

1984 Annual Report



Timberland Industries manufactures and distributes a diversity of products and services for the residential and commercial building industries.

There are three manufacturing divisions involved in the production of wood doors, pre-finished cabinets and interior millwork and a complete line of wood windows. Two non-manufacturing divisions supply residential and commercial lighting and finish hardware.

The Company is represented in the world market by an export division which provides a cadre of building products for international consumption.

The "look" of Timberland Industries is evolving. Our process has generated new insights into people, planning and goals. We emerge firm in the knowledge that the contribution of each employee is tightly woven into the fabric of the corporate direction. As a result, Timberland, an operation based in manufacturing has chosen to be represented by the figure of a worker. Our mark symbolizes to us the pride, strength and craftsmanship inherent in our approach to quality building products.



To Our Shareholders:

Planning and vision in both policy and procedure by a broad base of employees might best describe the favorable year which Timberland experienced during 1984. The opportunity to learn from and capitalized upon the unfavorable business environment of the depressed housing years from 1980 through 1982 manifested itself through thoughtful analysis and creative planning with a favorable financial performance in 1984. Earnings of \$1.25 million or \$1.12 per share and revenues of \$58 million were increases of 160% and 31% respectively over the swing year of 1983. To a large degree this substantial improvement was a result of a broadened market base in our traditional new construction segment augmented by continued successes in the home improvement/remodel market and the extraordinary success from our export effort.

Our two pivotal operations, Western Cabinet and Cal-Wood Door each continued their respective patterns of growth and together represented 65% of our revenues and an even greater percentage of our operating earnings. Through creative product innovation and development, a dedication to quality and service and an experienced and well established marketing organization, Cal-Wood established itself unofficially as the second largest architectural door

manufacturer in the United States. Western Cabinet's dominant position in cabinet and millwork sales to builders in the Northwest has been maintained through a well established reputation for high level quality and service. Because this portion of our business is subject to an historic variation in new housing construction, Western Cabinet has accelerated its growth in the dealer/distributor home improvement market in Washington, Oregon, California, Hawaii and Alaska. It is anticipated that these efforts will yield the greatest growth potential for the future.

Our most successful new venture was in exporting, through Timberland International, which fully realized projected goals in revenues and earnings. Over 40% of its sales were products manufactured by Cal-Wood Door with the balance from other wood products manufacturers. With further maturity and development we anticipate our cabinet and wood window manufacturing divisions to be favorably impacted by Timberland International's marketing effort.

In depth experience and leadership came to WindowVisions, our wood window manufacturing subsidiary with the addition of Timberland Senior Vice President, Milt Skutle as acting company president. While organization and production refinement continue as a prime focus, WindowVisions has completed and is benefiting from the first phase of a formal planning process. The newly designed manufacturing layout increased productivity by 22% and

growing experience and depth in sales personnel resulted in a 50% improvement in dealer/distributor sales. A strong commitment to the remodel/replacement market including continued design improvement and understanding of the retail residential consumer, support an optimistic near term forecast for this young company.

Our decision in 1983 to divide Brennan Supply Co. into two independent divisions proved successful in 1984. Brennan Commercial serving the commercial and institutional construction industry with specialty hardware and metal door and frame products provided a favorable return on our investment. Brennan Lighting which has been a financial problem appears to be heading in the right direction although still representing an operating loss for the year. A new manager with considerable experience in the lighting business was employed in the Fall of 1984 and has introduced business strategies which indicate the opportunity for substantial financial improvement.

We not only made it through the recent downturn in the housing industry, but in 1984 we were able to authorize a 20% stock dividend believing that this provided our shareholders with a most favorable participation in improved earnings. Additional investment for plant expansion and equipment was demonstrated by decisions: to enlarge the Cal-Wood facility in Santa Rosa, to include badly needed manufacturing, warehouse and office space, and to purchase equipment for all divisions to enhance productivity and maintain product acceptance and revenue growth in the years ahead.

As an integral part of our commitment to Company solidarity and consistent economic stability, we have embarked upon a corporate identity and education program which is targeted at increased employee and consumer understanding of both the goals and substance of Timberland. Better communication of Company benefits and division activity and an enlarged sense of family are two important results that we expect to derive from this effort. We are aware that the involvement of personnel in all Divisions is necessary if the highest level of results are to be extracted from the our planning process. As we move in new directions, toward new markets and in search of a reduction in the impact of our business cycles, we know that the role of every person in each area of our business is significant. It is with this understanding and a wealth of human skills which are constantly challenged and refined that I look forward to the future of Timberland.



J. Allan MacDonald
President

Timberland Industries



DeVonne Wells

BUSINESS

The Corporate office of Timberland Industries, near Seattle, Washington is located within minutes of four of its six divisions. The staff of five, directs and coordinates a variety of Corporation activities.

It serves as a clearing house of Division information: financial, benefit programs, education and communication, planning, policy and procedure and observation and analyzation of subsidiary development.

It conducts financial, legal and other activities related to a public company including, Board of Director and Annual meetings, investment community relations, shareholder information and media interaction.

MARKETS

The market area for Timberland, is rapidly expanding from a primarily Western United States base, cross country to the East Coast and into International markets.

OFFICERS

J. Allan MacDonald, President
Ian MacDonald, Senior Vice President
Milton D. Skutle, Senior Vice President
Stanley Gillman, Secretary, Treasurer

Cal-Wood Door



Leopoldo Diaz

BUSINESS

Cal-Wood is a major manufacturer of commercial and residential flush wood doors. As a leading producer of commercial doors in the Western United States, with nationwide distribution, products are utilized in such diverse structures as hotels, schools, hospitals and office buildings.

In the residential market segment, Cal-Wood produces a variety of unfinished and prefinished styles for single and multi-unit new home construction and for the rapidly expanding retail remodel market.

Special features provided within the mix of Cal-Wood doors are fire protection qualities, sound proof insula-

tion, lead lined radiation protection and sophisticated prefinishing and premachining. A special feature developed within the Company and sold to other manufacturers throughout the United States is a door core edge that allows wood doors to meet commercial code fire protection ratings.

MARKETS

This division serves two broad construction markets; products for commercial construction and the needs of single-family and multi-family residential buildings. Distribution reaches throughout the United States and via Timberland International into the Middle East and the Pacific Rim Basin.

LOCATIONS

Cal-Wood facilities include a modern 90,000 square foot manufacturing and millwork plant in Santa Rosa, CA, and additional sales offices in Seattle, WA, Los Angeles, CA and Salt Lake City, UT. A new 33,000 square feet of warehouse and office space is expected to break ground in March, 1985.

OFFICERS

Ian MacDonald, President
Gary L. Flack, Vice President,
General Manager
V.R. Johnson, Vice President
Manufacturing
Edwin N. Naslund, Vice President
Product Development
Larry D. Lawton, Secretary-Treasurer

WindowVisions



Raymond Esquivel

BUSINESS

WindowVisions manufactures and distributes a complete line of wood frame windows, patio doors and specialty window units such as skylights, solariums, skywalls and garden windows. A recently streamlined production layout allows the Company to meet the specialized needs of new residential and light construction, as well as a remodeling market which realized substantial growth in 1984. Aggressive marketing expansion plans are based on a growing and diversified team of dealer/distributors, a sound sales staff and consistent, creative upgrading of design capabilities. New and thoroughly experienced top management enhances favorable growth projections for 1985.

MARKETS

Direct sales to new construction and distribution outlets serving remodeling needs exist across Washington State. Current market goals based on near term planning include supplying a full range of products for consumption in Washington, Oregon and California.

LOCATION

All WindowVisions products are manufactured in a modern 36,000 square foot facility in Kirkland, Washington.

OFFICERS

Milton D. Skutle, President
Charles B. Pass, Treasurer
Daniel S. Gee, Sales Manager

BUSINESS

Developed to promote the sale of company wide products in overseas markets, Timberland International is the most recent addition to the Timberland group. Successful export activity began in late 1983 and includes the distribution of commercial and residential doors, kitchen and other cabinetry and related wood products. Representation of manufacturers in addition to the Timberland Divisions, promotes exporting a full range of wood products for construction in the world market. In meeting projected goals in both sales and revenues during 1984, Timberland International has added a previously non-existent dimension to Timberland Industries' expansion plans.

MARKETS

First year shipments were primarily to the Middle East. 1985 will see a continuity in those efforts as well as expansion into the Pacific Rim Basin and additional market goals in China and Malaysia.

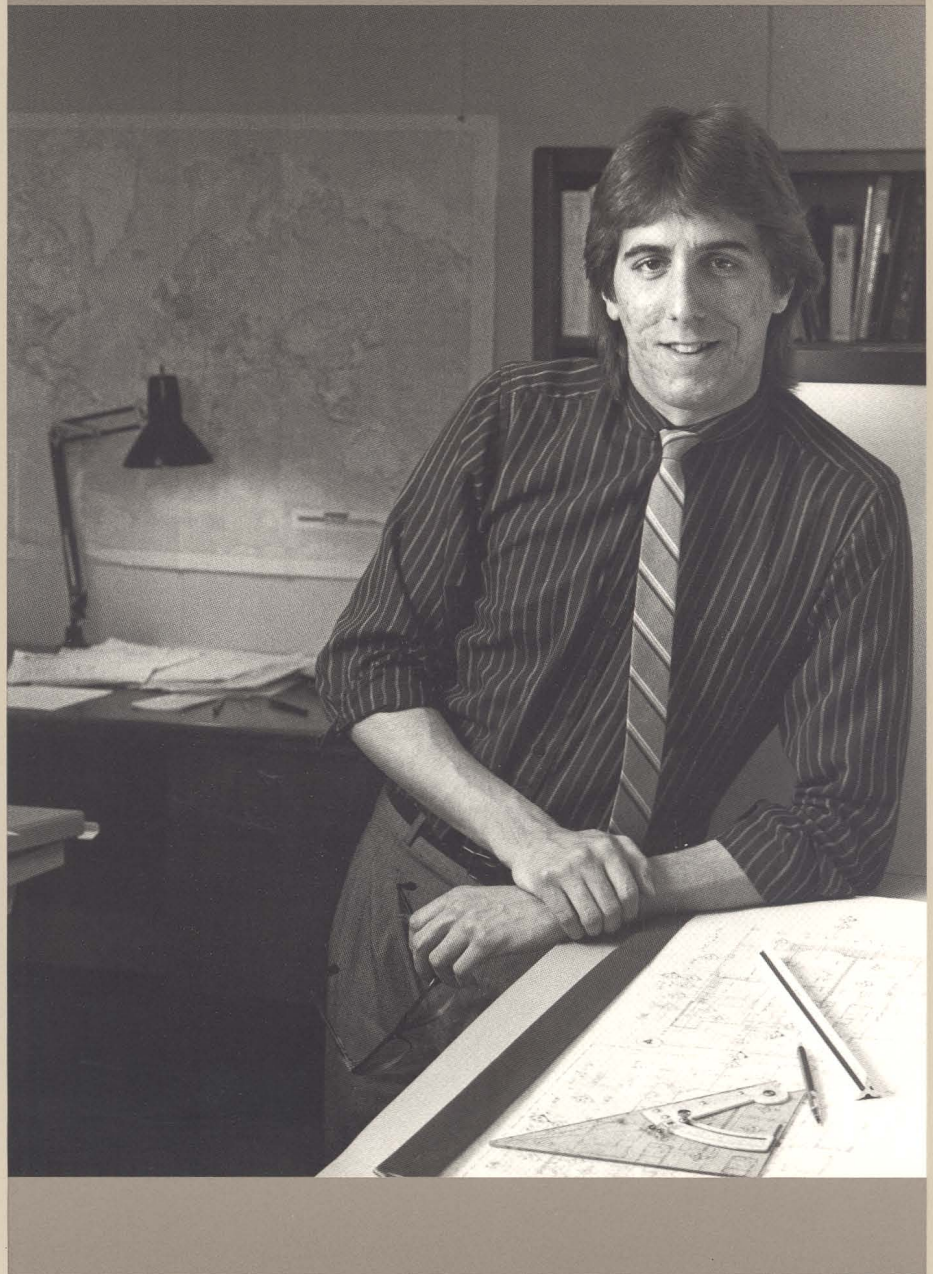
LOCATION

Home offices for Timberland International are in Santa Rosa, California, with an additional sales office in Hawaii.

OFFICERS

Charles F. Lohman, President
Marc F. Lancaster, Vice President

Timberland International



Kevin VanMeter

Brennan Lighting



Becky Beierle

BUSINESS

Brennan Lighting is a distributor of lighting fixtures, finish hardware and other building products, including built-in vacuum cleaning, intercom and security systems. Two recently remodeled showrooms in the Seattle/Redmond areas are the center of sales activity with focus on both the residential contractor and retail customer.

Significant change in operational procedures occurred during 1984. Computer re-programming and updating of the inventory control process have allowed the Company to maintain a high level of service while reducing inventory costs. Under new management fully experienced in serving and competing for the residential builder market, Brennan Lighting confidently looks for a return to profitability during 1985.

MARKETS

Prime markets are the residential new construction and remodeling contractor and the middle to high end retail consumer.

LOCATIONS

Two showroom/distribution centers are located in Seattle and Redmond, Washington.

OFFICERS

Brad Bogue, President

Geary Epperson, Controller

BUSINESS

Brennan Commercial supplies hollow metal doors and frames, wood doors, finish hardware and bathroom accessories to general contractors involved in new commercial and institutional construction. While traditional markets remain the bulk of sales, a new commitment has been made to service the growing needs of remodel and replacement customers. Trained specialists with knowledge of code and security considerations coordinate and service sales to meet specific needs in the new construction and remodeling of hotels, hospitals, schools, shopping centers, prisons, office buildings and multi-unit residential buildings.

MARKETS

Direct sales are made to general contractors for new and remodel construction in the Western United States, with Washington and Alaska as the principal market areas.

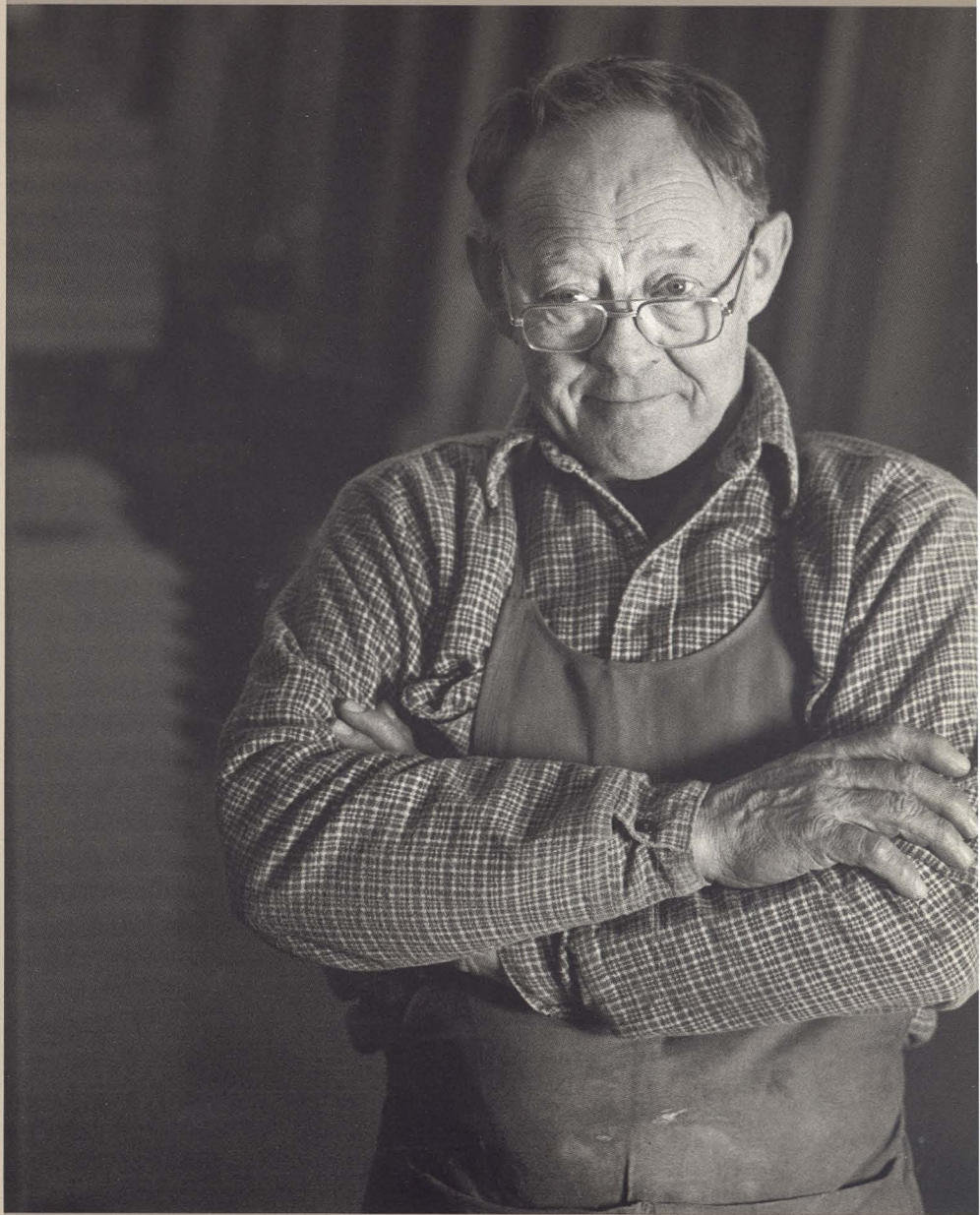
LOCATION

One central location in Kirkland, Washington serves as the base of sales and distribution.

OFFICERS

Michael Estes, AHC, President

Brennan Commercial



Jacob Lindemann

Western Cabinet



Sharrell Perrigo

BUSINESS

Western Cabinet is Washington State's leading manufacturer of kitchen and bathroom cabinets and interior woodwork including pre-hung doors for new single family and multi-unit residential building.

An increasing portion of cabinet production is being targeted at distribution through retail outlets serving the do-it-yourself and replacement markets. To meet expectations of retail customers and support the increased interest in the Company's products, new design and research and development have received greater attention.

Western Cabinet opened a sub-assembly plant in Hawaii in 1984 in order to make more efficient use of shipping facilities and support a very strong and long term customer base in that local.

MARKETS

The Company sells directly to builders of single family homes, apartments and condominiums in the continental United States and Hawaii and to distributors of home improvement products in Washington, Alaska, Oregon, California and Hawaii.

LOCATIONS

Western Cabinet's main manufacturing and distribution facility is located in Woodinville, Washington, with a sub-assembly plant in Hawaii.

OFFICERS

Gary W. Hogue, President
Henry W. Schmidt, Vice President
Manufacturing
John D. Griffith, Manager, Millwork & Distribution
C.J. Mikkelsen, Secretary, Treasurer
Robert M. Porter, Contractor Sales Manager
Matthew W. Pettibone, Distributor Sales Manager

RESULTS OF OPERATIONS—1984 COMPARED TO 1983

As housing and construction continued to be strong during 1984, the Company's sales rose by \$13.8 million to \$57.9 million, representing an increase of 31.3%. Several positive factors contributed to this sales increase: a relatively high level of housing starts during 1984; sales generated by the Company's new subsidiary, Timberland International; and further penetration into broader geographic areas in the U.S. Gross margin dollars increased substantially, and the gross margin percentage increased from 22.2% to 23.4%. Additionally, indirect overhead increased only 5.6% indicating further increases in productivity and plant utilization as a result of the Company's commitment to modernizing its plant and equipment. Sales expense, although increasing by \$351,000 declined as a percent of sales from 7.4% to 6.2%.

General and administrative overhead increased substantially in terms of dollars from \$3.8 million to \$5.6 million. However, in terms of percent of sales the increase was only from 8.6% to 9.6%. These increases are, to a large degree, attributable to incentive compensation plans at the Company's various divisions as a result of achieving targeted profit levels. Despite the increased sales activity, interest expense for the year only increased by \$63,000 overall. This was the result of declining short-term interest rates during 1984, and better use of working capital. Pretax earnings increased from \$828,000 to \$2,304,000 or an increase of 178%. As a percent of sales this increase was also very positive from 1.9% to 4.0%.

There has been no material effect on sales and income from inflation and changing prices. The Company's marginal tax rate for federal purposes is 46% and for state tax purposes is approximately 3%. All tax credits will be utilized for 1984.

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 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 of 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.

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 expenses 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 Window Visions 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.

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 expected 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.

LIQUIDITY AND CAPITAL RESOURCES

At the end of 1984 working capital had increased to \$5.1 million from \$3.1 million at the end of 1983. This increase of \$1.9 million is a result of cash flow from earnings and refinancing of \$1.6 million of short-term debt to long-term debt in anticipation of an addition to the Company's door plant in Santa Rosa, California. The Company's short term borrowing had declined from \$6.8 million at the end of 1983 to \$2.7 million at the end of 1984.

This decline in short term borrowing along with a continued availability of an \$8 million credit line gives the Company adequate liquidity in the foreseeable future. The Company is contemplating 5 year financing on equipment purchases in 1985 which should allow it to maintain its short term borrowing or liquidity for the year 1985.

SELECTED FINANCIAL DATA
Timberland Industries, Inc. and Subsidiaries

	Year ended December 31,				
	1984	1983	1982	1981	1980
	<i>(000's except per share and dividend data)</i>				
Net sales	\$57,910	\$44,121	\$28,063	\$32,428	\$33,410
Income (loss) from continuing operations	\$ 1,249	\$ 481	\$ (730)	\$ (93)	\$ (183)
Income (loss) from discontinued operations	—	—	—	153	(727)
Net earnings (loss)	\$ 1,249	\$ 481	\$ (730)	\$ 60	\$ (910)
Weighted average common and common equivalent shares outstanding*	1,115	1,110	1,097	1,153	1,158
Net earnings (loss) per share:*					
Continuing operations	\$ 1.12	\$ 0.43	\$ (0.67)	\$ (0.08)	\$ (0.16)
Discontinued operations	—	—	—	0.13	(0.63)
Net earnings (loss) per share	\$ 1.12	\$ 0.43	\$ (0.67)	\$ 0.05	\$ (0.79)
Dividends:					
Cash dividends per share	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.20
Stock	20%	Nil	Nil	Nil	Nil

*Restated for 20% stock dividend effective September 20, 1984.

At year end:					
Total assets	\$21,233	\$22,740	\$16,985	\$16,616	\$18,820
Long-term debt	\$ 4,957	\$ 3,372	\$ 3,603	\$ 3,955	\$ 4,460
Working capital	\$ 5,089	\$ 3,123	\$ 2,764	\$ 3,430	\$ 3,827
Shareholders' equity	\$ 7,714	\$ 6,466	\$ 5,954	\$ 6,748	\$ 6,793

CONSOLIDATED BALANCE SHEETS

Timberland Industries, Inc. and Subsidiaries

	Year ended December 31,	
	1984	1983
Assets		
Current assets:		
Cash	\$ 193,000	—
Accounts receivable, less allowance of \$682,000 and \$650,000 for doubt- ful accounts	5,307,000	\$ 6,813,000
Inventories	6,387,000	8,315,000
Prepaid expenses	282,000	154,000
Prepaid employee benefits	900,000	—
Total current assets	13,069,000	15,282,000
Land, buildings and equipment:		
Land	474,000	455,000
Buildings	4,935,000	4,625,000
Equipment	7,205,000	6,241,000
	12,614,000	11,321,000
Less accumulated depreciation	(5,097,000)	(4,607,000)
	7,517,000	6,714,000
Other assets	647,000	744,000
	\$21,233,000	\$22,740,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Note payable to bank	\$ 2,700,000	\$ 6,780,000
Accounts payable	1,924,000	3,231,000
Accrued liabilities	2,020,000	1,645,000
Income taxes	993,000	172,000
Current portion of long-term debt	343,000	331,000
Total current liabilities	7,980,000	12,159,000
Long-term debt, net of current portion	4,957,000	3,372,000
Deferred taxes	582,000	743,000
Shareholders' equity:		
Common stock, par value \$.16 per share— Authorized, 2,500,000 shares Issued and outstanding, 1,102,900 and 919,300 shares	176,000	147,000
Additional paid-in capital	3,788,000	2,830,000
Retained earnings	3,750,000	3,489,000
	7,714,000	6,466,000
	\$21,233,000	\$22,740,000

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Timberland Industries, Inc. and Subsidiaries

	Year ended December 31,		
	1984	1983	1982
Net sales	\$57,910,000	\$44,121,000	\$28,063,000
Costs and expenses:			
Cost of sales	44,327,000	34,324,000	23,169,000
Selling and administrative expenses	10,218,000	7,971,000	5,414,000
Interest	1,061,000	998,000	918,000
	55,606,000	43,293,000	29,501,000
Income before income tax expense (benefit)	2,304,000	828,000	(1,438,000)
Income tax expense (benefit)	1,055,000	347,000	(708,000)
Net earnings (loss)	\$ 1,249,000	\$ 481,000	\$ (730,000)
Weighted average common and common equivalent shares outstanding	1,115,000	1,110,000	1,097,000
Net earnings (loss) per share	\$1.12	\$0.43	\$(0.67)

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Timberland Industries, Inc. and Subsidiaries

	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock
	Shares	Amount			
BALANCE at January, 1 1982	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 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	—
Dividend—20% stock	183,600	29,000	958,000	(988,000)	—
Net earnings				1,249,000	—
BALANCE at December 31, 1984	1,102,900	176,000	\$3,788,000	\$3,750,000	—

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Timberland Industries, Inc. and Subsidiaries

	Year ended December 31,		
	1984	1983	1982
Source of funds:			
Operations—			
Income (Loss) from operations	\$ 1,249,000	\$ 481,000	\$(730,000)
Items not requiring the use of working capital:			
Depreciation and amortization	988,000	878,000	800,000
Deferred Federal income taxes	(114,000)	175,000	(148,000)
Funds provided by (used in) operations	2,123,000	1,534,000	(78,000)
Proceeds from long-term debt	1,931,000	—	—
Disposition of equipment, net	242,000	196,000	368,000
Issuance of new shares	—	31,000	—
Decrease in other assets	25,000	—	—
TOTAL FUNDS PROVIDED	4,321,000	1,761,000	290,000
Application of funds:			
Acquisition of land, buildings and equipment	2,011,000	979,000	371,000
Reduction of long-term debt	344,000	231,000	352,000
Acquisition of treasury stock	—	—	64,000
Acquisition of Window Visions Inc.	—	113,000	—
Other	—	79,000	169,000
TOTAL FUNDS APPLIED	2,355,000	1,402,000	956,000
Increase (Decrease) in working capital	\$ 1,966,000	\$ 359,000	\$(666,000)
Changes in components of working capital:			
Cash	\$ 193,000	—	—
Accounts receivable, net	(1,506,000)	\$ 2,293,000	\$ 999,000
Refundable Federal income taxes	—	(560,000)	207,000
Inventories	(1,928,000)	3,921,000	(40,000)
Prepaid expenses	128,000	20,000	(53,000)
Prepaid employee benefits	900,000	—	—
Note payable to bank	4,080,000	(2,870,000)	(1,151,000)
Accounts payable	1,307,000	(1,477,000)	(489,000)
Accrued liabilities	(375,000)	(710,000)	(100,000)
Income taxes	(821,000)	(172,000)	—
Current portion of long-term debt	(12,000)	(86,000)	(39,000)
Increase (Decrease) in working capital	\$ 1,966,000	\$ 359,000	\$(666,000)

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Timberland Industries, Inc. and Subsidiaries

THREE YEARS ENDED DECEMBER 31, 1984

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.

Prepaid employee benefits

In 1984 the Company formed a Voluntary Employee Benefit Association (VEBA) and contributed \$900,000 to the Trust. The VEBA is a qualified plan with the Internal Revenue Service and permits the Company to prepay certain employee fringe benefits. The benefits will be paid from the trust as they come due and will be expensed as incurred.

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 1982 and 1983 financial statements to conform with 1984 classifications.

NOTE B—INVENTORIES:

Inventories consist of the following—

	December 31	
	1984	1983
Distribution merchandise	\$1,112,003	\$1,268,000
Manufacturing inventories:		
Finished goods	992,708	1,172,000
Work-in-process	719,775	1,353,000
Raw materials	3,562,537	4,522,000
	<u>\$6,387,023</u>	<u>\$8,315,000</u>

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

NOTE C—NOTE PAYABLE TO BANK:

The Company has an \$8,000,000 line of credit bearing interest at bank prime rate plus $\frac{1}{2}\%$ (11.25% as of December 31, 1984). 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.

NOTE D—LONG-TERM DEBT:

Long-term debt consists of the following:

	December 31	
	1984	1983
Mortgage note, 12 %, payable in monthly installments including interest through July 2014	\$1,698,000	—
Other mortgage and promissory notes, 7 % to 19 %, payable in monthly installments including interest	1,574,000	\$1,657,000
Mortgage note, 10 ¼ %, 29 year amortization, callable in 1995	2,028,000	2,046,000
	5,300,000	3,703,000
Less current portion	(343,000)	(331,000)
	\$4,957,000	\$3,372,000

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:

1985	\$343,000
1986	369,000
1987	128,000
1988	138,000
1989	97,000

NOTE E—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:

1985	\$293,000
1986	247,000
1987	111,700
1988	98,500
1989	43,000

Rent expense for the years ended December 31, 1984, 1983 and 1982 totaled \$323,000, \$336,000 and \$309,000 respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Timberland Industries, Inc. and Subsidiaries

NOTE F—EMPLOYEE BENEFIT PLANS:

The Company and its subsidiaries have defined benefit pension plans covering substantially all employees. Pension expense was \$245,000 in 1984, \$139,000 in 1983, and \$172,000 in 1982. 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.

Accumulated plan benefits, assuming a 7.3% rate of return, and plan net assets determined as of the latest actuarial valuation dates are presented below:

		January 1
	1984	1983
Actuarial present value of accumulated plan benefits:		
Vested	\$1,041,000	\$ 870,000
Nonvested	219,000	245,000
	\$1,260,000	\$1,115,000
Net assets available for plan benefits	\$1,112,000	\$ 951,000

NOTE G—STOCK OPTIONS:

At December 31, 1984, nonqualified stock options were outstanding to purchase an aggregate of 58,296 shares. The options were granted at various dates from 1976, are all currently exercisable at prices ranging from \$1.91 per share to \$5.56 per share, and expire at various dates to 1993. During the year ended December 31, 1984 options to purchase 8,400 shares were granted and no options were exercised.

NOTE H—INCOME TAXES:

Income taxes consist of the following:

		Year ended December 31,	
	1984	1983	1982
Income tax provision (benefit) at statutory rate	\$1,124,000	\$391,000	\$(661,000)
Decrease resulting from:			
Tax credits	(69,000)	(44,000)	(28,000)
Other			(19,000)
Income tax provision (benefit)	1,055,000	347,000	(708,000)
Net reductions (additions) to deferred income taxes	114,000	(175,000)	148,000
Currently payable (refundable)	\$1,169,000	\$172,000	\$(560,000)

Changes in deferred income taxes result from timing differences in recognition of depreciation. Included in the current income taxes payable at December 31, 1984 and 1983 are \$85,000 and \$31,000 respectively of state income taxes. At December 31, 1984 current income taxes payable also includes \$414,000 reflecting the current portion of deferred income taxes relating to the Company's Voluntary Employee Benefit Association.

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

NOTE I—DIVIDENDS:

A 20% stock dividend was declared on July 26, 1984 and distributed to shareholders on September 20, 1984. The Company did not declare any dividends in 1983 and 1982.

NOTE J—MAJOR CUSTOMERS:

Transactions with one customer accounted for approximately \$6,400,000 in net sales in 1984.

NOTE K—QUARTERLY FINANCIAL INFORMATION (Unaudited):

1984

	First	Second	Third	Fourth
	<i>(Dollars in thousands except per share amounts)</i>			
Net sales	\$14,905	\$17,380	\$13,205	\$12,420
Gross margin	3,223	3,831	3,095	3,434
Net income	354	531	194	170
Net income per share*	.32	.47	.17	.16

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*	—	.12	.16	.15

*Restated for 20% stock dividend effective September 20, 1984.

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, 1984 and 1983, 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, 1984. 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, 1984 and 1983, 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, 1984, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

TOUCHE ROSS & CO.
Certified Public Accountants
Seattle, Washington
February 15, 1985

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)

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

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

Edward Easton
President
Hopkins, Easton & Assoc., Inc.

Donald S. Hansen
Personal investments

Curtis P. Lindley
Chairman and Chief Executive
Officer, Penwest Ltd
(Agricultural processing)

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.
President
WindowVisions, Inc.

Company Operations

Timberland Industries, Inc.
Corporate Offices
P.O. Box 3546
Bellevue, Washington 98009
(206) 828-3565

Brennan Lighting
2260-152nd N.E.
Redmond, Washington 98052
(206) 747-9300

Brennan Commercial
11803 N.E. 116th
Kirkland, Washington 98034
(206) 823-1907

Cal-Wood Door
P.O. Box 1656
Santa Rosa, California 95402
(707) 584-9663

Timberland International, Inc.
2455 Bennett Valley Rd.
Suite 314B
Santa Rosa, California 95404

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

May 15, 1985 3:00
Bellevue Athletic Club
11200 S.E. 6th St.
Bellevue, 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

Seattle First National Bank
Stock Transfer Services
P.O. Box 24186
Seattle, Washington 98124

Legal Counsel

Foster, Pepper & Riviera
1111 Third Avenue
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