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Penwest

Annual Report

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## THE COMPANY

**PENWEST** is a rapidly growing producer of high value-added specialty carbohydrate products, food and flavor ingredients, and agricultural nutrition supplements. The company's principal sources of revenue are specialty chemical starch products for the textile and paper industries and varietal malted barley for the brewing industry. **PENWEST** is a March 1984 spin-off from Univar Corporation of Seattle.

Penford Products Co., a division of **PENWEST**, is a leading producer of chemically-modified specialty starches and is the paper industry's major supplier of chemical starch coatings.

The division's plants are in Cedar Rapids, Iowa, and Idaho Falls, Idaho.

**PENWEST**'s malting division, Great Western Malting Co., is the leading producer of high-quality brewer's malt in the West, serving brewers throughout the western and southwestern U.S. and selected nations of the Pacific Rim. Production facilities are in Vancouver, Washington, Pocatello, Idaho and Los Angeles, California.

**PENWEST**'s corporate headquarters are at 777 108th Avenue NE, Suite 2390, Bellevue, WA 98004. Telephone number (206) 462-6000.

The fine printing and writing papers in this annual report have been treated with specialty starch products developed and sold through **PENWEST**'s Penford Products Co.

Contents	
Letter to Shareholders	10
Financial Highlights	11
Penford Products Co.	14
The Story of Paper	18
Great Western Malting Co.	20
The Story of Beer	24
Financial Review	26
Consolidated Balance Sheets	28
Consolidated Statements of Income	29
Consolidated Statements of Changes in Financial Position	30
Consolidated Statements of Shareholders' Equity	31
Notes to Consolidated Financial Statements	32
Auditors' Report	37
Directors, Officers and Headquarters	39
General Information	40



# Penwest

For generations, the businesses which comprise PENWEST have flourished on the principle that quality products and service are our most valuable assets.

○ In this annual report we especially acknowledge our customers in the modern paper industry, an industry which Penford Products Co. has served since the turn of the century. ○ Penford specialty starch products help create quality papers in many ways . . .

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... by enhancing surface clarity...

... by improving printability on high-speed presses...





... by improving printability on high-speed presses...

... by adding internal strength and stiffness capacity



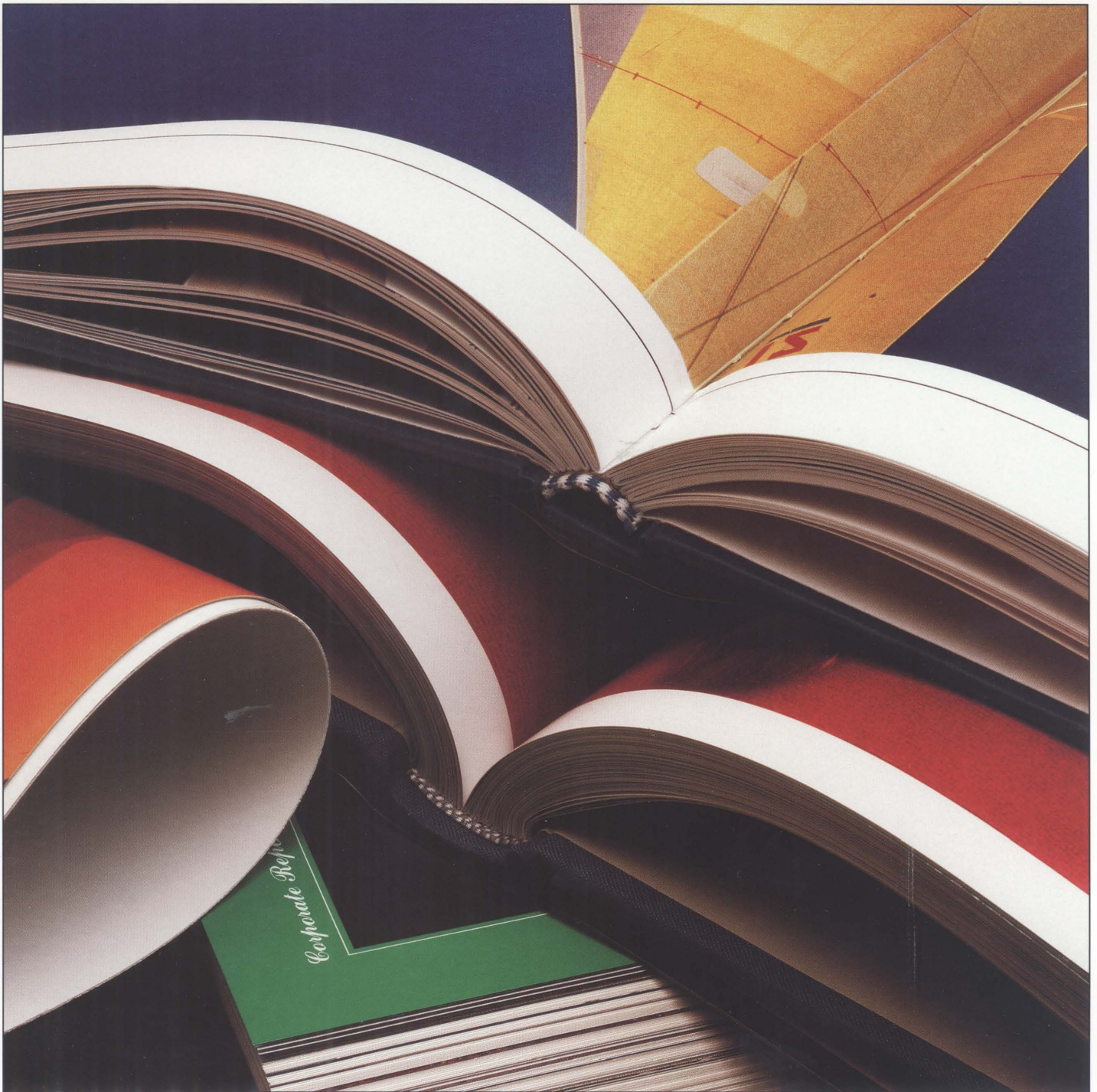


... by adding internal strength and uniform opacity ...

and by creating the perfect balance of strength and appearance...

... by creating the perfect balance of strength and appearance...





... and by coatings that reflect the snap and sparkle of bold color.

Penford Products Co., a division of PENWEST and a partner of papermakers throughout the world.



## Letter to Shareholders

Your company had an outstanding year by almost any measurement. PENWEST enjoyed record earnings, growing demand for its products, a stonger balance sheet, broad advances in new product development and the culmination of a management building effort begun three years ago.

Most importantly, the company completed the strategic framework for continued growth into the 1990s.

PENWEST's mission is to create the maximum rate of value growth for our shareholders through long-term profit on invested capital and the growth of that capital. We will do this by becoming a leading, worldwide producer of high margin, carbohydrate-based, specialty chemicals and food and flavor

ingredients.

We already have made considerable progress towards achieving this mission, as demonstrated by our financial performance and the reconfiguration of our business.

Now, as we look to the future, we have developed an aggressive five-year strategic plan which, consistent with our mission, is aimed at continuing our business and profit growth. The financial goals of that plan are:

- return on equity significantly higher than industry peer groups
- after-tax return on investment of at least 20 percent
- 15-20 percent average growth rate for net profits
- 12 percent average revenue growth (adjusted for stable raw materials cost)

In order to meet these goals we know we must grow both

internally and externally. Since our 1984 spin-off from Univar Corporation, we have refocused PENWEST on the production of high value-added specialty products and enhanced its competitive position in each of its businesses—thus building a strong foundation for future growth.

We intend to grow internally through innovative R&D and an aggressive marketing and sales effort worldwide, and externally through acquisitions that fit PENWEST's technological and/or marketing abilities. Our efforts will be directed toward four key areas: specialty chemicals for the paper industry, coatings and adhesives, specialty food and flavor ingredients and by-product derivatives.

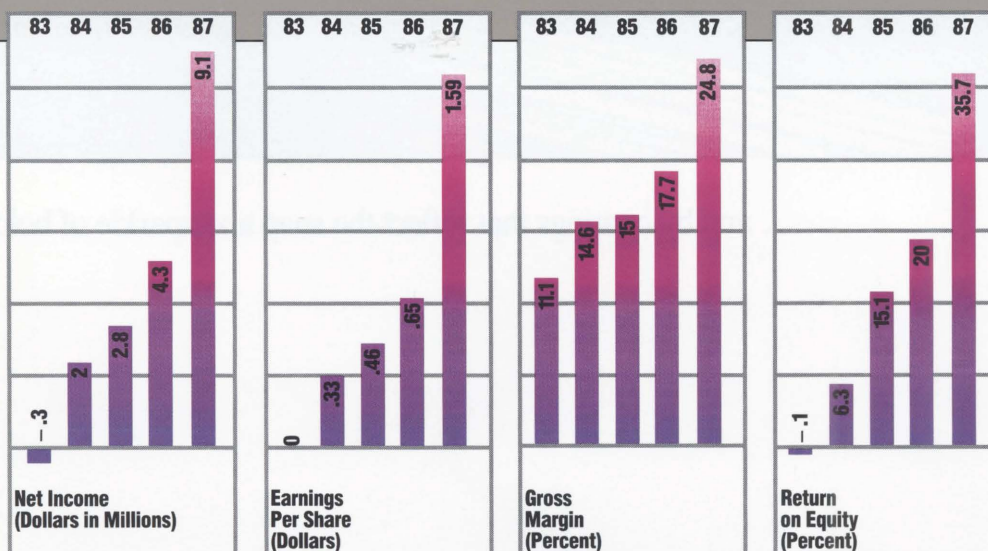
We realize that our strategic goals are ambitious. But we believe our progress sup-

ports confidence in our ability to achieve them.

In three years we have transformed Penick & Ford—a traditional corn wet milling company with its focus split between commodity and specialty products—into a dynamic new company producing almost entirely high value-added specialty chemicals. We've built a new management team there with the ideal combination of experience, skills, vision and energy.

This year, in recognition of this complete metamorphosis, we renamed that company Penford Products Co.

We believe we can continue to increase Penford's market share of specialty chemicals, in excess of the industry growth rate, by working with our customers to develop products that meet their particular needs and by marketing our services and products







# Growth

PENWEST's mission is to create the maximum rate of value growth for our shareholders through long-term profit on invested capital and the growth of that capital.

## Financial Highlights

(Thousands of dollars except per share data)

### Operating Data:

(Unaudited)

	1987	1986	1985	1984	1984
Net sales	\$135,990	\$134,809	\$146,141	\$138,966	\$131,689
Net income	9,133	4,253	2,802	1,992	1,832
Earnings per share	1.59	0.65	0.46	0.33	NA
Average shares outstanding	5,753,727	6,503,054	6,069,310	6,072,802	NA
Effective tax rate	45.2%	47.2%	50.2%	46.8%	46.6%

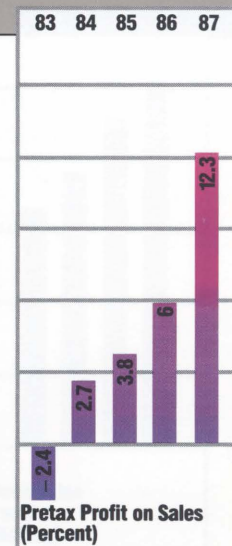
### Balance Sheet Data:

Total assets	120,378	117,216	125,713	129,153	144,203
Total liabilities	92,711	91,644	104,038	110,640	126,746
Current assets	42,260	38,823	43,533	42,070	53,774
Current liabilities	26,271	20,811	20,481	15,497	28,407
Working capital	15,989	18,012	23,052	26,573	25,367
Revolving credit				13,000	15,000
Long-term debt	39,747	45,876	61,879	62,381	64,425
Shareholders' equity	27,667	25,572	21,315	18,513	17,457
Capital expenditures	6,115	2,906	1,926	1,213	1,672

aggressively and effectively worldwide.

Great Western Malting is, and long has been, the dominant producer and supplier of high-quality brewer's malt in the Western U.S. and also supplies breweries in the Pacific Rim and Southwest. Great Western has several distinct competitive advantages that will insure its ability to build on its leading position in the future.

- It is the only maltster in the West, where both beer sales and population are growing.
- It is the largest supplier to Anheuser-Busch, the fastest growing brewer in the U.S.
- Its varietal malts are in highest demand, and our quality and service are unsurpassed.
- It is the only malting company that co-generates a good part of its own energy needs, which in malting is a big-ticket item. The savings





are substantial.

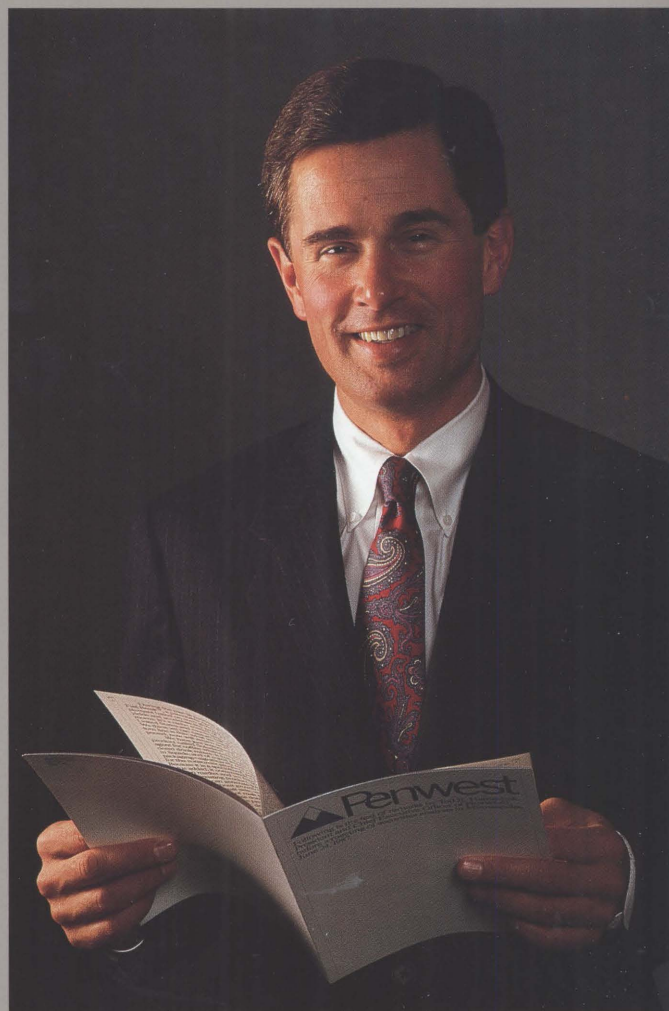
- The government—at long last—has begun to respond to the need for processed American agricultural products to compete in overseas markets on a more equitable basis. The Export Enhancement Program sponsored by the U.S. Department of Agriculture has helped us secure business in the Philippines.

Although we will pursue all reasonable opportunities to increase our international malt sales, we plan to shift our sales mix more heavily in favor of products for domestic consumption. Margins are better and, as demand increases, we can increase profitability without substantially increasing volume. Right now, we're at capacity in our Great Western facilities, but we're adding to our Vancouver plant to better meet our estimated future demands.

Great Western's growth will be modest but certainly in excess of the industry. Most importantly, it is rock-solid, with a long history of strong and stable cash flow through a variety of economic cycles.

In terms of corporate research and development, we have formed an R&D task force composed of the company's top operating and R&D officers to accelerate the development of marketable new products in all four of our key growth areas. The group's immediate mission is the application of biotechnology to our basic businesses and the development of by-product derivatives.

In the latter area, we already have one exciting new patentable product—FAST BREAK—which, we believe, could capture half of the market for nutritional supplements in the mushroom industry. We are working on other new





products with equally interesting prospects.

In terms of external growth, we are constantly reviewing potential acquisitions, joint ventures and other opportunities that may meet our particular requirements. We have the necessary financial strength and management depth that will enable us to act quickly to capitalize on appropriate opportunities.

The year's results indicate the continuation of our strong positive momentum and support our confidence in the future:

Earnings for the year more than doubled to \$9.1 million, or \$1.59 per share, compared with \$4.3 million and 65 cents per share in fiscal 1986. Sales were \$136 million compared with \$135 million. The per-share earnings gain reflected higher gross profit margins from our specialty chemical starch operations and full uti-

lization of production capacity at our malt plants for most of the fiscal year.

Revenue was essentially flat, partly because of a decline in raw materials costs which were passed along to customers in the form of lower prices, and partly due to the the company's commitment to achieve a vigorous return on the capital invested in the business, as called for in our mission statement. As PENWEST has moved away from commodities products toward higher-margin specialty products, profits have been increasing at a faster rate than sales volume. Capital expansions have been confined to high-margin product lines where sales volumes are lower than for commodity lines, but where the net returns are considerably higher.

The company's balance sheet improved during the year. Debt fell, as did interest

expense, while return on equity climbed to 36 percent. The company renegotiated its borrowings at more favorable rates and terms.

In the first quarter the company acquired, for \$7 million in cash, a warrant for 20 percent of PENWEST's common stock. The warrant was retired, ending the dilution on stated earnings per share. Earnings per share of \$1.59 would have been \$1.31 had the warrant remained outstanding.

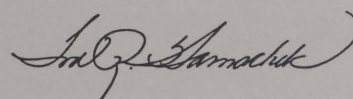
On June 23 your board of directors approved a stock split in the form of a non-taxable dividend that doubled the number of common shares outstanding from 2.8 million to 5.6 million. The split reflects confidence, on the part of management and the board of directors, in PENWEST's future growth.

Our overall performance lends further support to our optimism.

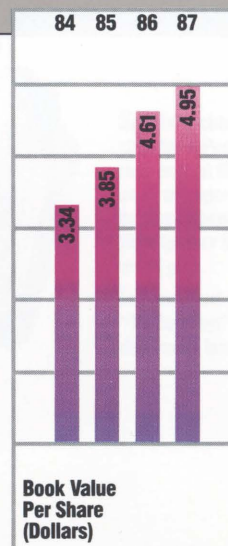
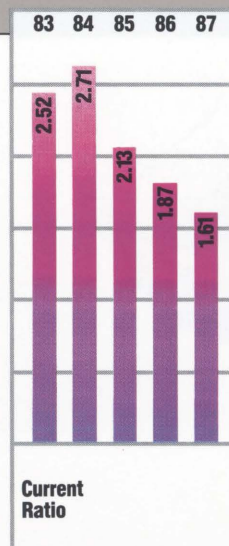
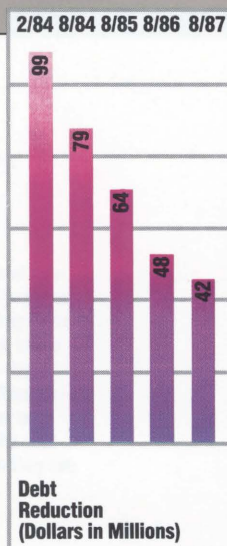
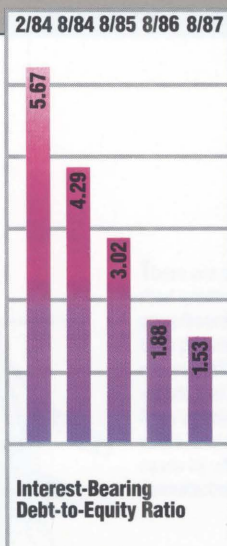
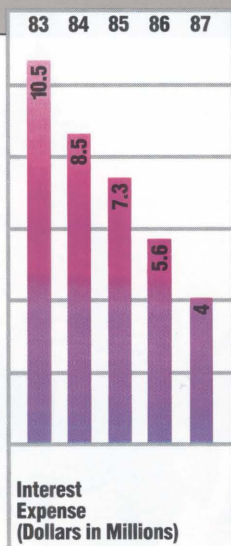
In just three years we've:

- increased net income from \$1.8 million to more than \$9 million
- boosted gross profit margins from 15 percent to 25 percent
- reduced debt from \$99 million to \$42 million
- raised return on equity from 6 percent to 35 percent
- increased earnings per share from 33 cents to \$1.59

We look forward to the future with confidence and enthusiasm which we hope you share. You may be sure we will apply all our energies to serving your interests by growing the company's assets and producing the highest return possible.



Tod R. Hamachek  
President and  
Chief Executive Officer





## *Penford Products Co.*

Penford Products Co. enjoyed a year of strong growth, record sales of specialty products, sharply higher gross profit margins, expanded capacity and successful introduction of new products.

In keeping with the company's overall goal of providing specialty products to niche markets, 94 percent of total production was high-value-added specialty chemical starches, while only 6 percent represented commodity products.

Penford Products also increased its market share, completed a management reorganization and substantially increased its R&D capabilities.

The division's basic business is serving the paper industry, especially the producers of coated and uncoated free sheet papers. Coated paper demand has been growing at an annual rate of about 6 percent and uncoated paper at about 4 percent. We expect these markets to grow at a 5 to 7 percent rate at least through 1991. The major users of coated papers are the publishers of magazines, catalogues, and brochures.

While Penford has benefited from strong paper industry sales, the division's most significant gains have come from internal changes: emphasizing the sale of high value-added products; a market-driven management philosophy; a more aggressive sales and marketing effort; planning that is international in scope; and leadership, in our chosen markets, in product innovation and in quality of product and service.

Papermaking is changing constantly. Because it is highly competitive and capital-intensive—a single state-of-the-art paper machine can cost up to \$500 million—manufacturers are searching for ways to contain costs while increasing quality. Penford Products is a part of that search and is committing substantial resources to develop new products and processes that offer timely solutions to industry problems.

New products that are proprietary and patentable will play an increasingly important role in Penford's future plans. These products will respond to our customers' needs in selected market niches.

Three such products were introduced during fiscal 1987: Fast Break™ is a patentable plant nutritional supplement that will be used by mushroom growers to speed up their harvest and increase their crop yield. Fast Break is based on a novel modification of a corn wet milling by-product and is targeted for a \$25 million market in the U.S. and a somewhat larger market in Europe. Penford expects, in time, to secure about half of the total market. In its unimproved commodity form, the by-product sells at 12 cents a pound, while Fast Break is priced at about 50 cents per pound.

Soludex®, another patentable product, is a maltodextrin bulking agent for coffee whiteners, bouillon cubes, powdered drink mixes and artificial sweeteners. It has superior dispersal qualities in liquids and flows better in packaging, reducing costs for the consumer products companies who use it. Because it is a specialty product with high value added, it commands a premium price. Penford has a 15 percent share of the current \$40 million market with a similar product. Soludex may generate an additional \$20 million in revenue.

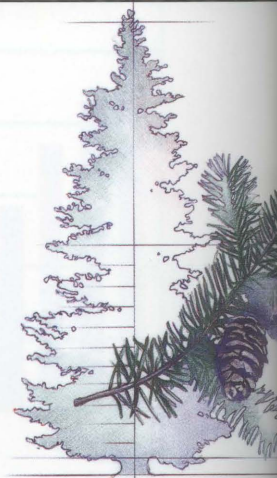
Quick Wash™, a recent product with a patent pending, is a specialty modified starch sold to the textile industry. It is used to size cloth and yarn during manufacturing, helping to provide a "pre-washed" feel to fabrics like denim. Evaluations are now being undertaken at several major U.S. textile companies.

Penford Products Co. also has a very aggressive plan for growth in its traditional business. The division expects to maintain industry leadership in specialty starches for coatings and to increase its market share of "wet end" starch products for internal wood fiber bonding.

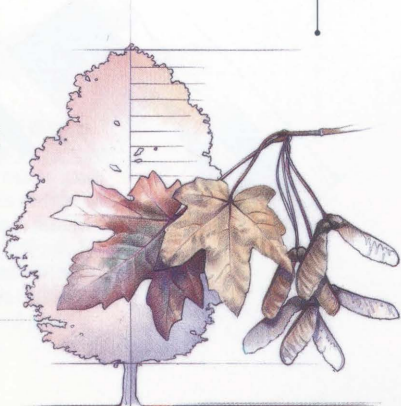
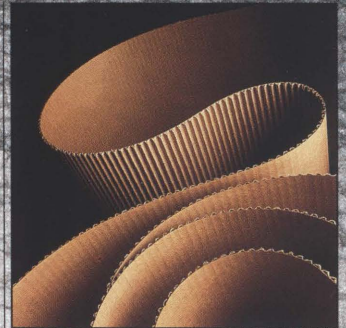
Some four to five new products are under development while an additional six to eight are being considered.

International marketing efforts are expected to improve revenue and margins in 1988. Initial customer reaction to Penford's products has been favorable in certain offshore markets.

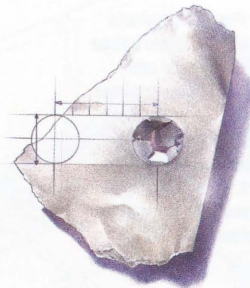
The division has built a very strong foundation for future growth. Penford Products will play a pivotal role in PEN-WEST's strategic goal of enhancing shareholder value.







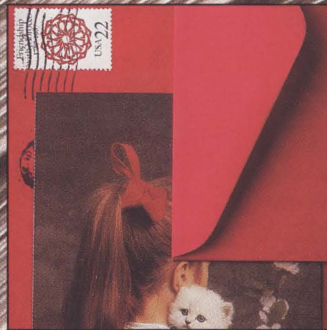
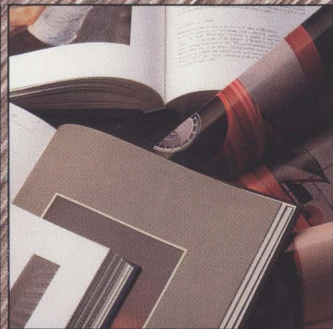
There are several hundred grades of paper and paperboard. They differ in their properties, in the raw materials—hardwoods and softwoods—from which they are made, and in the processes by which they are manufactured.



Specialty chemical starches from Penford Products help at the “wet end” of paper production by strengthening the fiber-to-fiber bonds of wood pulp.

In linerboard, a standard “Mullen Test” is used to determine burst strength.

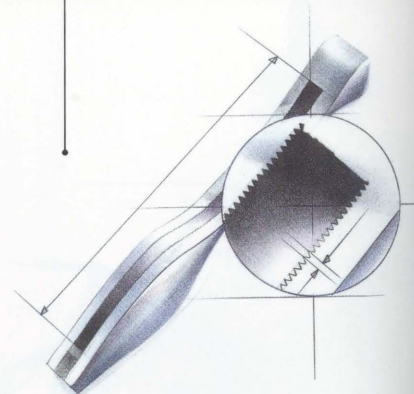




Other Penford products help hold the inked image in the right place and keep a higher percentage of it near the top of the coated layer where it will have the greatest visual impact. This "K & N" ink test measures the paper's ink holdout.



For high-quality uncoated papers, Penford's specialty starches improve surface characteristics such as strength, clarity and holdout. This wax pick test measures the surface strength of paper.

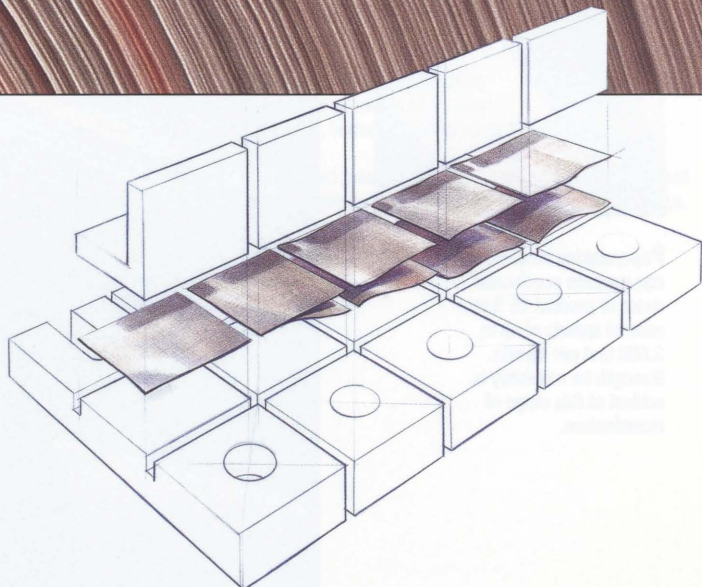






A standard IGT test measures the speed at which a coated paper retains its surface integrity while in contact with a moving ink roll. The test determines the suitability of certain coatings for high-speed printing presses.

Paper's internal bond strength is measured by a "Scott Bond" test. Specialty Penford starch products can increase paper strength and lower production costs.





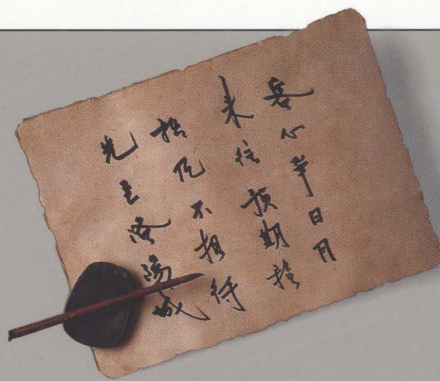
**F**rom the beginnings of human history, from the dark cave paintings which predated language itself, man has struggled to record—and thereby share—his thoughts, knowledge and questions.

Through the centuries, the ancients experimented with pictures and symbols carved in rock, clay and metal. By the third century B.C. the Egyptians were using a primitive writing material called papyrus made from the fibers of reeds. Papyrus, in turn, gave way to parchment processed from animal skins.

The invention of paper is credited to the Chinese, who, in 105 A.D., created the first paper sheets from a fibrous material containing tree bark, hemp waste, old rags and fish nets. Five hundred years later the craft of papermaking had spread to Japan, and by the 12th century had reached Europe.



**Papermaking machines can produce continuous rivers of product 25 feet wide at speeds of up to 3,000 feet per minute. Strength for runability is critical at this stage of manufacture.**



# Paper

Paper—not radio, television, telephone or satellite—is the greatest communications tool in history. Without paper, and the printing press, civilization itself would be impossible. Our most important ideas would be as pale shadows but for the written word . . . and the paper which carries them. ○ Papermaking is one of mankind's proudest technological achievements. And whether it is used for newsprint or for books or for the tools of commerce, paper adds permanence to our words and color to our lives. ○ Penford Products Co. is an important part of a vital worldwide industry.





Still—it was far from a medium of mass communication. Paper was scarce, and reserved for official documents, scholarly writings and religious teachings. Literacy itself was confined to a chosen few.

Even with the invention of the printing press in the 1450s, and a rapidly increasing demand for paper, paper production remained relatively primitive. The raw materials were linen and cotton rags. Paper was made one sheet at a time. There were surprisingly few changes in the following 400 years.

Then, the explosion of technology which accompanied the Industrial Revolution provided the mechanical means to separate fibers from the structure of wood. By the 1850s a new and vibrant paper industry was born—and within decades Penford Products'

predecessor had become an integral part of that industry.

Papermaking and publishing today are marvels of modern technology. Hundreds of kinds of papers for a multitude of uses stream from mills all over the globe. News and information is an endless stream transmitted by satellite and transformed to newsprint, racing through high-speed presses at 50 feet per second, bringing the world to our door each day. Books, magazines and catalogues are brought to life with colors that snap and sparkle.

Almost from the beginning, **Penford Products** was a participant in the development of the modern paper industry, growing with it and contributing to its technical innovations. Specially-modified chemical starches with the Penford name provide stronger fiber bonding, improve optical

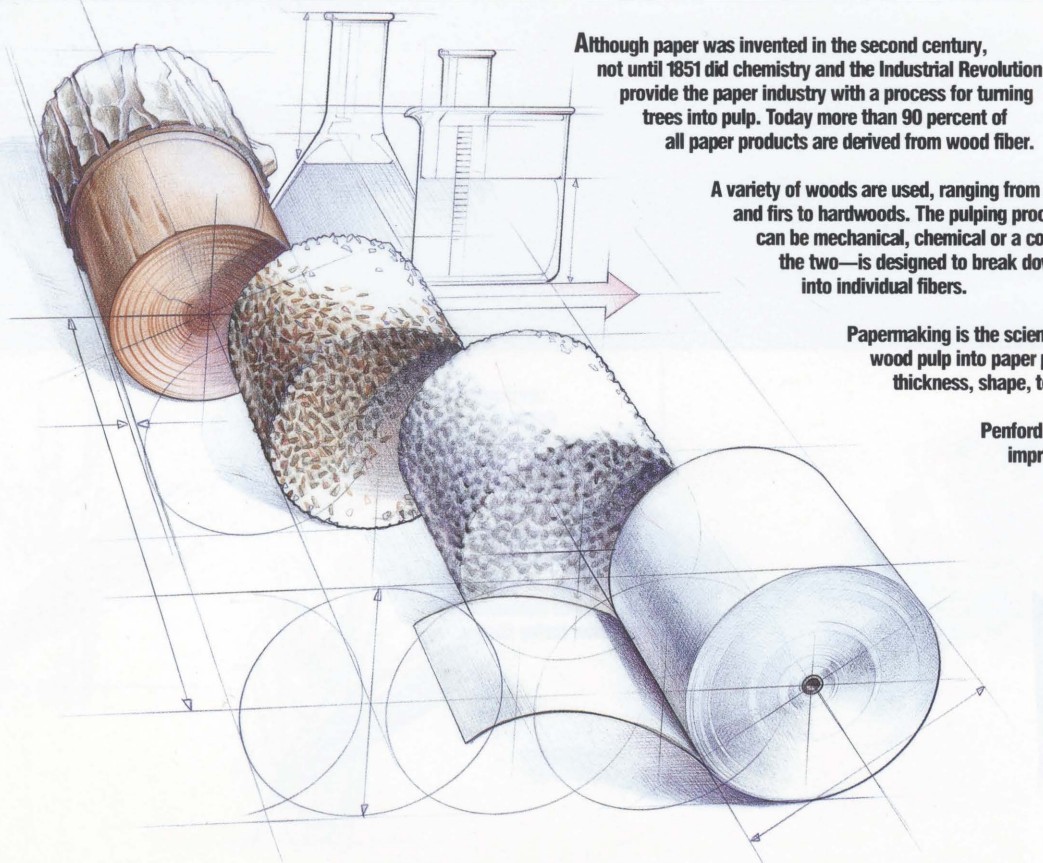
properties and provide "sizing" to render the sheet more resistant to liquids. Penford specialty starches in coatings provide smoothness to paper surfaces, essential for high-quality reproduction of black-and-white as well as four-color tones. In coatings, Penford specialty starches yield brilliance, vividness and intensity to the printed image by holding the ink in the right place and keeping a higher percentage of it near the top of the coated layer where it will have the greatest visual impact.

While it has several competitors, Penford is the leading producer of specialty starches for size press and coatings. It pioneered and patented these products in the 1950s, and has maintained its technological and market share lead since that time. More recently the company has experienced

very sharp increases in specialty cationic starches for the "wet end" of papermaking, for adding strength to paper fibers.

The paper industry is completing its fifth consecutive year of growth. It is a vigorous, competitive industry, with high standards of quality and growing production capability.

It is an industry, moreover, which tends to flourish in societies that are most open to new ideas and most congenial to a free market. The United States accounts for about a third of world production of paper products. The U.S., Western Europe and Japan produce 72 percent. The People's Republic of China and the Soviet Union, which together hold 27 percent of the world's population, make only 8 percent of the world's paper.



Although paper was invented in the second century, not until 1851 did chemistry and the Industrial Revolution provide the paper industry with a process for turning trees into pulp. Today more than 90 percent of all paper products are derived from wood fiber.

A variety of woods are used, ranging from soft spruces and firs to hardwoods. The pulping process—which can be mechanical, chemical or a combination of the two—is designed to break down wood mass into individual fibers.

Papermaking is the science of transforming wood pulp into paper products of consistent thickness, shape, texture, strength or printability.

Penford products provide stronger fiber bonding and improved optical properties, sizing and coatings.



## Great Western Malting Co.

Great Western Malting Co. continued to increase sales and production of its malted barley varieties, despite a generally flat U.S. beer market. The division's three plants operated at capacity for most of fiscal 1987 even with the addition of 500,000 bushels of capacity in the spring. Continued strong sales are expected to be augmented early in 1988 when Anheuser-Busch will open a large, new, state-of-the-art brewery in Ft. Collins, Colorado.

In anticipation of that event, 1.6 million bushels of additional capacity is under construction at Vancouver. When completed in the fall of 1988, Great Western's total capacity will be 23 million bushels, 10 percent more than at the beginning of the 1987 fiscal year.

As a result of increasing export sales and the closure of older, less efficient malt houses, the U.S. malting industry appears to be operating at capacity. So, even with a sluggish domestic beer industry, maltsters have been able to realize efficiencies which accompany full production—a circumstance which should continue for some time.

Great Western's 1987 barley crop, which was harvested between July and September, was one of the best in five years. The crop's excellent quality and abundance will mean enhanced opportunity to pursue domestic and international sales. Especially encouraging was a superior crop of Western six-row barley, which sells at a premium to its Midwest counterpart. Sales of premium-grade two-row malted barley—of which Great Western is the major U.S. supplier—also have shown considerable strength.

Great Western benefited from the Export Enhancement Program (EEP) sponsored by the U.S. Department of Agriculture. The program, which Congress intends to extend at least until 1990, helps processed American agricultural products compete in overseas markets on a more equitable basis. By using the EEP program, Great Western obtained some

incremental business in the Philippines during the year. Programs of this kind help offset subsidies to our competitors in other nations and tend to promote a more orderly worldwide marketplace.

In late summer, Great Western harvested the first test crop of malting barley genetically altered through biotechnology. The program, which was launched four years ago, is intended to create agronomically superior barley strains by genetically altering plant tissue. Variations among the plants suggest preliminary success, though definitive evaluations will require additional tests. Great Western is working on the project with three major universities and an independent research firm.

In the immediate future we will continue to place great emphasis on maintaining product quality and service. We expect to operate Great Western at capacity for the balance of fiscal 1988, and we have renewed our commitment to being the industry's quality leader.

Longer-term, we are exploring other business opportunities that may be available to us through Great Western's current asset base and technological expertise. Converting by-products to high value-added products is one possibility that is being researched in conjunction with Penford Products Co. We also are reviewing opportunities in other related fields: foods and flavors, animal nutrients and genetically-altered seeds.

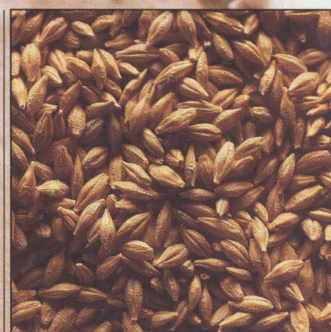
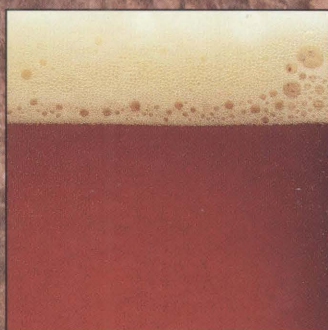
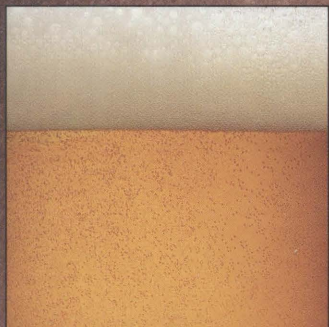
In the meantime, Great Western Malting Co. continues to be a rock-solid, quality producer, with a long history of profitable growth. Geographic and product advantages help provide very

strong and stable cash flow through a variety of economic cycles.

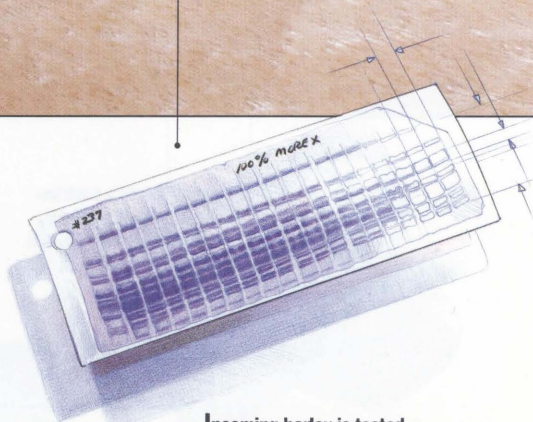
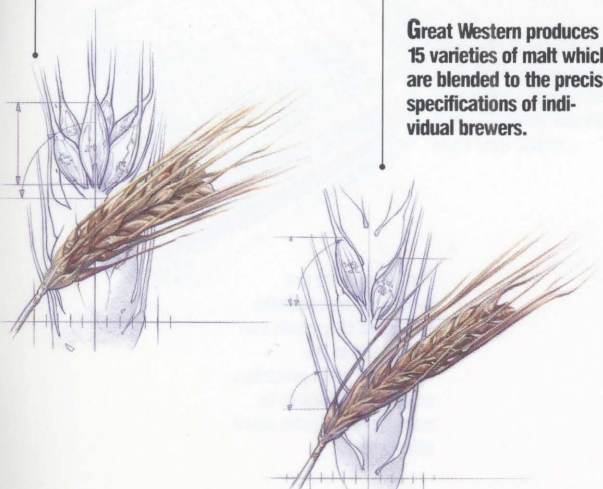


At the end of fiscal 1987, Great Western harvested its first test crop of genetically-altered barley. Variations among the plants suggest preliminary success. The test is intended to produce agronomically superior barley strains.



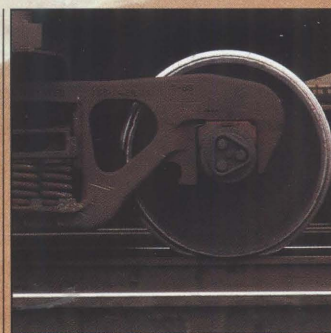


Great Western produces 15 varieties of malt which are blended to the precise specifications of individual brewers.

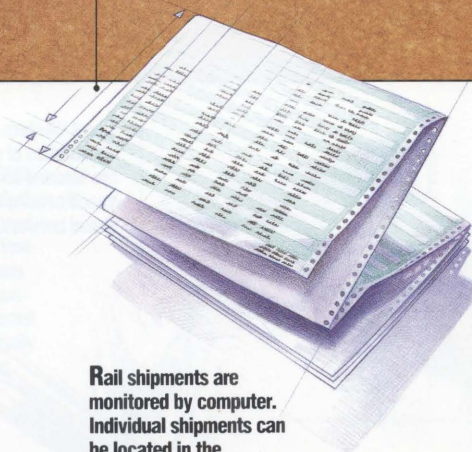
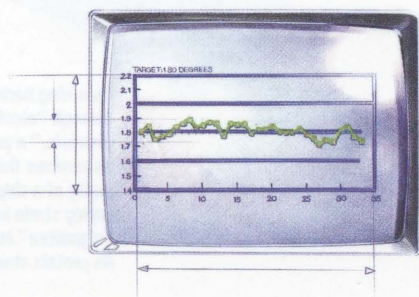


Incoming barley is tested through "electrophoresis," a process that determines the varietal purity of a shipment. Each barley strain has its own "signature" in the form of its protein structure.



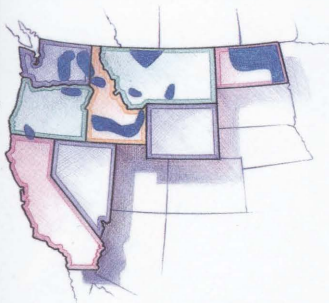
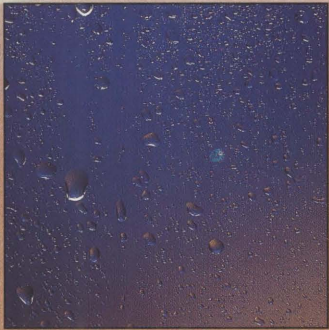


Great Western's customers receive a monthly quality report charting the specifications of each shipment.



Rail shipments are monitored by computer. Individual shipments can be located in the "pipeline" with precision, enabling customers to manage inventories more effectively.





**Because Great Western buys barley from widely separated growing areas, it is effectively insulated from crop failure.**



**Great Western's field staff is unique in the malt-ing industry. The staff administers growing contracts and provides growers with technical information about crop management.**



**F**or 8,000 years beer has been a beverage of choice for much of mankind.

Whether brewed from malted barley, as is normally the case today, or from rice, millet, rye or other grains as has occasionally been the case in times past, the beverage is universal and the art of the brewmaster is revered.

The Egyptians believed that brewing was learned from Osiris, the god of agriculture.

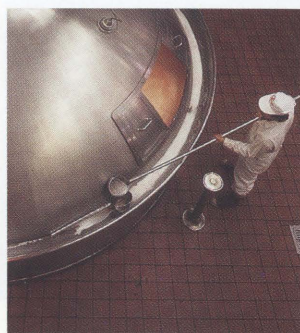
Germans felt so strongly about the subject that the ingredients were fixed by law in the 15th century: only malted barley, water and hops have been allowed in German brew since.

The Pilgrims landed at



# Beer

One of the oldest and most durable of the food sciences is brewing, which was practiced for centuries before mankind developed a written language. Despite fierce competition from hundreds of modern-day beverages, beer retains its popularity. U.S. annual per-capita consumption of beer is 24 gallons, placing it behind only soft drinks and coffee among all beverages. O Great Western Malting Co. began service to the brewing industry in 1935, shortly after the repeal of Prohibition. The company's single-minded dedication to product quality, along with the superior characteristics of its varietal malts, have made it one of the nation's leading suppliers to the brewing industry.



**Brewing begins by crushing malt, with water, in a mash tub. Later the "mash" is heated, strained and placed in a brew kettle, shown here.**





Plymouth Rock not because it was their destination but because their supplies were running low, "especially our beer."

Beer is one of the few food products that remains as much art as science—you need more than just a recipe. Because it is brewed from living grain through largely natural processes, there are subtle differences in bouquet and flavor between batches made from otherwise identical ingredients under precisely the same conditions of time and temperature. Most beers represent blends from batches, and therein lies the art.

German brewmasters say malted barley is the "soul" of beer. It contains the enzymes

that start the brewing process and is the principal source of beer flavor. U.S.-made beers use mostly malt, though many contain adjuncts such as corn or rice.

The brewing process begins by crushing the malt, with water, in a mash tub. Later the "mash" is heated, and through a process of nature cereal starches are converted to fermentable and nonfermentable sugars. The mash is strained and an extract, called "wort," is removed and placed in the brew kettle.

The wort is boiled, and a small quantity of hops is added. The amount and variety of hops varies with the

particular beer—hops is a seasoning, much like salt and pepper is to other food products.

After a time, the hops are removed in a separator, the brew is cooled, and moved to fermenters. Here fermentation takes place, aided by pure brewer's yeast of a unique strain. Because yeast clones itself, an original strain can be perpetuated indefinitely, assuring uniformity in individual beer brands over time.

When fermentation is complete, the beer is transported to giant aging "cellars." It is during this critical period that aroma, flavor and body mature, completing the brewing process.

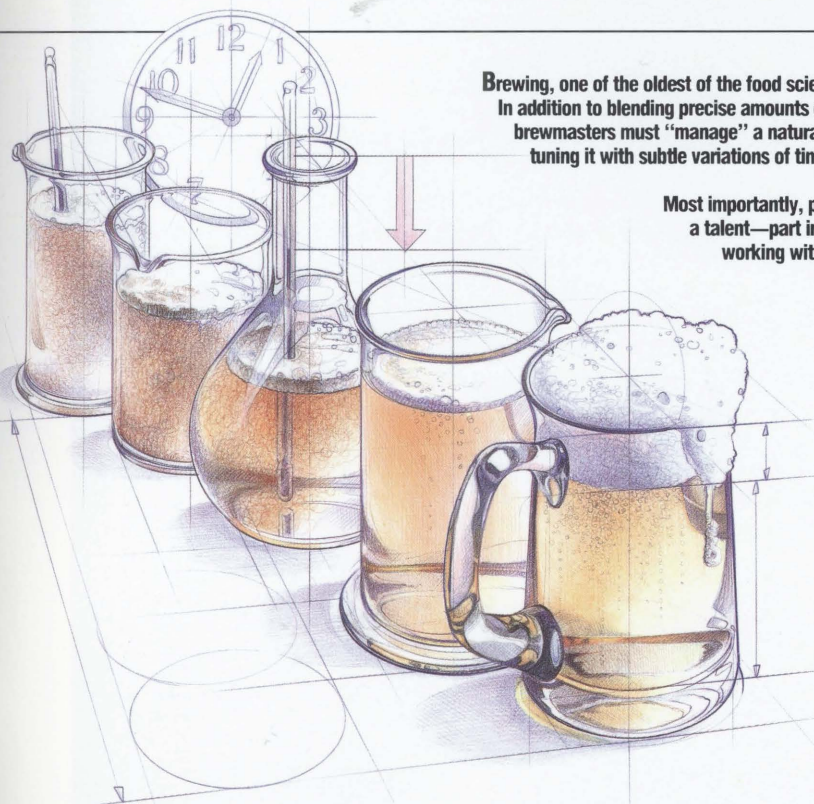
After a month or so of aging, the brew is pumped through special filters to give the finished product its clarity and brilliance.

Finally it is packaged and distributed by wholesalers to the point of sale.

Great Western Malting has been a leading supplier of varietal malted barleys to the brewing industry since 1935. Great Western has grown with the industry, and has been successful principally because it has adopted the very high standards of product quality and integrity in its own operations that is characteristic of the brewing industry itself.

Brewing, one of the oldest of the food sciences, is also an art. In addition to blending precise amounts of pure ingredients, brewmasters must "manage" a natural process, fine tuning it with subtle variations of time and temperature.

Most importantly, perhaps, they must possess a talent—part instinct, part experience—for working with living grain.



Fermentation is aided by pure brewer's yeast of a strain unique to each beer brand. After fermentation in large tanks like these, the beer is transferred to aging "cellars" where it completes development of aroma, flavor and body.



## Financial Review

### *Management's Discussion and Analysis of Financial Condition and Results of Operations*

#### *Comparison of Fiscal 1987 to 1986 Results*

Record profitability was achieved on a \$1 million increase in sales. Both the Great Western Malting and Penford Products units showed increasing volume. Malting unit volume increased 14 percent to reach record levels but lower selling prices resulted in the modest sales dollar gain. Demand for Penford's specialty chemical starch products remained strong throughout the year. This demand enabled the unit to achieve record specialty product volume.

Earnings totaled \$9.1 million, more than twice the preceding year's level. The earnings gain continues to reflect the company's concentration on high-margin, specialty carbohydrate chemical products, and food and flavor ingredients. Effectively, PENWEST is out of the commodities business. The improved gross margin is the clearest example of this strategy taking effect. The gross margin percentage improved to 24.8 percent from 17.7 percent. This gain is the result of PENWEST's businesses concentrating on specialty products which are sold on quality and value-added characteristics rather than on price.

Operating expenses increased \$2.8 million to \$13.0 million. Increased expenditures were made in support of an aggressive marketing campaign and in research and development activities. Increased emphasis has been placed on both of these areas in support of the overall direction to sell specialty products. In addition, incentive compensation based on financial performance increased operating expenses.

Interest expense continued to decline during the year. Interest expense totaled \$4.0 million, down nearly \$1.6 million from 1986. The decrease was achieved even though \$7 million of additional borrowings were added to finance the

purchase of a previously outstanding warrant. Cash flow remained strong throughout the year enabling the additional borrowings to be repaid. In addition, PENWEST renegotiated certain credit line terms which lowered average interest rates. The combination of these factors resulted in the interest expense reduction.

The Tax Reform Act of 1986 encompasses significant revision to the Internal Revenue Code. While there are many provisions that impact the company, both favorably and unfavorably, on balance it is anticipated that its effect on PENWEST will be neutral. The effective income tax rate was 45.3 percent in 1987 versus 47.2 percent in 1986. The lower rate reflects two month's impact of the effects of the act's lower rates. The tax act will result in a lower effective tax rate for the next fiscal year.

#### *Comparison of Fiscal 1986 to 1985 Results*

Consolidated sales fell by \$11.3 million. This drop is due to two factors. First, sales in the prior year included a large international malt shipment to the Far East not repeated in 1986. Second, certain raw materials prices dropped dramatically during the year and resulted in selling price declines. However, the company's profitability is tied to high value-added specialty products, and dollar sales can vary with little or no impact on the company's bottom line.

Gross margins improved by 2.7 percent and \$1.9 million in absolute dollars. These improvements reflected increased demand for higher margin modified starches and for the company's premium varietal malt lines, greater energy efficiencies, and strong cost containment.

Operating expenses increased \$1.2 million. This increase reflected additional staffing and programs in both operations, primarily related to the overall strategy of focusing on high value-added products. Interest dropped \$1.7 million due to a combination of lower outstanding borrowings and lower interest rates.



### *Liquidity and Capital Resources*

PENWEST has variations in grain inventory levels during the year, particularly related to its malt operations. Most barley purchases are made in the fall following harvest. The degree of barley purchases is affected by crop conditions, customer demand, market factors, and geographic considerations. As a result, inventories and related debt financing increase in the fall, peaking in January and declining to an annual low in August. Financing of these inventory changes is provided by bank lines of credit. Short-term borrowings reached a maximum of \$14.9 million during the current year, and were reduced to zero by year end. During the year the company renegotiated its revolving line of credit increasing it to \$22 million. The changes allowed the company to use its credit agreement to finance the \$7 million warrant purchase.

The company will be paying income taxes on a current basis beginning in the first quarter of fiscal year 1988. In the past, income taxes were deferred because of the benefit of high tax depreciation and investment tax credit carryforwards. All carryforwards have now been fully utilized.

PENWEST is adding 1.6 million bushels of capacity to the Vancouver malthouse. The expansion will be funded internally, with permanent financing to be provided by Industrial Development Bonds.

In the three and one half years since spin off, PENWEST reduced its interest-bearing debt from \$98.9 million to \$42.2 million. This reduction was accomplished with the benefit of strong operating results accompanied by aggressive operating and financial management. Current maturities total \$14.8 million over the next five years. PENWEST should be able to comfortably service these maturities. Management believes liquidity is adequate.

### *Effect of Inflation*

The effect of inflation on the company's operations during fiscal 1987 was minor. Prices paid for raw materials and the prices for PENWEST's products were generally stable. A substantial portion of the company's plant was built more than 10 years ago. As a result, the replacement cost would be in excess of recorded values.

### *Deferred Tax Impact*

In the 1986 annual report PENWEST reported that the Financial Accounting Standards Board (FASB) issued a proposed change to income tax accounting. That proposal was issued in the form of an Exposure Draft to interested business and financial parties.

Drafting of the final accounting pronouncement is near completion. Final release is anticipated during the first half of our fiscal year 1988, and must be implemented no later than fiscal year 1990, but early adoption is encouraged. The pronouncement will require any deferred liability or asset to be adjusted to reflect the effect of changes in tax rates in the quarter such law is enacted.

PENWEST has approximately \$26 million in deferred income taxes on its balance sheet. This liability results from differences that have accumulated to date between taxable income and pre-tax financial income. The major timing difference was created by the use of accelerated depreciation for tax purposes and straight line for financial reporting purposes. If federal tax rates are not changed, PENWEST will be able to reduce its deferred tax liability by approximately \$6.5 million. This change will increase both income and shareholders' equity.

PENWEST views this change favorably because of the positive impact it will have on the company's balance sheet. The increased equity, accompanied by lower deferred taxes, will more accurately reflect PENWEST'S financial position.



## Consolidated Balance Sheets

August 31 (Thousands of dollars)	1987	1986
<i>Assets</i>		
<i>Current assets:</i>		
Invested cash	\$ 725	
Trade accounts receivable	12,290	\$ 14,874
Inventories	28,326	23,019
Prepaid expenses and other	919	930
<i>Total current assets</i>	42,260	38,823
<i>Property, plant and equipment:</i>		
Land	1,128	1,061
Plant and equipment	133,010	126,962
Less accumulated depreciation	(56,721)	(50,091)
<i>Net property, plant and equipment</i>	77,417	77,932
<i>Other assets</i>	701	461
	\$120,378	\$117,216
<i>Liabilities and shareholders' equity</i>		
<i>Current liabilities:</i>		
Bank checks outstanding less cash in bank	\$ 1,973	\$ 2,830
Current portion of long-term debt	2,529	2,310
Accounts payable	10,744	10,945
Income taxes	5,572	
Accrued liabilities	5,453	4,726
<i>Total current liabilities</i>	26,271	20,811
<i>Long-term debt</i>	39,747	45,876
<i>Deferred income taxes</i>	26,693	24,957
<i>Shareholders' equity:</i>		
Common stock, par value		
\$1.00 per share		
Authorized—9,000,000 shares		
Outstanding—5,590,996 shares in 1987 and 2,773,620 in 1986	5,591	2,774
Additional paid-in capital	11,729	11,689
Retained earnings	10,347	11,109
<i>Total shareholders' equity</i>	27,667	25,572
	\$120,378	\$117,216

The accompanying notes are an integral part of these statements.



## Consolidated Statements of Income

(Thousands of dollars)	Year Ended August 31		
	1987	1986	1985
Sales	\$135,990	\$134,809	\$146,141
Cost of sales	102,321	111,001	124,241
Gross margin	33,669	23,808	21,900
Operating expenses	12,963	10,181	9,020
Income from operations	20,706	13,627	12,880
Interest expense	4,025	5,576	7,259
Income before taxes	16,681	8,051	5,621
Income taxes	7,548	3,798	2,819
Net income	\$ 9,133	\$ 4,253	\$ 2,802
<i>Earnings per common share and common share equivalent:</i>			
Primary	\$1.62	\$0.67	\$0.46
Fully diluted	\$1.59	\$0.65	\$0.46
<i>Weighted average common shares and equivalents:</i>			
Primary	5,653,934	6,306,432	6,069,310
Fully diluted	5,753,727	6,503,054	6,069,310

The accompanying notes are an integral part of these statements.



## Consolidated Statements of Changes in Financial Position

	Year Ended August 31		
(Thousands of dollars)	1987	1986	1985
<i>Operating Activities:</i>			
Net income	\$ 9,133	\$ 4,253	\$ 2,802
Noncash items included in net income:			
Depreciation and amortization	6,832	6,525	6,735
Deferred income taxes	1,492	3,459	2,478
Net decrease in receivables, inventories, and payables	3,605	2,646	2,828
Other	(417)	(372)	(55)
Net cash flow from operating activities	20,645	16,511	14,788
<i>Investing Activities:</i>			
Acquisition of property, plant and equipment, net	(6,115)	(2,906)	(1,926)
Purchase of warrant	(7,100)		
Net cash used by investing activities	(13,215)	(2,906)	(1,926)
<i>Financing Activities:</i>			
Proceeds under revolving credit agreement	14,950	9,525	1,950
Payments under revolving credit agreement	(14,950)	(9,525)	(14,950)
Payments on long-term debt	(5,910)	(16,003)	(502)
Exercise of stock options	62	4	
Net cash used by financing activities	(5,848)	(15,999)	(13,502)
Net increase (decrease) in cash and short-term investments	\$ 1,582	\$ (2,394)	\$ (640)

The accompanying notes are an integral part of these statements.



## Consolidated Statements of Shareholders' Equity

(Thousands of dollars)	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity
<i>Balances, September 1, 1984:</i>	\$2,770	\$11,689	\$ 4,054	\$18,513
Net income			2,802	2,802
<i>Balances, August 31, 1985:</i>	2,770	11,689	6,856	21,315
Net income			4,253	4,253
Exercise of stock options	4			4
<i>Balances, August 31, 1986:</i>	2,774	11,689	11,109	25,572
Net income			9,133	9,133
Retirement of warrant			(7,100)	(7,100)
Exercise of stock options	22	40		62
100% stock split	2,795		(2,795)	
<i>Balances, August 31, 1987:</i>	\$5,591	\$11,729	\$10,347	\$27,667

The accompanying notes are an integral part of these statements.



## Notes to Consolidated Financial Statements

### Note A

#### Summary of Significant Accounting Policies

##### Consolidation

The consolidated financial statements include PENWEST and its wholly-owned subsidiaries. Material intercompany balances and transactions have been eliminated.

##### Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for maintenance and repairs are expensed as incurred. The company uses the straight-line method to compute depreciation for financial reporting purposes. For income tax purposes, the company generally uses accelerated depreciation methods.

Interest is capitalized on major construction projects while in progress. Interest of \$132,000 was capitalized during the fiscal year ended August 31, 1987. No interest was capitalized in the two preceding years.

##### Income Taxes

Deferred income taxes are provided on timing differences between financial and income tax reporting methods. Investment tax credits were accounted for by the flow through method as a direct reduction of the current federal income tax provisions.

##### Earnings Per Share

Earnings per common share and common share equivalents were computed by dividing net income by the weighted average number of common shares and common share equivalents outstanding during the period (for primary and fully diluted). Outstanding stock options and the warrant (for 1986 and 1985) are considered to be common share equivalents.

##### Segment Information—Major Customer

PENWEST's single business segment is manufacturing specialty, value-added carbohydrate-based products. One customer accounted for sales of \$68,505,000, \$63,093,000 and \$61,735,000 in the three fiscal years ended August 31, 1987, 1986 and 1985, respectively.

##### Unissued Preferred Stock

There are 1,000,000 shares of \$1.00 par value preferred stock authorized for issue, however, none are outstanding.

### Note B

#### Inventories

Inventories are stated at the lower of cost or market. Cost, which includes material, labor and manufacturing overhead costs, is determined by the first-in, first-out (FIFO) method.

Inventories consist of:

August 31 (Thousands of dollars)	1987	1986
Raw materials, supplies and other	\$17,912	\$10,509
Work in progress	1,248	1,195
Finished goods	9,166	11,315
<i>Total inventories</i>	<i>\$28,326</i>	<i>\$23,019</i>



## Note C

### Long-term Debt and Revolving Credit Agreement

The long-term debt of the company and its subsidiaries is as follows:

August 31	1987	1986
	(Thousands of dollars)	
10¾ percent secured note, payable in monthly installments of \$202,230, including interest to 2001	\$19,616	\$19,916
9 percent secured note, payable in monthly installments of \$180,000, including interest to 1998	15,036	15,805
8¾ percent mortgages, three of which are payable in monthly installments totalling \$132,600 through 1990, including interest, and three of which are quarterly interest-only payments, with final maturity in 1990	7,624	8,865
Term loan		3,600
	42,276	48,186
Less current portion	2,529	2,310
Net long-term debt	\$39,747	\$45,876

The 8¾ percent mortgages are guaranteed by Univar Corporation. The 10¾ percent and 9 percent promissory notes carry a combined maximum guarantee by VWR Corporation of \$20,000,000. Substantially all property, plant, and equipment collateralize the above notes, mortgages and term loan.

Maturities of long-term debt for the fiscal years ending August 31, 1988 through 1992 are as follows (thousands of dollars):

1988	\$2,529
1989	2,769
1990	6,213
1991	1,561
1992	1,716

The company has an unsecured revolving line of credit of \$22 million with three banks. Borrowing rates available to the company under the revolver are at prime rate or less depending on the selection of borrowing options. PENWEST can elect to borrow under a prime rate option, certificate of deposit option, or Bankers' Acceptance option. The following relates to the company's borrowings under the revolver for the three years ended August 31, 1987.

	1987	1986	1985
Maximum amount outstanding	\$14,950,000	\$9,525,000	\$14,950,000
Average amount outstanding	6,208,000	1,056,000	9,900,000
Weighted average interest rate	8.06%	8.89%	11.40%

The revolving credit agreement includes, among other terms, various limitations on long-term indebtedness, minimum net worth balances and working capital ratios, and restrictions on PENWEST's ability to purchase or redeem its own stock. Under the most restrictive of these terms, minimum net worth at August 31, 1987, must be at least \$21,622,000. The term of this agreement is extended on an annual basis unless the commitments are withdrawn. If any bank withdraws, reduction of its commitment can be accomplished in four equal quarterly reductions commencing approximately one year after notice of election to withdraw.



### *Note D*

#### *Stock Options and Warrant*

Under stock option plans, options have been granted to certain officers and key employees to purchase company common stock. Changes in stock options for the three years ended August 31, 1987 are as follows:

	1987	1986	1985	1987 Option Price Range
Outstanding at beginning of year	163,000	156,000	152,000	\$3.13- 8.25
Granted	474,200	23,000	4,000	7.75-13.25
Exercised	( 52,200)	( 12,800)	—	3.13- 5.53
Cancelled	( 2,400)	( 3,200)	—	3.13-13.25
Outstanding at end of year	582,600	163,000	156,000	\$3.13-13.25
Exercisable at end of year	32,000	48,000	30,400	\$3.13- 8.38

At August 31, 1987, 62,200 stock appreciation rights (SAR's) were outstanding to certain officers under related stock option grants. The SAR's were granted in December 1986 at the market price of company stock. As a result of appreciation of the SAR's, \$192,000 was charged to expense during 1987. The SAR's vest over a five year period.

On September 7, 1986, the company paid \$7.1 million for a previously outstanding warrant to purchase 1,386,810 shares of company stock for \$3.20 per share. The warrant was retired.

### *Note E*

#### *Stock Split*

On June 12, 1987 the Board of Directors declared a two-for-one split of the company's common stock to stockholders of record on July 7, 1987. This stock split was effected in the form of a 100 percent stock dividend by the distribution of one additional share for each share of stock already issued. The par value of the common stock remained at \$1.00 per share and authorized shares were not adjusted. As a result, \$2.8 million, representing the total par value of the new shares issued, was transferred from retained earnings to common stock. Amounts per share and numbers of common shares have been restated to give retroactive effect to the stock split.

### *Note F*

#### *Pension Plans*

Substantially all employees of PENWEST and its subsidiaries are covered by defined benefit pension plans. Total pension expense was \$1,134,000 for the fiscal year ended August 31, 1987; \$726,000 for 1986; and \$730,000 for 1985. Pension costs include amortization of prior service costs over periods ranging up to 30 years.

PENWEST uses the Projected Unit Credit Method to calculate actuarial costs. The assumed rate of return on investments was 9 percent for the salaried plan and 8 percent for the negotiated hourly plan and the assumed salary increases were 6 percent.

It is the policy of PENWEST to fund amounts necessary to meet at least the minimum funding requirements of the Employee Retirement Income Security Act of 1974.



Combined benefit and asset information for the salaried plan and the negotiated hourly plan is presented below:

(Thousands of dollars)	1987	1986
Actuarial present value of plan benefits as of January 1:		
Vested	\$ 9,941	\$9,150
Non-vested	216	429
	\$10,157	\$9,579
<i>Net assets available for benefits</i>	\$ 8,489	\$7,471

Net assets available for plan benefits include the market value of fund assets (\$7,633,000) and accumulated amounts charged to operations, but not yet funded (\$856,000).

Certain employees are covered under multiemployer pension plans. Expenses for these plans were \$229,000 in 1987, \$255,000 in 1986, \$256,000 in 1985.

Provisions of the Multi-Employer Pension Amendments Act of 1980 require participating employers to assume a proportionate share of multiemployer plans unfunded vested benefits in the event of withdrawal from or termination of the plan. Information concerning the company's share of unfunded vested benefits is not available from the plan administrator. Provisions of the Act may have the effect of requiring increased contributions in future years.

## Note G

### Income Taxes

Income tax expense consists of the following:

(Thousands of dollars)	Year Ended August 31		
	1987	1986	1985
<i>Federal</i>			
Current	\$5,415		
Deferred	1,510	\$3,459	\$2,446
	6,925	3,459	2,446
<i>State</i>			
Current	641	339	341
Deferred	(18)		32
	623	339	373
<i>Total Provision</i>	\$7,548	\$3,798	\$2,819

The sources of timing differences resulting in deferred income taxes and the tax effect of each consisted of the following:

(Thousands of dollars)	Year Ended August 31		
	1987	1986	1985
Depreciation	\$(1,090)	\$2,143	\$ 4,888
Other	(132)	90	200
Reinstatement (reduction) due to net operating loss and tax credit carryforward	2,714	1,226	(2,610)
<i>Total deferred provision</i>	\$ 1,492	\$ 3,459	\$ 2,478



*Note H*  
*Quarterly Financial Data (Unaudited)*

(Thousands of dollars except per share data)	Sales	Gross Margin	Net Income	Fully Diluted EPS
<i>1986/87</i>				
First Quarter	\$ 30,543	\$ 6,492	\$1,375	\$0.24
Second Quarter	35,268	9,189	2,381	0.41
Third Quarter	35,207	9,270	3,025	0.54
Fourth Quarter	34,972	8,718	2,352	0.40
<i>Total</i>	<i>\$135,990</i>	<i>\$33,669</i>	<i>\$9,133</i>	<i>\$1.59</i>
<i>1985/86</i>				
First Quarter	\$ 31,744	\$ 4,958	\$ 634	\$0.10
Second Quarter	32,576	5,613	754	0.12
Third Quarter	35,427	6,103	1,188	0.18
Fourth Quarter	35,062	7,134	1,677	0.25
<i>Total</i>	<i>\$134,809</i>	<i>\$23,808</i>	<i>\$4,253</i>	<i>\$0.65</i>
<i>1984/85</i>				
First Quarter	\$ 35,892	\$ 4,795	\$ 420	\$0.07
Second Quarter	36,035	5,014	468	0.08
Third Quarter	36,711	5,209	549	0.09
Fourth Quarter	37,503	6,882	1,365	0.22
<i>Total</i>	<i>\$146,141</i>	<i>\$21,900</i>	<i>\$2,802</i>	<i>\$0.46</i>



## Report of Ernst & Whinney, Independent Auditors

### Board of Directors

### Board of Directors and Shareholders

### PENWEST, LTD.

Bellevue, Washington

We have examined the consolidated balance sheets of PENWEST, LTD. and subsidiaries as of August 31, 1987 and 1986, and the related consolidated statements of income, changes in financial position and shareholders' equity for each of the three years in the period ended August 31, 1987. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of PENWEST, LTD. and subsidiaries as of August 31, 1987 and 1986, and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended August 31, 1987, in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst & Whinney

Ernst & Whinney

Seattle, Washington  
October 2, 1987

### Officers

Tod R. Hamachek  
President and Chief  
Executive Officer

Franklin E. Olsen, Jr.  
Vice President-Employee  
Relations and Secretary

Ronald B. Vogel  
Executive Vice President  
and General Manager of  
Great Western Malting Co.

Dale C. Leman  
Vice President-Finance  
and Treasurer  
(resigned effective  
October 20, 1987)

H. Thomas Reed  
President and General  
Manager of  
Penford Products Co.

### Committees

Executive Committee  
James H. Wiborg,  
Chairman  
Tod R. Hamachek  
C. Calvert Knudsen  
Curtis P. Lindley  
N. Stewart Rogers

Audit/Pension Committee  
N. Stewart Rogers,  
Chairman  
Richard E. Engebrecht  
Russell E. Hamachek  
William K. Street

Compensation Committee  
Lowry Wyatt, Chairman  
C. Calvert Knudsen  
William K. Street  
James H. Wiborg

### PENWEST

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(206) 462-6000

### GREAT WESTERN MALTING Co.

Division Headquarters  
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Vancouver, WA 98668  
(206) 693-3661  
(503) 285-7711

5945 South Malt Avenue  
Los Angeles, CA 90040

1666 Kraft Road  
Pocatello, ID 83204

### PENFORD PRODUCTS Co.

Division Headquarters  
1001 First Street, S.W.  
Cedar Rapids, IA 52404  
(319) 398-3700

1088 W. Sunnyside Road  
Idaho Falls, ID 83401



## *Directors, Officers and Headquarters*

### *Board of Directors*

Richard E. Engebrecht  
President and Chief  
Executive Officer, VWR  
Corporation

Russell E. Hamachek  
Retired Vice President,  
Univar Corporation  
and Retired President/  
Chief Executive Officer,  
Great Western Malting Co.

Tod R. Hamachek  
President and Chief  
Executive Officer,  
PENWEST

C. Calvert Knudsen  
Vice Chairman,  
MacMillan  
Bloedel Ltd.

Curtis P. Lindley  
Chairman of the Board,  
PENWEST

N. Stewart Rogers  
Senior Vice President-  
Finance, Univar  
Corporation

William K. Street  
President and Chief  
Executive Officer,  
The Ostrom Company

James H. Wiborg  
Chairman and Chief  
Strategist, Univar  
Corporation

Lowry Wyatt  
Consultant and Retired  
Senior Vice President,  
Weyerhaeuser Company

### *Officers*

Tod R. Hamachek  
President and Chief  
Executive Officer

Dale C. Leman  
Vice President-Finance  
and Treasurer  
(resigned effective  
October 20, 1987)

Franklin E. Olsen, Jr.  
Vice President-Employee  
Relations and Secretary

H. Thomas Reed  
President and General  
Manager of  
Penford Products Co.

Ronald B. Vogel  
Executive Vice President  
and General Manager of  
Great Western Malting Co.

### *Committees*

Executive Committee  
James H. Wiborg,  
Chairman  
Tod R. Hamachek  
C. Calvert Knudsen  
Curtis P. Lindley  
N. Stewart Rogers

Audit/Pension Committee  
N. Stewart Rogers,  
Chairman  
Richard E. Engebrecht  
Russell E. Hamachek  
William K. Street

Compensation Committee  
Lowry Wyatt, Chairman  
C. Calvert Knudsen  
William K. Street  
James H. Wiborg

### *PENWEST*

Corporate Headquarters  
777-108th Avenue NE  
Suite 2390  
Bellevue, WA 98004  
(206) 462-6000

### *GREAT WESTERN MALTING Co.*

Division Headquarters  
Foot of West 11th St.  
P.O. Box 1529  
Vancouver, WA 98668  
(206) 693-3661  
(503) 285-7711

5945 South Malt Avenue  
Los Angeles, CA 90040

1666 Kraft Road  
Pocatello, ID 83204

### *PENFORD PRODUCTS Co.*

Division Headquarters  
1001 First Street, S.W.  
Cedar Rapids, IA 52404  
(319) 398-3700

1088 W. Sunnyside Road  
Idaho Falls, ID 83401



## General Information

### Annual Meeting

1:30 p.m. Tuesday,  
February 2, 1988  
Wm. E. Allen Auditorium  
Museum of Flight  
9404 East Marginal Way South  
Seattle, Washington

### Form 10-K

The company files an annual report with the Securities and Exchange Commission on Form 10-K, pursuant to the Securities Exchange Act

of 1934. Shareholders may obtain a copy of this report without charge by writing:

Bradley A. Wiens  
Controller  
PENWEST  
777-108th Avenue NE  
Suite 2390  
Bellevue, WA 98004

*Transfer Agent and Registrar*  
First Interstate Bank of California  
Corporate Trust  
P.O. Box 54261  
Los Angeles, CA 90054

### Legal Counsel

Shidler McBroom Gates & Lucas  
999 Third Ave.  
Suite 3500  
Seattle, Washington 98104

### Auditors

Ernst & Whinney  
999 Third Ave.  
Suite 3300  
Seattle, Washington 98104

### Investor Relations Counsel

Corporate Communications, Inc.  
200 West Mercer  
Suite 412  
Seattle, Washington 98119  
(206) 282-1771

Kekst and Company, Incorporated  
437 Madison Avenue  
New York, NY 10022  
(212) 593-2655

### Stock Price Data

Traded National Over-The-Counter  
NASDAQ Symbol: PENW

	Market Price	
	High	Low
1984/85		
Quarter Ended November 30	5 1/8	4 1/8
Quarter Ended February 28	5 3/4	3 3/8
Quarter Ended May 31	6 1/2	4 3/8
Quarter Ended August 31	5 5/8	4 5/8
1985/86		
Quarter Ended November 30	5 1/4	4 1/2
Quarter Ended February 28	6 3/4	5 1/4
Quarter Ended May 31	8 1/8	6 3/8
Quarter Ended August 31	8 5/8	7 1/2
1986/87		
Quarter Ended November 30	8 7/8	7 5/8
Quarter Ended February 28	13 1/4	7 7/8
Quarter Ended May 31	18 1/4	11 7/8
Quarter Ended August 31	29 1/2	17

The number of common shareholders of record as of October 15, 1987 was 2,208. See Note C to Consolidated Financial Statements for information regarding restrictions on dividends. Market prices are adjusted for the 1987 stock split.





777-108th Avenue NE  
Suite 2390  
Bellevue, WA  
98004