

AUG 29 1974

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ANNUAL REPORT

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PACIFIC



Annual Report for the year ending April 30, 1974

Pan-Alaska Fisheries, Inc.



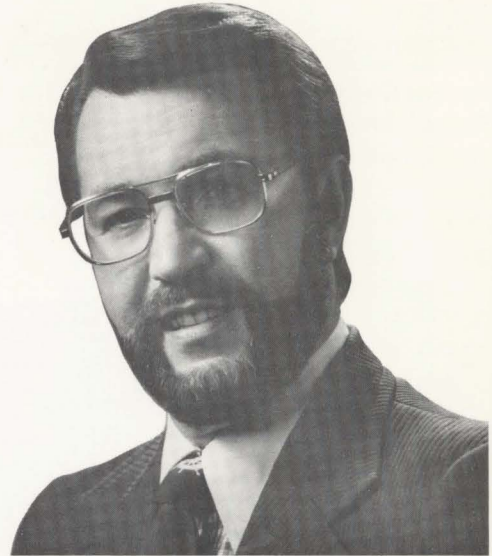


Meet the Royal Sea.

This is the latest and another modern vessel in the growing fleet of Pan-Alaska Fisheries processing vessels. The Royal Sea is a fully equipped bottom fish processing and trawling vessel, and will begin direct competition with foreign fleets for production of bottom fish. The Royal Sea will also be used for the processing of Tanner Crab. The Royal Sea is efficient utilizing the most advanced technological processing methods available.

FINANCIAL HIGHLIGHTS

Year ended April 30,	1974	1973	1972	1971	1970
Operating results:					
Continuing operations:					
Net sales	\$14,069,373	\$11,303,085	\$10,564,390	\$ 8,232,588	\$ 6,894,743
Income (loss) before extraordinary items	\$ 1,000,525	\$ 467,971	\$ 428,367	\$ 139,976	\$ (1,652,026)
(Loss) from discontinued operations					(499,252)
Extraordinary item	297,636	461,000	315,793	121,000	(975,027)
Net income (loss)	\$ 1,298,161	\$ 928,971	\$ 744,160	\$ 260,976	\$ (3,126,305)
Number of common and common equivalent shares	775,663	775,663	775,663	775,663	581,443
Per common and common equivalent share:					
Income (loss) from continuing operations	\$1.29	\$.60	\$.55	\$.18	\$(2.84)
(Loss) from discontinued operations					(.86)
Extraordinary items38	.60	.41	.16	(1.68)
Net income (loss)	\$1.67	\$1.20	\$.96	\$.34	\$(5.38)
Financial position at year end:					
Total assets	\$ 9,459,774	\$ 6,351,668	\$ 5,698,913	\$ 6,712,985	\$ 7,095,633
Net property, plant and equipment	\$ 3,523,583	\$ 2,358,546	\$ 2,183,488	\$ 2,728,306	\$ 3,135,046
Stockholders' equity	\$ 4,179,697	\$ 2,881,536	\$ 1,952,565	\$ 1,219,814	\$ 958,838
Net book amount per common share	\$5.39	\$3.71	\$2.52	\$1.45	\$(.44)
Shares of common stock issued	775,663	775,663	775,663	757,949	587,949



Ronald R. Jensen,
Chairman of Board and President

TO THE SHAREHOLDERS:

During the fiscal year ended April 30, 1974, sales and earnings were highest in the Company's history and the Company's financial position was greatly strengthened. Net income was \$1,298,161 or \$1.67 per share on net sales of \$14,069,373. This compares with net income of \$928,971 or \$1.20 per share on net sales of \$11,303,085 during the preceding fiscal year. Net income during fiscal 1974 and 1973 included \$297,636 or \$.38 per share, and \$461,000 or \$.60 per share, respectively, resulting primarily from tax loss carryforward.

In August 1973, the Company began production of crab on its new processing vessel "Royal Alaskan," which has given the Company greater flexibility in producing crab in various fishing areas. The 1975 fiscal year will reflect the first full year of operating this facility.

In June 1973, the Company acquired a 50% ownership interest in a new company, "Pacific Shrimp Company," which was formed to construct a crab-shrimp processing vessel. A 321-foot knot-ship named the "Pacific Shrimper" was purchased and refurbished. This will be the largest shrimp plant in Alaska. Production is expected to

commence in July 1974 in an area not previously served by your Company and will be the Company's first facility producing individual quick frozen (IQF) shrimp.

In April 1974, the newly acquired 295-foot fully-equipped bottomfish processing and trawling vessel "Royal Sea" left for Alaska waters and is currently test-producing bottomfish blocks. In August 1973, the Company requested an amendment to the Construction Differential Subsidy Contract to permit the catching, processing and transportation of tanner crab (snow crab) in the Bering Sea. After hearings and an appeal from the initial decision, the Company's request was granted on March 19, 1974. Operations during fiscal 1975 are expected principally to be of a start-up and experimental nature. Substantial contribution to the overall operations of the Company is not expected until fiscal 1976.

A joint industry government venture to determine the prospects for the development of a United States groundfish fishery off Alaska and to assess certain conservation aspects that must be considered was started in April 1974. The joint

venture, which includes harvesting, processing and marketing, was financed by contributions from the fishing industry, plus funds and staff from the National Oceanic and Atmospheric Administration — National Marine Fisheries Service. The cooperative industry-government operation was formed in response to the increased demand for food fish in the United States which is being largely satisfied by foreign imports, despite the fact that a major potential source of fish to the United States is off Alaska in the Bering Sea and Gulf of Alaska.

In May 1974, the Shellfish Conservation Institute was formed by fishermen and processors to advance conservation methods in the North Pacific and Bering Sea fisheries. The Shellfish Institute also plans to engage in necessary research, dissemination of information and provide a forum for the discussion and consideration of matters affecting fisheries.

As you can see, we have planned well in advance our operations for this ensuing year and are seeking to add fishery resources to the Company which can maintain and increase our growth.

Management has been asked many times to make a statement regarding the future growth of the King Crab industry. In our opinion, the reliability of fishing, as it is known today, is quite well established and is capable of considerable expansion. Crab availability is maintained through treaties, conservation practices and State of Alaska regulations, which have included higher quotas.

The directors and officers wish to take this opportunity to express the Company's appreciation and thanks to its employees and fishermen who have worked hard during the past four years to build a diversified seafood company capable of growth despite cycles which may occur in any single product area.

Respectfully submitted,



Ronald R. Jensen
Chairman of Board and President
June 14, 1974



CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
Years ended April 30, 1974 and 1973

	<u>1974</u>	<u>1973</u>
Net sales	<u>\$14,069,373</u>	<u>\$11,303,085</u>
Operating costs and expenses:		
Cost of products sold	<u>11,653,219</u>	<u>9,429,129</u>
Selling, general and administrative	<u>649,182</u>	<u>727,767</u>
Interest and amortization of debt discount	<u>249,773</u>	<u>217,218</u>
Total operating costs and expenses	<u>12,552,174</u>	<u>10,374,114</u>
Income before income taxes	<u>1,517,199</u>	<u>928,971</u>
Provision for federal and state income taxes (Notes 1(e) and 3)	<u>516,674</u>	<u>461,000</u>
Income before extraordinary credit	<u>1,000,525</u>	<u>467,971</u>
Extraordinary credit (Note 3)	<u>297,636</u>	<u>461,000</u>
Net income	<u>1,298,161</u>	<u>928,971</u>
(Deficit), beginning of year	<u>(180,233)</u>	<u>(1,109,204)</u>
Retained earnings (deficit), end of year (Note 2)	<u>\$ 1,117,928</u>	<u>\$ (180,233)</u>
Number of common shares (Note 1(f))	<u>775,663</u>	<u>775,663</u>
Per common share (Note 1(f)):		
Income before extraordinary credit	<u>\$1.29</u>	<u>\$.60</u>
Extraordinary credit	<u>.38</u>	<u>.60</u>
Net income	<u>\$1.67</u>	<u>\$1.20</u>

See accompanying notes.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

*The Board of Directors and Stockholders
Pan-Alaska Fisheries, Inc.*

We have examined the accompanying consolidated balance sheet of Pan-Alaska Fisheries, Inc. at April 30, 1974 and 1973 and the related consolidated statements of income and retained earnings and changes in financial position for the years 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.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Pan-Alaska Fisheries, Inc. at April 30, 1974 and 1973 and the consolidated results of operations and consolidated changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Seattle, Washington
June 3, 1974

CONSOLIDATED BALANCE SHEET
April 30, 1974 and 1973

ASSETS

	<u>1974</u>	<u>1973</u>
Current assets:		
Cash	\$ 322,050	\$ 608,802
Receivables:		
Notes	532,770	276,583
Trade accounts	1,399,178	695,235
Insurance claim	<u> </u>	<u>66,456</u>
	1,931,948	1,038,274
 Inventories (Note 1(b)):		
Finished and semi-finished products	2,767,621	1,469,378
Operating supplies	<u>226,361</u>	<u>274,599</u>
	2,993,982	1,743,977
 Prepaid expenses	15,378	33,727
Property sold in June, 1973	<u> </u>	<u>145,473</u>
 Total current assets	5,263,358	3,570,253
Investments and other assets:		
Capital construction fund and lease deposits (Notes 1(d) and 5)	494,882	317,630
Deferred federal income taxes (Notes 1(e) and 3)	30,462	
Investment in affiliate (Note 1(c))	100,000	
Non-current notes receivable and other	<u>47,489</u>	<u>105,239</u>
Total investments and other assets	672,833	422,869
Property, plant and equipment, at cost (Notes 1(d) and 2):		
Land	85,098	82,598
Buildings and docks	1,292,003	1,230,087
Processing vessels	2,359,986	187,236
Fishing vessels and gear	934,684	846,513
Machinery, fixtures and equipment	549,329	782,305
Construction in progress	<u> </u>	<u>601,635</u>
	5,221,100	3,730,374
Less accumulated depreciation	1,697,517	1,371,828
Net property, plant and equipment	<u>3,523,583</u>	<u>2,358,546</u>
	<u>\$9,459,774</u>	<u>\$6,351,668</u>

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>1974</u>	<u>1973</u>
Current liabilities:		
Notes payable to bank (Note 2)	\$ 800,000	\$1,650,000
Accounts payable	750,613	430,154
Income taxes payable	249,500	
Accrued expenses:		
Payroll and profit sharing	251,987	76,265
Taxes, other than income	141,473	80,315
Interest	75,541	15,195
Capital construction fund and vessel repair (Note 1(d))	392,373	326,728
Other	218,321	75,998
Long-term debt due within one year	<u>231,469</u>	<u>137,997</u>
Total current liabilities	3,111,277	2,792,652
Long-term debt (Note 2)	2,168,800	677,480
Commitments and contingencies (Note 5)		
Stockholders' equity (Notes 2 and 4):		
Preferred stock, \$1.00 par value; 2,000,000 shares authorized, none issued . .		
Common stock, \$.50 par value, 10,000,000 shares authorized, 775,663 shares issued	387,831	387,831
Capital in excess of par value	2,673,938	2,673,938
Retained earnings (deficit)	<u>1,117,928</u>	<u>(180,233)</u>
Total stockholders' equity	<u>4,179,697</u>	<u>2,881,536</u>
	<u>\$9,459,774</u>	<u>\$6,351,668</u>

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Years ended April 30, 1974 and 1973

	<u>1974</u>	<u>1973</u>
Source:		
Operations:		
Income before extraordinary credit	\$1,000,525	\$ 467,971
Charges (credit) against income not involving funds:		
Depreciation and amortization	631,404	284,801
Net book value of equipment retired	56,929	25,130
Deferred federal income taxes	(30,462)	
Provision for income taxes, eliminated by carryforward of prior years' losses (Note 3)	297,636	461,000
Total provided by operations	1,956,032	1,238,902
Additions to long-term debt	1,865,000	
Reduction of non-current receivables and other	57,750	36,210
Property sold, net of mortgage note assumed by purchaser		90,673
	<u>3,878,782</u>	<u>1,365,785</u>
Application:		
Additions to property, plant and equipment	1,848,667	621,704
Reduction of long-term debt	378,383	185,079
Increase in deposits	177,252	17,282
Investment in affiliate	100,000	
	<u>2,504,302</u>	<u>824,065</u>
Increase in working capital	<u>\$1,374,480</u>	<u>\$ 541,720</u>
The increase (decrease) in the elements of working capital were as follows:		
Cash	\$ (286,752)	\$ 54,022
Receivables	893,674	(247,582)
Inventories	1,250,005	575,349
Prepaid expenses	(18,349)	(30,382)
Property sold in June, 1973	(145,473)	145,473
Notes payable to bank	850,000	40,839
Accounts payable	(320,459)	18,244
Income taxes payable	(249,500)	
Accrued expenses	(505,194)	(451,673)
Long-term debt due within one year	(93,472)	437,430
Increase in working capital	<u>\$1,374,480</u>	<u>\$ 541,720</u>

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, APRIL 30, 1974 AND 1973

1. Principles of consolidation and significant accounting practices

(a) *Consolidation* — The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiaries.

(b) *Inventories* — Inventories are stated at the lower of cost (first-in, first-out) or current market reduced by cost of disposal for semi-finished products or current replacement cost for operating supplies.

(c) *Investment in affiliate* — The Company owns 50% of the outstanding common stock of Pacific Shrimp Company, such investment being accounted for on the equity method. Operations will commence in 1974.

(d) *Property, plant and equipment* — Depreciation is computed using both the straight-line and declining balance methods for plant and equipment, including the capitalized value of property rights under a processing vessel lease. The declining balance method was adopted on new additions in 1974; the effect of this change was to reduce net income and income before extraordinary item by \$75,167, or \$.10 per share. The lives on which depreciation is based are as follows: buildings and docks 10 to 20 years, processing and fishing vessels 10 to 15 years, machinery, fixtures and equipment 4 to 10 years.

Maintenance and repairs are charged to income. Renewals or betterments are capitalized. When items are sold, retired, or otherwise disposed of, the cost of such assets and the related accumulated depreciation are removed from the accounts. Gains or losses on such sales or retirements are included in income.

In 1974, the Company entered into an agreement under the Merchant Marine Act of 1970 and elected to deposit \$157,373 in their Capital Construction Fund. Deferred income tax has been provided on the deposit amount which is currently deductible for income tax purposes. This amount will be used for the future purchase of vessels and will reduce the tax basis of the vessels.

(e) *Income taxes* — Deferred taxes are provided in the accompanying financial statements to compensate for significant timing differences (See Note 3).

Investment tax credits realized at the time of property acquisitions are used to reduce the provision for federal income tax in that period or if unusable are carried forward to reduce future provisions for federal income tax (See Note 3).

(f) *Per share information* — Per share computations are based on the average number of shares of common stock outstanding during each period. The dilution from stock options, which were common stock equivalents, and from contingently issuable shares upon conversion of debentures was not material during either period.

2. Short-term and long-term debt

The Company's revolving bank credit agreement provides for borrowings up to \$4,500,000 through July 31, 1974. The interest rate varied from 1/4% to 1/2% above the prime rate in 1974. Amounts outstanding under the borrowing agreement may be prepaid at any time. During 1974 the highest and average amount outstanding under the borrowing agreement was \$1,650,000 and \$431,000, respectively. The weighted average interest rate was 9.2% for 1974.

Long-term debt consisted of the following at April 30, 1974 and 1973:

	1974	1973
6-3/4% convertible subordinated debentures, due July 31, 1976 less unamortized debt discount of \$4,403 (\$9,426 in 1973)	\$ 174,694	\$ 246,674
3-1/2%-4% Small Business Administration mortgage notes, due annually including interest as follows: \$37,260 to 1976 and \$30,576 thereafter to 1086	264,307	290,640
8-3/8% boat mortgage notes, due annually including interest as follows: \$153,900 in 1975, \$101,678 in 1976 through 1983 and the balance in 1984	680,000	
7-3/4% and 9% boat mortgage notes, due annually plus interest as follows: \$50,334 to 1977, \$92,055 in 1978 and \$26,428 thereafter to 1980	309,130	161,250
10.12% capitalized lease, due \$159,360 annually including interest through June 1983, less unamortized debt discount of \$503,167	944,353	
6% notes payable	27,783	116,913
	2,400,267	815,477
Less amount due within one year	231,469	137,997
	<u>\$2,168,798</u>	<u>\$ 677,480</u>

Property, plant and equipment at a cost of \$4,123,000 is pledged as collateral for the above long-term debt.

The 6-3/4% debentures are convertible into common stock at \$8.35 per share until July 31, 1976. At April 30, 1974, 21,449 shares of common stock

were reserved for such conversion. The indenture covering the debentures provides, among other things, that the Company will not pay cash dividends or acquire shares of its common stock except to the extent that retained earnings exceed \$61,304.

Payments on the principal of long-term debt, including debenture sinking fund payments, for the four years ended April 30, 1979 are required as follows: 1976 — \$296,000; 1977 — \$315,000; 1978 — \$274,000; 1979 — \$224,000.

3. Federal and state income taxes

The provision for federal and state income taxes is comprised of the following:

	1974	1973
Current state income taxes . . .	\$ 25,000	\$
Current federal income tax . . .	224,500	
Tax benefit from net operating loss carryforward	93,888	461,000
Deferred	173,286	
	<u>\$ 516,674</u>	<u>\$ 461,000</u>

The current provision for tax has been reduced by \$225,000 (\$.29 per share) for investment tax credit which is accounted for on the flow-through method.

Deferred includes the tax effect of (1) the income of the Company's Domestic International Sales Corporation (DISC) not currently recognized for tax purposes (\$112,504), (2) deposits to the Capital Construction Fund (\$75,539) (Note 1(d)), (3) other items (\$3,896) less (4) depreciation deducted for accounting purposes in excess of depreciation for tax purposes (\$18,653).

The extraordinary credit of \$297,636 in 1974 and \$461,000 in 1973 includes (1) the tax benefit from the net operating loss carryforward mentioned above, plus in 1974 (2) the tax effect of \$101,856 applicable to depreciation deducted for accounting purposes in excess of depreciation for tax purposes prior to 1974 and (3) the tax effect of \$101,892 for costs incurred in connection with the fishing vessel destroyed by fire (See Note 5) and deducted for accounting purposes in 1970.

4. Stock options

At April 30, 1974, the following options were outstanding having been granted at the market value on the date of grant by the Board under the former 1968 qualified stock option plan:

Options granted in July 1971 to purchase 2,500 shares of common stock at \$2.65 per share (aggregating \$6,625) had a market value on the date first exercisable of \$3.00 per share (aggregating \$7,500); options granted in August 1972 to purchase 900 shares of common stock at \$5.00 per share (aggregating \$4,500) had a market value on the date first exercisable of \$3.50 per share (aggregating \$3,150); and options granted in June 1973 to purchase 3,600 shares of common stock at \$3.125 per share (aggregating \$11,250) had a market value on the date

first exercisable of \$3.75 per share (aggregating \$13,500). None of the options have been exercised.

5. Commitments and contingencies

The Company leases several vessels and certain equipment. Rent expense, exclusive of insurance and certain other costs required to be paid by the Company, during the years ended April 30, 1974 and 1973 was as follows:

	1974	1973
Leases, other than non-capitalized financing leases . . .	\$ 32,000	\$ 7,000
Non-capitalized financing leases	381,000	384,000
	<u>\$ 413,000</u>	<u>\$ 391,000</u>

All lease arrangements provide for minimum rental payments on the basis of lapse of time, with certain equipment leases providing for additional rentals based on equipment utilization. There are no existing options to renew any of the leases. The Company has options to purchase the leased vessels. Deposits made on leases expiring in 1979 will be refunded together with accrued interest totaling approximately \$440,000.

Minimum annual rental commitments under long-term leases at April 30, 1974, of which all are applicable to non-capitalized financing leases, are summarized as follows:

	Vessels	Equipment	Total
1975, 1976 and 1977	\$289,000	\$62,000	\$351,000
1978	289,000	57,000	346,000
1979	193,000		193,000
1980-1984	65,000		65,000

The present values of minimum lease commitments for non-capitalized financing leases, using a weighted average interest rate of 9.0% (range of 8.7% to 9.3%), are as follows:

	1974	1973
Vessels	\$1,139,000	\$1,315,000
Equipment	205,000	247,000
TOTAL	<u>\$1,344,000</u>	<u>\$1,562,000</u>

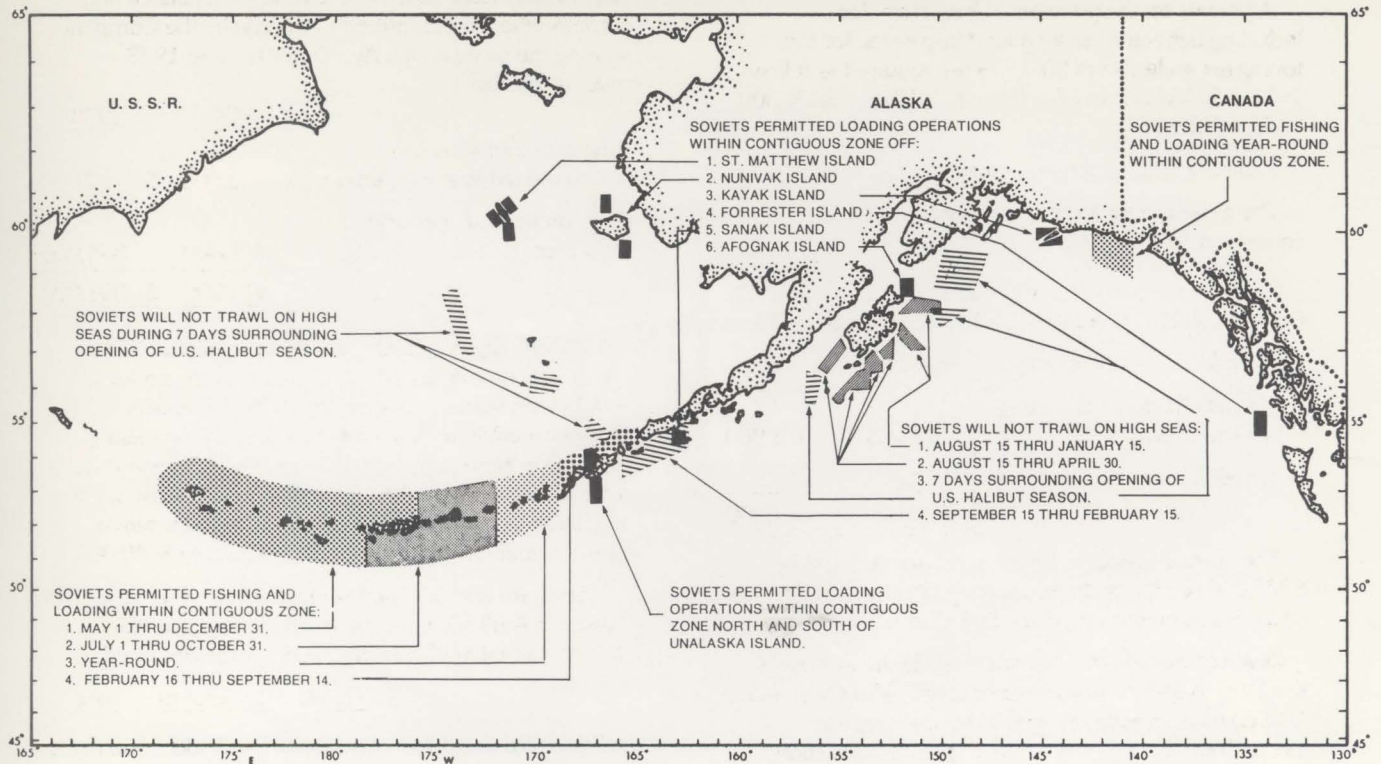
If all non-capitalized leases were capitalized, the impact on net income would be less than 3%.

A marine mortgage note in the amount of \$418,000 and a \$300,000 note payable by an affiliate are guaranteed by the Company.

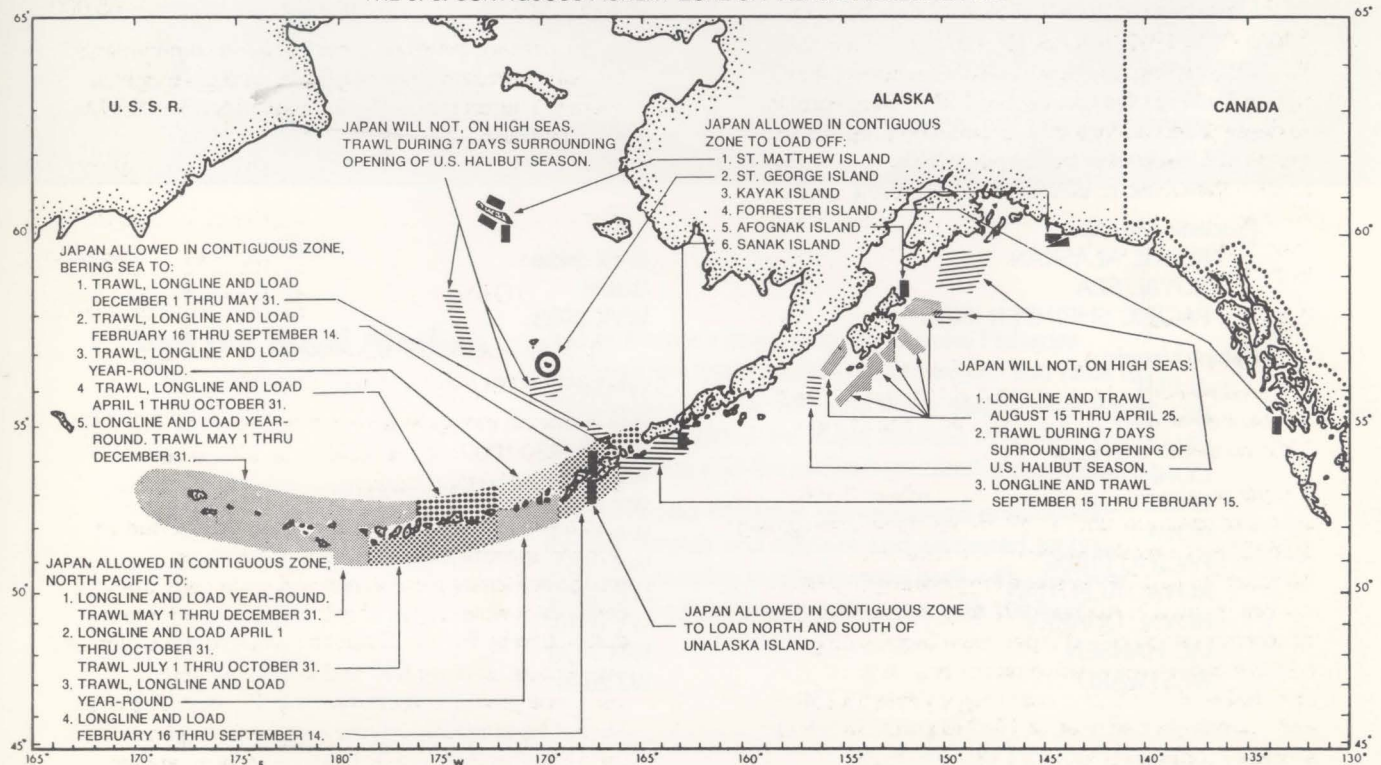
In a suit filed by the Company in Federal Court to recover approximately \$210,000 of previously recognized losses plus interest and court costs from companies which repaired a fishing vessel prior to its destruction by fire, the Court has awarded the Company, net of costs, attorney fees and reimbursement of insurance proceeds, approximately \$57,000. The claim has not been recorded in the accompanying financial statements as the Court's decision has been appealed by the defendant.

INTERNATIONAL FISHING TREATIES

U. S.-U. S. S. R. FISHERIES AGREEMENTS CONCERNING THE U. S. CONTIGUOUS FISHERY ZONE OFF ALASKA FEBRUARY 1973



U. S.-JAPAN FISHERIES AGREEMENTS CONCERNING THE U. S. CONTIGUOUS FISHERY ZONE OFF ALASKA DECEMBER 1972



Transfer Agent and Registrar

National Bank of North America, New York, New York

General Counsel

Lane, Powell, Moss & Miller, Seattle, Washington

Keane, Haessler, Harper, Pearlman & Copeland, Portland, Oregon

Robertson, Monagle, Eastaugh & Bradley, Juneau, Alaska

Auditors

Arthur Young & Company, Seattle, Washington

Directors and Officers

RONALD R. JENSEN, chairman of board, president, director

PETER J. MARINKOVICH, executive vice president, director

RODNEY L. ROUTH, vice president-finance; treasurer, director

MARK COPELAND, secretary, director

RICHARD H. SIMS, director

WALTER B. JOHNSON, vice president-marketing

RAYMOND W. HAMAN, assistant secretary

Executive Staff

KENNETH ALLREAD, Alaska plants manager

LEE ANDRICH, fleet manager

IRLEY BROWN, Royal Alaskan

JESSE L. BURTON, Monroe operations

BOB DOLFAY, Royal Sea

ARTHUR B. KALBERG, chief accountant

JON KNAPP, Unalaska operations

REX K. LODER, special assignments

TOM NORDQUIST, purchasing

JOHN PIRAK, Kodiak operations

PAN-ALASKA FISHERIES, INC.**Corporate Headquarters**

P.O. BOX 647, MONROE, WASHINGTON 98272

TELEPHONE (206/743-1176)

Production Offices

BLDG. C-3, FISHERMEN'S TERMINAL, SEATTLE, WASHINGTON 98119

TELEPHONE (206/284-0900)

KVR 423

Operating Facilities:

BARGE MAGELLAN, KODIAK, ALASKA 99615 KVC 78

UNALASKA, ALASKA 99685 WGG 65

MONROE, WASHINGTON 98272

Processing Vessels:

ROYAL ALASKAN WYX 2456

ROYAL SEA WJME

PACIFIC SHRIMPER (50%) WYX 2923

Fishing Vessels:

ALEUT WB 5624

BIG SEA WB 8668

CHARGER WY 4965

CONFIDENCE WY 8166

ENDEAVOR WY 8151

NOVA WA 8639

PACIFIC PRIDE WA 9258

ROYAL ALEUTIAN WB 4006

ROYAL QUARRY WY 6810

VIC HANSEN WM 7470

WESTWARD WJ 2676



Meet the Royal Alaskan.

Just one more reason why Pan-Alaska Fisheries produces the finest seafood in the world. You have to work hard to be the best, and that's exactly what we've done. We've added the Royal Alaskan to greatly increase King and Snow Crab productive capability.

At Pan-Alaska Fisheries, our seasoned employees, modern vessels and efficient and advanced technological processing methods work hard with one goal in mind: To provide our customers with the best.

Pan-Alaska Fisheries, Inc.

