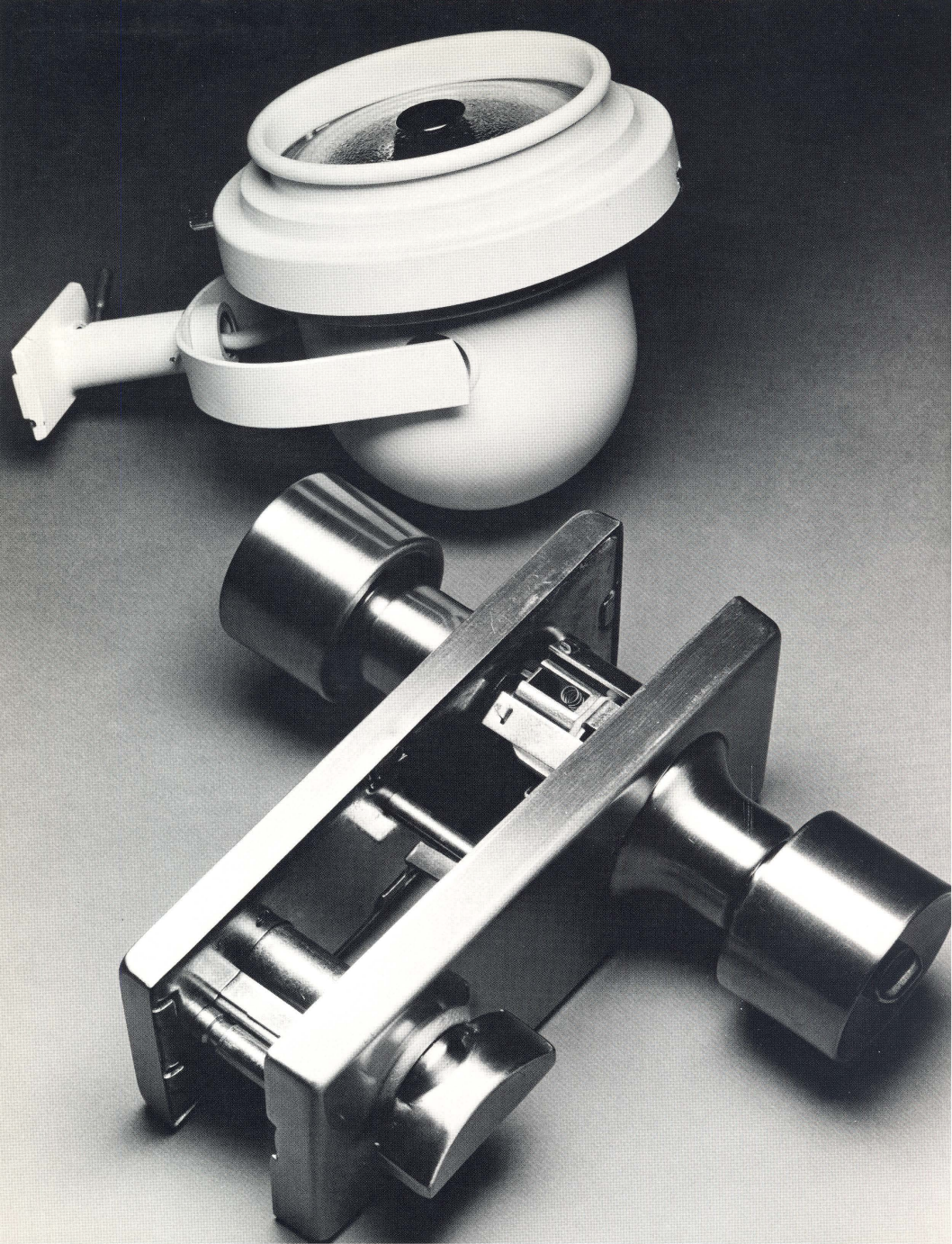
Cal-Wood hollow core doors filled three new highrises in Hawaii. Custom millwork and exterior doors departed for buildings from Alaska to Saudi Arabia. And, with several patents already to its credit, Cal-Wood continued its pioneering work in the field of fire-retardant doors.

Inside the Santa Rosa plant, meantime, an automated door trimmer representing \$500,000 in capital improvement boosted production in that particular area to twice what it had been per shift.

Of course, because of the economy, the plant's peak production capacity was not called upon in 1981. But the outlook is encouraging.

Commercial building starts are steady among Cal-Wood customers. Research and Development has targeted an exciting retail potential. And the nation's low door inventory in general will mean fast sales when interest rates drop.

Whichever way that trend runs in the year ahead, one thing is certain. Cal-Wood will be ready, whenever and wherever opportunity presents itself.



Brennan Supply: The Switch Is On.

Like Cal-Wood and Western, Brennan responded creatively to 1981's dim residential housing picture.

The first step was to inaugurate a fresh, aggressive marketing strategy beginning in November, aimed directly at consumers. A simple idea — selling high quality lighting and hardware to the public at "Builder's Prices" — generated immediate results and promises long-range benefits as well.

A bold advertising campaign spurred new traffic in all three Brennan stores. Retail sales grew to 27% of the company's total. Continued promotions are planned, to help retail income keep pace with projected overall growth in 1982.

Of course, not all the action has been in the showrooms. While their retail counterparts rang up sales for everything from doorbells to faucets to chandeliers, the commercial door and hardware department was making deliveries to new hospitals, condominiums and office buildings all across the Northwest. And, a reorganized residential sales department was working hard to capture an increased share of the Seattle area market for lighting, hardware and related products.

A commitment to top-drawer suppliers like Lightolier, Nutone, Schlage and Sylvania combined with up-to-the-minute product knowledge, sharp bids and expert service to complete the package.

In light of these developments, Brennan is making progress in the optimistic pursuit of a strong new bottom line.

Management's Discussion and Analysis

The following comments refer to and summarize information presented in the Company's five-year summary of operations and financial statements.

Results of Operation

Reflecting the continued decline in housing starts, the Company's revenues were off 3.5% in 1981, accompanied by a lower gross profit margin from 17.2% in 1980 to 15.2% in 1981. While the average interest cost for long-term debt declined to 10.5% in 1981 from 12.0% in 1980, the average cost of short-term funds increased to 20.3% in 1981 from 17.1% in 1980.

As a result of cost-cutting programs, selling and G&A expense decreased by 3.1% in 1981, but increased slightly as a percentage of sales to 15.7% from 15.6% in 1980. The increase reflects the Company's continued efforts to expand into new market areas and take advantage of new export opportunities.

Much needed equipment improvements by Cal-Wood Door account for the 11% increase in depreciation in 1981. The Company has a net operating loss for Federal income tax purposes, which will result in substantial tax refunds. These refunds will be substantially all at 48% plus the carry-back of certain tax credits which will increase the overall effective rate on refundable Federal income taxes.

Financial Position

While working capital declined in 1981, current ratio improved to 1.68:1 at the end of 1981 from 1.56:1 and 1.51:1 at the end of 1980 and 1979 respectively. The improvement comes from the shrinking of assets and liabilities as a result of the discontinuance and/or sale of certain operations. Management does not feel that the decline of working capital affects the Company's ability to meet its short-term obligations. On the contrary, the Company is better positioned in its short-term liquidity. Its borrowing lines, which provide a substantial amount of that liquidity, are more than adequate.

At the end of 1981 the Company's debt financing totalled \$6.9 million, down from \$8.4 million at the end of 1980. These debt levels were 1.03 times equity at the end of 1981, versus 1.25 times equity at the end of 1980.

Selected Financial Data

	(In thousands)				
	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>
Net Sales	<u>\$32,428</u>	<u>\$33,410</u>	<u>\$36,602</u>	<u>\$31,123</u>	<u>\$27,035</u>
Earnings (loss) from continuing operations	\$ (93)	(183)	\$ 1,517	\$ 1,162	\$ 954
Discontinued operations					
Earnings (loss) from discontinued operations	<u>153</u>	<u>(727)</u>	<u>(273)</u>	<u>58</u>	<u>162</u>
Net earnings (loss)	<u>\$ 60</u>	<u>\$ (910)</u>	<u>\$ 1,244</u>	<u>\$ 1,220</u>	<u>\$ 1,116</u>
Weighted average common and equivalent shares outstanding	<u>961</u>	<u>965</u>	<u>957</u>	<u>947</u>	<u>928</u>
Net earnings (loss) per share					
Continuing operations	<u>\$(0.10)</u>	<u>\$(0.19)</u>	<u>\$1.58</u>	<u>\$1.23</u>	<u>\$1.03</u>
Discontinued operations	<u>0.16</u>	<u>(0.75)</u>	<u>(.28)</u>	<u>.06</u>	<u>.17</u>
Net earnings (loss) per share	<u>\$ 0.06</u>	<u>\$(0.94)</u>	<u>\$1.30</u>	<u>\$1.29</u>	<u>\$1.20</u>
Dividends					
Cash dividends per share	<u>\$ 0.00</u>	<u>\$ 0.20</u>	<u>\$0.19</u>	<u>\$0.15</u>	<u>\$0.09</u>
Stock	—	—	20%	5%	—
At year end					
Total assets	<u>\$16,616</u>	<u>\$18,820</u>	<u>\$21,894</u>	<u>\$22,568</u>	<u>\$21,797</u>
Long-term debt	<u>3,955</u>	<u>4,460</u>	<u>4,233</u>	<u>1,662</u>	<u>1,746</u>
Working capital	<u>3,430</u>	<u>3,827</u>	<u>4,785</u>	<u>4,021</u>	<u>3,683</u>
Shareholders' equity	<u>6,748</u>	<u>6,793</u>	<u>7,804</u>	<u>6,696</u>	<u>5,515</u>

Consolidated Balance Sheets

Assets

	December 31,	
	1981	1980
Current assets:		
Accounts receivable, less allowance of \$419,000 and \$677,000 for doubtful accounts	\$ 3,521,000	\$ 4,193,000
Refundable Federal income taxes	353,000	916,000
Inventories (Note B)	4,434,000	5,400,000
Prepaid expenses	187,000	115,000
Total current assets	<u>8,495,000</u>	<u>10,624,000</u>
Land, buildings and equipment:		
Land	590,000	561,000
Buildings	4,781,000	4,610,000
Equipment	5,271,000	5,086,000
	10,642,000	10,257,000
Less accumulated depreciation	(3,079,000)	(2,643,000)
	<u>7,563,000</u>	<u>7,614,000</u>
Other assets	558,000	582,000
	<u>\$16,616,000</u>	<u>\$18,820,000</u>

See notes to consolidated financial statements.

Consolidated Balance Sheet (Continued)

Liabilities and Shareholders' Equity

	December 31,	
	1981	1980
Current liabilities:		
Note payable to bank (Note C)	\$ 2,759,000	\$ 3,413,000
Accounts payable	1,265,000	1,724,000
Accrued liabilities	835,000	1,085,000
Current portion of long-term debt	206,000	575,000
Total current liabilities	<u>5,065,000</u>	<u>6,797,000</u>
Long-term debt (Note D)	<u>3,955,000</u>	<u>4,460,000</u>
Deferred taxes	<u>848,000</u>	<u>770,000</u>
Shareholders' equity (Notes C and F):		
Common stock, par value \$.16		
Authorized, 2,500,000 shares,		
Issued, 969,400 and 964,000 shares	155,000	154,000
Additional paid-in capital	2,972,000	2,961,000
Retained earnings	3,738,000	3,678,000
Treasury stock, 37,800 shares, at cost	(117,000)	
	<u>6,748,000</u>	<u>6,793,000</u>
	<u>\$16,616,000</u>	<u>\$18,820,000</u>

See notes to consolidated financial statements.

Consolidated Statements of Operations

	Year Ended December 31,		
	1981	1980	1979
Net sales	<u>\$32,428,000</u>	<u>\$33,600,000</u>	<u>\$36,747,000</u>
Costs and expenses:			
Cost of sales	<u>26,648,000</u>	27,854,000	28,780,000
Selling and administrative expense	<u>5,076,000</u>	5,238,000	5,213,000
Interest	<u>1,187,000</u>	1,042,000	638,000
	<u>32,911,000</u>	<u>34,134,000</u>	<u>34,631,000</u>
Earnings (loss) from continuing operations before income tax provision (benefit)	(483,000)	(534,000)	2,116,000
Income tax provision (benefit) (Note G)	<u>(390,000)</u>	<u>(351,000)</u>	<u>599,000</u>
Earnings (loss) from continuing operations	(93,000)	(183,000)	1,517,000
Earnings (loss) from discontinued operations, net of tax of \$130,000 in 1981 and tax benefits of \$382,000 in 1980 and \$195,000 in 1979 (Note H)	153,000	(449,000)	(217,000)
Loss on disposition of discontinued operations, net of tax benefits of \$278,000 in 1980 and \$47,000 in 1979 (Note H)		<u>(278,000)</u>	<u>(56,000)</u>
Net earnings (loss)	<u>\$ 60,000</u>	<u>\$ (910,000)</u>	<u>\$ 1,244,000</u>
Weighted average common and equivalent shares outstanding	<u>961,000</u>	<u>965,000</u>	<u>957,000</u>
Net earnings (loss) per share:			
Continuing operations	<u>\$(0.10)</u>	<u>\$(0.19)</u>	<u>\$1.58</u>
Discontinued operations	<u>0.16</u>	<u>(0.75)</u>	<u>(.28)</u>
Net earnings (loss) per share	<u>\$ 0.06</u>	<u>\$(0.94)</u>	<u>\$1.30</u>

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>
	<u>Shares</u>	<u>Amount</u>			
BALANCE at January 1, 1979	758,000	\$121,000	\$1,940,000	\$4,635,000	\$ —
Exercise of stock options	12,000	2,000	30,000		
Stock dividends	152,000	25,000	906,000	(931,000)	
Cash dividends				(168,000)	
Net earnings				<u>1,244,000</u>	
BALANCE at December 31, 1979	922,000	148,000	2,876,000	4,780,000	
Exercise of stock options	42,000	6,000	85,000		
Cash dividends				(192,000)	
Net loss				<u>(910,000)</u>	
BALANCE at December 31, 1980	964,000	154,000	2,961,000	3,678,000	
Exercise of stock options	5,400	1,000	11,000		
Acquisition of treasury stock					(117,000)
Net earnings				<u>60,000</u>	
BALANCE at December 31, 1981	<u>969,400</u>	<u>\$155,000</u>	<u>\$2,972,000</u>	<u>\$3,738,000</u>	<u>\$(117,000)</u>

See notes to consolidated financial statements.

Consolidated Statements of Changes in Financial Position

	Year Ended December 31,		
	1981	1980	1979
Source of funds:			
Operations-			
Earnings (loss) from continuing operations	\$ (93,000)	\$ (183,000)	\$1,517,000
Add items not requiring the use of working capital:			
Depreciation and amortization	828,000	746,000	482,000
Deferred Federal income taxes	93,000	233,000	(37,000)
Funds provided by continuing operations	828,000	796,000	1,962,000
Earnings (loss) from discontinued operations	153,000	(727,000)	(273,000)
Depreciation not requiring working capital		63,000	109,000
Funds provided by (used) discontinued operations	153,000	(664,000)	(164,000)
Total funds provided by operations	981,000	132,000	1,798,000
Proceeds from long-term debt	468,000	821,000	3,600,000
Disposition of equipment, net	312,000	64,000	50,000
Other	12,000	46,000	375,000
Exercise of stock options	12,000	91,000	32,000
	1,785,000	1,154,000	5,855,000
Application of funds:			
Acquisition of land, buildings and equipment	1,089,000	1,326,000	3,892,000
Reduction of long-term debt	973,000	594,000	1,031,000
Acquisition of treasury stock	117,000		
Cash dividends paid		192,000	168,000
	2,179,000	2,112,000	5,091,000
Increase (decrease) in working capital	\$ (394,000)	\$ (958,000)	\$ 764,000
Changes in components of working capital:			
Cash	\$ —	\$ (648,000)	\$ 110,000
Accounts receivable	(672,000)	(2,171,000)	(1,044,000)
Costs and estimated earnings in excess of billings on long-term construction contracts			(873,000)
Refundable Federal income taxes	(563,000)	916,000	
Inventories	(966,000)	(1,279,000)	(1,982,000)
Account balances with brokers		(260,000)	188,000
Prepaid expenses	75,000	(39,000)	(48,000)
Notes payable	654,000	988,000	2,599,000
Accounts payable	459,000	1,023,000	2,013,000
Accrued liabilities	250,000	428,000	109,000
Current portion of long-term debt	369,000	(59,000)	(270,000)
Income taxes payable		143,000	(38,000)
Increase (decrease) in working capital	\$ (394,000)	\$ (958,000)	\$ 764,000

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Three Years Ended December 31, 1981

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of consolidation —

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany balances and transactions have been eliminated.

Land, buildings and equipment —

Land, buildings and equipment are recorded at cost. Depreciation of buildings and equipment is computed using the straight-line method over the estimated useful lives of the assets.

Interest incurred in connection with construction of assets used in the operations of the Company is capitalized. Capitalized interest totalled \$132,000 in 1979. No interest was capitalized in 1981 and 1980.

Reclassifications —

Certain reclassifications have been made in the 1980 and 1979 financial statements to conform with 1981 classifications.

NOTE B — INVENTORIES:

Inventories consist of the following —

	December 31,		
	1981	1980	1979
Distribution merchandise	\$ 740,000	\$ 803,000	\$2,470,000
Manufacturing inventories:			
Finished goods	1,185,000	1,759,000	1,642,000
Work-in-process	661,000	382,000	939,000
Raw materials	1,848,000	2,456,000	1,628,000
	<u>\$4,434,000</u>	<u>\$5,400,000</u>	<u>\$6,679,000</u>

Inventories are valued at the lower of cost (average cost in first-in, first-out basis) or market.

NOTE C — NOTE PAYABLE TO BANK:

The Company has a \$5,000,000 line of credit bearing interest at bank prime rate plus ½% (16.25% as of December 31, 1981). Borrowings are collateralized by accounts receivable, inventories and equipment, and are subject to provisions of loan agreements and certain other restrictive covenants with which the Company has complied.

Under terms of the note, cash dividends are restricted to 20% of prior year's net earnings. As of December 31, 1981 \$12,000 of retained earnings was available for subsequent payment of dividends.

Notes to Consolidated Financial Statements (Continued)

NOTE D — LONG-TERM DEBT:

Long-term debt consists of the following:

	<u>December 31,</u>	
	<u>1981</u>	<u>1980</u>
Mortgage notes bearing interest rates from 7% to 14% payable in monthly installments, including interest	\$ 2,083,000	\$ 1,819,000
Term note payable to bank bearing interest at 2% over the prime rate		1,125,000
Mortgage note, 10.25%, 29 year amortization, callable at 15 years	<u>2,078,000</u>	<u>2,091,000</u>
	<u>4,161,000</u>	<u>5,035,000</u>
Less current portion	<u>206,000</u>	<u>575,000</u>
	<u>\$ 3,955,000</u>	<u>\$ 4,460,000</u>

Substantially all of the Company's land, buildings and equipment are pledged as collateral for the above debt.

Annual principal payments on long-term debt during each of the next five years are as follows:

1982	\$206,000
1983	245,000
1984	275,000
1985	295,000
1986	255,000

Notes to Consolidated Financial Statements (Continued)

NOTE E — EMPLOYEE BENEFIT PLANS:

The Company and its subsidiaries have defined benefit pension plans covering substantially all of their employees. Pension expense was \$125,000 in 1981, \$127,000 in 1980 and \$101,000 in 1979. The Company makes annual contributions to the plans equal to the amounts accrued for pension expense, including amortization of past service costs over 30 years.

A comparison of accumulated plan benefits and plan net assets is presented below:

	January 1,	
	1981	1980
Actuarial present value of accumulated plan benefits:		
Vested	\$541,000	\$464,000
Non vested	<u>218,000</u>	<u>221,000</u>
	<u>\$759,000</u>	<u>\$685,000</u>
Net assets available for plan benefits	<u>\$468,000</u>	<u>\$346,000</u>

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6.5% for both 1981 and 1980.

NOTE F — STOCK OPTIONS:

The Company had a qualified stock option plan which was cancelled in 1981.

At December 31, 1981, nonqualified stock options were outstanding to purchase an aggregate of 26,380 shares. The options were granted at various dates from 1976, are exercisable at prices ranging from \$2.292 per share to \$6.667 per share and expire at various dates to 1991.

Options for 13,600 shares at \$3.3125 per share were granted to certain key employees whose options were cancelled as a result of Federal tax law changes.

Notes to Consolidated Financial Statements (Continued)

NOTE G — INCOME TAXES:

Provision (credit) for income taxes consists of the following:

	Year ended December 31,		
	<u>1981</u>	<u>1980</u>	<u>1979</u>
Continuing operations			
Federal tax (benefit) at statutory rate	<u>\$(232,000)</u>	<u>\$(256,000)</u>	<u>\$ 954,000</u>
Increase (decrease) in tax resulting from:			
Tax credits	<u>(160,000)</u>	<u>(101,000)</u>	<u>(235,000)</u>
Other	<u>2,000</u>	<u>6,000</u>	<u>(120,000)</u>
Income tax provision (benefit)	<u>(390,000)</u>	<u>(351,000)</u>	<u>599,000</u>
Net additions to deferred income taxes	<u>(93,000)</u>	<u>(21,000)</u>	<u>(11,000)</u>
Currently payable (refundable)	<u>\$(483,000)</u>	<u>\$(372,000)</u>	<u>\$ 588,000</u>
Discontinued operations			
Currently payable (refundable)	<u>\$ 130,000</u>	<u>\$(660,000)</u>	<u>\$(242,000)</u>

Deferred income taxes result from timing differences in recognition of depreciation, gain on sale of land and interest expense.

NOTE H — DISCONTINUED OPERATIONS:

The summarized results of discontinued operations are as follows:

	(in thousands) Year ended December 31,		
	<u>1981</u>	<u>1980</u>	<u>1979</u>
Net sales	<u>\$283</u>	<u>\$11,166</u>	<u>\$62,792</u>
Costs and expenses		<u>12,552</u>	<u>63,307</u>
Income tax	<u>130</u>	<u>660</u>	<u>242</u>
Earnings (loss)	<u>153</u>	<u>(727)</u>	<u>(273)</u>

NOTE I — QUARTERLY FINANCIAL INFORMATION (Unaudited):

(Dollars in thousands except per share figures)				
1981				
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Net sales	<u>\$7,483</u>	<u>\$9,411</u>	<u>\$8,429</u>	<u>\$7,105</u>
Gross margin	<u>\$1,095</u>	<u>\$1,741</u>	<u>\$1,719</u>	<u>\$ 397</u>
Earnings (loss) from continuing operations	\$ (256)	\$ 64	\$ 123	\$ (24)
Earnings from discontinued operations	_____	_____	141	12
Net earnings (loss)	<u>\$ (256)</u>	<u>\$ 64</u>	<u>\$ 264</u>	<u>\$ (12)</u>
Net earnings (loss) per share:				
Continuing operations	\$ (.26)	\$.06	\$.13	\$ (.02)
Discontinued operations	_____	_____	.14	.01
Net earnings (loss) per share	<u>\$ (.26)</u>	<u>\$.06</u>	<u>\$.27</u>	<u>\$ (.01)</u>
1980				
	<u>First</u>	<u>Second</u>	<u>Third</u>	<u>Fourth</u>
Net sales	<u>\$7,493</u>	<u>\$8,249</u>	<u>\$8,896</u>	<u>\$8,962</u>
Gross margin	<u>\$1,470</u>	<u>\$1,634</u>	<u>\$1,422</u>	<u>\$1,220</u>
Earnings (loss) from continuing operations	\$ (35)	\$ 14	\$ 9	\$ (171)
Earnings (loss) from discontinued operations	(275)	(170)	21	(303)
Net earnings (loss)	<u>\$ (310)</u>	<u>\$ (156)</u>	<u>\$ 30</u>	<u>\$ (474)</u>
Net earnings (loss) per share:				
Continuing operations	\$ (.04)	\$.02	\$.01	\$ (.18)
Discontinued operations	<u>\$ (.29)</u>	<u>(.18)</u>	<u>.02</u>	<u>(.31)</u>
Net earnings (loss) per share	<u>\$ (.33)</u>	<u>\$ (.16)</u>	<u>\$.03</u>	<u>\$ (.49)</u>

Reports of Independent Certified Public Accountants

Board of Directors
Timberland Industries, Inc.
Bellevue, Washington

We have examined the consolidated balance sheet of Timberland Industries, Inc. and subsidiaries as of December 31, 1981, and the related statements of operations, shareholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Timberland Industries, Inc. and subsidiaries as of December 31, 1981, and the results of their operations and the changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Seattle, Washington
March 6, 1982

Touche Ross & Co.

To the Board of Directors
Timberland Industries, Inc.
Bellevue, Washington

We have examined the consolidated balance sheet of Timberland Industries, Inc. and subsidiaries as of December 31, 1980, and the related statements of operations, shareholders' equity and changes in financial position for the years then ended and the schedules listed in the index under Item 11.(a)2. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Timberland Industries, Inc. and subsidiaries at December 31, 1980, and the results of their operations and the changes in their financial position for the two years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Seattle, Washington
March 13, 1981

Moss, Adams & Co.

Annual Meeting

June 29, 1982 — 3:00 p.m.
Arcade Level Auditorium
Seattle-First National Bank Building
1001 4th Avenue
Seattle, Washington

Form 10-K

The Timberland Industries, Inc. Form 10-K report filed with the Securities and Exchange Commission is available to shareholders at no cost upon written request to:

Stanley Gillman
Treasurer
Timberland Industries, Inc.
P.O. Box 3546
Bellevue, Washington 98009

Registrar and Transfer Agent

Rainier National Bank
Corporate Trust and Agency
P.O. Box 24407
Seattle, Washington 98124

Legal Counsel

Foster, Pepper & Riviera
1111 Third Avenue
Seattle, Washington 98101
Jones, Grey & Bayley, P.S.
One Union Square
Seattle, Washington 98101

Company Operations

Timberland Industries, Inc.
Corporate Offices
P.O. Box 3546
Bellevue, Washington 98009
(206) 828-3565
Brennan Supply Company
2260 - 152nd N.E.
Redmond, Washington 98052
(206) 747-9300
Cal-Wood Door
P.O. Box 1656
Santa Rosa, California 95402
(707) 584-9663
Western Cabinet & Millwork
P.O. Box 137
Woodinville, Washington 98072
(206) 823-4141

Officers

J. Allan MacDonald,
President
Donald S. Hansen,
Vice President
Ian MacDonald,
Vice President
James A. MacDonald, Jr.,
Vice President
Milton D. Skutle,
Vice President
Stanley Gillman,
Secretary and Treasurer

Board of Directors

- * James F. Aylward,
President
Sherwood & Roberts, Inc.
(Mortgage banking)
- * Jack H. Canvin,
Vice President
Financial Analysis & Planning
Bank of America (Banking)
- * Robert J. DeArmond,
Chairman
Idaho Forest Industries
(Lumber manufacturer)
Donald S. Hansen,
Vice President, Timberland Industries, Inc.
- * Curtis P. Lindley,
Senior Vice President
Univar Corporation
(Industrial and agricultural
chemicals and products)
Ian MacDonald,
President, Cal-Wood Door
Vice President, Timberland Industries, Inc.
- * J. Allan MacDonald,
President
Timberland Industries, Inc.
- * Delos W. McNutt,
Personal Investments
Milton D. Skutle,
President, Western Cabinet & Millwork
Vice President, Timberland Industries, Inc.
- * Member of the Audit Committee
and Compensation Committee

