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PAY'N SAVE  
*corporation*

*annual report*  
*for the year ending january 31, 1967*







### *to the stockholders*

On behalf of the Board of Directors and Management of Pay'n Save Corporation, we are pleased to report on the operations of your company for the year ended January 31, 1967.

#### SALES

The sales increase was the largest experienced by the company in recent years. We attribute this substantial increase to aggressive advertising, competitive pricing policies and an abnormal influx of people moving into the Puget Sound Area to support the build-up in the Aero-Space Industry. Sales exceeded our expectations and amounted to \$41,671,839 for the year. This is an increase of \$10,728,576 or 35% over sales of \$30,943,263 for the preceding year.

#### NET INCOME

Net income for the year increased more rapidly than sales. This results from careful control over operating and administrative expenses which were reduced as they relate to sales while maintaining normal gross profit margins. Net income for the year amounted to \$1,230,123 or \$2.58 per share on the average shares outstanding. This compares with net income of \$816,235 or \$1.89 for the preceding year. Further, the prior year's income includes \$87,191 or \$.20 per share of non-recurring income.

*Left to right seated: H. E. Oneal, Vice President, Director and General Manager of Pay'n Save Drug Division; Jennie K. Hauge, Assistant Treasurer; M. L. Bean, Chairman of the Board; M. Lamont Bean, President and Director. Standing: James H. Clawson, Director; Calvin Hendricks, Treasurer and Controller; John E. Ryan Jr., Secretary; Joshua Green Jr., Director; E. R. Erickson, Assistant Secretary and General Manager of Ernst Hardware Division.*



#### PAY'n SAVE DRUGS LTD.

Our first full year of operation of the Canadian Stores resulted in a small profit. The potential continues to look promising and we expect increased sales and profit in the coming year. Sales account for approximately 5% of the total Corporation sales for the year.

#### FINANCIAL POSITION

The company is in an excellent financial position for the rapid continuing growth ahead. Additional long-term financing in the amount of \$1,500,000 was consummated during the year. At the present time, there are no current bank loans. At January 31st current assets were \$11,260,031 compared with current liabilities of \$4,053,813. This results in working capital of \$7,206,218 and a ratio of current assets to current liabilities of 2.78, near the highest in the history of the company.

#### EXPANSION



During 1966 new Pay'n Save Drug Stores were opened in Tacoma, and Olympia, Washington. New Ernst Hardware Stores including Lumber and Malmo Nursery Departments were opened in Olympia, and Burien, Washington.

Our expansion for 1967 began with the opening of a Pay'n Save Drug Store in Anchorage, Alaska in March. This is our first venture into this exciting state and we are very optimistic about this rapidly growing area. Other Pay'n Save Drug Store locations under construction are in the University Village Shopping Center of Seattle and on Pacific Highway South in Tacoma, Washington. Ernst Hardware Stores are presently being constructed in Longview, Washington and the Aurora Village Shopping Center of Seattle. The latter addition is an enlarged replacement of an existing store. Both new Ernst Hardware Stores will include pre-cut Lumber Departments as well as Malmo Nurseries. In addition, the Bellevue, Washington Ernst Hardware Store is being remodeled and enlarged.

#### FUTURE

Sales and net income are not expected to increase during the coming year at the same rate as was experienced last year. We are, however, looking forward to another highly successful year. We expect the existing stores to continue to increase sales and profits and as mentioned above, a number of new units will be added during the year.

We wish to extend our sincere appreciation to all members of our organization, our stockholders, our suppliers and our customers for the contributions which they have made to the continuing progress of Pay'n Save Corporation.

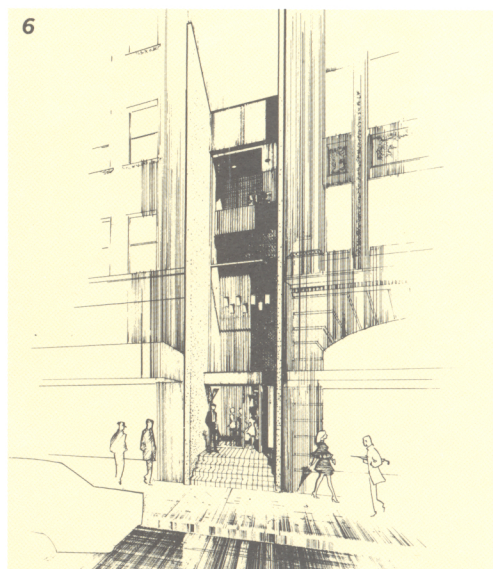
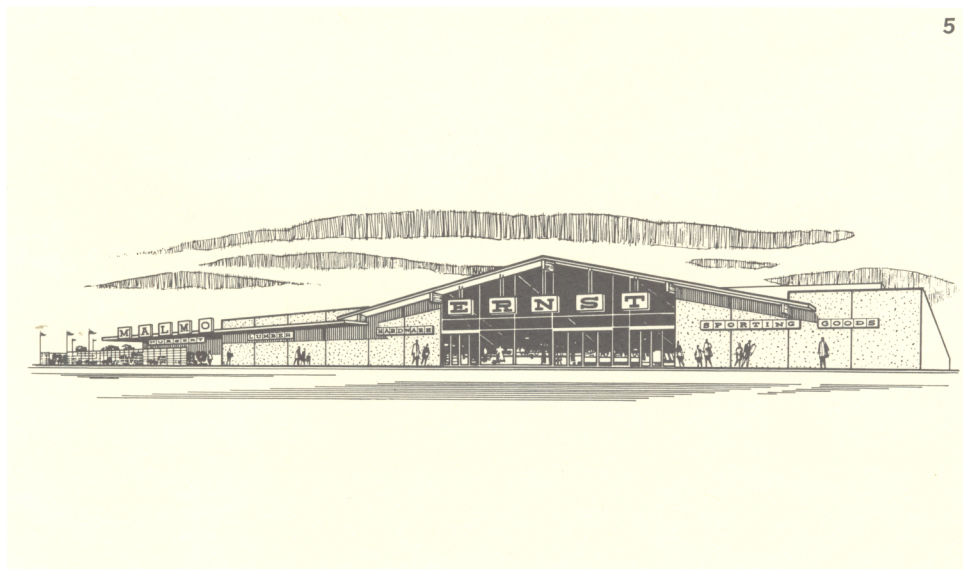
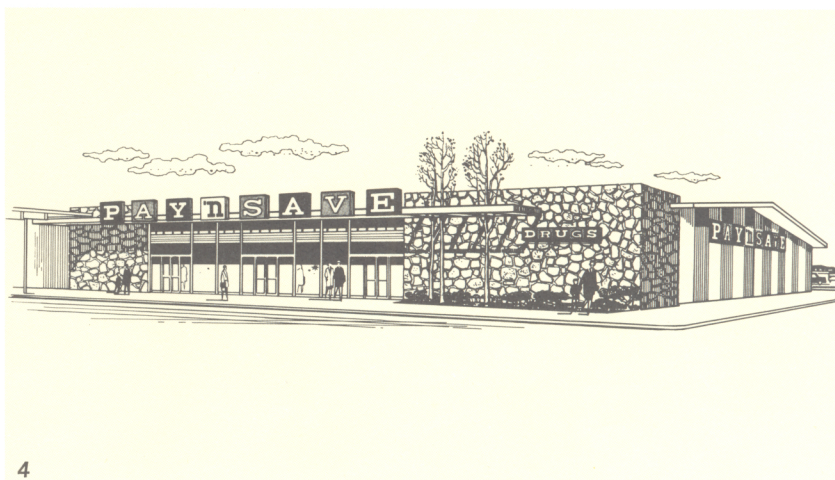
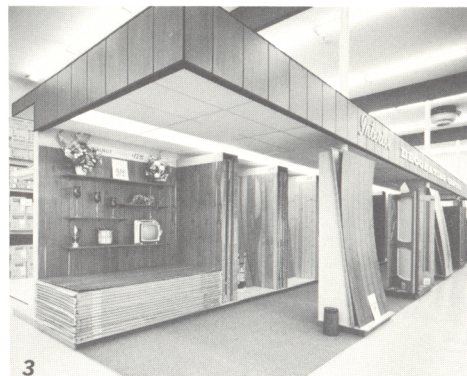
  


Sincerely,  
M. L. BEAN  
*Chairman of the Board*  
M. LAMONT BEAN  
*President*



1. The Burien, Washington, Malmo Nursery just prior to the Grand Opening in September 1966. 2. Young and old alike enjoy shopping at Ernst Hardware Stores. 3. The new Ernst Hardware Stores feature wood paneling in the Interior Decorating Centers. This picture was taken of the Burien, Washington store. 4. Architect's rendering of PAY'n SAVE No. 25 which is to open in the summer of 1967, in the University Shopping Center in Seattle, Washington. 5. This Ernst Malmo complex will be located in the Triangle Shopping Center, Longview, Washington

and is scheduled for opening early in the summer of 1967. 6. Architect's rendering of the entrance to the PAY'n SAVE CORPORATION's new General Offices on 6th Avenue between Pike and Pine in Seattle. The entrance will have the appearance of the world's narrowest office building. An elevator will transport people to the mezzanine and 3rd floor where accounting, credit and corporation offices will be located in approximately 15,000 square feet of newly remodeled space.





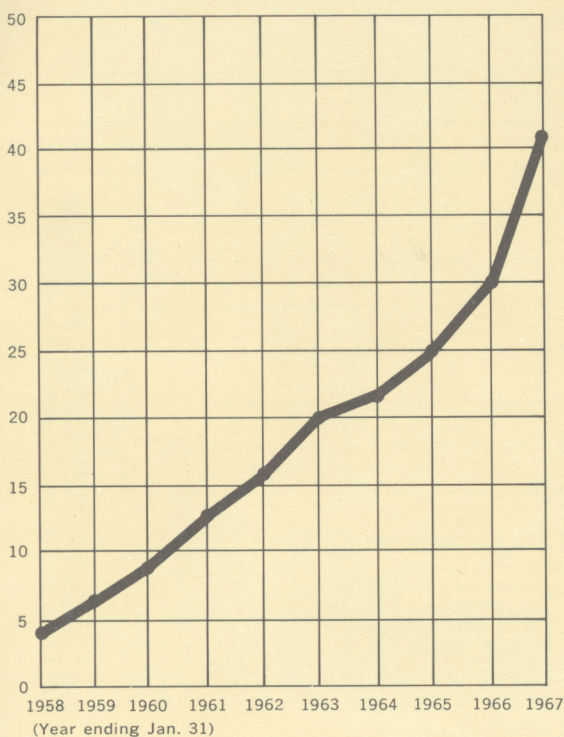
**Ribbon Cutting . . .** The Grand Opening of PAY'n SAVE No. 23 was September 26, 1966. This gala affair in the Northwest's most modern

and distinctively decorated drug store was enjoyed by the executives and their wives as well as thousands of customers.

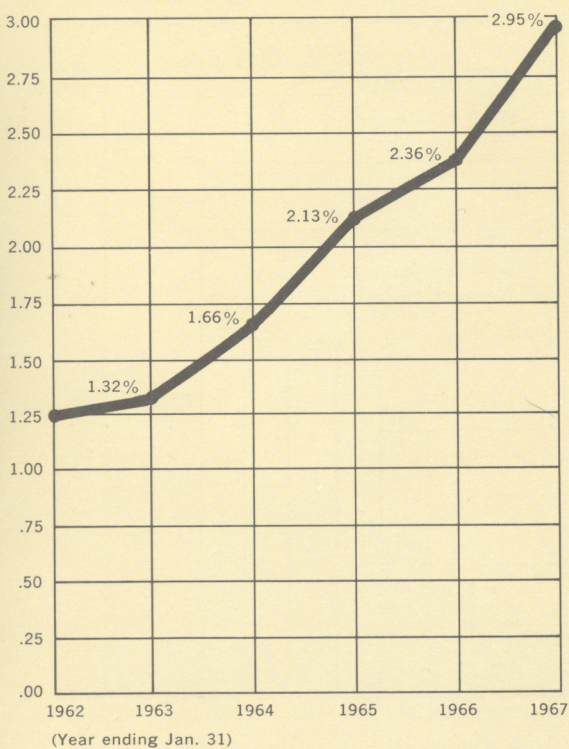




# NET SALES (Millions of Dollars)

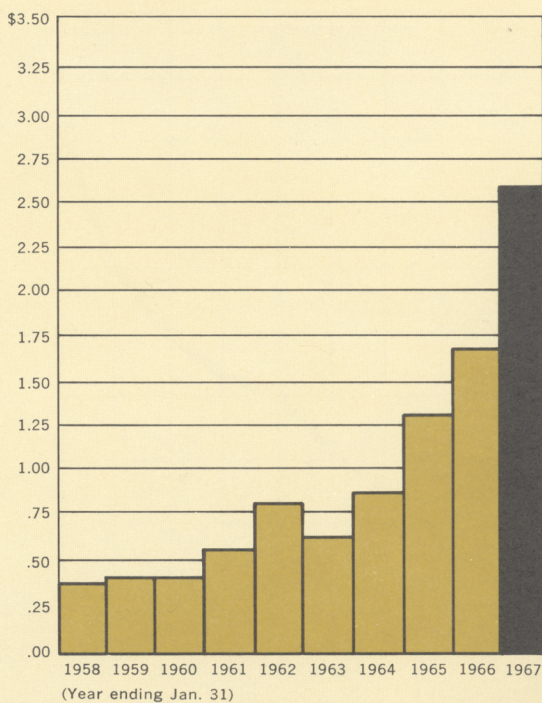


# NET INCOME AS A PERCENTAGE OF SALES

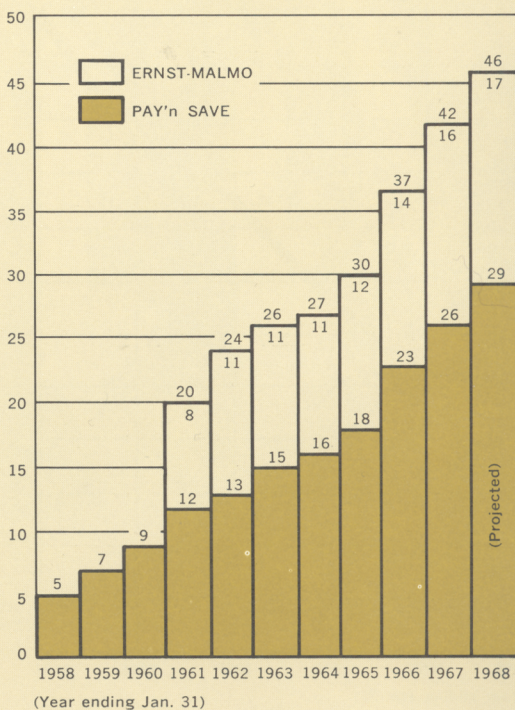




# NET INCOME PER SHARES OUTSTANDING (Adjusted for Stock Dividends and Non-recurring Items)

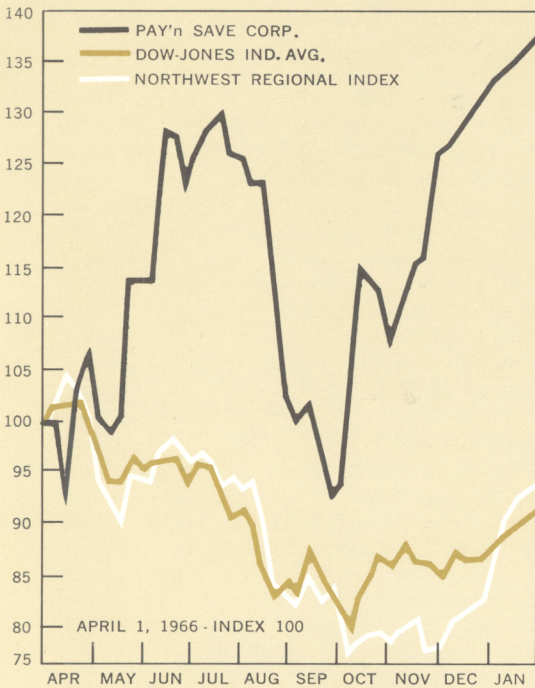


## NUMBER OF STORES IN OPERATION

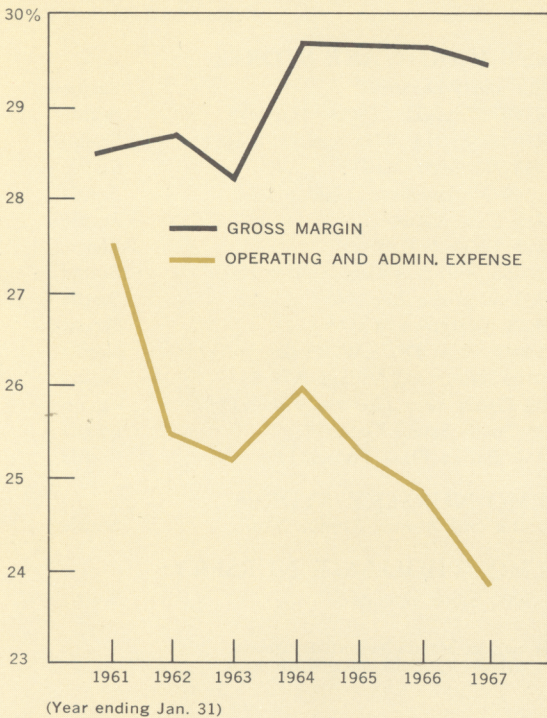




# PRICES OF COMMON STOCK COMPARED WITH DOW-JONES INDUST & NW REGIONAL AVERAGE



## GROSS MARGIN, AND OPERATING AND ADMINISTRATION EXPENSE



## *store locations*

### **PAY'N SAVE DRUG STORES:**

<i>No.</i>	<i>Store Address</i>	
1	319 Pike Street	Seattle
2	2711 Colby Avenue	Everett
3	4535 University Way N.E.	Seattle
4	412 Northgate Mall	Seattle
5	1423 Market Street (Ballard)	Seattle
6	1400 Cornwall	Bellingham
7	250 S.W. 152nd Street (Burien)	Seattle
8	201 S. Broadway	Aberdeen
9	8500 35th N.E. (Wedgewood)	Seattle
10	20220 Aurora Ave. (Aurora Village)	Seattle
11	1421 Lloyd Center	Portland
12	4100 S.E. 82nd Ave. (Eastport Plaza)	Portland
13	Triangle Shopping Center	Longview
14	7707 S.E. 27th	Mercer Island
15	120 106th Ave. N.E.	Bellevue
16	2707 Rainier Ave. S.	Seattle
17	202 Cross St. S.E.	Auburn
18	17171 Bothell Way N.E. (Forest Park)*	Seattle
19	40 Grady Way (Renton Village)	Renton
20	9071 Westwood Village S.W.	Seattle
21	6111 Sixth Avenue	Tacoma
22	415 South Sound Center	Olympia
23	10407 Plaza Dr. S.W. (Lakewood)	Tacoma
24	1370 Northern Lights Blvd.	Anchorage

### **PAY'N SAVE DRUGS LTD.**

1	326 7th Avenue West	Calgary, Alberta
2	318 Donald Street	Winnipeg, Manitoba
3	1926 Hamilton Street	Regina, Saskatchewan

### **ERNST HARDWARE STORES:**

1	6th and Pike Street	Seattle
2	4314 W. Alaska (West Seattle)*	Seattle
3	4704 25th N.E. (University Village)*†	Seattle
4	414 Northgate Mall*†	Seattle
5	1740 Market Street (Ballard)	Seattle
6	815 First Avenue	Seattle
7	125 106th N.E.*†	Bellevue
8	20205 Aurora Village Square N.	Seattle
9	333 Westlake Ave. N.	Seattle
10	4920 Evergreen Way*†	Everett
11	10419 Plaza Dr. S.W. (Lakewood)*†	Tacoma
12	9109 Westwood Village S.W.*†	Seattle
13	60 Grady Way (Renton Village)*†	Renton
14	25 South Sound Center*†	Olympia
15	150 Burien Plaza (Burien)*†	Seattle

### **MALMO NURSERY STORES:**

1	150th and Aurora Avenue North	Seattle
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### **MALMO WHOLESALE NURSERY:**

1	14900 Stone Avenue	Seattle
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\*Store includes Malmo Nursery department

†Store includes Pre-Cut Lumber department



*PAY'n SAVE corporation and subsidiary companies*

*statement of consolidated income and retained earnings*

	<i>Year ended January 31</i>	
	<i>1967</i>	<i>1966</i>
Sales and other revenues:		
Net sales	\$41,671,839	\$30,943,263
Interest and other income	128,697	98,106
	<u>41,800,536</u>	<u>31,041,369</u>
Costs and expenses:		
Cost of merchandise sold	29,351,855	21,839,214
Operating and administrative expenses	9,966,021	7,716,706
Interest	162,537	146,405
	<u>39,480,413</u>	<u>29,702,325</u>
Income before federal income taxes and special item	2,320,123	1,339,044
Provision for federal income taxes	1,090,000	610,000
Net income before special item	1,230,123	729,044
Gain on sale of investment, net of federal income taxes	—	87,191
Net income for the year	<u>1,230,123</u>	<u>816,235</u>
Retained earnings at beginning of year:		
As previously reported	2,302,036	1,803,443
Adjustment of prior years' federal income taxes	154,000	
As restated	<u>2,456,036</u>	
	3,686,159	
Stock dividend—5%	(527,782)	(317,642)
Retained earnings at end of year	<u>\$ 3,158,377</u>	<u>\$ 2,302,036</u>
Per share of common stock:		
Net income before special item	\$2.58	\$1.69
Special item, net of tax	—	.20
Net income	<u>\$2.58</u>	<u>\$1.89</u>

Provision for depreciation and amortization of property and equipment amounted to \$258,241 in 1967, and \$231,629 in 1966.

The accompanying notes are an integral part of these financial statements.

*auditors' report*

To the Stockholders of  
Pay'n Save Corporation

In our opinion, the accompanying consolidated balance sheet and related statement of consolidated income and retained earnings present fairly the financial position of Pay'n Save Corporation and its subsidiaries at January 31, 1967 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements 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.

Seattle, Washington  
March 3, 1967

Price Waterhouse & Co.



PAY' n SAVE corporation and subsidiary companies

consolidated balance sheet

assets

	January 31	
	1967	1966
<b>CURRENT ASSETS:</b>		
Cash	\$ 1,124,283	\$ 361,654
Bank certificates of deposit	138,750	138,750
Accounts receivable, less allowance for doubtful accounts of \$36,155 and \$30,253, respectively	1,217,530	1,048,366
Inventories, at lower of cost or market	8,618,940	6,976,605
Prepaid insurance and miscellaneous	160,528	43,790
Total current assets	11,260,031	8,569,165
<b>INVESTMENTS, at cost:</b>		
Cash value of life insurance	25,459	11,320
Other investments	22,225	22,525
	47,684	33,845
<b>PROPERTY AND EQUIPMENT, at cost:</b>		
Furniture, fixtures and equipment	2,588,893	2,119,808
Leasehold improvements	556,763	515,529
	3,145,656	2,635,337
Less—Accumulated depreciation and amortization	1,763,096	1,512,872
	1,382,560	1,122,465
Land	74,615	74,615
	1,457,175	1,197,080
<b>DEFERRED CHARGES AND OTHER ASSETS</b>	198,037	99,051
	<u>\$12,962,927</u>	<u>\$9,899,141</u>

liabilities

	January 31	
	1967	1966
<b>CURRENT LIABILITIES:</b>		
Notes payable —		
Bank	\$ —	\$ 200,000
Other	—	477,510
Accounts payable—trade	2,133,794	1,482,760
Withheld and accrued taxes	413,270	357,855
Accrued salaries and bonuses	334,116	267,542
Other accrued expenses	186,621	112,109
Current instalments on long-term indebtedness	197,400	117,898
Federal income taxes	788,612	656,538
Total current liabilities	4,053,813	3,672,212
<b>LONG-TERM INDEBTEDNESS:</b>		
Notes payable	2,310,000	852,498
Debentures payable	588,838	849,238
	2,898,838	1,701,736
Less—Instalments due within one year classified as current liabilities	197,400	117,898
	2,701,438	1,583,838
<b>STOCKHOLDERS' EQUITY:</b>		
Capital stock—authorized 800,000 shares of \$2.50 par value; outstanding 489,013 and 449,234 shares, respectively	1,222,533	1,123,085
Capital in excess of par value	1,826,766	1,217,970
Retained earnings	3,158,377	2,302,036
	6,207,676	4,643,091
	<u>\$12,962,927</u>	<u>\$9,899,141</u>

The accompanying notes are an integral part of these financial statements.



# PAY'n SAVE corporation and subsidiary companies

## notes to financial statements

January 31, 1967

### Note 1—BASIS OF CONSOLIDATION:

The financial statements include the accounts of Pay'n Save Corporation and its wholly-owned subsidiaries, Seattle Wholesale Nurseries Co. and Pay'n Save Drugs Limited.

### Note 2—LONG-TERM INDEBTEDNESS:

Long-term indebtedness comprised the following:

	January 31	
	1967	1966
Notes payable to:		
Insurance companies	\$2,275,000	\$800,000
Other	35,000	52,498
	<u>\$2,310,000</u>	<u>\$852,498</u>
6% subordinated debentures	\$ 124,838	\$200,238
5½% convertible subordinated debentures	464,000	649,000
	<u>\$ 588,838</u>	<u>\$849,238</u>

The notes and debentures are unsecured. The various financing agreements place certain restrictions upon the creation of additional debt, require the maintenance of at least \$4,000,000 of working capital, and limit the payment of cash dividends and the purchase or redemption of capital stock to an amount equal to the excess of retained earnings over \$2,002,036. Deferred financing costs are being amortized over the lives of the respective debt substantially on the basis of the obligations outstanding.

The notes payable to insurance companies are due in annual instalments on August 1 each year to 1981 and range from \$25,000 to \$225,000. The note agreements permit advance payments without premium under certain circumstances.

The 6% subordinated debentures are payable \$75,400 on December 31, 1967 with the balance due December 31, 1968.

The 5½% convertible subordinated debentures mature August 1, 1977. The company is obligated to make payments of \$90,000 annually, July 31, 1967 through July 31, 1976, to a sinking fund for bond redemption; at its option, the company may make additional payments to the sinking fund up to \$90,000. Redemption through the sinking fund is at par; redemption may be made otherwise at 104½% of principal amount to July 31, 1967 and thereafter at declining premiums. The debentures may be converted into common stock at \$11.25 per share to July 31, 1967, and at increasing amounts thereafter to July 15, 1977; these amounts are subject to adjustment in certain cases. During the current year \$185,000 of the original debentures were converted to capital stock.

A summary of maturities of long-term indebtedness for the five years ending January 31, 1972 follows:

Year ending January 31	Notes	Subordinated debentures	Convertible subordinated debentures	Together
1968	\$ 32,000	\$ 75,400	\$ 90,000	\$ 197,400
1969	57,000	49,438	90,000	196,438
1970	132,000		90,000	222,000
1971	132,000		90,000	222,000
1972	132,000		90,000	222,000
	<u>\$485,000</u>	<u>\$124,838</u>	<u>\$450,000</u>	<u>\$1,059,838</u>

**Note 3—FEDERAL INCOME TAXES:**

During the year, federal income taxes for the five years ended January 31, 1965 were settled with the Internal Revenue Service resulting in additional income taxes of \$65,692. Excess tax provisions in prior years are no longer required and this excess, net of interest on the tax assessment and tax reductions due to the interest assessment, has been transferred to retained earnings as a prior year adjustment of \$154,000.

**Note 4—EMPLOYEE STOCK OPTION PLAN:**

The company has an employee stock option plan under which 29,707 shares of its common stock are reserved. The purchase price under the options may not be less than 95% of the fair market value of common stock at the time of granting the option except that, as to a grantee owning 10% or more of the company's common stock, the option price will be at least 110% of the fair market value. Option periods may not exceed five years; options may not be granted for an aggregate of more than 6,076 shares in any fiscal year and options may not be granted to one individual for an aggregate of more than 12,155 shares. On February 8, 1966, options were granted for 4,856 shares at \$22.53 and 1,220 shares at \$19.46. The fair market value of the stock at the time the options were granted after giving effect to a stock dividend was \$20.48. At January 31, 1967, options had been granted for an aggregate of 29,707 shares, representing all shares available under the plan, at prices which, after giving effect to stock dividends, ranged from \$6.58 to \$22.53. During the year options for 673 shares were exercised.

**Note 5—LEASE COMMITMENTS:**

The company's operations are conducted on leased premises. Leases are generally for periods of from ten to twenty years and, in most cases, provide for minimum rentals plus additional amounts based on a percentage of sales. The company also leases certain store fixtures and equipment; such leases are for periods of ten years. Minimum annual rentals under the terms of leases in effect at January 31, 1967 are approximately \$1,400,000.

**Note 6—CAPITAL STOCK AND CAPITAL IN EXCESS OF PAR VALUE:**

Transactions in capital stock and capital in excess of par value during the year ended January 31, 1967 are summarized below:

	<i>Capital stock</i>		<i>Capital in excess of par value</i>
	<i>Shares</i>	<i>Amount</i>	
Balance January 31, 1966	449,234	\$1,123,085	\$1,217,970
April, 1966 stock dividend— 5%, at fair market value	22,823	57,058	470,724
Conversion of \$185,000 of debentures, at conversion prices net of initial debenture issue costs	16,283	40,708	133,401
Exercise of employee stock option	673	1,682	4,671
Balance, January 31, 1967	<u>489,013</u>	<u>\$1,222,533</u>	<u>\$1,826,766</u>

*ten year summary of operations*

Year ended January 31

	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958
<b>Operating Results</b>										
Net Sales*	\$41,672	\$30,943	\$25,247	\$21,375	\$19,956	\$15,779	\$12,879	\$ 7,262	\$ 5,940	\$ 4,325
Net Income*	1,230	816‡	537	355	263	304	204	131	133	118
Net Income as a percentage of Sales	2.95%	2.64%	2.13%	1.66%	1.32%	1.93%	1.58%	1.80%	2.24%	2.73%
Earnings on equity	19.8 %	17.6 %	17.7 %	13.7 %	11.8 %	16.9 %	13.9 %	10.2 %	12.5 %	13.8 %
<b>Common Stock</b>										
Net Income per share on average shares outstanding all prior years adjusted for stock dividends	\$ 2.58	\$ 1.89‡	\$ 1.29	\$ .85	\$ .63	\$ .79	\$ .54	\$ .36	\$ .36	\$ .34
Book Value per share	12.69	10.41	8.36	7.26	6.58	5.87	4.86	4.41	3.67	3.18
Approximate price range of common stock	27-15	21-15	15-7½	10-8	12-7	—	—	—	—	—
Shares outstanding (end of year) †	489	449	375	356	339	306	302	291	290	269
Stock Dividends	5%	5%	5%	5%	—	—	—	—	—	—
<b>Financial Position (End of Year)</b>										
Working Capital*	\$ 7,206	\$ 4,897	\$ 4,132	\$ 3,684	\$ 3,347	\$ 1,809	\$ 1,708	\$ 910	\$ 808	\$ 667
Current Ratio	2.78	2.33	2.49	2.79	2.53	1.84	2.06	2.58	2.69	2.64
Long-Term Debt*	2,702	1,584	2,239	2,399	2,446	995	72	88	—	—
Stockholders Equity*	6,208	4,643	3,133	2,584	2,229	1,797	1,466	1,284	1,065	854
<b>Capitalization</b>										
Percentage of Long-term Debt	30.3	25.4	41.7	48.1	52.3	35.6	4.7	6.4	—	—
Percentage of Stockholder Equity	69.7	74.6	58.3	51.9	47.7	64.4	95.3	93.6	100.0	100.0
<b>Stores in Operation</b>										
Pay'n Save Drug	23	20	18	16	15	13	12	9	7	5
Pay'n Save Drug Ltd.	3	3	—	—	—	—	—	—	—	—
Ernst Hardware—Malmo Nursery	16	14	12	11	11	11	8	—	—	—
Total Number of Stores	42	37	30	27	26	24	20	9	7	5
<b>Average Sales Per Store</b> (Based upon number of stores at the end of the year) *										
	\$ 992	\$ 836	\$ 842	\$ 792	\$ 768	\$ 657	\$ 644	\$ 807	\$ 849	\$ 865

\* Amount in thousand of dollars.

† Thousands of shares outstanding, adjusted to give effect to various stock splits during the period.

‡ Includes non-recurring income of \$87,191 or \$.20 per share in 1966.

*transfer agent  
and registrar*

Peoples National Bank of Washington

*counsel*

Ryan, Carlson, Bush, Swanson, and Hendel

*auditors*

Price Waterhouse & Co.

*general offices*

514 - 24 Pike Street  
Seattle, Washington 98101







**PAY'n SAVE**  
CORPORATION

PAY'N SAVE DRUG STORES  
ERNST HARDWARE STORES  
MALMO NURSERY STORES