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PAY'n SAVE  
CORPORATION

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ANNUAL REPORT

January 1963

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

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# **PAY'N SAVE CORPORATION**

## **STORE LOCATIONS**

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

**STORE  
NUMBER**

**STORE ADDRESS**

1	319 Pike Street	Seattle, Wn.
2	2711 Colby Avenue	Everett, Wn.
3	4535 University Way	Seattle, Wn.
4	551 Northgate Mall	Seattle, Wn.
5	1423 Market Street (Ballard)	Seattle, Wn.
6	1400 Cornwall	Bellingham, Wn.
7	250 S.W. 152nd Street (Burien) (1)	Seattle, Wn.
8	201 S. Broadway	Aberdeen, Wn.
9	8500 35th N.E. (Wedgwood)	Seattle, Wn.
10	20220 Aurora Ave. (Aurora Village)	Seattle, Wn.
11	1421 Lloyd Center	Portland, Ore.
12	4100 S.W. 82nd Ave. (Eastport Plaza)	Portland, Ore.
13	Triangle Shopping Center	Longview, Wn.
14	S.W. 27th and 77th S.E. (1)	Mercer Island, Wn.
15	120 106th Ave. N.E.	Bellevue, Wn.

### ***ERNST HARDWARE STORES:***

1	6th and Pike Street	Seattle, Wn.
2	4314 W. Alaska (West Seattle) (1)	Seattle, Wn.
3	4704 25th N.E. (University Village) (1) (2)	Seattle, Wn.
4	550 Northgate Mall	Seattle, Wn.
5	1740 Market Street (Ballard)	Seattle, Wn.
6	815 First Avenue	Seattle, Wn.
7	125 106th N.E. (1) (2)	Bellevue, Wn.
8	20205 Aurora Village Square N. (1)	Seattle, Wn.
9	333 Westlake Ave. N.	Seattle, Wn.
10	4920 Evergreen Way (1) (2)	Everett, Wn.

### ***MALMO NURSERY STORE:***

1	150th and Aurora Avenue North	Seattle, Wn.
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### ***SEATTLE WHOLESALE NURSERIES CO.:***

1	14900 Stone Avenue	Seattle, Wn.
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- (1) Store includes Malmo Nursery department  
(2) Store includes pre-cut Lumber department



**MONTE L. BEAN**  
Chairman of the Board



**M. LAMONT BEAN**  
President

## **REPORT TO STOCKHOLDERS**

It is our privilege to present the first formal annual report of the operations of your Company which we believe to be one of the most progressive and rapidly growing retail organizations in the Northwest.

### ***SALES***

Sales have continued to increase at a satisfying rate. During the year ended January 31, 1963 sales amounted to \$19,955,628; this is an increase of \$4,177,124 or 26.5% over the preceding fiscal year.

### ***INCOME***

Net income amounted to \$262,692 as compared with \$303,733 for the preceding fiscal year. This decrease in earnings together with an increase of 33,100 in the number of shares of common stock outstanding resulted in a decrease in earnings per share from \$1.00 to \$.78. Several factors had an adverse affect on earnings for the year; these include:

- (1) The additional cost of opening and operating three new stores was not fully offset by the increased income. It is to be expected that the operation of new stores will not necessarily be profitable for the first year or two, but each of the new stores may be expected to play an important role in securing the future of the company.
- (2) The maintenance of competitive pricing policies resulted in a lower gross profit on sales.
- (3) The additional interest expense on funds received from new securities sold during the year; interest began immediately whereas funds were used in the business over a period of time.

### ***FINANCING***

During the year the Company sold \$1,200,000 of 5½% convertible subordinated debentures to the public and borrowed \$800,000 from an institutional lender on a 6% promisory note. With this additional working capital the company is in a sound financial position.



## ***DIVIDENDS***

On March 18, 1963, the Board of Directors of your Company declared a 5% stock dividend payable on April 22 to holders of common stock of record at the close of business on April 1, 1963. The dividend is payable at the rate of one share for each twenty shares held on the record date.

The Directors declared this stock dividend because it permits the shareholder to participate in retained earnings while cash is preserved for expansion of the Company's business.

## ***EXPANSION***

During the past fiscal year your Company opened new modern self-service Pay'n Save Drug Stores at Bellevue and Mercer Island, Washington and an Ernst Hardware Store in Everett, Washington.

In addition, in February 1963, the new replacement building for Ernst Hardware and Malmo Nursery Stores at University Village Shopping Center in Seattle, and the additional facilities for the sale of pre-cut lumber and Malmo Nursery products at the Ernst Hardware Store in Bellevue, Washington, were opened.

Your Company plans to continue to expand at a healthy rate. Expansion will depend upon the availability of prime locations and the adequacy of working capital.

It is anticipated that during the coming year, one new Pay'n Save Drug Store will be opened and two existing stores will be remodeled and enlarged. In addition plans are now underway to add Malmo Nursery departments to the Burien and Mercer Island Pay'n Save Drug Stores.

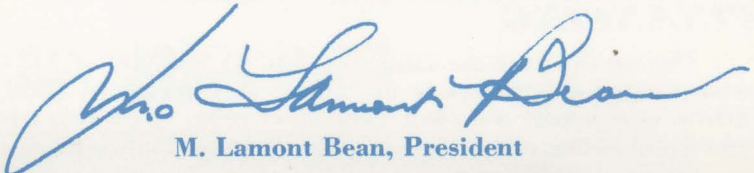
## ***FUTURE SALES AND INCOME***

It is expected that sales and the cost of doing business will continue to increase. It is anticipated that the stores which are new or recently remodeled can be developed to a more profitable level, thus resulting in an increase in net income.

We sincerely appreciate the loyalty and co-operation of everyone connected with Pay'n Save Corporation and we will continue to exert every effort to build an organization which will be noted for excellent relations with its employees, for loyal, satisfied customers, and for its attractiveness as an investment for its stockholders.



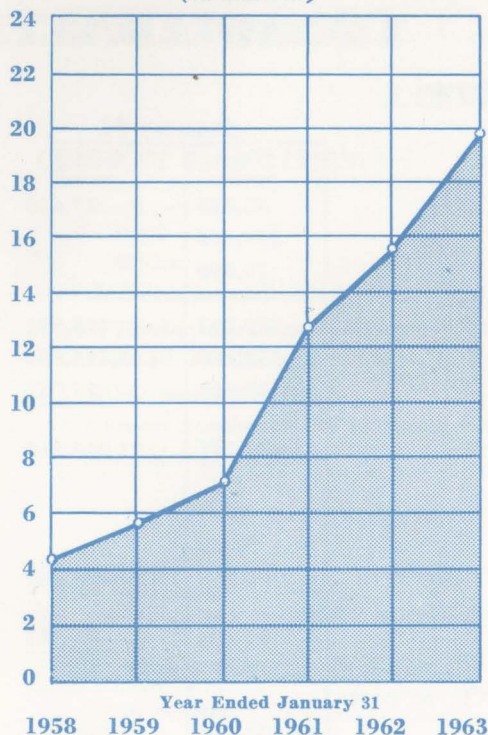
Monte L. Bean, Chairman of the Board



M. Lamont Bean, President

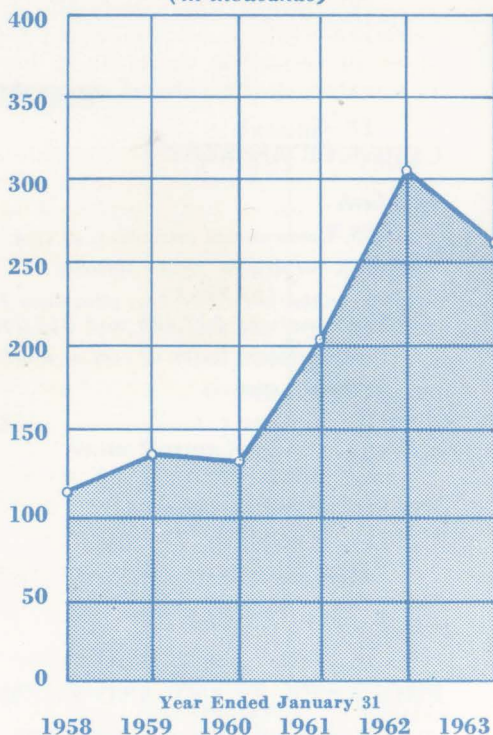
## NET SALES

(in millions)



## NET INCOME

(in thousands)



## SIX YEAR SUMMARY OF OPERATIONS

	JANUARY 31					
	1963	1962	1961	1960	1959	1958
Net sales	* \$19,956	\$15,779	\$12,879	\$7,262	\$5,940	\$4,325
Net income	* \$ 263	\$ 304	\$ 204	\$ 131	\$ 133	\$ 118
Net income per share	\$ .78	\$ 1.00	\$ .69	\$ .45	\$ .48	\$ .44
Shares outstanding at end of year **-***	339	306	302	291	290	269
Stockholders equity	* \$ 2,229	\$ 1,797	\$ 1,466	\$1,284	\$1,065	\$ 854
Book value per share	\$ 6.58	\$ 5.87	\$ 4.86	\$ 4.41	\$ 3.67	\$ 3.18
Working capital	* \$ 3,347	\$ 1,809	\$ 1,708	\$ 910	\$ 808	\$ 667
Ratio of current assets to current liabilities	2.53	1.84	2.06	2.58	2.69	2.64
Number of stores in operation:						
Pay'n Save Drug	15	13	12	9	7	5
Ernst Hardware	10	9	8			
Malmo Nursery	1	2				
Total stores	26	24	20	9	7	5

\* Amount in thousands of dollars

\*\* Amount in thousands of shares

\*\*\* Shares outstanding adjusted to give effect to various stock splits during the six-year period



# PAY'N SAVE CORPORATION AND SUBSIDIARY COMPANY

## CONSOLIDATED BALANCE SHEET

### ASSETS

	January 31	
	1963	1962
<b>CURRENT ASSETS:</b>		
Cash	\$ 35,486	\$ 37,650
U.S. Government securities, at cost	398,044	
Note receivable from officers	25,000	
Accounts receivable, less allowance for doubtful accounts of \$17,486 and \$15,046 respectively	579,763	498,591
Inventories, at lower of cost or market	4,454,190	3,413,204
Prepaid expenses	35,664	14,769
<b>Total current assets</b>	<b>\$5,528,147</b>	<b>\$3,964,214</b>
<b>INVESTMENTS—At cost:</b>		
Cash value of life insurance	\$ 5,020	
Other investments	25,083	\$ 25,083
	<b>\$ 30,103</b>	<b>\$ 25,083</b>
<b>PROPERTY, PLANT AND EQUIPMENT, at cost:</b>		
Furniture, fixtures and equipment	\$1,524,130	\$1,193,136
Leasehold improvements	382,515	277,781
	<b>\$1,906,645</b>	<b>\$1,407,917</b>
Less—Accumulated depreciation and amortization	760,237	559,147
	<b>\$1,146,408</b>	<b>\$ 911,770</b>
Land	4,400	4,400
	<b>\$1,150,808</b>	<b>\$ 916,170</b>
<b>DEFERRED CHARGES:</b>		
Debenture issue costs, net of \$4,768 amortization	\$ 107,924	
Excess of investment in subsidiary over value assigned to tangible assets, net of \$8,000 amortization in 1963	40,000	\$ 48,000
Deposits and miscellaneous	11,369	8,267
Organization expense	8,437	8,437
	<b>\$ 167,730</b>	<b>\$ 64,704</b>
	<b>\$6,876,788</b>	<b>\$4,970,171</b>

### LIABILITIES

	January 31	
	1963	1962
<b>CURRENT LIABILITIES:</b>		
Notes payable— Bank		\$ 563,500
Officer		5,000
Accounts payable—trade	\$1,128,862	748,436
Withheld and accrued taxes	188,039	157,682
Accrued salaries and bonuses	127,738	197,730
Other accrued expenses	63,512	71,388
Current instalments on long-term indebtedness	173,147	172,744
Federal income taxes	500,116	238,684
<b>Total current liabilities</b>	<b>\$2,181,414</b>	<b>\$2,155,164</b>
<b>DEFERRED FEDERAL INCOME TAXES</b>		
resulting from acquisition of subsidiary	\$ 20,000	\$ 23,000
<b>LONG-TERM INDEBTEDNESS:</b>		
Notes payable	\$1,068,426	\$ 741,173
Debenture payable	1,551,038	426,438
	<b>\$2,619,464</b>	<b>\$1,167,611</b>
Less—Instalments due within one year classified as current liabilities	173,147	172,744
	<b>\$2,446,317</b>	<b>\$ 994,867</b>
<b>STOCKHOLDERS' EQUITY</b>		
Capital stock—authorized, 800,000 shares of \$2.50 par value—outstanding, 339,020 and 305,920 shares respectively	\$ 847,550	\$ 764,800
Capital in excess of par value	139,555	53,080
Retained earnings	1,241,952	979,260
	<b>\$2,229,057</b>	<b>\$1,797,140</b>
	<b>\$6,876,788</b>	<b>\$4,970,171</b>

See accompanying notes to financial statements

**PAY'N SAVE CORPORATION AND SUBSIDIARY COMPANY**  
**CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS**  
**Year Ended January 31**

	<u>1963</u>	<u>1962</u>
<i>Sales and other revenues:</i>		
<i>Net sales</i>	\$19,955,628	\$15,778,504
<i>Interest and other income</i>	57,168	46,594
	<u>\$20,012,796</u>	<u>\$15,825,098</u>
<i>Costs and expenses:</i>		
<i>Cost of merchandise sold</i>	\$14,319,129	\$11,241,925
<i>Operating and administrative expenses</i>	5,029,725	4,029,313
<i>Interest</i>	139,250	106,098
	<u>19,488,104</u>	<u>\$15,377,336</u>
<i>Income before following item and federal income</i>	\$ 524,692	\$ 447,762
<i>Amortization of credit arising from acquisition of Ernst Hardware Company</i>		<u>81,971</u>
<i>Income before federal income taxes</i>	\$ 524,692	\$ 529,733
<i>Provision for federal income taxes</i>	<u>262,000</u>	<u>226,000</u>
<i>Net income</i>	\$ 262,692	\$ 303,733
<i>Retained earnings at beginning of year</i>	<u>979,260</u>	<u>675,527</u>
<i>Retained earnings at end of year</i>	<u>\$ 1,241,952</u>	<u>\$ 979,260</u>

Provision for depreciation and amortization amount to \$215,700 in 1963  
and \$175,602 in 1962

See accompanying notes to financial statements

## NOTES TO FINANCIAL STATEMENTS

**JANUARY 31, 1963**

### **NOTE 1-BASIS OF CONSOLIDATION**

In January 1962, the Company acquired all of the outstanding capital stock of Seattle Wholesale Nurseries Co. (formerly Malmo Nurseries and Seed Stores, Inc.) whose accounts have been included in the financial statements for 1963. The balance sheet as at January 31, 1962 has been restated to include the assets and liabilities of Seattle Wholesale Nurseries Co. at date of acquisition. The excess of the cost of investment in the subsidiary over values assigned to tangible assets is shown as a separate item in the balance sheet and is being amortized over a period of six years by charges to income.



## NOTE 2—LONG-TERM INDEBTEDNESS

Long-term indebtedness comprised the following:

	January 31	
	1963	1962
Notes payable to:		
First National City Bank		\$400,000
Bankers Life Company	\$ 800,000	
Others	268,426	341,173
	<u>\$1,068,426</u>	<u>\$741,173</u>
6% subordinated debentures	\$ 351,038	\$426,438
5½% convertible subordinated debentures	1,200,000	
	<u>\$1,551,038</u>	<u>\$426,438</u>

Certain furniture, equipment and leasehold improvements and the stock of Seattle Wholesale Nurseries Co. have been pledged as collateral for notes with balances of \$56,426 and \$149,000, respectively; all other notes and the debentures are unsecured.

The various financing agreements place certain restrictions upon the creation of additional debt and require that consolidated net current assets not be reduced below \$2,500,000. In addition, they limit the payment of cash dividends and the purchase or redemption of capital stock to the amount of \$352,692 at January 31, 1963. The convertible debentures may be converted into common stock at \$13 per share to July 31, 1967, \$14.50 per share thereafter to July 31, 1972 and \$16 per share thereafter to July 15, 1977; these amounts are subject to adjustment in certain cases.

The note payable to Bankers Life Company is due in annual instalments beginning August 1, 1966 and ranging from \$25,000 to \$100,000 through August 1, 1977. The note agreement permits advance payments without premium under certain circumstances. The other notes payable are also due in instalments. In February 1963 the company paid in advance three semi-annual instalments of \$25,000 on a note for \$149,000. Such instalments would otherwise have been due July 1, 1963, January 1, 1964 and July 1, 1964.

The 6% subordinated debentures mature serially at the rate of \$75,400 annually, 1963 through 1967 with the balance maturing December 31, 1968. However, in October 1962 and February 1963, the Company redeemed debentures maturing December 31, 1963 and 1964, respectively.

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 105½% of principal amount to July 31, 1965 and thereafter at declining premiums.

A summary of maturities of long-term indebtedness for the five years ending January 31, 1968 follows:

Year ending January 31	Notes	Subordinated debentures	Convertible subordinated debentures	Together
1964	\$ 97,747	\$ 75,400	\$	\$173,147
1965	47,747			47,747
1966	71,747	75,400		147,147
1967	41,185	75,400		116,585
1968	32,000	75,400	90,000	197,400
	<u>\$290,426</u>	<u>\$301,600</u>	<u>\$90,000</u>	<u>\$682,026</u>



### **NOTE 3-EMPLOYEE STOCK OPTION PLAN**

On April 26, 1962, the Company adopted an employee stock option plan. Twenty-five thousand shares of the Company's \$2.50 par value common stock are reserved for use under the plan. The purchase price under the options may not be less than 95% of the fair market value of the common stock at the time of granting of 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 such fair market value. Option periods may not exceed five years; options may not be granted for an aggregate of more than 5,000 shares in any fiscal year and options may not be granted to one individual for an aggregate of more than 10,000 shares. At January 31, 1963, options had been granted for 4,000 shares at \$12.10 per share and 1,000 shares at \$10.45 per share. There are no other stock options outstanding at January 31, 1963 (See Note 5 regarding exercise of prior options during the current year).

### **NOTE 4-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. Minimum annual rentals under the terms of leases in effect at January 31, 1963 are approximately \$650,000.

### **NOTE 5-CAPITAL STOCK**

During the year, stock options granted in 1960 were exercised, resulting in the following increases in stockholders' equity:

	Capital stock (\$2.50 par value)		Capital in excess of par value
	Shares	Amount	
Balance January 31, 1962	\$305,920	\$764,800	\$ 53,080
Stock options exercised at:			
\$4.75 per share	9,100	22,750	20,475
5.25 per share	24,000	60,000	66,000
Balance January 31, 1963	<u>\$339,020</u>	<u>\$847,550</u>	<u>\$139,555</u>

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## **TO THE STOCKHOLDERS OF PAY'N SAVE CORPORATION**

In our opinion, the accompanying statements present fairly the consolidated financial position of Pay'n Save Corporation and its subsidiary at January 31, 1963 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.

Price Waterhouse & Co.

Seattle, Washington  
March 22, 1963

# PAY'N SAVE CORP



## BOARD OF DIRECTORS:

Monte L. Bean  
Harold E. Oneal

James H. Clawson

Mr. Lamont Bean  
Joshua Green, Jr.

## OFFICERS:

Monte L. Bean  
M. Lamont Bean  
Harold E. Oneal  
John E. Ryan, Jr.  
Jennie K. Hauge  
E. R. Erickson

Chairman of the Board  
President  
Vice President  
Secretary  
Treasurer  
Assistant Sec. and Treas.

## TRANSFER AGENT AND REGISTRAR

Peoples National Bank of Washington

Seattle

## COUNSEL

Ryan, Askren, Carlson, Bush & Swanson

Seattle

## AUDITORS

Price Waterhouse & Co.

Seattle

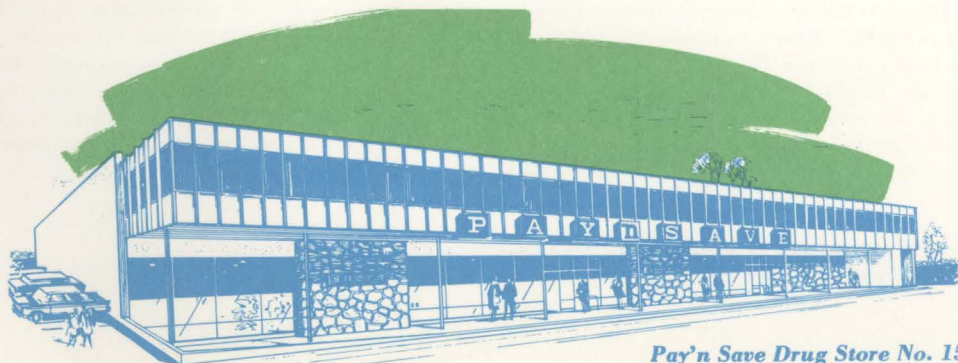
## GENERAL OFFICES

514-24 Pike Street

Seattle



Ernst Hardware Store No. 10  
Everett, Washington



Pay'n Save Drug Store No. 15  
Bellevue, Washington



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~~NEW 10 1895~~