

ANNUAL REPORTS

PAY'n SAVE Corp. 1964

Foster Business Library
University of Washington

~~1963~~
P A Y ' n S A V
C O R P O R A T I O N

ANNUAL REPORT

for the year ended January 31, 1964

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

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 Cornucall | 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. |
| 16 | 2707 Rainier Avenue S. | Seattle, 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. |
| 11 | 10419 Plaza Dr. S.W. (Villa Plaza in Lakewood) (1) (2) | Tacoma, Wn. |

MALMO NURSERY STORE:

| | | |
|---|-------------------------------|--------------|
| 1 | 150th and Aurora Avenue North | Seattle, Wn. |
|---|-------------------------------|--------------|

SEATTLE WHOLESALE NURSERIES CO.:

| | | |
|---|--------------------|--------------|
| 1 | 14900 Stone Avenue | Seattle, Wn. |
|---|--------------------|--------------|

(1) Store includes Malmo Nursery department

(2) Store includes Pre-Cut Lumber department



*Pay'n Save Drug Store No. 5
Recently enlarged and remodeled
Seattle, Washington*



*Ernst Hardware Store No. 11
Villa Plaza Shopping Center
Tacoma, Washington*

REPORT TO STOCKHOLDERS

We are pleased to report the progress of your Company during the past year and to inform you of the development which you may expect in the current year.

SALES

Sales for the year ended January 31, 1964, amounted to \$21,375,231, which is an increase of \$1,419,603, or 7% more than last year. Although this increase is not as great as was experienced in the previous year, it is quite satisfactory when one considers that last year's sales included the business brought to the Pacific Northwest by the Seattle World's Fair.

INCOME

Your Company experienced a substantial increase in net income. Net income for the year ended January 31, 1964, amounted to \$354,847, compared with \$262,692 for the preceding year. The increase was \$92,155, or 35%. The net income per share amounted to \$1.00, compared with \$.78 for the preceding year. The increase in net income resulted primarily from improved operating results at stores opened in recent years and a slight increase in gross profit margins. All divisions of the Company were profitable and showed satisfactory increases in earnings.

DIVIDENDS

The Board of Directors on March 16, 1964, declared a 5% stock dividend. This dividend is payable on April 20, 1964, to holders of record on April 1, 1964. The dividend is payable at the rate of one share for each 20 shares held on the record date. Fractional shares will be paid in cash, based upon the fair market value of the stock.

EXPANSION

Expansion during the past year included a new replacement building for the Ernst Hardware and Malmo Nursery stores at the University Village Shopping Center in Seattle and the addition of facilities at the Ernst Hardware Store in Bellevue, Washington, which provide for the sale of pre-cut lumber and Malmo Nursery products. Pay'n Save Drug Store No. 16 was opened in November, 1963, at 2707 Rainier Avenue South in Seattle. In addition, two Pay'n Save Drug Stores were remodeled and enlarged.

With the planned opening of Ernst Hardware Store No. 11 in Tacoma, Washington, in the Lakewood Villa Plaza Shopping Center in mid-April, 1964, the Pay'n Save Corporation is starting on an even larger growth program for the year now underway. This is our first venture into the Tacoma marketing area and we anticipate the addition of other stores in this vicinity in future years. Pay'n Save Drug Stores No. 17, in Auburn, Washington, and No. 18, in Lake Forest Park in Seattle, Washington, are scheduled to open in May and August, respectively. In addition, plans are underway to relocate both the Pay'n Save Drug Store No. 4 and the Ernst Hardware Store No. 4 within the Northgate Shopping Center. If plans continue as scheduled, this relocation should take place during the latter part of the year.

FUTURE PROGRESS

The year now underway will be another year of healthy growth and development for the Company. We believe that with the highly-skilled management team of Pay'n Save Corporation we are in a better position than ever to cope with the problems of expanding our business in this great competitive market.

We wish to express our appreciation to our customers, employees, stockholders, suppliers and all who make possible the continuing progress and success of Pay'n Save Corporation.



Monte L. Bean, Chairman of the Board



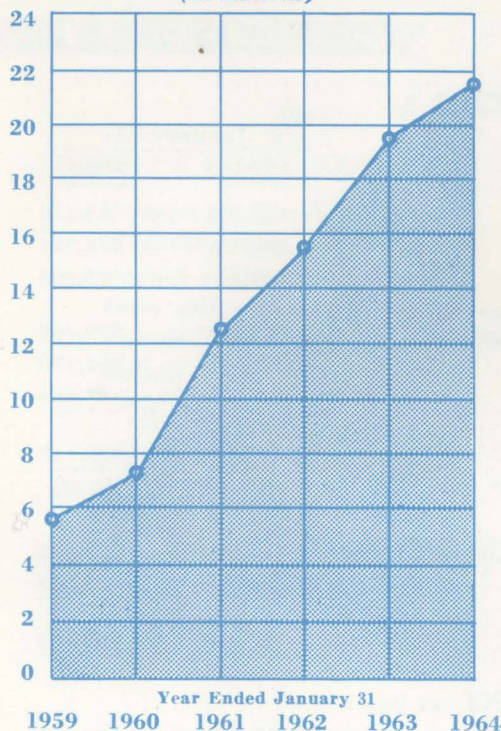
M. Lamont Bean, President

A FEW INTERESTING STATISTICS

| | |
|--|-----------|
| Number of prescriptions sold by the Drug Division during the year ended January 31, 1964 | 357,981 |
| Prescriptions sold in the previous year | 286,238 |
| Number of customers making purchases at Pay'n Save Corporation stores during December 1963 | 1,241,131 |
| Approximate number of different items of merchandise included in a typical Pay'n Save Drug Store or Ernst Hardware Store | 25,000 |
| Approximate number of Pay'n Save Corporation employees | 600 |
| Approximate number of shareholders | 500 |

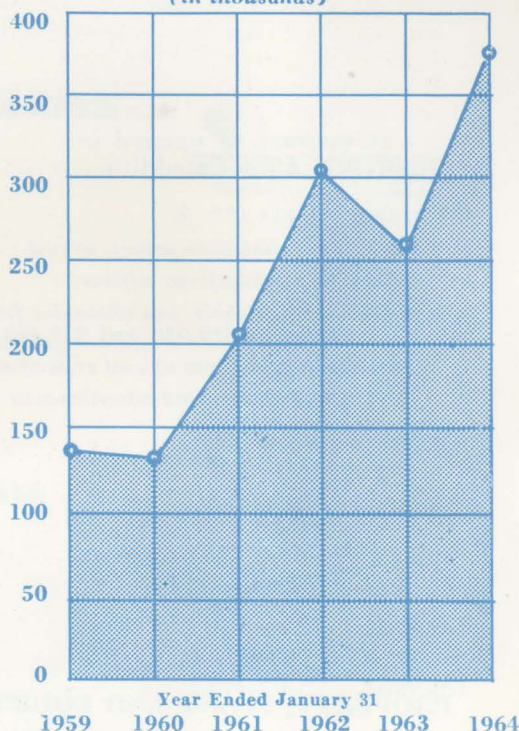
NET SALES

(in millions)



NET INCOME

(in thousands)



SIX YEAR SUMMARY OF OPERATIONS

JANUARY 31

| | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 |
|--|------------|----------|----------|----------|---------|---------|
| Net sales | * \$21,375 | \$19,956 | \$15,779 | \$12,879 | \$7,262 | \$5,940 |
| Net income | * \$ 355 | \$ 263 | \$ 304 | \$ 204 | \$ 131 | \$ 133 |
| Net income per share | \$ 1.00 | \$.78 | \$ 1.00 | \$.69 | \$.45 | \$.48 |
| Shares outstanding at end of year ** | 356 | 339 | 306 | 302 | 291 | 290 |
| Stockholders equity | * \$ 2,584 | \$ 2,229 | \$ 1,797 | \$ 1,466 | \$1,284 | \$1,065 |
| Book value per share | \$ 7.26 | \$ 6.58 | \$ 5.87 | \$ 4.86 | \$ 4.41 | \$ 3.67 |
| Working capital | * \$ 3,710 | \$ 3,347 | \$ 1,809 | \$ 1,708 | \$ 910 | \$ 808 |
| Ratio of current assets to current liabilities | 2.83 | 2.53 | 1.84 | 2.06 | 2.58 | 2.69 |
| Number of stores in operation: | | | | | | |
| Pay'n Save Drug | 16 | 15 | 13 | 12 | 9 | 7 |
| Ernst Hardware | 10 | 10 | 9 | 8 | | |
| Malmö Nursery | 1 | 1 | 2 | | | |
| Total stores | 27 | 26 | 24 | 20 | 9 | 7 |

* Amount in thousands of dollars

** Thousands of 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 | |
|--|--------------------|--------------------|
| | 1964 | 1963 |
| CURRENT ASSETS: | | |
| Cash | \$ 32,748 | \$ 35,486 |
| U.S. Government securities, at cost | 198,925 | 398,044 |
| Note receivable from officers | | 25,000 |
| Accounts receivable, less allowance for doubtful accounts of \$19,038 and \$17,468, respectively | 633,798 | 579,763 |
| Inventories, at lower of cost or market | 4,758,687 | 4,454,190 |
| Prepaid insurance and miscellaneous | 108,139 | 35,664 |
| Total current assets | <u>5,732,297</u> | <u>5,528,147</u> |
| INVESTMENTS—At cost: | | |
| Cash value of life insurance | 6,383 | 5,020 |
| Other investments | 25,083 | 25,083 |
| | <u>31,466</u> | <u>30,103</u> |
| PROPERTY, PLANT AND EQUIPMENT, at cost: | | |
| Furniture, fixtures and equipment | 1,702,625 | 1,524,130 |
| Leasehold improvements | 403,189 | 382,515 |
| | <u>2,105,814</u> | <u>1,906,645</u> |
| Less—Accumulated depreciation and amortization | 989,173 | 760,237 |
| | <u>1,116,641</u> | <u>1,146,408</u> |
| Land | 4,400 | 4,400 |
| | <u>1,121,041</u> | <u>1,150,808</u> |
| DEFERRED CHARGES: | | |
| Debenture issue costs, net of amortization of \$15,170 and \$4,768, respectively | 97,522 | 107,924 |
| Excess of investment in subsidiary over value assigned to tangible assets, net of amortization | 32,000 | 40,000 |
| Deposits and miscellaneous | 8,326 | 11,369 |
| Organization expense | 8,437 | 8,437 |
| | <u>146,285</u> | <u>\$ 167,730</u> |
| | <u>\$7,031,089</u> | <u>\$6,876,788</u> |

LIABILITIES

| | January 31 | |
|---|--------------------|--------------------|
| | 1964 | 1963 |
| CURRENT LIABILITIES: | | |
| Accounts payable—trade | \$ 973,413 | \$1,128,862 |
| Withheld and accrued taxes | 252,991 | 188,039 |
| Accrued salaries and bonuses | 168,392 | 127,738 |
| Other accrued expenses | 71,948 | 63,512 |
| Current instalments on long-term indebtedness | 47,747 | 173,147 |
| Federal income taxes | 508,124 | 500,116 |
| Total current liabilities | <u>2,022,615</u> | <u>2,181,414</u> |
| DEFERRED FEDERAL INCOME TAXES | <u>26,000</u> | <u>20,000</u> |
| LONG-TERM INDEBTEDNESS: | | |
| Notes payable | 970,679 | 1,068,426 |
| Debentures payable | 1,475,638 | 1,551,038 |
| | <u>2,446,317</u> | <u>2,619,464</u> |
| Less—Instalments due within one year classified as current liabilities | 47,747 | 173,147 |
| | <u>2,398,570</u> | <u>2,446,317</u> |
| STOCKHOLDERS' EQUITY | | |
| Capital stock—authorized, 800,000 shares of \$2.50 par value; outstanding, 355,971 and 339,020 shares, respectively | 889,927 | 847,550 |
| Capital in excess of par value | 258,212 | 139,555 |
| Retained earnings | 1,435,765 | 1,241,952 |
| | <u>2,583,904</u> | <u>2,229,057</u> |
| | <u>\$7,031,089</u> | <u>\$6,876,788</u> |

See accompanying notes

to financial statements

PAY'N SAVE CORPORATION AND SUBSIDIARY COMPANY

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended January 31 

| | 1964 | 1963 |
|---|---------------------|---------------------|
| <i>Sales and other revenues:</i> | | |
| <i>Net sales</i> | \$21,375,231 | \$19,955,628 |
| <i>Interest and other income</i> | 71,206 | 57,168 |
| | <u>21,446,437</u> | <u>20,012,796</u> |
| <i>Costs and expenses:</i> | | |
| <i>Cost of merchandise sold</i> | 15,020,101 | 14,319,129 |
| <i>Operating and administrative expenses</i> | 5,555,854 | 5,029,725 |
| <i>Interest</i> | 149,635 | 139,250 |
| | <u>20,725,590</u> | <u>19,488,104</u> |
| <i>Income before federal income taxes</i> | 720,847 | 524,692 |
| <i>Provision for federal income taxes</i> | <u>366,000</u> | <u>262,000</u> |
| <i>Net income</i> | 354,847 | 262,692 |
| <i>Retained earnings at beginning of year</i> | 1,241,952 | 979,260 |
| <i>Stock dividend—5%</i> | <u>(161,034)</u> | |
| <i>Retained earnings at end of year</i> | <u>\$ 1,435,765</u> | <u>\$ 1,241,952</u> |

Provision for depreciation and amortization amounted to \$229,812 in 1964 and \$215,700 in 1963.

See accompanying notes to financial statements

NOTES TO FINANCIAL STATEMENTS

JANUARY 31, 1964

NOTE 1—LONG-TERM INDEBTEDNESS

Long-term indebtedness comprised the following:

| | January 31 | |
|--|--------------------|--------------------|
| | 1964 | 1963 |
| <i>Notes payable to:</i> | | |
| <i>Bankers Life Company</i> | \$ 800,000 | \$ 800,000 |
| <i>Others</i> | 170,679 | 268,426 |
| | <u>\$ 970,679</u> | <u>\$1,068,426</u> |
| <i>6% subordinated debentures</i> | \$ 275,638 | \$ 351,038 |
| <i>5½% convertible subordinated debentures</i> | 1,200,000 | 1,200,000 |
| | <u>\$1,475,638</u> | <u>\$1,551,038</u> |

NOTE 1-(Cont'd)

Certain furniture, equipment and leasehold improvements and the stock of Seattle Wholesale Nurseries Co. have been pledged as collateral for notes with balances of \$40,679 and \$74,000, 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 \$546,505 at January 31, 1964. The convertible debentures may be converted into common stock at \$12.50 per share to July 31, 1967, and at increased amounts 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.

The 6% subordinated debentures mature serially at the rate of \$75,400 on December 31, 1965 through 1967 with the balance maturing in 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 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, 1969 follows:

| Year ending January 31 | Notes | Subordinated debentures | Convertible subordinated debentures | Together |
|---------------------------|------------------|----------------------------|---|------------------|
| 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 |
| 1969 | 57,000 | 49,438 | 90,000 | 196,438 |
| | <u>\$249,679</u> | <u>\$275,638</u> | <u>\$180,000</u> | <u>\$705,317</u> |

NOTE 2-FEDERAL INCOME TAXES

The Internal Revenue Service has proposed adjustments which would result in substantial additional income taxes for the years ended January 31, 1961, 1962 and 1963. The company is contesting the proposed adjustments and management is of the opinion that adequate provision has been made in the accounts for additional income taxes, if any, which may ultimately be assessed.

Inventories of Seattle Wholesale Nurseries Co. are substantially less for federal income tax purposes than for financial reporting purposes; accordingly, the excess of federal income taxes of the subsidiary, based on income for financial reporting purposes, over actual taxes payable have been reported as deferred federal income taxes.

NOTE 3-EMPLOYEE STOCK OPTION PLAN

The company has an employee stock option plan under which 26,250 shares (adjusted from 25,000 as a result of a 5% stock dividend) of its \$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 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 5,250 shares in any fiscal year and options may not be granted to one individual for an aggregate of more than 10,500 shares. At January 31, 1964, options had been granted for 10,500 shares. No options were exercised during the 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, 1964 are approximately \$715,000.

NOTE 5-STOCK DIVIDEND

The company paid a 5% stock dividend of 16,951 shares of common stock in April 1963. Accordingly, retained earnings were reduced \$161,034, the fair market value of this stock. Capital stock was increased \$42,377, the par value of the stock, and capital in excess of par value was increased \$118,657.

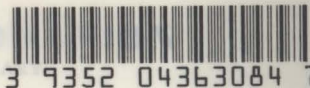
TO THE STOCKHOLDERS OF PAY'N SAVE CORPORATION

In our opinion, the accompanying statements present fairly the consolidated financial position of Pay'n Save Corporation and its subsidiary at January 31, 1964 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 13, 1964

Price Waterhouse & Co.

PAY'N SAVE CORP



BOARD OF DIRECTORS:

Monte L. Bean
Harold E. Oneal

James H. Clawson

M. Lamont Bean
Joshua Green, Jr.

OFFICERS:

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

Chairman of the Board
President
Vice President
Treasurer
Secretary
Assistant Treasurer
Assistant Secretary

TRANSFER AGENT AND REGISTRAR

Peoples National Bank of Washington

AUDITORS

Price Waterhouse & Co.

COUNSEL

Ryan, Askren, Carlson, Bush & Swanson

GENERAL OFFICES

514-24 Pike Street
Seattle, Washington

PAY'N SAVE CORPORATION

MAP OF STORE LOCATIONS

WESTERN WASHINGTON



SEATTLE AND VICINITY



MAP SYMBOLS

- ⊕ PAY 'N SAVE
- ☆ PAY 'N SAVE (PROPOSED)
- ERNST
- ERNST (PROPOSED)
- ▲ MALMO NURSERY

