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TIMBERLAND

1983 ANNUAL REPORT

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## TIMBERLAND: A DEFINITION

*Timberland Industries, through three manufacturing divisions produces wood kitchen and bathroom cabinets, wood residential and commercial doors and wood framed windows for the residential and commercial new construction and remodeling markets. In varying degrees, these products are marketed regionally, nationally and internationally.*

*Additionally, through two non-manufacturing distribution divisions Timberland markets lighting fixtures, residential builder hardware and commercial hardware products to the construction industry in the Northwest.*

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## TO OUR SHAREHOLDERS

As many predicted, a turnaround in housing starts did indeed occur in 1983. Since much of Timberland's revenue and profit is tied directly to housing starts, the Company's performance in 1983 reflected this turnaround: sales revenues increased by 57 % from \$28 million to \$44 million, and earnings increased to \$481,000, or \$0.52 per share. This 1983 profit compares to a 1982 loss of \$730,000 or \$0.80 per share. This trend appears to be continuing in 1984; thus, with our operations geared up for higher production levels, we are expecting even better results in 1984.

Our two mainstay operations, Western Cabinet & Millwork and Cal-Wood Door, each contributed to the substantial earnings improvement, and together represented over 75 % of our revenue and all our earnings.

Our newly acquired wood window manufacturer, WindowVisions, suffered from the rapid business acceleration. This rapid growth created supply and productivity problems which resulted in a modest operating loss for 1983. However, we have initiated better controls over material costs and product pricing and have stabilized the work force which should make 1984 a profitable year for this division.

Our lighting and hardware distributor, Brennan Supply, has been reorganized into two operating divisions; Brennan Lighting, serving the residential market, and Brennan Commercial, servicing the commercial and institutional market. Each of these divisions now has separate management, product lines and customer base which allow a keener focus on their respective businesses. This reorganization, in addition to the improved business climate, has resulted in a dramatic turnaround for the division in the second half of 1983, and provides an optimistic outlook for 1984.

In an effort to mitigate the impact of the cyclical residential construction industry on our financial performance, we have been focusing considerable effort in two new marketing areas: the home improvement market for our kitchen cabinets and bathroom vanity products, and the export market for our manufactured wood products, including residential and commercial doors, kitchen and bath cabinets, and millwork. Both marketing areas have provided positive results. Sales of cabinet products to home-center type outlets now repre-

sent a substantial portion of our cabinet production.

Our export effort has grown so dramatically that we have created a new subsidiary, Timberland International, Inc., to be responsible for the export marketing and administration of our sales of door, cabinet, millwork and window products. The nucleus of this new division is personnel from our Cal-Wood organization. Charles F. Lohman, Vice President of Sales for Cal-Wood, has become the President of Timberland International and has been primarily responsible for the development of these export markets. The specialized requirements for financing and shipping, and the new relationships with international architects, owners, contractors and trading companies, dictated the separation of this export activity from our normal domestic business.

To provide greater operational emphasis to our various manufacturing and distribution activities in the Pacific Northwest, Milton Skutle, Vice President of the Company and President of Western Cabinet for the past 14 years, has been named Senior Vice President of Timberland Industries in charge of Northwest operations. His very successful management of Western Cabinet over the past years has more than qualified him for this new and challenging position and its responsibilities. Gary Hogue, formerly Vice President of Sales at Western Cabinet, has been promoted to President of that division.

In other organizational changes, Gary Flack, formerly Manager of Operations at Cal-Wood, has been named General Manager of that division. This allows Ian MacDonald, President of Cal-Wood, to supervise the new export division as well as our door manufacturing subsidiary. We believe that these organizational changes will enhance our growth potential in the years ahead.

Finally, we would be remiss if we did not express our special thanks to all the people of Timberland and all its divisions who supported us during these past difficult years, also to our customers who make our Company possible, and to our many shareholders who have sustained and encouraged our effort.



J. Allan MacDonald  
President



## COMPANY OPERATIONS

### WINDOWVISIONS

WindowVisions manufactures and markets a complete line of windows, patio doors and specialty window units, such as skylights, solariums, skywalls and garden windows, using wood frames and insulated glass. Many optional features allow WindowVisions' products to meet the unique needs of the new residential and light commercial construction as well as the remodeling markets. Its products are sold directly to builders in key markets and by dealers and distributors throughout Alaska, Washington and Oregon.

Douglas Fir is used exclusively in these products for its durability, strength and appearance. The exclusive use of Douglas Fir is unique in the wood window industry, where other producers use principally pine, which lacks the strength and grain quality of Douglas Fir. While a wide range of standard sizes is available, many custom sizes are also offered. All products are manufactured in Kirkland, Washington in a modern 36,000 square foot facility—the third expansion since the firm started in 1978.

With several new products on the drawing board and aggressive distribution expansion plans underway, WindowVisions is becoming a major producer and supplier of windows and related products in the Northwest.

### WESTERN CABINET

Western Cabinet is the leading manufacturer and distributor of prefinished kitchen cabinets, bathroom vanities and other interior millwork for the single-family and multi-family residential builder in the state of Washington. Western Cabinet also prehangs and prefinishes interior doors, and manufactures and prefinishes a variety of interior wood moldings and other interior wood products. In addition to serving the residential builder, Western Cabinet markets its kitchen cabinets and bathroom vanities through Washington retail home improvement centers and to building and retail distributors in Hawaii, Alaska, Oregon, Idaho, Montana, California, and Arizona. To facilitate its marketing, a branch warehouse and sales office is located in Boise, Idaho.

In business since 1953, Western Cabinet moved into its complete and modern multi-product, 140,000 sq. ft. manufacturing facility located in Woodinville, Washington in January 1980 just prior to the housing recession. 1983 was the first year the new facility was used to near capacity. With very few exceptions, the decision to proceed with this new facility was prudent. Excellent equipment and smooth material flow combined with a skilled workforce made 1983 a profitable year for Western.



## BRENNAN SUPPLY

In business since 1948 and purchased by Timberland Industries in 1969, Brennan supplies lighting fixtures and hardware to residential builders and markets commercial hardware, metal doors, door frames, and wood doors to the commercial institutional construction industry. In June 1983 Brennan Supply was separated into two businesses: Brennan Lighting and Brennan Commercial. The past six months have proven that this separation was wise: Each division now has separate goals, and separate management teams to achieve those goals.

Brennan Lighting's primary goal is to serve the residential builder and his customers with lighting fixtures, door hardware and other building hardware products, including exhaust fans, medicine cabinets, mirrors, security systems, vacuum cleaning systems, range hoods, special appliances, vanities and bathroom and cabinet hardware. Showrooms for the display and retail sale of these products are located in Seattle and Redmond, Washington, and are an integral part of this business.

Brennan Commercial is a supplier of commercial hardware, metal doors and door frames, and wood doors for the commercial and institutional construction industry. Trained hardware specialists, with knowledge of building fire codes and security considerations, design, select, coordinate and supply these products to meet functional and building code requirements to general construction contractors on new construction of hotels, hospitals, schools, office buildings, prisons, shopping centers and multi-family residential buildings. Sales for remodeling and replacement in older buildings are an integral part of this business.

## CAL-WOOD

Since 1967, Cal-Wood has been a major manufacturer of flush wood doors headquartered in Santa Rosa, California. In the commercial segment of the market, Cal-Wood is the leading manufacturer in the western United States with nationwide distribution as well as a modest share of international markets. In the residential market segment, Cal-Wood produces interior doors in a variety of unfinished and prefinished styles for the new home construction market and for the do-it-yourself retail remodeling market.

Export activity has grown over the past three years to a point where a new division has been established to pursue this international business. This new division, Timberland International, was formed at the end of 1983 and will market commercial and residential doors, kitchen cabinets and related wood products to overseas construction projects, principally in the Middle East.

A broad range of wood species, including oak, cherry, walnut, birch, koa, lauan and mahogany, is used by Cal-Wood. Doors with sizes up to 4' x 10' can also provide fire protection ratings up to 1 1/2 hours, sound proof insulation or lead-lined radiation protection. In addition, Cal-Wood also offers sophisticated prefinishing as well as pre-machining for complex hardware applications.

Another growing aspect of Cal-Wood's operation is the manufacture and sale of door core edge materials that allow wood doors to meet building code fire protection ratings. These products are sold to other door manufacturers throughout the United States.

Cal-Wood facilities include a modern 90,000 square foot manufacturing plant and a 10,000 square foot millwork facility.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

**RESULTS OF OPERATIONS —  
1983 COMPARED TO 1982**

Reflecting the dramatic rise in housing starts, the Company's revenues increased 57 % in 1983 from 1982 levels. Gross profit margins as a percent of sales, before application of overhead, increased from 17.4 % in 1982 to 22.2 % in 1983. This is a substantial increase and is a reflection of the Company's long-term commitment to increased productivity. Average interest cost for long-term borrowing did not change from the 1982 average 10.2 % . Interest cost on short-term funds continued its decline in 1983 to 11.3 % from 15.1 % in 1982. This is a result of declines in the prime interest rate during the year. These rate decreases appear to have reached a low point and may be headed higher in 1984, which will be reflected in higher interest charges for the year 1984.

It was impossible to maintain the low level of expenses achieved in 1982 as sales levels increased so rapidly. Sales expense increased in terms of dollars but declined to 7.4 % of sales from 7.5 % in 1982. The company found this necessary to maintain its market position and be properly postured to take advantage of an improved economic climate in 1983. Administrative expense increased \$500,000 but also declined as a percent of sales from 11.8 % to 8.6 % in 1983. Overall interest costs remained about the same as 1982 as lower rates offset higher borrowing levels. There has been no material effect on sales and income from continuing operations from inflation and changing prices.

The company was able to utilize all of its unused tax benefits in 1983. Only a small carryover loss from the WindowVision acquisition remains unused at the end of 1983.

**RESULTS OF OPERATIONS —  
1982 COMPARED TO 1981**

Reflecting the continued decline in housing starts, the Company's revenues were off 13.5 % in 1982 from 1981 levels. Gross profit margins as a percent of sales, before application of overhead, increased from 15.2 % in 1981 to 19.8 % in 1982. This is a substantial increase and is a reflection of the Company's long-term commitment to increased productivity. Average interest cost for long-term borrowing continued to decline from 10.5 % in 1981 to 10.2 % in 1982. This is a result of paying-off short maturities that had been carrying higher rates of interest. Interest cost on short-term funds also declined dramatically in 1982 to 15.1 % from 20.3 % in 1981. This is a result of substantial declines in the prime interest rate during the year. These rate decreases appear to be continuing in 1983 and should be reflected in an even lower average in 1983, which will be reflected in improved earnings for the year.

It was difficult to maintain the low level of expenses achieved in 1981. Selling and administrative expenses increased both in terms of dollars and as a percent of sales. The company found this necessary to maintain its market position and be properly postured to take advantage of an improved economic climate in 1983. The increase also reflects some increased investment in computer systems and recognition of a few sizable uncollectable accounts among customers of long standing who were not able to weather the storm in the 1982 housing decline. There has been no material effect on sales and income from continuing operations from inflation and changing prices.

As a result of the 1982 earnings loss, the Company will have a claim for refundable Federal income taxes paid in prior years. The amount refundable should be \$560,000. An additional amount may be recoverable from future years' profits.



### **RESULTS OF OPERATIONS — 1981 COMPARED TO 1980**

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 reflected 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 accounted for the 11 % increase in depreciation in 1981. The Company had a net operating loss for Federal income tax purposes, which resulted in substantial tax refunds. These refunds were substantially all at 48 % plus the carryback of certain credits which increased the overall effective rate on refundable Federal income taxes.

### **LIQUIDITY AND CAPITAL RESOURCES — 1983 COMPARED TO 1982**

During 1983, working capital increased from \$2.76 million to \$3.2 million; however, the ratio of current assets to current liabilities declined from 1.40:1 to 1.26:1. Several factors contributed to the lower ratio including capital acquisitions from working capital dollars.

Management does not feel that the decline of working capital ratio affects the Company's ability to meet its short-term obligations. On the contrary, the Company is adequately positioned in its short-term liquidity. Its borrowing lines, which provide a substantial amount of that liquidity, are adequate for current foreseeable needs.

At the end of 1983 the Company's debt financing totalled \$10.4 million, up from \$7.9 million at the end of 1982. These debt levels were 1.6 times equity at the end of 1983, versus 1.33 times equity at the end of 1982.

### **LIQUIDITY AND CAPITAL RESOURCES — 1982 COMPARED TO 1981**

During 1982, working capital declined from \$3.4 to \$2.7 million and the ratio of current assets to current liabilities declined from 1.68:1 for 1981 to 1.40:1 at the end of 1982. The decline in working capital was the direct result of the operating loss for the year and the acquisition of necessary equipment for the manufacturing process.

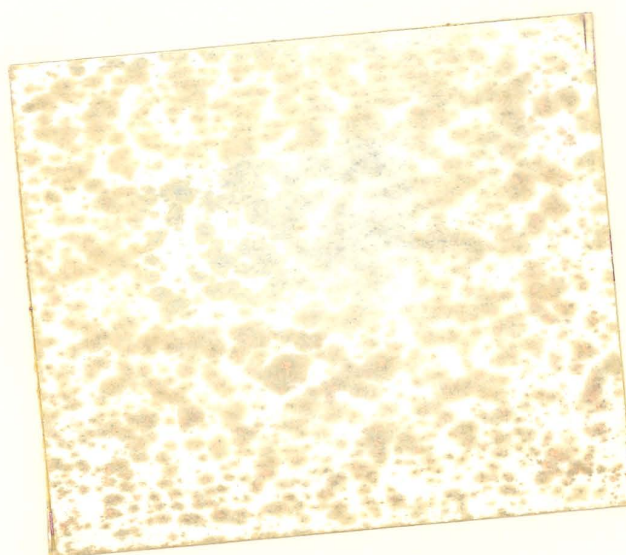
Management does not feel that the decline of working capital affects the Company's ability to meet its short-term obligations. On the contrary, the Company is adequately positioned in its short-term liquidity. Its borrowing lines, which provide a substantial amount of that liquidity, are adequate for current foreseeable needs.

At the end of 1982 the Company's debt financing totalled \$7.9 million, up from \$6.9 million at the end of 1981. These debt levels were 1.33 times equity at the end of 1982, versus 1.03 times equity at the end of 1981.



## SELECTED FINANCIAL DATA

	YEAR ENDED DECEMBER 31				
	1983	1982	1981	1980	1979
	<i>(Thousands except per share data)</i>				
Net sales	\$44,121	\$28,063	\$32,428	\$33,410	\$36,602
Income (loss) from continuing operations	\$ 481	\$ (730)	\$ (93)	\$ (183)	\$ 1,517
Income (loss) from discontinued operations	—	—	153	(727)	(273)
Net earnings (loss)	\$ 481	\$ (730)	\$ 60	\$ (910)	\$ 1,244
Weighted average common and common equivalent shares outstanding	925	914	961	965	957
Net earnings (loss) per share:					
Continuing operations	\$ 0.52	\$ (0.80)	\$ (0.10)	\$ (0.19)	\$ 1.58
Discontinued operations	—	—	0.16	(0.75)	(.28)
Net earnings (loss) per share	\$ 0.52	\$ (0.80)	\$ 0.06	\$ (0.94)	\$ 1.30
Dividends:					
Cash dividends per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.20	\$ 0.19
Stock	Nil	Nil	Nil	Nil	20 %
At year end:					
Total assets	\$22,740	\$16,985	\$16,616	\$18,820	\$21,894
Long-term debt	\$ 3,372	\$ 3,603	\$ 3,955	\$ 4,460	\$ 4,233
Working capital	\$ 3,199	\$ 2,764	\$ 3,430	\$ 3,827	\$ 4,785
Shareholders' equity	\$ 6,466	\$ 5,954	\$ 6,748	\$ 6,793	\$ 7,804





## CONSOLIDATED BALANCE SHEETS

	DECEMBER 31	
	1983	1982
<b>ASSETS</b>		
Current assets:		
Accounts receivable, less allowance of \$650,000 and \$584,000 for doubtful accounts	\$ 6,813,000	\$ 4,520,000
Refundable Federal income taxes	—	560,000
Inventories	8,315,000	4,394,000
Prepaid expenses	154,000	134,000
Total current assets	\$15,282,000	\$ 9,608,000
Land, buildings and equipment:		
Land	455,000	452,000
Buildings	4,625,000	4,625,000
Equipment	6,241,000	5,471,000
	11,321,000	10,548,000
Less accumulated depreciation	(4,607,000)	(3,761,000)
	6,714,000	6,787,000
Other assets	744,000	590,000
	\$22,740,000	\$16,985,000
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Note payable to bank	\$ 6,780,000	\$ 3,910,000
Accounts payable	3,231,000	1,754,000
Accrued liabilities	1,645,000	935,000
Income Taxes Payable	96,000	—
Current portion of long-term debt	331,000	245,000
Total current liabilities	\$12,083,000	\$ 6,844,000
Long-term debt, net of current portion	3,372,000	3,603,000
Deferred taxes	819,000	584,000
Shareholders' equity:		
Common stock, par value \$.16 per share—		
Authorized, 2,500,000 shares		
Issued and outstanding, 919,300 and 911,300 shares	147,000	146,000
Additional paid-in capital	2,830,000	2,800,000
Retained earnings	3,489,000	3,008,000
	6,466,000	5,954,000
	\$22,740,000	\$16,985,000

See notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31		
	1983	1982	1981
Net sales	\$44,121,000	\$28,063,000	\$32,428,000
Costs and expenses:			
Cost of sales	34,324,000	23,169,000	26,648,000
Selling and administrative expenses	7,971,000	5,414,000	5,076,000
Interest	998,000	918,000	1,187,000
	43,293,000	29,501,000	32,911,000
Income (loss) from continuing operations before income tax (benefit)	828,000	(1,438,000)	(483,000)
Income tax (benefit)	347,000	(708,000)	(390,000)
Income (loss) from continuing operations	481,000	(730,000)	(93,000)
Earnings from discontinued operations, net of tax of \$130,000 in 1981	—	—	153,000
Net earnings (loss)	\$ 481,000	\$ (730,000)	\$ 60,000
Weighted average common and common equivalent shares outstanding	925,000	914,000	961,000
Net earnings (loss) per share:			
Continuing operations	\$0.52	\$(0.80)	\$(0.10)
Discontinued operations	—	—	0.16
Net earnings (loss) per share	\$0.52	\$(0.80)	\$ 0.06

See notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK
	SHARES	AMOUNT			
BALANCE at January 1, 1981	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				60,000	
BALANCE at December 31, 1981	969,400	155,000	2,972,000	3,738,000	(117,000)
Acquisition of treasury stock					(64,000)
Retirement of treasury stock	(58,100)	(9,000)	(172,000)		181,000
Net earnings (loss)				(730,000)	
BALANCE at December 31, 1982	911,300	146,000	2,800,000	3,008,000	—
Exercise of Stock Options	8,000	1,000	30,000		
Net earnings				481,000	—
Balance at December 31, 1983	919,300	\$147,000	\$2,830,000	\$3,489,000	—

See notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

	YEAR ENDED DECEMBER 31		
	1983	1982	1981
Source of funds:			
Operations—			
Income (Loss) from continuing operations	\$ 481,000	\$ (730,000)	\$ (93,000)
Items not requiring the use of working capital:			
Depreciation and amortization	878,000	800,000	828,000
Deferred Federal income taxes	251,000	(148,000)	93,000
Funds provided by (used in) continuing operations	1,610,000	(78,000)	828,000
Earnings from discontinued operations	—	—	153,000
Total funds provided by (used in) operations	1,610,000	(78,000)	981,000
Proceeds from long-term debt	—	—	468,000
Disposition of equipment, net	196,000	368,000	312,000
Issuance of new shares	31,000	—	12,000
Decrease in other assets	—	—	9,000
TOTAL FUNDS PROVIDED	1,837,000	290,000	1,782,000
Application of funds:			
Acquisition of land, buildings and equipment	979,000	371,000	1,089,000
Reduction of long-term debt	231,000	352,000	973,000
Acquisition of treasury stock	—	64,000	117,000
Acquisition of WindowVisions Inc.	113,000	—	—
Other	79,000	169,000	—
TOTAL FUNDS APPLIED	1,402,000	956,000	2,179,000
Increase (Decrease) in working capital	\$ 435,000	\$ (666,000)	\$ (397,000)
Changes in components of working capital:			
Accounts receivable	\$2,293,000	\$ 999,000	\$ (672,000)
Refundable Federal income taxes	(560,000)	207,000	(563,000)
Inventories	3,921,000	(40,000)	(966,000)
Prepaid expenses	20,000	(53,000)	72,000
Note payable to bank	(2,870,000)	(1,151,000)	654,000
Accounts payable	(1,477,000)	(489,000)	459,000
Accrued liabilities	(710,000)	(100,000)	250,000
Current portion of long-term debt	(86,000)	(39,000)	369,000
Income taxes payable	(96,000)	—	—
Increase (Decrease) in working capital	\$ 435,000	\$ (666,000)	\$ (397,000)

See notes to consolidated financial statements.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

THREE YEARS ENDED DECEMBER 31, 1983

**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 in consolidation.

*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.

*Reclassifications*

Certain reclassifications have been made in the 1981 financial statements to conform with 1982 and 1983 classifications.

**NOTE B — INVENTORIES:**

Inventories consist of the following—

	DECEMBER 31	
	1983	1982
Distribution merchandise	\$1,268,000	\$ 873,000
Manufacturing inventories:		
Finished goods	1,172,000	872,000
Work-in-progress	1,353,000	585,000
Raw materials	4,522,000	2,064,000
	\$8,315,000	\$4,394,000

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

**NOTE C — OPERATING LEASES:**

The Company leases various manufacturing and distribution facilities in Washington and California.

Minimum annual lease payments for the next five years are as follows:

1984	\$337,000
1985	142,000
1986	87,000
1987	58,500
1988	58,500

Rent expense for the years ended December 31, 1983, 1982 and 1981 totaled \$336,000, \$309,000 and \$288,000, respectively.

**NOTE D — NOTE PAYABLE TO BANK:**

The Company has a \$8,000,000 line of credit bearing interest at bank prime rate plus 1/2 % (11.5 % as of December 31, 1983). 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 net earnings. As of December 31, no retained earnings are available for subsequent payment of dividends.



**NOTE E — LONG-TERM DEBT:**

Long-term debt consists of the following:

	DECEMBER 31	
	1983	1982
Mortgage notes, 7 % to 14 % , payable in monthly installments including interest	\$1,657,000	\$1,785,000
Mortgage note, 10¼ % , 29 year amortization, callable in 1995	2,046,000	2,063,000
	3,703,000	3,848,000
Less current portion	(331,000)	(245,000)
	\$3,372,000	\$3,603,000

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:

1984	\$331,000
1985	289,000
1986	241,000
1987	103,000
1988	83,000

**NOTE F — EMPLOYEE BENEFIT PLANS:**

The Company and its subsidiaries have defined benefit pension plans covering substantially all employees. Pension expense was \$139,000 in 1983, \$172,000 in 1982, and \$125,000 in 1981. The Company makes annual contributions to the plans equal to the amounts accrued for pension expense, plus amortization of past service cost over 30 years.

A comparison of accumulated plan benefits and plan net assets, determined as of the latest actuarial valuation dates, is presented below:

	JANUARY 1	
	1983	1982
Actuarial present value of accumulated plan benefits:		
Vested	\$ 870,000	\$705,000
Nonvested	245,000	271,000
	\$1,115,000	\$976,000
Net assets available for plan benefits	\$ 951,000	\$607,000

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 6.5 % for 1982 and 7.3 % for 1983.



**NOTE G — STOCK OPTIONS:**

At December 31, 1983, nonqualified stock options were outstanding to purchase an aggregate of 48,580 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 1993.

**NOTE H — INCOME TAXES:**

Income taxes consist of the following—

	YEAR ENDED DECEMBER 31		
	1983	1982	1981
Continuing operations			
Income tax provision (benefit)			
at statutory rate	\$391,000	\$(661,000)	\$(232,000)
Increase (decrease) in tax resulting from:			
Tax credits	(44,000)	(28,000)	(160,000)
Other		(19,000)	2,000
Income tax provision (benefit)	\$347,000	\$(708,000)	\$(390,000)
Net reductions (additions) to deferred income taxes	(251,000)	148,000	(93,000)
Currently payable (refundable)	\$ 96,000	\$(560,000)	\$(483,000)
Discontinued operations			
Currently payable (refundable)	—	—	\$ 130,000

Changes in deferred income taxes result from timing differences in recognition of depreciation, gain on sale of land and carry forward of 1982 net operating loss for tax purposes. Included in the current income taxes payable at December 31, 1983 is \$31,000 of state income taxes.

Tax credits are accounted for as a reduction of income tax expense in the year they are utilized.

**NOTE I — DISCONTINUED OPERATIONS:**

The summarized results of discontinued operations are as follows—

	YEAR ENDED DECEMBER 31		
	1983	1982	1981
Net sales			\$283,000
Costs and expenses			—
Income tax			130,000
Earnings(loss)			153,000



**NOTE J — QUARTERLY FINANCIAL INFORMATION (Unaudited):**

1983				
	First	Second	Third	Fourth
<i>(Dollars in thousands except per share amounts)</i>				
Net sales	\$8,482	\$10,932	\$12,484	\$12,223
Gross margin	1,686	2,239	2,444	3,428
Net income (loss)	(3)	139	180	165
Net income per share	—	0.15	0.19	0.18
1982				
	First	Second	Third	Fourth
<i>(Dollars in thousands except per share amounts)</i>				
Net sales	\$ 5,905	\$ 7,212	\$ 7,348	\$ 7,598
Gross margin	1,070	1,433	1,583	1,479
Net loss	\$ (312)	\$ (241)	\$ (29)	\$ (148)
Net loss per share	\$ (.34)	\$ (.26)	\$ (.03)	\$ (.16)

**NOTE K — WINDOWVISIONS ACQUISITION:**

On February 1, 1983 the Company acquired 100 % of the outstanding stock of WindowVisions, Inc., a manufacturer of custom wood windows located in Kirkland, Washington. The acquisition was accounted for using the purchase method, and terms included cash payments totaling \$93,000 and issuance of 4,400 shares of common stock with an estimated market value of \$20,000. The consolidated financial statements include the results of operations of WindowVisions, Inc. from the effective purchase date of February 1, 1983 through December 31, 1983. The Company is amortizing the related goodwill over 30-years on a straight-line basis.



## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
Timberland Industries, Inc.  
Bellevue, Washington

We have examined the consolidated balance sheets of Timberland Industries, Inc. and subsidiaries as of December 31, 1983 and 1982, and the related statements of operations, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1983. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Timberland Industries, Inc. and subsidiaries as of December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1983, in conformity with generally accepted accounting principles applied on a consistent basis.



Certified Public Accountants

Seattle, Washington  
March 3, 1984



**OFFICERS & DIRECTORS****OFFICERS**

**J. Allan MacDonald**  
President

**Ian MacDonald**  
Senior Vice President

**Milton D. Skutle**  
Senior Vice President

**Stanley Gillman**  
Secretary and Treasurer

**BOARD OF DIRECTORS**

**James F. Aylward**  
President  
Investors Mortgage Insurance Co.  
(Mortgage Insurance)

**Daniel R. Baty**  
Executive Vice President  
National Medical Enterprises,  
Inc. (Healthcare)

**Jack H. Canvin**  
Vice President  
Financial Analysis & Planning  
Bank of America (Banking)

**Robert J. DeArmond**  
Chairman  
Idaho Forest Industries  
(Lumber manufacturer)

**Donald S. Hansen**  
Personal investments

**Curtis P. Lindley**  
Senior Vice President  
Univar Corporation  
(Industrial and agricultural  
chemicals and products)

**Ian MacDonald**  
President, Cal-Wood Door  
Senior Vice President,  
Timberland Industries, Inc.

**J. Allan MacDonald**  
President  
Timberland Industries, Inc.

**Delos W. McNutt**  
Personal Investments

**Milton D. Skutle**  
Senior Vice President,  
Timberland Industries, Inc.

**CORPORATE INFORMATION**

**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

**Timberland International, Inc.**  
5600 State Farm Drive  
Rohnert Park, California 94928

**Western Cabinet & Millwork**  
P.O. Box 137  
Woodinville, Washington 98072  
(206) 823-4141

**WindowVisions, Inc.**  
11801 N.E. 116th  
Kirkland, Washington 98033  
(206) 823-5400

**Annual Meeting**  
June 5, 1984 - 3:30 p.m.  
The Rainier Club  
4th & Marion  
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

**Auditors**  
Touche Ross & Co.  
One Bellevue Center  
Bellevue, Washington 98004

*This Company's stock is traded  
over-the-counter under  
NASDAQ symbol TIMB.*



**TIMBERLAND INDUSTRIES, INC.** P.O. BOX 3546, BELLEVUE, WA 98009