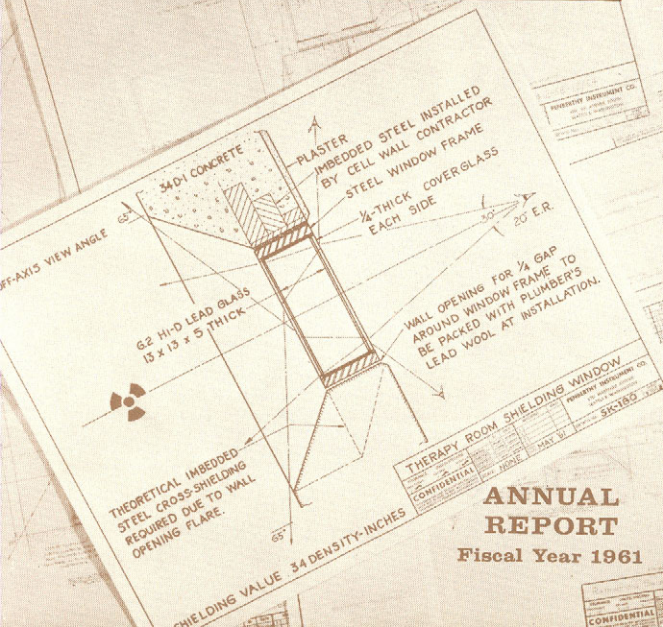




PACIFIC
**PENBERTHY
INSTRUMENT CO.**



OFFICERS

H. LARRY PENBERTHY President
JOHN F. GIFFORD Vice President
PEARL W. PENBERTHY Secretary-Treasurer

DIRECTORS

H. LARRY PENBERTHY President Penberthy Instrument Company Inc.
JOHN F. GIFFORD Vice President (resigned) Penberthy Instrument Company Inc.
PEARL W. PENBERTHY Secretary-Treasurer Penberthy Instrument Company Inc.
PROF. A. N. SCHILBER Professor of Policy and Production Management University of Washington
DR. RICHARD E. FULLER Director of Seattle Art Museum
Chairman of Board Northwestern Glass Company
LAWRENCE W. WELLS Treasurer and Director Eddy Investment Company
Treasurer Port Blakely Mill Company
DR. J. HENDERSON Professor of Physics and Director of Applied Physics Laboratory, University of Washington
Director John Fluor Mfg. Co.
Director University Federal Savings & Loan
Consultant to Research Center, Minneapolis Honeywell

STAFF

LEE F. MILLER General Manager
CHARLES T. ROBINSON Plant Manager
ROBERT W. SWINGLE Controller
FRANK R. LINDELL Chief Engineer
THOMAS A. BEACH Chemist
ELMER R. JOHANSEN Sales Manager

This report and the statements it contains are submitted for the general information of the stockholders of the Company as such, and are not intended to induce, or to be used in connection with, the sale or purchase of securities.

TO OUR STOCKHOLDERS AND EMPLOYEES:

Sales in our fiscal year ending March 31, 1961 were \$733,000, the highest in the Company's 13 years of operation, and up 68% from the \$436,000 recorded in fiscal year 1960. As a measure of growth, sales in 1956 were \$104,000.



Lead glass windows for atomic radioactivity shielding continue to be our main product. As a new area of application, 40% of the year's sales were for windows used in nuclear-powered submarines and ships.

Although still only 4% of sales, we have experienced an increasing volume in orders for x-ray therapy rooms for hospitals. We are continuing our sales effort in this area. Our regular line of windows is varied in size and shape, ranging from 10 lbs. to 3 tons in weight, with a considerable sales volume in prospect.

Operations were profitable, at 20c a share. We believe next year will be better, since equipment in the new building is working well.

The financial operating position of the Company improved greatly. Short term loans were paid down by \$78,000 and the remainder was converted into two long term loans, totaling \$264,000. These loans have a seven year term and make available an additional \$123,000.

In April of this year, Lee Miller was appointed General Manager to fill the vacancy created by the resignation of John Gifford. Mr. Miller is well known in the atomic energy field for his work in designing remote handling devices and large radiation windows. He has been with the Company six years and has been plant manager for the past two years.

We have set three operating goals for the coming year:

To find new applications for lead glass. An exciting discovery in the past few months is that our lead glass has exceptional bullet-stopping power. Test-firings at our windows for this purpose at Aberdeen Proving Grounds using military projectiles were highly successful. We foresee a large market for our glass in military vehicles.

To develop new products in our field. Fused quartz is a major item in development now. We have successfully made ingots in a vacuum furnace, and we are working on furnaces for drawing tubing. The total U. S. A. market for quartz tubing is estimated at \$6,000,000 per year, largely for quartz mercury-vapor lamps for street lighting.

To continue to improve efficiency and reduce costs. Having improved our melting efficiency, our next move will be to build a more powerful grinding machine.

We expect these programs to bring about interesting and profitable changes in the coming year. We want to express our appreciation to our employees, stockholders, and directors for their cooperation and support in making our Company's growth possible.

Larry Penberthy
LARRY PENBERTHY
President

COVER: The drawings on the cover are engineering designs of a shielded window for a hospital cancer therapy room.



Display at San Francisco Atom Fair, December 1960

COMPARATIVE FINANCIAL HIGHLIGHTS

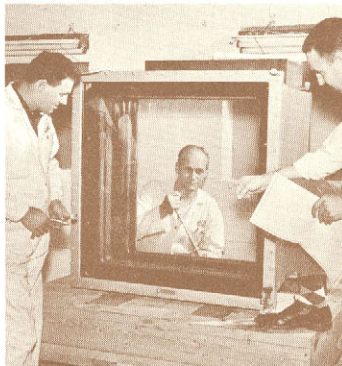
	1961	1960
Sales	\$733,669	\$ 436,005
Net Profit after Federal Income Tax	\$ 15,874	\$(103,808)
Net Profit per share	\$.20	\$(1.31)
Net Working Capital	\$275,734	\$ 43,281
Shareowners equity	\$221,584	\$ 244,048
Equity per share*	\$ 2.74	\$ 3.09

*Decrease due to write-off of 1960 Eye Protective operations

Raw glass slabs ready for finishing.



One of our large windows in process of assembly



PENBERTHY INSTRUMENT COMPANY, INC.

SALES

Sales of \$733,669 in Fiscal Year 1961 were the highest in Company history. This amounted to a 68% increase over sales of the prior year and was attributable to greater volume and higher prices. Volume rose 61% despite a 20% cut in AEC funds, while prices rose 11% per unit of glass sold. Approximately half of all business let out for bid was successfully recovered during the year, and we continued to dominate the submarine window business.

Prospects for the coming year should be attractive, the 20% cut in AEC funds having been restored and the revised AEC budget having been increased over that of the prior year.

COST OF SALES

The beneficial effects of moving into new facilities and installing improved equipment were apparent this year as the ratio of cost of sales to total sales dropped to 78% from 91% in the prior year. Operation of the new melting furnace and shutdown of old equipment helped bring about a significant increase in glass melting efficiency, while the acquisition of a diamond-blade glass saw and more polishing machines, greatly increased the capacity of our grinding and polishing department.

EARNINGS

Earnings for the year were 20c per share. This compares to the loss of \$1.31 per share last year, the improvement being due to both increased sales and to operating economies.

It is significant to note that interest charges of 31c per share were absorbed during the year. As in the prior year, substantial research and development efforts were charged directly against earnings.

WRITE-OFF

During the Fiscal Year 1960, a large furnace was built for the production of sheet glass for sunglasses. Construction costs and expenses of initial operation totaling \$136,484 were deferred. Lack of capital prevented us from successfully completing this project and no further work was done during Fiscal Year 1961. In light of this, and without abandoning the basic principle involved, your directors have elected to write off those costs incurred which are no longer applicable to future operations.

The financial impact of this write-off is the elimination of the tax liability for both fiscal years 1961 and 1959 and the reduction of deferred charges, lowering the book value per share to \$2.74. Further information regarding the E. P. Furnace write-off may be found in footnote number 5 relating to the financial statement.

PENBERTHY INSTRUMENT COMPANY, INC.

SEATTLE, WASHINGTON

BALANCE SHEET—MARCH 31, 1961 AND 1960

ASSETS

1961 1960

CURRENT ASSETS

Cash	\$ 36,886	\$ 10,905
Accounts receivable	73,596	148,549
Recoverable Federal income tax	12,552	38,364
Inventories (Note 1)	119,736	166,413
Platinum (Notes 2 and 3)	89,944	99,415
Prepaid expenses	1,512	1,264
Total Current Assets	\$334,226	\$464,910

EQUIPMENT—at cost (Note 3)

Plant machinery, equipment and building improvements	\$169,765	\$171,055
Automotive equipment	8,166	8,166
Office equipment	6,445	2,831
	\$184,376	\$182,052
Less accumulated depreciation	84,528	66,605
	\$ 99,848	\$115,447

OTHER ASSETS

Eye protective glass project (Notes 3 and 5)	\$ 60,175	\$136,484
Molds and other shop supplies	20,294	17,513
Deferred expenses—other	12,439	3,551
Demonstration equipment (Note 3)	1,050	1,050
Formulas, processes and goodwill	16,305	16,305
Organization expense	415	415
	\$110,678	\$175,318
Total Assets	\$544,752	\$755,675

LIABILITIES AND STOCKHOLDERS' EQUITY

1961 1960

CURRENT LIABILITIES

Notes payable—bank:		
Secured		\$209,531
Unsecured		103,906
Note payable—Richard E. Fuller—current portion (Note 3)	\$ 3,000	—
Accounts payable	22,091	64,838
Accrued expenses:		
Interest	4,532	6,270
Payroll and vacation pay	9,804	11,392
Directors' fees	1,625	500
Taxes—other than income	14,367	13,630
Provision for prior years' Federal income tax	3,073	11,562
Total Current Liabilities	\$ 58,492	\$421,629

LONG-TERM DEBT

Notes payable:		
Richard E. Fuller—noncurrent portion (Note 3)	234,678	60,000
Penberthy Electromelt International, Inc. (Note 4)	29,998	29,998
Total Liabilities	\$323,168	\$511,627

STOCKHOLDERS' EQUITY

Class A common stock—authorized 80,000 shares of \$2.50 par value each, issued and outstanding 36,293 shares at March 31, 1961 and 34,633 shares at March 31, 1960	\$ 90,733	\$ 86,583
Class B common stock—authorized, 48,000 shares of \$2.50 par value each, issued and outstanding, 44,452 shares at March 31, 1961 and 44,447 shares at March 31, 1960	111,130	111,117
Paid-in capital	79,966	78,344
	\$281,829	\$276,044
Earned surplus (deficit)	(60,245)	(31,996)
Total Stockholders' Equity	\$221,584	\$244,048
Total Liabilities and Stockholders' Equity	\$544,752	\$755,675

See Notes to Financial Statement

See Notes to Financial Statement

PENBERTHY INSTRUMENT COMPANY, INC.

STATEMENT OF INCOME AND EARNED SURPLUS (DEFICIT)

Years ended March 31, 1961 and 1960

	1961	1960
SALES	\$733,669	\$ 436,005
COST OF SALES	575,205	398,380
Gross Profit on Sales	\$158,464	\$ 37,625
EXPENSES		
Research and development	\$ 14,142	\$ 53,792
General and administrative	95,474	103,053
Moving expense	—	10,909
Total Expenses	\$109,616	\$ 167,754
Operating Income (Loss)	\$ 48,848	\$(130,129)
OTHER EXPENSE (INCOME)		
Interest expense	\$ 25,468	\$ 12,502
Sundry-net	706	(459)
	\$ 26,174	\$ 12,043
Net Income (Loss) Before Provision for Federal Income Tax (Refund) and Special Charge		
Tax (Refund) and Special Charge	\$ 22,674	\$(142,172)
PROVISION FOR FEDERAL INCOME TAX (REFUND)	6,800	(38,364)
Net Income (Loss) Before Special Charge	\$ 15,874	\$(103,808)
SPECIAL CHARGE		
Write-off of portion of eye protective glass project—net of income taxes (Note 5)	(56,678)	—
Net Income (Loss) and Special Charge	\$(40,804)	\$(103,808)
EARNED SURPLUS (DEFICIT)		
Balance at beginning of year	(31,996)	83,354
	\$(72,800)	\$ (20,454)
Dividends paid—cash	—	(11,542)
Recovery of prior years' income taxes—net	12,555	—
Balance at End of Year	\$(60,245)	\$(31,996)

See Notes to Financial Statement

STATEMENT OF PAID IN CAPITAL

Years ended March 31, 1961 and 1960

	1961	1960
Balance, beginning of year	\$ 78,344	\$ 46,758
Excess of proceeds over par value of stock issued during year (Note 6)	1,622	33,895
Less expenses incurred in connection with offering and sale of stock	—	(2,309)
Balance, End of Year	\$ 79,966	\$ 78,344

WORKING CAPITAL

The ratio of working capital to current liabilities rose during the year from 1 to 1, to 6 to 1, as operations were conducted on a profitable basis, inventories were reduced and major new long term financing was obtained.

SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS

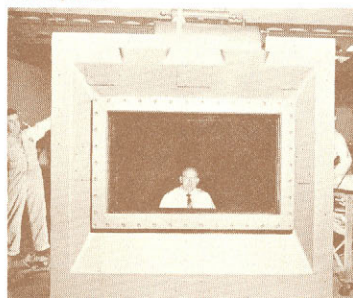
Net Income for year before provision for Federal Income Tax	\$ 22,674
Depreciation of equipment	20,679
	\$ 43,353
Funds borrowed from Richard E. Fuller (less current maturity of \$3,000)	174,678
Proceeds from issuance of common stock	5,785
Recovery of prior years' income taxes—net	12,555
Additional prior years' income taxes to be recovered due to write-off of portions of eye protective glass project	12,552
	\$248,923

APPLICATION OF FUNDS

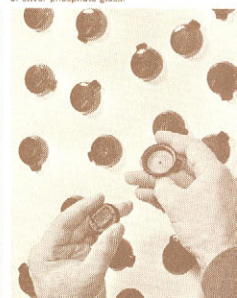
Net additions to equipment	\$ 7,582
Increase in other deferred expenses	8,888
Additions to Working Capital	232,453
	\$248,923

See Notes to Financial Statement

Finished large window



Radiation detectors. Sensitive element of silver phosphata glass.



PENBERTHY INSTRUMENT COMPANY, INC.

SEATTLE, WASHINGTON

NOTES TO FINANCIAL STATEMENTS, MARCH 31, 1961

NOTE 1—INVENTORIES:

Inventories consist of the following and are stated at the lower of cost or market:

	1961	1960
Finished goods	\$ 1,005	\$ 2,944
Work in process and raw materials	113,318	158,141
Supplies	5,413	5,328
	<u>\$119,736</u>	<u>\$166,413</u>

NOTE 2—PLATINUM:

Platinum is stated at average cost and consists of a fabricated melting pot and parts for the furnace and excess quantities on hand and with suppliers.

NOTE 3—NOTE PAYABLE—RICHARD E. FULLER:

The company has borrowed \$237,678 from Richard E. Fuller in accordance with a loan agreement dated November 11, 1960. Subject to the provisions of the agreement, and until November 11, 1961, the company may increase the loan to \$360,000. The loan is secured by a mortgage on platinum and all equipment and by certain personal guaranties of H. Larry Penberthy and Pearl W. Penberthy. Among other provisions, the loan agreement restricts the declaration or payment of dividends without the written consent of the lender.

The loan is to be repaid in monthly installments of \$1,000 each commencing January 31, 1962, increasing to \$1,500 in 1963 and \$2,000 in 1964 and subsequent years—with an overall maturity date of December 31, 1967. Interest is payable at the rate of 10% per annum—of which 6% is payable monthly in cash and 4% is payable annually in Class A common stock, or in cash at the lender's option if the net asset value per share as defined in the agreement should be less than the par value per share of \$2.50. The 4% interest accrued to March 31, 1961 totals \$3,169.

NOTE 4—Note payable to Penberthy Electromelt International, Inc. in the amount of \$29,998 bears interest at 7% per annum and is subordinated to the Fuller loan.

NOTE 5—EYE PROTECTIVE GLASS PROJECT:

During the fiscal years ended March 31, 1959 and 1960, the company accumulated and deferred certain costs totaling \$136,484 in connection with the eye protective glass project. The project was inactive as of March 31, 1960 and was not reactivated during the fiscal year ended March 31, 1961. Based upon total costs accumulated and a technical survey of the equipment by Mr. Larry Penberthy, the following write-off was made in the current year:

Start-up costs	\$ 53,576
Estimated portions of furnace and other equipment considered no longer useful	22,454
Total	<u>\$ 76,030</u>

Less reduction of income taxes resulting from write-off	
Recoverable prior years' Federal income tax—Fiscal year March 31, 1959	(12,552)
Provision for Federal income tax for current year eliminated	(6,800)
Net	<u>\$ 56,678</u>

Approximately \$18,000 of the write-off will be available to reduce taxable income of succeeding years.

The remaining cost of \$60,454 has been allocated by Mr. Penberthy to the furnace and other equipment which is expected to be useable in any future production of eye protective glass. A portion of the furnace was rented during the year to Penberthy Electromelt Company for a period of 34 days and depreciation of \$279 was computed based on days in operation. The eye protective glass project is stated at the allocated cost of \$60,454 less depreciation of \$279.

NOTE 6—During the year ended March 31, 1961, 1,456 shares of Class A common stock were issued to Richard E. Fuller in payment of interest due on a \$60,000 note and 204 shares of Class A common stock were issued to employees in lieu of wages. Of the 1961 addition to paid-in capital \$1,603 is applicable to these transactions.

NOTE 7—LEASE COMMITMENT:

The company leases the real estate at 6701 Maynard Avenue, Seattle, Washington, its principal place of business. The lease provides for monthly rental payments of \$864 and expires in 1974.

OPINION OF ACCOUNTANTS

To the Board of Directors and Stockholders,
Penberthy Instrument Company, Inc.,
Seattle, Washington.

Gentlemen:

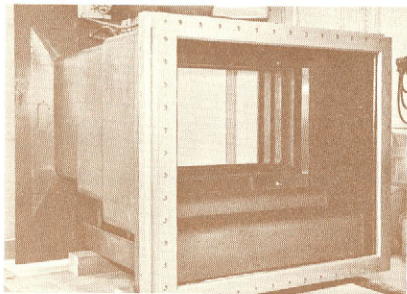
We have examined the balance sheet of Penberthy Instrument Company, Inc., as of March 31, 1961 and the related statements of income and earned surplus (deficit) and paid-in capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The eye protective glass project equipment which is included in other assets is stated at a cost of \$60,454 less depreciation of \$279 (see Note 5 to the financial statements). Due to the inactivity of this project and equipment, we are unable to determine whether this amount reflects the net realizable value of the equipment either through its use in production or from a sale thereof.

In our opinion, subject to the exception as stated in the preceding paragraph, the financial statements referred to above present fairly the financial position of Penberthy Instrument Company, Inc., as of March 31, 1961, and the results of its operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

May 31, 1961

MOCK, ADAMS & CO.
CERTIFIED PUBLIC ACCOUNTANTS



PENBERTHY INSTRUMENT COMPANY, INC.
6701 MAYNARD AVENUE S. • SEATTLE 4, WASH.



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