

Pan-Alaska Fisheries, Inc.

Annual Report for the year ending April 30, 1972

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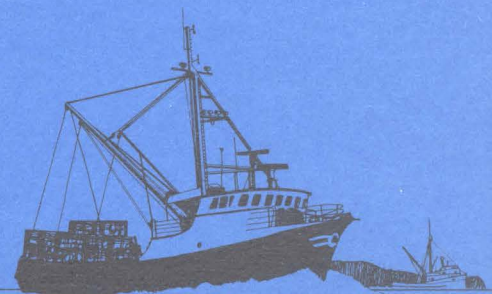


*Annual Report*  
ANNUAL REPORT

PACIFIC

AUG 29 1974

*Room 204*





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**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, president, director

PETER J. MARINKOVICH, vice president-operations, director

RODNEY L. ROUTH, treasurer, director

MARK COPELAND, secretary

**Executive Staff**

KENNETH ALLREAD, Kodiak operations

BOB B. BOYD, fleet manager

JESSE L. BURTON, Unalaska operations

WALTER B. JOHNSON, director of marketing

ARTHUR B. KALBERG, chief accountant

REX LODER, Monroe operations

WILLIAM SOULE, director of quality control

PAN-ALASKA FISHERIES, INC.

Corporate Headquarters:

P.O. BOX 647, MONROE, WASHINGTON 98272

TELEPHONE (206/743-1176)

Operating Facilities:

BARGE MAGELLAN, KODIAK, ALASKA 99615

UNALASKA, ALASKA 99685

MONROE, WASHINGTON 98272

Fishing Vessels:

ALEUT

BIG SEA

CHARGER

CONFIDENCE

ENDEAVOR

JARL

NOVA

PACIFIC PRIDE

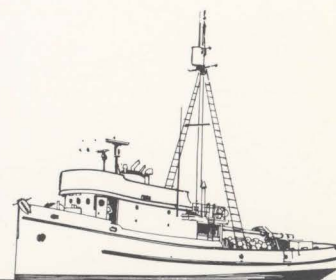
ROYAL ALASKAN

ROYAL ALEUTIAN

VIC HANSEN

## Financial Highlights

Year ended April 30,	1972	1971	1970	1969	1968
Operating results:					
Continuing operations:					
Net sales	<b>\$10,564,390</b>	\$8,232,588	\$ 6,894,743	\$ 6,092,330	\$7,105,156
Income (loss) before extraordinary items	<b>\$ 428,367</b>	\$ 139,976	\$(1,652,026)	\$ 173,607	\$ 117,264
(Loss) from discontinued operations			(499,252)	(31,878)	
Extraordinary items	<b>315,793</b>	121,000	(975,027)		
Net income (loss)	<b>\$ 744,160</b>	\$ 260,976	\$(3,126,305)	\$ 141,729	\$ 117,264
Number of common and common equivalent shares	<b>775,663</b>	775,663	581,443	707,427	492,958
Per common and common equivalent share:					
Income (loss) from continuing operations	<b>\$ .55</b>	\$ .18	\$(2.84)	\$ .25	\$ .25
(Loss) from discontinued operations			(.86)	(.04)	
Extraordinary items	<b>.41</b>	.16	(1.68)		
Net income (loss)	<b>\$ .96</b>	\$ .34	\$(5.38)	\$ .21	\$ .25
Financial position at year end:					
Total assets	<b>\$ 5,698,913</b>	\$6,712,985	\$7,095,633	\$11,072,172	\$6,315,199
Net property, plant and equipment	<b>\$ 2,183,488</b>	\$2,728,306	\$3,135,046	\$ 3,229,966	\$2,422,092
Stockholders' equity	<b>\$ 1,952,565</b>	\$1,219,814	\$ 958,838	\$ 4,106,601	\$1,894,497
Net book amount per common share	<b>\$ 2.52</b>	\$ 1.45	\$(.44)	\$ 5.06	\$ 4.37
Shares of common stock issued	<b>775,663</b>	757,949	587,949	582,341	433,965





## To the Shareholders:

During the fiscal year ended April 30, 1972, your Company had net income of \$744,160 or \$.96 per share, on sales of \$10,564,390. This compares with net income of \$260,976, or \$.34 per share, on sales of \$8,232,588 during the preceding fiscal year. Net income during fiscal 1972 and 1971 included \$315,793 or \$.41 per share, and \$121,000 or \$.16 per share, respectively, resulting primarily from tax loss carryforward.

The sales and earnings were Company records. They were established during a year which included the loss of a king crab processing facility immediately prior to the start of the westward crab fishing season and a ten-week closure of shrimp processing in Kodiak, Alaska because of insufficient water due to cold weather.

Production expected from the lost floating processing plant was replaced, in part, during the past year by contracts with other processors. The Company will again obtain part of its king crab from other processors by means of exclusive contracts providing for processing of crab delivered for the Company. Floating processors contracted by the Company will be located to serve three quota and two non-quota areas, two more areas than fished effectively by the Company during the past year.

Quotas in both Dutch Harbor and Adak areas have been increased by 30% for the 1972 - 73 season and the Company believes that unless there is an unexpected crab failure, these areas, together with Kodiak, Bering Sea and a newly opened non-quota area will provide it with more product for 1972 - 73.

The Company does not expect to substantially increase shrimp production during 1972, but believes that tanner crab and salmon production at Unalaska will be significantly increased. In addition, the Company has increased utilization of its Kodiak facility, used only for shrimp during the past three years, by installing a king crab line and has expanded its Unalaska support facilities to permit two-shift operation during the fishing seasons. Inventories of shellfish products are low and management believes that prices will remain firm during the coming year.

Production plans are complete for the 1972 - 73 season and plans now are being formulated for the 1973 - 74 season. Additional operations are planned for our packaging and cold storage plant at Monroe during 1972 and 1973 and additional shellfish and fish resources are being examined to complement the Company's king crab, shrimp and newly added tanner crab production.

I 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 two years to build a diversified shellfish company capable of growth despite any cycles which may occur in any single product area.

*Respectfully submitted,*

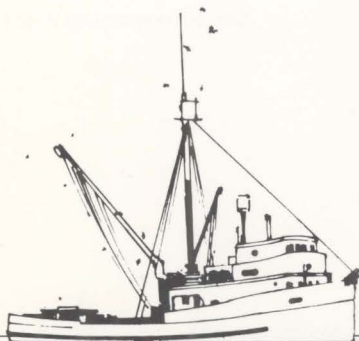
A handwritten signature in dark ink, reading "Ronald R. Jensen". The signature is fluid and cursive, with the first name "Ronald" being the most prominent.

*Ronald R. Jensen, President*

**Consolidated Statement of Income**

Years ended April 30, 1972 and 1971

	1972	1971
Net sales	<u>\$10,564,390</u>	<u>\$ 8,232,588</u>
Operating costs and expenses:		
Cost of products sold	8,731,080	6,877,239
Selling, general and administrative	677,023	622,218
Interest and amortization of debt		
discount and expense	308,920	384,944
Idle vessels		87,211
Total operating costs and expenses	<u>9,717,023</u>	<u>7,971,612</u>
Income before income taxes	847,367	260,976
Provision for federal and state		
income taxes (Note 4)	419,000	121,000
Income before extraordinary credit	428,367	139,976
Extraordinary credits (charge):		
Loss on sinking of vessels	(137,423)	
Gain on sale of vessel	34,216	
Reduction of income tax resulting		
from carryforward of prior years'		
losses	419,000	121,000
	<u>315,793</u>	<u>121,000</u>
Net income	<u>\$ 744,160</u>	<u>\$ 260,976</u>
Number of common and common		
equivalent shares (Note 5)	<u>775,663</u>	<u>775,663</u>
Per common and common equivalent		
share (Note 5):		
Income before extraordinary credit	\$ .55	\$ .18
Extraordinary credit	.41	.16
Net income	<u>\$ .96</u>	<u>\$ .34</u>

*See accompanying notes.*

**Consolidated Balance Sheet**

April 30, 1972 and 1971

**Assets**

(Pledged — Note 2)

	1972	1971
Current assets:		
Cash	\$ 554,780	\$ 230,569
Receivables:		
Notes	142,649	138,243
Trade accounts	783,023	1,096,684
Insurance claims	356,250	
Claim for refund of income taxes	3,934	43,162
	<u>1,285,856</u>	<u>1,278,089</u>
Inventories (Note 1):		
Finished and semi-finished products	797,133	1,651,567
Operating supplies and fishing gear	371,495	344,864
	<u>1,168,628</u>	<u>1,996,431</u>
Prepaid expenses	64,109	100,751
Total current assets	<u>3,073,373</u>	<u>3,605,840</u>
Property, plant and equipment, at cost:		
Land	82,598	82,598
Buildings and docks	1,230,087	1,225,587
Processing vessels	205,579	537,656
Fishing vessels and gear	819,694	1,099,436
Machinery, fixtures and equipment	846,848	1,157,883
	<u>3,184,806</u>	<u>4,103,160</u>
Less accumulated depreciation (Note 1)	<u>1,146,791</u>	<u>1,520,327</u>
	<u>2,038,015</u>	<u>2,582,833</u>
Property held for development	145,473	145,473
Net property, plant and equipment	<u>2,183,488</u>	<u>2,728,306</u>
Other assets:		
Lease deposits (Note 6)	300,348	316,162
Unamortized debt expense (Note 1)	14,703	24,853
Non-current notes receivable	107,068	17,732
Other	19,933	20,092
Total other assets	<u>442,052</u>	<u>378,839</u>
	<u><u>\$5,698,913</u></u>	<u><u>\$6,712,985</u></u>

See accompanying notes.



**Liabilities and Stockholders' Equity**

	1972	1971
Current liabilities:		
Notes payable to bank (receivables and inventory pledged as collateral)	<b>\$1,690,839</b>	\$3,273,988
Accounts payable	<b>448,398</b>	253,517
Accrued expenses	<b>122,828</b>	89,952
Long-term debt due within one year	<b>575,427</b>	448,755
Total current liabilities	<b>2,837,492</b>	4,066,212
Long-term debt (Note 2)	<b>908,856</b>	1,426,959
Commitments and contingency (Note 6)		
Stockholders' equity (Notes 2 and 3):		
Preferred stock, \$1.00 par value; 2,000,000 share authorized, none issued	—	
Convertible preferred stock, no par value; 60,000 shares authorized, including 30,000 shares for Series A, 1,042 shares issued		109,384
Common stock, \$.50 par value, 10,000,000 shares authorized, 775,663 shares issued (757,949 in 1971)	<b>387,831</b>	378,974
Capital in excess of par value	<b>2,673,938</b>	2,573,637
Deficit	<b>(1,109,204)</b>	(1,842,181)
Total stockholders' equity	<b>1,952,565</b>	1,219,814
	<b>\$5,698,913</b>	\$6,712,985

See accompanying notes.

# Consolidated Statement of Stockholders' Equity

Years ended April 30, 1972 and 1971

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Balance, April 30, 1970, as previously reported  
Tax adjustments (Note 3)

Balance, April 30, 1970, as restated

Net income, year ended April 30, 1971

Conversion of preferred stock

Balance, April 30, 1971

Net income, year ended April 30, 1972

Purchase of 22,615 warrants to purchase common stock (Note 3)

Conversion of preferred stock

Balance, April 30, 1972 (Notes 2 and 3)





Shares of stock		Preferred stock	Common stock	Capital in excess of par value	(Deficit)	Total
Preferred	Common					
11,042	587,949	\$ 979,234	\$ 293,974	\$1,788,787	\$(2,216,544)	\$ 845,451
					113,387	113,387
11,042	587,949	979,234	293,974	1,788,787	(2,103,157)	958,838
					260,976	260,976
(10,000)	170,000	(869,850)	85,000	784,850		—
1,042	757,949	109,384	378,974	2,573,637	(1,842,181)	1,219,814
					744,160	744,160
				(226)	(11,183)	(11,409)
(1,042)	17,714	(109,384)	8,857	100,527		—
—	775,663	\$ —	\$ 387,831	\$2,673,938	\$(1,109,204)	\$1,952,565

See accompanying notes.

# Consolidated Statement of Changes in Financial Position

Years ended April 30, 1972 and 1971

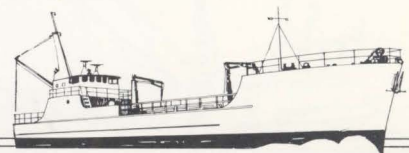
	1972	1971
Source of funds:		
Operations:		
Income before extraordinary items	\$ 428,367	\$ 139,976
Charges against income not involving funds:		
Depreciation	337,337	451,624
Amortization of debt discount and expense	33,280	40,931
Provision for income taxes, eliminated by carryforward of prior year's losses	419,000	121,000
	<u>1,217,984</u>	<u>753,531</u>
Extraordinary credits	315,793	121,000
Charges (credits) not involving funds:		
Reduction of income taxes arising from carryforward of prior year's losses	(419,000)	(121,000)
Net book amount of and deferred costs applicable to vessels lost on sinking	245,252	
Net book amount of vessel sold	115,784	
	<u>257,829</u>	<u>—</u>
Total provided by operations	1,475,813	753,531
Additions to long-term debt	293,650	98,884
Issuance of common stock	109,384	869,850
Reduction of non-current receivables		2,268
Decrease in lease deposits	15,814	
Other	2,352	(249)
	<u>1,897,013</u>	<u>1,724,284</u>
Application of funds:		
Additions to property, plant and equipment	70,671	44,884
Reduction of long-term debt	919,960	565,452
Conversion of preferred stock	109,384	869,850
Increase in non-current receivables	89,336	
Increase in lease deposits		18,798
Purchase of common stock warrants	11,409	
	<u>1,200,760</u>	<u>1,498,984</u>
Increase in working capital	\$ 696,253	\$ 225,300



The increase (decrease) in the elements of working capital are as follows:

	1972	1971
Cash	\$ 324,211	\$ 205,572
Receivables	7,767	(20,990)
Inventories	(827,803)	54,627
Prepaid expenses	(36,642)	(58,753)
Notes payable to bank	1,583,149	(207,419)
Insurance contracts payable		96,103
Accounts payable	(194,881)	351,640
Accrued expenses	(32,876)	48,747
Federal and state income taxes		1,620
Long-term debt due within one year	(126,672)	(245,847)
Increase in working capital	<u>\$ 696,253</u>	<u>\$ 225,300</u>

See accompanying notes.



**1. Principles of consolidation and accounting practices**

**Consolidation** — The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiaries. The Company's equity in consolidated subsidiaries exceed its investment in these subsidiaries by \$5,620 at April 30, 1972 (\$3,362 at April 30, 1971) which amounts are included in the consolidated balance sheet as a credit to retained earnings.

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

**Depreciation** — It is the policy of the Company to provide for depreciation, computed on the straight-line method, of plant and equipment by charges to income over the estimated useful lives of the assets as follows: buildings and docks 10 to 20 years, floating equipment 5 to 10 years, machinery, fixtures and equipment 4 to 10 years. Maintenance and repairs are charged to income as incurred. 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.

**Amortization of debt discount and expense** — Amortization of debt discount and expense is on the bonds outstanding method.

**Investment tax credit** — 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.

**Investment** — In April, 1971, the Company received 226,175 unregistered shares of Discountland, Inc. common stock (approximately 23% of the outstanding shares) and a non-interest bearing debenture (due in 1981) in the amount of \$50,261 in exchange for \$491,691 representing the unpaid balance of amounts advanced to Discountland, Inc., previously written off as a result of bankruptcy proceedings. The Company does not apply the equity method of accounting to this investment as no influence is exercised over operating or financial policies of Discountland, Inc.

**2. Long-term debt**

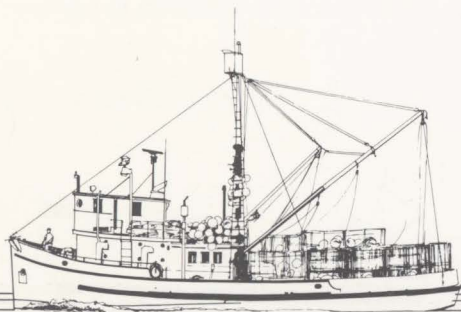
Long-term debt consisted of the following at April 30, 1972 and 1971:

	1972	1971
Payables under Security Agreement, due \$14,776 monthly to April 1, 1974	\$ 354,447	\$ 566,400
6¾% convertible subordinated debentures, due July 31, 1976 less unamortized debt discount of \$17,928 (\$30,307 in 1971)	316,172	404,793
Floating equipment contract on M/V Mercator less deferred interest of \$101,905		204,184
3½% - 4% Small Business Administration mortgage loans, due annually including interest as follows: \$37,260 to 1976 and \$24,504 thereafter to 1986	315,987	340,300
7% - 7¾% boat mortgages, due \$62,500 in 1973, \$51,875 in 1974 and \$31,875 thereafter to 1977 plus interest	210,000	111,916
6% note payable, due \$18,550 annually plus interest to 1974	37,100	55,650
6% mortgage, due \$10,960 annually plus interest to 1978	65,760	76,720
6% mortgage, due \$18,000 annually including interest to 1977	59,662	73,625
12% notes payable, due in 1973	125,155	42,126
	1,484,283	1,875,714
Less amount due within one year	575,427	448,755
	<u>\$ 908,856</u>	<u>\$1,426,959</u>

At April 30, 1971, deferred interest and unamortized debt discount have been reclassified as a reduction of the related debt to conform to Accounting Principles Board Opinion No. 21.

Under the Security Agreement between the Company and the Trustee for unsecured creditors of the Company at January 16, 1970, prepayments must be made for each year commencing with the year ending April 30, 1972, equivalent to ten percent of "net operating profit after provision for taxes" for such year. A fee of \$31,888 is to be paid to the Trustee during the period of the agreement. Terms of the Agreement provide for a security interest in all otherwise unencumbered tangible and intangible assets and a subordinate security interest in all other assets. The Agreement also provides, among other things, that asset acquisitions and disposals be approved by the creditors' committee.

The 6¾% debentures are convertible into common stock at \$8.35 per share until July 31, 1976. At April 30, 1972, 40,012 shares of common stock were reserved for such conversion. Sinking fund payments are required annually on July 31, aggregating \$2,600 in 1972, \$71,500 in 1973 and increasing \$6,500 annually thereafter to 1976. 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.





### 3. Stockholders' equity

**Stock options** — At April 30, 1972 and 1971, 17,000 and 20,000 shares, respectively, of common stock were reserved for issuance under the 1968 qualified stock option plan. The option price is determined by the Board, but shall not be less than the fair market value of the common stock at the date of grant. Options run for a term of five years and may not be exercised prior to the expiration of the first six months of their terms.

In July, 1971, the Board granted options to purchase 3,000 shares of common stock at \$2.65 per share (aggregating \$7,950), the market value on the date of grant. These options became exercisable on January 12, 1972, at which time the market value was \$3.00 per share (aggregate \$9,000). None of the options have been exercised.

**Warrants** — In July, 1971, warrants, which would have expired July 31, 1971, to purchase 22,615 shares of common stock at \$2.50 per share were purchased for \$11,409. The Company purchased the above warrants in lieu of the obligation to register the underlying shares of common stock. At April 30, 1972, stock purchase warrants to purchase 10,000 shares of common stock at \$12.00 per share expiring January 6, 1974 were outstanding.

**Recapitalization** — On May 1, 1972, the authorized capital stock of the Company was increased from 2,060,000 shares of capital stock, consisting of 2,000,000 shares of common stock, \$.50 par value, and 60,000 shares of convertible preferred stock, no par value, including 30,000 shares of convertible preferred stock — Series A to 12,000,000 shares of capital stock, consisting of 10,000,000 shares of common stock, \$.50 par value and 2,000,000 shares of preferred stock, \$1.00 par value. Retroactive effect has been given to this recapitalization.

**Prior period adjustments** — Retained earnings at April 30, 1970, has been restated to reflect the following tax adjustments —

On April 11, 1972, the Alaska Supreme Court affirmed the September 1970 judgment of the Superior Court in favor of the Company and awarded refunds of \$79,907 for fish taxes paid to the State of Alaska for the years 1961 through 1966. Subsequent to 1966 the Company did not pay such taxes. As a result of the examination of the Company's income tax returns by the Internal Revenue Service for fiscal years ended in 1967 through 1970, additional investment credit of \$17,685 was allowed in 1967 and a refund of \$15,795 was allowed in 1970 due to adjustments to the federal income tax treatment of certain inter-company transactions.

### 4. Federal income tax

At April 30, 1972, for income tax purposes, the consolidated net operating loss carryforward of \$1,200,000 expires \$777,000 in 1975 and \$423,000 in 1976. The loss on the destruction and sinking of the F/V Enterprise (see Note 6) will be deducted for tax purposes when the litigation is settled. The Company has available investment credit carryovers aggregating approximately \$130,000 which may be applied to reduce federal income taxes through 1977, subject to the limitations of the Revenue Act of 1971.

### 5. Per common and common equivalent share information

Per share computations are based on the average number of shares of common stock outstanding during each period plus shares issuable upon conversion of all convertible preferred stock — Series A. Stock options and common stock purchase warrants, which were common stock equivalents, and shares issuable upon conversion of debentures (in 1972 the dilution was not material) would have had an anti-dilutive effect and therefore were not included in the computations.

### 6. Commitments and contingency

The F/V Enterprise, leased by the Company, was destroyed by fire and sank in December, 1969 and a provision for loss of \$212,275 was recorded in 1970. The Company intends to file a suit in Federal Court to recover approximately \$210,000 plus interest and court costs from companies which repaired the vessel prior to its sinking. This claim, which is not believed to be material to the financial position of the Company, has not been recorded in the accompanying financial statements. Attorney fees, which are on a contingent basis, and a pro rata reimbursement of insurance proceeds would be deducted from the final settlement. Counsel for the Company is optimistic about establishing liability for the sinking on the part of one or all of the defendants.

Minimum rentals under non-cancellable leases on fishing vessels and equipment, exclusive of maintenance and insurance, approximate \$310,000 per year through 1978, \$177,000 in 1979 and \$65,000 in 1980. Deposits made on leases expiring in 1979 will be refunded together with accrued interest totaling approximately \$440,000.

ARTHUR YOUNG & COMPANY

The Board of Directors  
Pan-Alaska Fisheries, Inc.

WASHINGTON BUILDING  
SEATTLE, WASHINGTON 98101

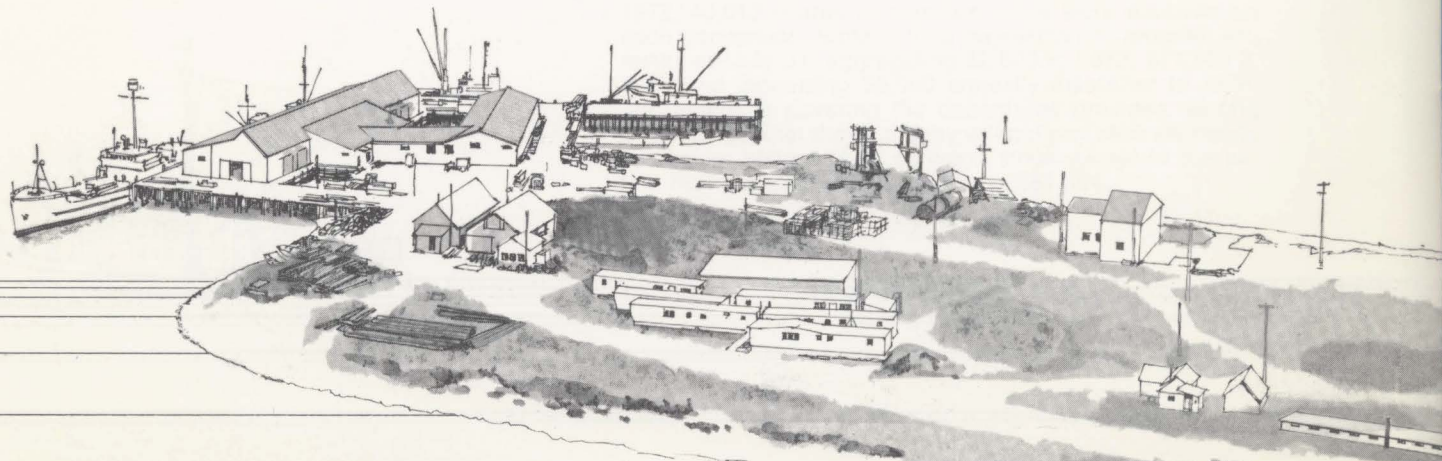
We have examined the accompanying consolidated balance sheet of Pan-Alaska Fisheries, Inc. at April 30, 1972, and the related consolidated statements of income, stockholders' equity and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We have previously made a similar examination of the consolidated financial statements for the prior year and our opinion was qualified with respect to the outcome of the Alaska fish tax judgment which was settled in favor of the Company (Note 3) and the claim for refund of certain costs, which is not recorded in the accompanying financial statements, is not believed to be material to the financial position of the Company (Note 6). Accordingly, the qualification of our opinion is therefore removed.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Pan-Alaska Fisheries, Inc. at April 30, 1972 and 1971 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*

May 31, 1972











P.O. BOX 647, MONROE, WASHINGTON 98272

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