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Pan-Alaska Fisheries Annual Report for the year ending April 30, 1968

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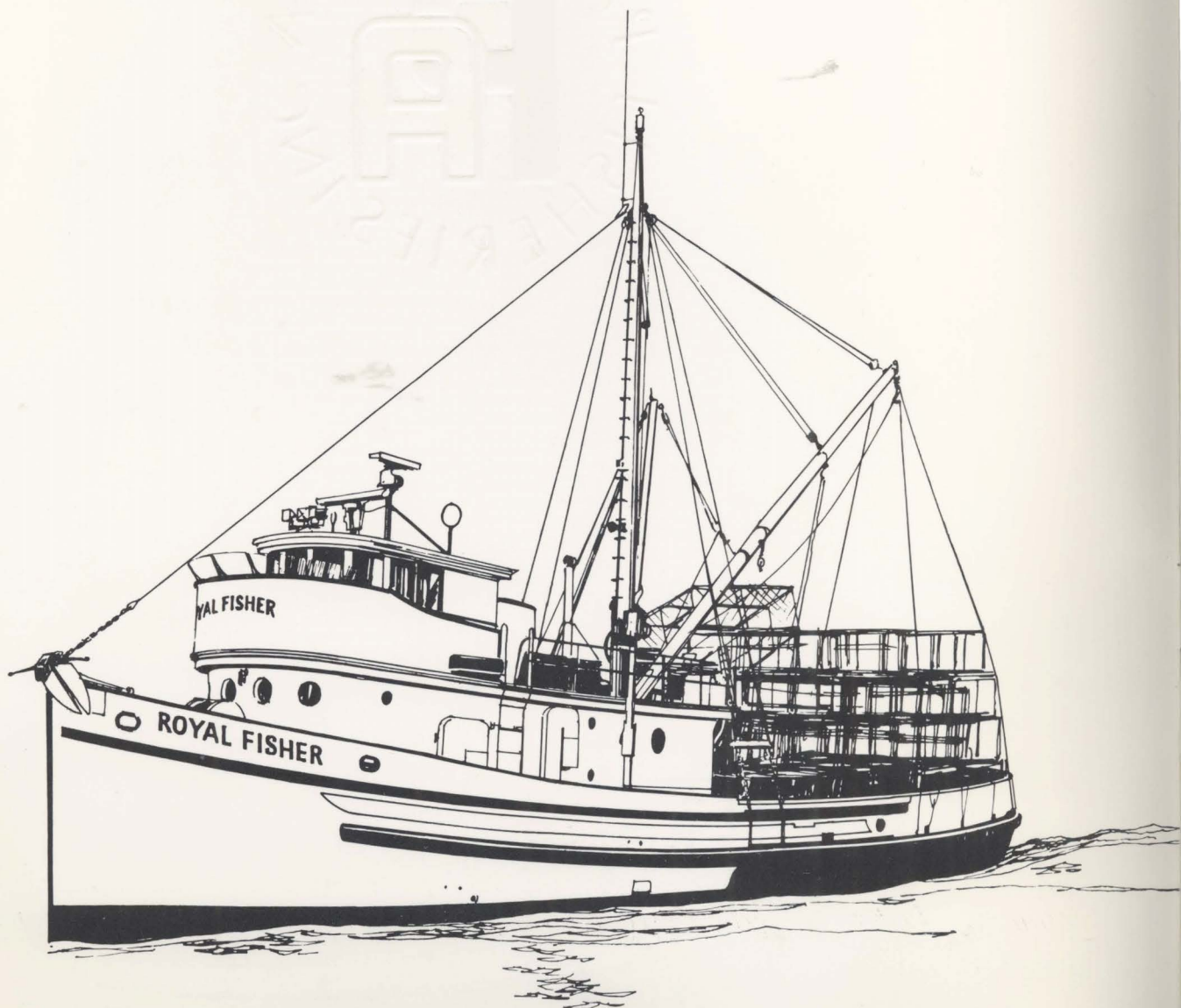
LANE, POWELL, MOSS & MILLER, SEATTLE, WASHINGTON

KEANE, HAESSLER, BAUMAN & HARPER, PORTLAND, OREGON

ROBERTSON, MONAGLE, EASTAUGH & ANNIS, JUNEAU, ALASKA

Accountants—

ARTHUR YOUNG & COMPANY, SEATTLE, WASHINGTON





"Crab is King"

DIRECTORS & OFFICERS

ROBERT L. FERMAN, *chairman of the board*

W. A. RITTER, *president, director*

RONALD R. JENSEN, *executive vice president, treasurer*

ROYAL A. FREW, *senior vice president-marketing, director*

ERIC R. HAESSLER, *secretary, director*

GILBERT F. TUFFLI, JR., *director*

RALPH S. JONES, *vice president-operations*

RAYMOND W. HAMAN, *assistant secretary*

DANIEL H. COLEMAN, *assistant secretary*

EXECUTIVE STAFF

DON P. GERBER, *purchasing agent*

WILLIAM KUKAHIKO, *superintendent, M/V Mercator*

P. J. MARINKOVICH, *superintendent, Unalaska*

GENE N. RANDALL, *chief engineer*

ROD L. ROUTH, *controller*

L. W. SCROGGS, *superintendent, Kodiak*

WILLIAM SOULE, *director, quality control*

DOMINICK SVORNICH, *superintendent, Anacortes*

WAYNE WEATHERBEE, *port engineer*

ROBERT WISE, *superintendent, Monroe*

DEAR SHAREHOLDER:

Sales for the fiscal year ending April 30, 1968 were \$7,105,156 and net income from operations was \$117,264, or 27c per share, as opposed to sales of \$8,413,974 and earnings of \$180,148 or 42c per share in the prior year.

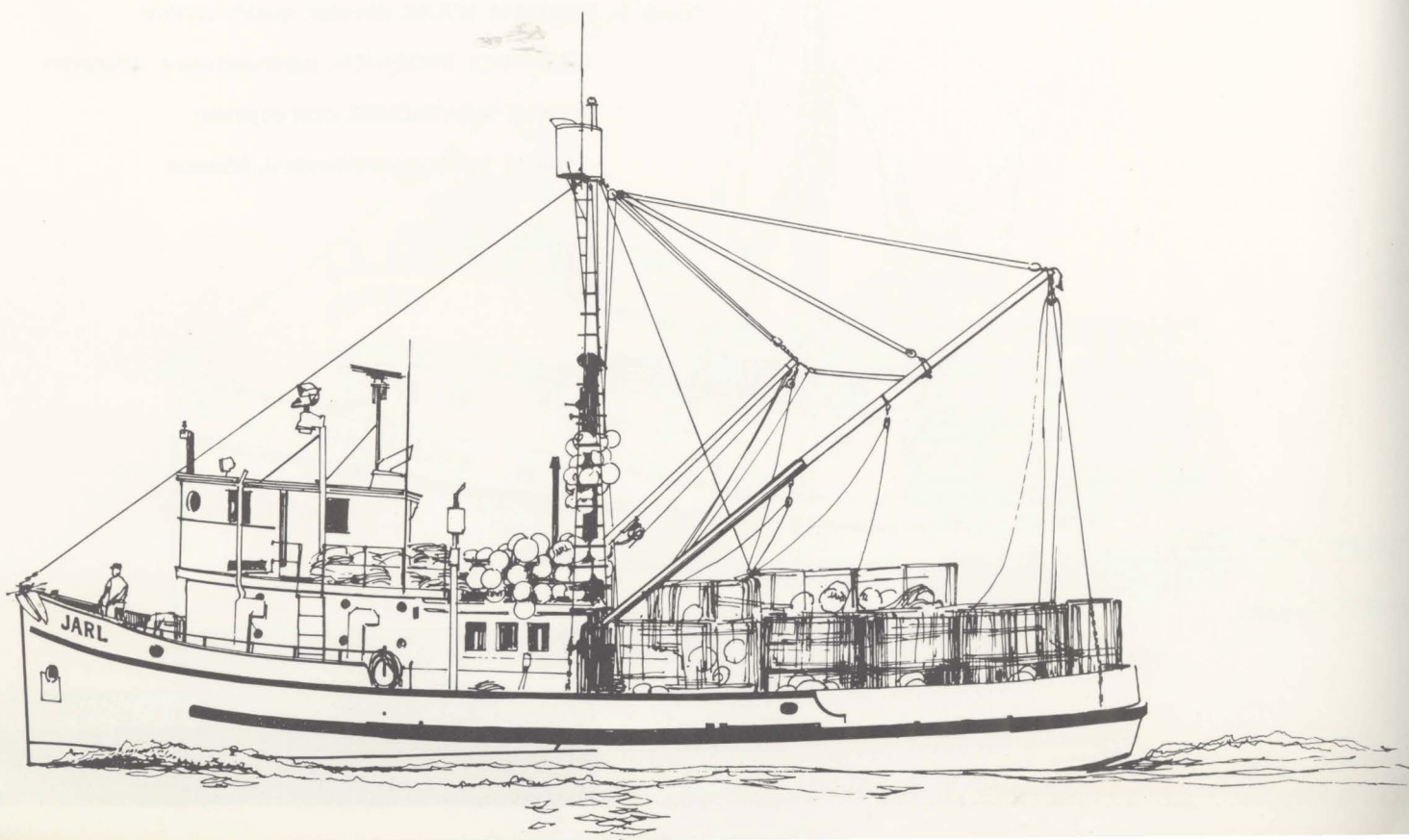
The decline in sales and earnings is attributed to a 20% reduction in the catch of live King crabs and the availability of fewer fishing boats to the company, with the latter cause bearing the responsibility for the major portion of the decline.

The company has undertaken an aggressive program to insure the availability of an adequate number of fishing vessels for all its plants. As part of this program the company has given financial assistance to independent fishermen; has acquired partial interest in vessels, and has purchased a number of vessels outright, for later resale to fishermen. The decline in industry production was partially

offset by higher market prices. Therefore, the effect of the decline was somewhat cushioned by the upward price movement. The industry inventory position was consistently lower than the amount necessary to satisfy normal demands and all of the company's customers were on an allocation basis for most of the year.

An unprecedented quantity of inexpensive foreign bottom fish products came into the United States' market, causing a general decline in prices and losses for the company in its modern Anacortes filleting plant. Studies are currently being conducted to determine our subsequent activities in this division.

The company is presently formulating plans to further diversify its fisheries' operations and for entering into the production and marketing of a line of convenience foods, prepared basically from



raw products produced by the company. It is our feeling that the complete vertical integration from the fisheries to the marketing outlets provides the company with an excellent configuration of the successful development of its convenience foods program. It is difficult at this time to determine the effect of these programs in the fiscal year ending April 30, 1969. However, it is our feeling that a substantial part of the company's future growth will come from these activities.

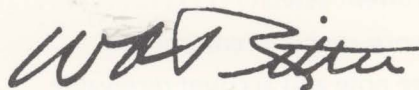
Your company has also embarked upon, in conjunction with certain research laboratories, a program aimed at the profitable conversion of its waste products to industrial chemicals.

In early February of 1968, the company placed privately with the Enterprise Fund \$1 million of convertible notes. These notes were subsequently

exchanged for shares of the convertible preferred stock, a transaction approved by the shareholders at the annual meeting.

Notwithstanding the declines registered in the fiscal year ending April 30, 1968, the company has improved its position in certain significant areas. Working capital has increased by more than \$800,000, new executive strength has been added, and the boat procurement program has been quite successful in providing the company with a substantial fleet. In addition, research and development activities directed towards new products and technical and chemical innovations, give promise of making important contributions in the years ahead.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "W. A. Ritter". The signature is fluid and cursive, with the first name "W. A." and the last name "Ritter" clearly distinguishable.

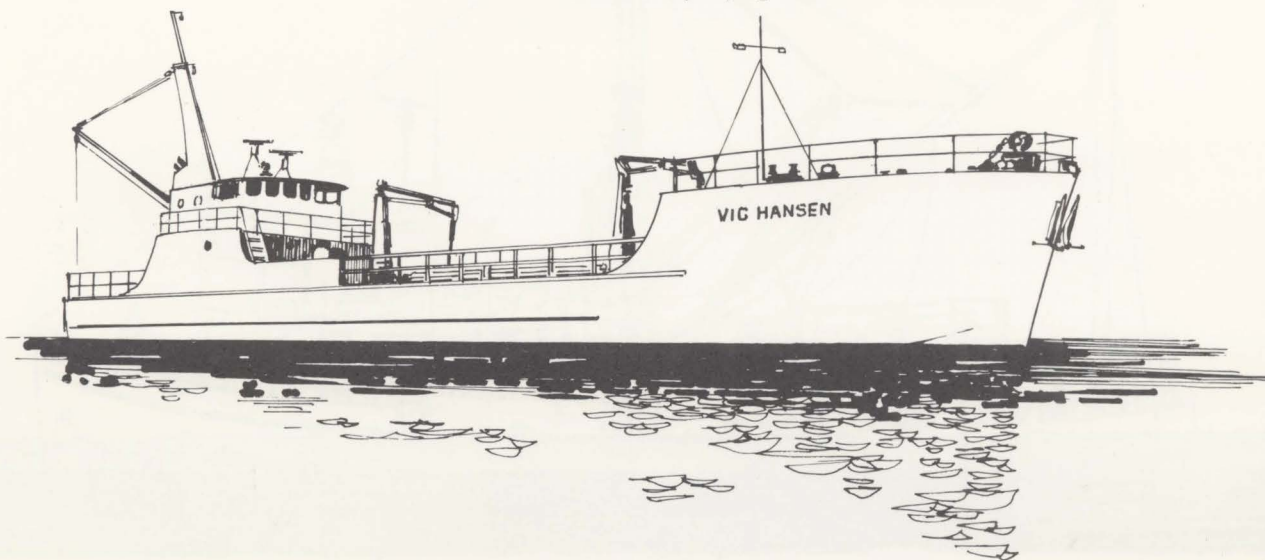
WILLIAM A. RITTER, *President*
For the Board of Directors
ROBERT L. FERMAN, *Chairman*

PAN-ALASKA FISHERIES, INC. - CONSOLIDATED BALANCE SHEET
APRIL 30, 1968 AND 1967

ASSETS

| | <u>1968</u> | <u>1967</u> |
|--|--------------------|--------------------|
| Current assets: | | |
| Cash | \$ 565,872 | \$ 13,436 |
| U. S. Treasury bills, at cost..... | 897,993 | — |
| Receivables (pledged): | | |
| Notes | 132,925 | 21,430 |
| Accounts, less allowance of \$5,000 for doubtful accounts..... | 1,031,580 | 2,184,492 |
| | <u>1,164,505</u> | <u>2,205,922</u> |
| Inventories, at the lower of cost (first-in, first-out) or market: | | |
| Finished and semi-finished products | | |
| (\$404,025 pledged in 1968 and \$943,754 in 1967)..... | 404,892 | 975,387 |
| Operating supplies | 218,604 | 204,203 |
| | <u>623,496</u> | <u>1,179,590</u> |
| Prepaid expenses | 76,484 | 68,047 |
| Machines held for sale, at cost..... | — | 56,204 |
| Total current assets..... | <u>3,328,350</u> | <u>3,523,199</u> |
| Prepaid interest expense—non-current portion..... | 171,908 | 194,259 |
| Non-current mortgage note and account receivable..... | 89,320 | — |
| Property, plant and equipment, at cost: | | |
| Land | 65,266 | 62,516 |
| Buildings and docks..... | 1,441,849 | 1,375,599 |
| Factory ships and fishing vessels..... | 867,306 | 489,456 |
| Machinery and equipment | 617,452 | 560,770 |
| Leasehold improvements..... | 27,816 | 27,816 |
| Office furniture and fixtures..... | 19,392 | 19,984 |
| | <u>3,039,081</u> | <u>2,536,141</u> |
| Less accumulated depreciation (Note 6)..... | 616,989 | 437,002 |
| Net property, plant and equipment..... | <u>2,422,092</u> | <u>2,099,139</u> |
| Unamortized debt discount and expense, amortization on the bonds | | |
| outstanding method (Note 3)..... | 270,049 | 165,287 |
| | <u>\$6,281,719</u> | <u>\$5,981,884</u> |

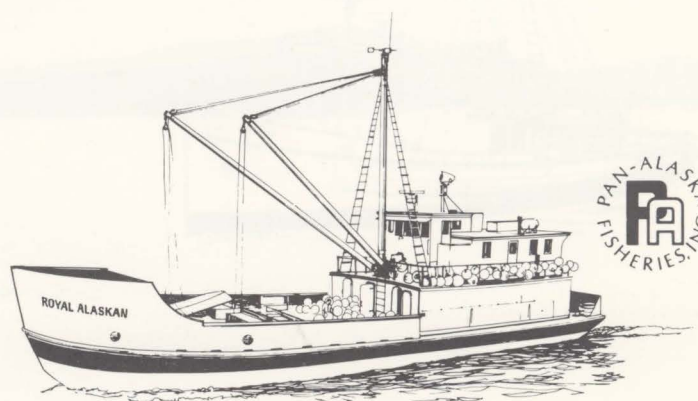
See accompanying notes.



LIABILITIES AND STOCKHOLDERS' EQUITY

| | <u>1968</u> | <u>1967</u> |
|--|--------------------|--------------------|
| Current liabilities: | | |
| 6 1/2% note payable to bank (receivables and inventory pledged as collateral, see contra) | \$1,400,000 | \$2,180,693 |
| Accounts payable | 199,873 | 420,140 |
| Accrued expenses | 47,167 | 59,896 |
| Federal and state income taxes | 95,423 | 106,582 |
| Long-term debt due within one year | 146,164 | 116,272 |
| | <hr/> | <hr/> |
| Total current liabilities | 1,888,627 | 2,883,583 |
| | <hr/> | <hr/> |
| Long-term debt due after one year (Note 3) | 2,596,187 | 1,502,123 |
| | <hr/> | <hr/> |
| Contingency (Note 7) | | |
| Stockholders' equity (Note 2): | | |
| Common stock, \$.50 par value, 1,000,000 shares authorized, 382,913 shares reserved, 433,965 shares issued (Notes 3, 4 and 5) | 216,983 | 216,290 |
| Capital in excess of par value (Note 4) | 796,095 | 713,325 |
| Retained earnings (Note 3) | 783,827 | 666,563 |
| | <hr/> | <hr/> |
| Total stockholders' equity | 1,796,905 | 1,596,178 |
| | <hr/> | <hr/> |
| | <u>\$6,281,719</u> | <u>\$5,981,884</u> |

See accompanying notes.

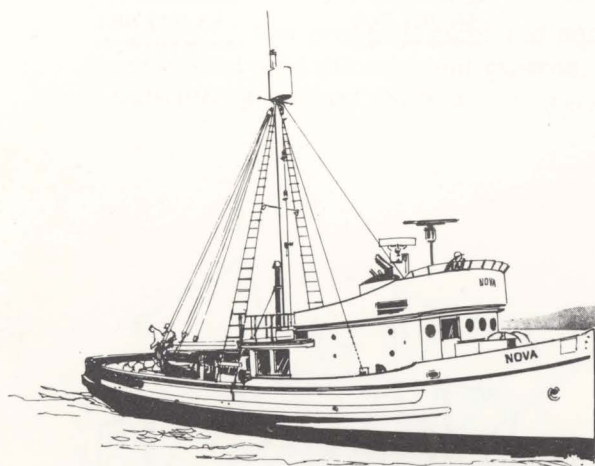


PAN-ALASKA FISHERIES, INC.
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
YEARS ENDED APRIL 30, 1968 AND 1967

| | 1968 | 1967 |
|---|-------------------|-------------------|
| Net sales..... | \$7,105,156 | \$8,413,974 |
| Operating costs and expenses: | | |
| Cost of products sold..... | 5,891,965 | 7,149,705 |
| Selling, general and administrative..... | 825,977 | 818,628 |
| Interest and debt expense..... | 186,950 | 193,363 |
| | <u>6,904,892</u> | <u>8,161,696</u> |
| Income before income taxes..... | 200,264 | 252,278 |
| Provision for federal and state income taxes (Note 6)..... | 83,000 | 72,130 |
| Income before extraordinary item..... | 117,264 | 180,148 |
| Gain on sale of M/V "Magellan" less applicable federal income tax of \$21,870..... | — | 65,613 |
| Net income..... | 117,264 | 245,761 |
| Retained earnings—beginning of year..... | 666,563 | 420,802 |
| Retained earnings—end of year (Note 3)..... | <u>\$ 783,827</u> | <u>\$ 666,563</u> |
| Per share of common stock (Note 8): | | |
| Income before extraordinary item..... | \$.27 | \$.42 |
| Extraordinary item..... | — | .15 |
| Net income..... | <u>\$.27</u> | <u>\$.57</u> |

Depreciation and amortization deducted in the above statement: 1968—\$295,133; 1967—\$228,792

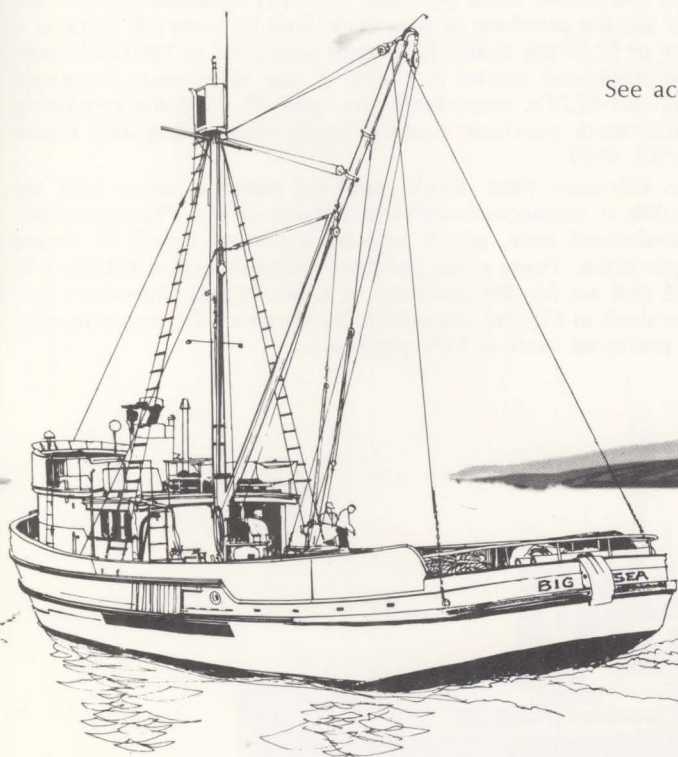
See accompanying notes.



CONSOLIDATED STATEMENT OF SOURCE AND DISPOSITION OF WORKING CAPITAL YEARS ENDED APRIL 30, 1968 AND 1967

| | 1968 | 1967 |
|--|-------------------|---------------------|
| SOURCE OF WORKING CAPITAL | | |
| Operations: | | |
| Net income | \$ 117,264 | \$ 245,761 |
| Charges against income not involving working capital: | | |
| Depreciation (Note 6) | 295,133 | 228,792 |
| Amortization of debt discount and deferred charges..... | 54,589 | 48,102 |
| | 466,986 | 522,655 |
| Increase in long-term debt..... | 1,094,064 | 453,797 |
| Sale of 80,002 warrants to purchase common stock (Note 4)..... | 80,000 | — |
| Exercise of 1,385 warrants to purchase common stock (Note 4)..... | 3,463 | — |
| | <u>1,644,513</u> | <u>976,452</u> |
| DISPOSITION OF WORKING CAPITAL: | | |
| Additions to property, plant and equipment..... | 618,086 | 977,916 |
| Discount and expense on new borrowings..... | 137,000 | — |
| Increase in prepaid interest, non-current portion..... | — | 212,073 |
| Increase in mortgage notes and account receivable due after one year.... | 89,320 | — |
| Other | — | 1,267 |
| | <u>844,406</u> | <u>1,191,256</u> |
| Increase (Decrease) in Working Capital..... | <u>\$ 800,107</u> | <u>\$ (214,804)</u> |

See accompanying notes.



1. *Basis of Presentation*

The consolidated financial statements include the financial condition and operating results of the parent company, Pan-Alaska Fisheries, Inc. and all wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

2. *Recapitalization*

Pursuant to an amendment to the Articles of Incorporation approved by the stockholders May 31, 1968, the Company's authorized common stock was increased from 1,000,000 shares to 2,000,000 shares of 50 cent par value and a new convertible preferred stock of 60,000 shares without par value, issuable in series, was authorized. The first series of convertible preferred stock will be Series A consisting of 30,000 shares which is entitled to one dividend of \$5 per share prior to payment of any dividends on common stock and thereafter entitled to dividends equal to the multiple of 18.7 per share of any dividend per share declared; convertible into common stock at a conversion price of \$5.88 per share, each share of Series A stock being taken at \$100 per share; and subject to redemption at the option of the Company after January 31, 1973 at a redemption price equal to the liquidation preference of \$100 per share to January 31, 1969 increasing thereafter at the rate of \$5 per year until February 1, 1982, on and after which date the liquidation preference will be \$175 plus any unpaid and accumulated dividends.

3. *Long-term Debt*

At April 30, 1968 long-term debt consisted of the following:

| | <u>Total</u> | <u>Current</u> | <u>Non-current</u> |
|---|--------------------|------------------|--------------------|
| 6 ³ / ₄ % convertible subordinated debentures, due July 31, 1976..... | \$ 542,600 | \$ | \$ 542,600 |
| 4% convertible subordinated note, due January 31, 1978 | 1,000,000 | | 1,000,000 |
| Floating equipment contracts due \$4,638 per month including interest to 1976... | 473,047 | 55,653 | 417,394 |
| 4% Small Business Administration mortgage loan, due \$2,548 and \$1,485 monthly including interest to 1976 and 1986, respectively.... | 327,219 | 17,826 | 309,393 |
| 6% mortgage note payable, due \$1,500 per month including interest to 1977... | 109,885 | 11,725 | 98,160 |
| 8% boat mortgage, due \$15,000 semi-annually plus interest to 1972..... | 120,000 | 30,000 | 90,000 |
| 6% boat mortgage, due \$20,000 annually plus interest to 1971..... | 60,000 | 20,000 | 40,000 |
| 6% mortgage note payable, due \$2,740 quarterly plus interest to 1978..... | 109,600 | 10,960 | 98,640 |
| | <u>\$2,742,351</u> | <u>\$146,164</u> | <u>\$2,596,187</u> |

3. *Long-term Debt, continued*

The 6³/₄% debentures are convertible into common stock at \$8.71 per share until July 31, 1976. At April 30, 1968, 62,296 shares of common stock were reserved for this conversion. Sinking fund payments are required annually on July 31, aggregating \$45,500 in 1969 and increasing \$6,500 annually to 1976.

The 1968 sinking fund payment was made in April 1968 through the purchase and retirement of debentures. The indenture provides, among other things, that the Company will not pay cash dividends or acquire shares of its common stock (other than by conversion) except to the extent of consolidated net earnings after April 30, 1964, plus \$50,000. At April 30, 1968, \$722,525 of retained earnings was not restricted under this provision. Also, working capital of \$250,000 and current ratio, as defined by the agreement, of 1.2 to 1 is required.

As a result of the approved recapitalization described in Note 2, the 4% convertible subordinated note must be converted into 10,000 shares of the new convertible preferred stock—Series A within 30 days following receipt of a certified copy of the amendment to the Articles of Incorporation. Either the 4% note or the convertible preferred stock—Series A is convertible into 170,000 shares of common stock at \$5.88 per share. Upon conversion, the 4% convertible subordinated note of \$1,000,000 less applicable unamortized debt discount and expense of \$133,000 or \$867,000 will increase stockholders' equity as convertible preferred stock—Series A. Due to the characteristics of the convertible preferred stock—Series A, they may be considered to be residual securities and had this preferred stock been outstanding at February 1, 1968, the approximate date of issuance of the 4% note, net income per share of common stock would have been \$.26 per share computed using these shares as residual securities and the average number of common shares outstanding during the year.

4. *Stock Purchase Warrants*

Of the 30,000 stock purchase warrants outstanding April 30, 1967 for the purchase of one share each of common stock at a price of \$2.50 per share, 1,385 were exercised in 1968 and common stock and capital in excess of par value were increased \$693 and \$2,770, respectively. At April 30, 1968 the remaining 28,615 stock purchase warrants were outstanding and expire July 31, 1969.

In February 1968, stock purchase warrants were sold for \$80,000, in connection with the issuance of the 4% convertible subordinated note, which amount increased capital in excess of par value. These stock purchase warrants expire February 5, 1975 and are for the purchase of either 80,002 shares of common stock at \$10 per share or 4,706 shares of the new convertible preferred stock at \$170 per share.

5. Stock Options

In May 1965, the Board of Directors approved and granted qualified and executive stock options for 30,000 and 12,000 shares of common stock, respectively. The stockholders ratified those stock options in September 1965. The option price could be not less than 100% of the fair market value on the grant date. Options run for a term of five years and may not be exercised as to less than 100 shares at any one time. The option price of \$5.00 per share, aggregating \$210,000, was approximately 131% of the fair market value on the date of grant. Options for 42,000 shares were exercisable but not exercised at April 30, 1968.

6. Policy With Respect to Depreciation and Investment Credit

Depreciation is provided on a straight line basis over estimated useful lives ranging from 10 to 20 years for buildings and docks, 5 to 10 years for floating equipment, 4 to 10 years for machinery and equipment and 10 years for office equipment. Leasehold improvements are amortized over the 5 year lease. The investment tax credit of \$7,405 in 1968 and \$42,975 in 1967, was applied as a reduction of the provision for federal income tax.

7. Contingency

The Company was notified in 1964 of a change in the interpretation of Alaska fish tax regulations and possible assessment of additional taxes for the years ending April 30, 1961 and subsequent. On December 8, 1965 the Company commenced litigation with the State of Alaska seeking a declaratory judgment regarding the rate of Alaska fish tax. At April 30, 1968 such potential tax and interest less federal income tax aggregated approximately \$84,000 of which \$12,000 and \$11,000 is applicable to the years ended April 30, 1968 and 1967, respectively. Management and counsel believe the changed interpretation is improper and accordingly no provision has been made for assessments.

8. Net Income Per Share

Net income per share data are based upon the average number of shares (actual or pro forma) outstanding during the years. Pro forma net income per share of \$.28 assumes the exercise of all outstanding options and stock purchase warrants, conversion of all the outstanding 6³/₄% convertible subordinated debentures at the beginning of the year, and conversion of the 4% convertible note at February 1, 1968, the approximate date of issuance, with adjustments of net income for interest expense and amortization of debt discount and expense less related federal income tax; and that the proceeds of \$1,081,558 were used to retire debt at 6% less applicable federal income tax during the year.

ARTHUR YOUNG & COMPANY

Certified Public Accountants

Washington Building
Seattle, Washington 98101

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

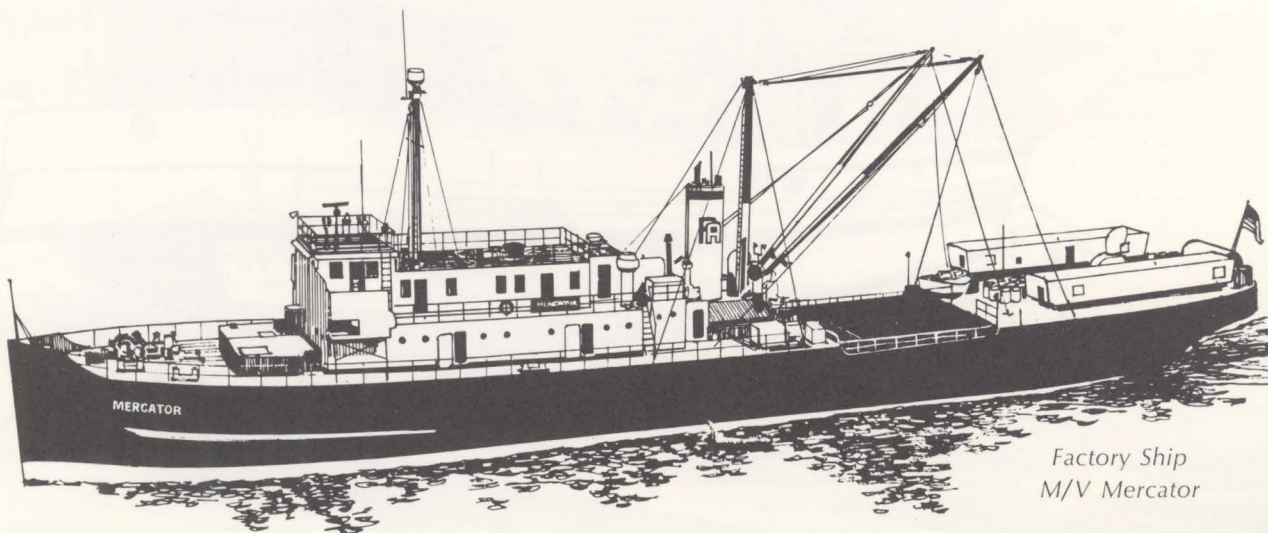
We have examined the accompanying consolidated balance sheet of Pan-Alaska Fisheries, Inc. and subsidiaries at April 30, 1968, the related consolidated statement of income and retained earnings and the consolidated statement of source and disposition of working capital for the year then ended. Our examination 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.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Pan-Alaska Fisheries, Inc. and subsidiaries at April 30, 1968 and, subject to such adjustments as may result from the outcome of the litigation mentioned in Note 7, the consolidated results of their operations and the source and disposition of their consolidated working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

ARTHUR YOUNG & COMPANY

Seattle, Washington
June 10, 1968



Factory Ship
M/V Mercator

PAN-ALASKA FISHERIES, INC. - FINANCIAL HIGHLIGHTS YEARS ENDED APRIL 30, 1968 AND 1967

Operating Results:

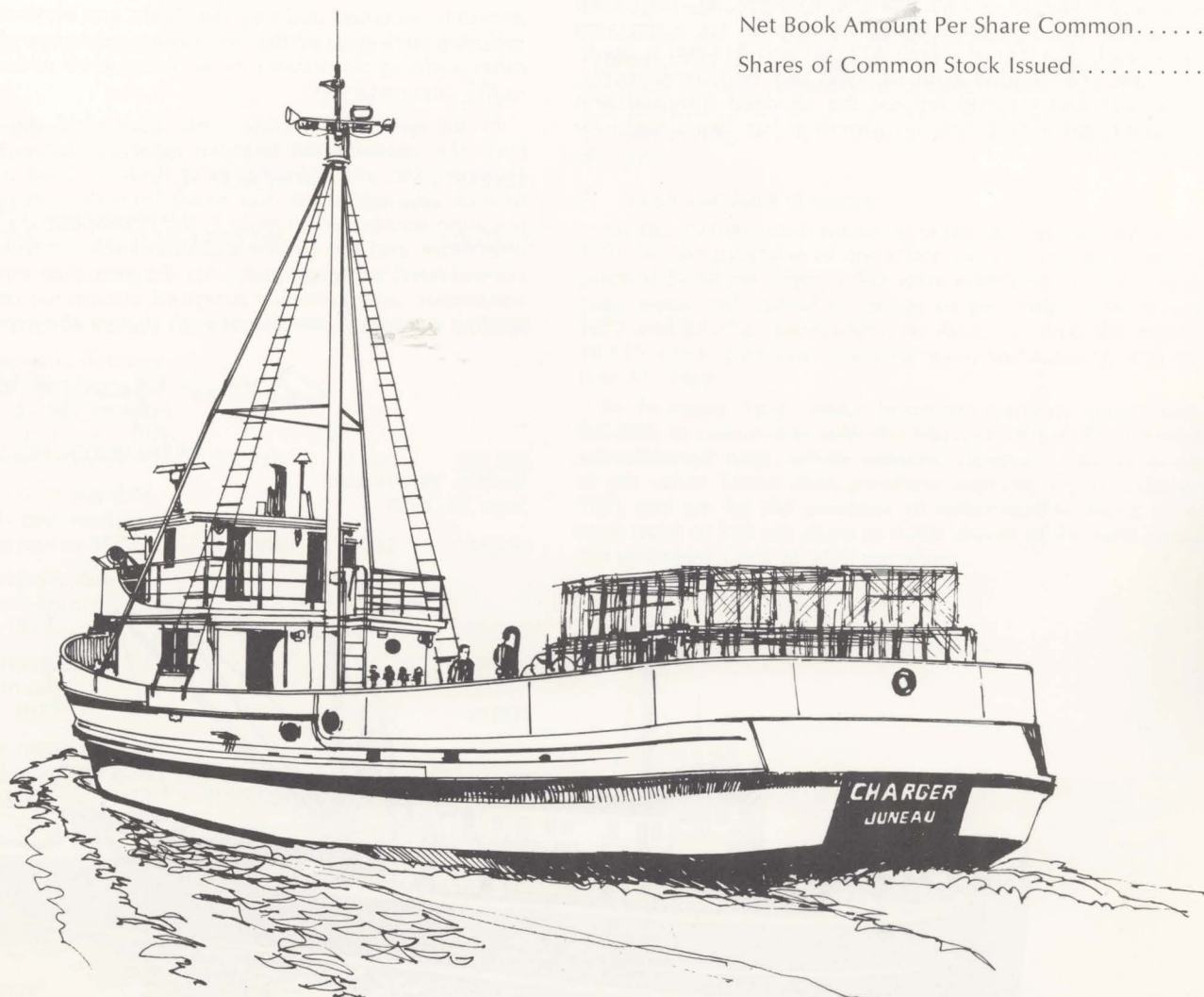
Net Sales
Income (loss) Before Income Tax.....
Income (loss) Before Extraordinary Item
Extraordinary Item.....
Net Income (loss)

Per Share of Common Stock:

Income (loss) Before Extraordinary Item.....
Extraordinary Item.....
Net Income (loss)

Financial Position at Year End:

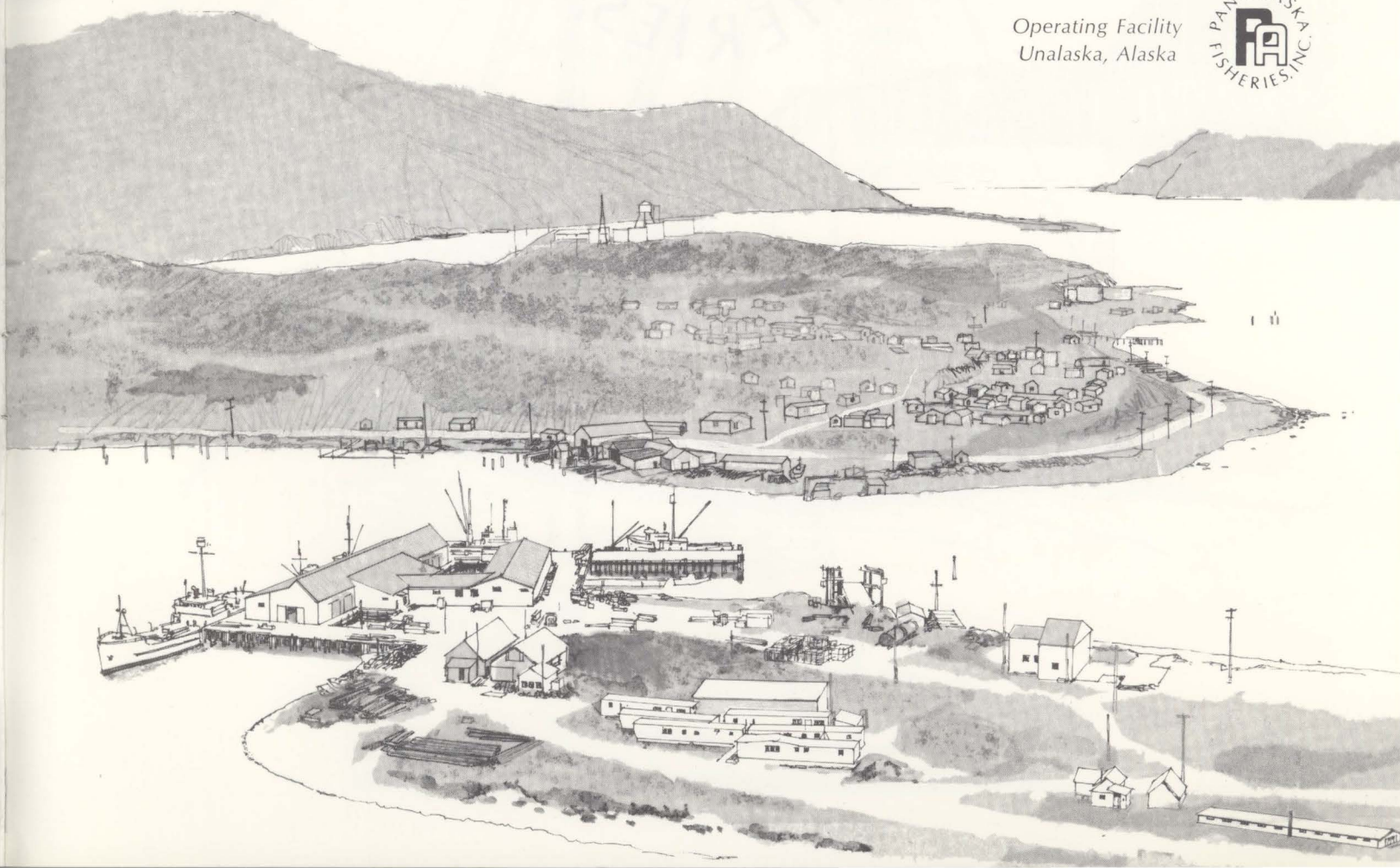
Total Assets
Working Capital
Net Property, Plant and Equipment.....
Stockholders' Equity
Net Book Amount Per Share Common.....
Shares of Common Stock Issued.....



1959
(From July 11, 1958
to April 30, 1959)

| 1959 | 1960 | 1961 | 1962 | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 |
|-----------|-----------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| \$159,286 | \$431,838 | \$ 890,681 | \$1,186,872 | \$2,357,207 | \$3,010,869 | \$5,766,485 | \$6,712,025 | \$8,413,974 | \$7,105,156 |
| 11,274 | 41,888 | 90,942 | (197,835) | 69,265 | 200,570 | 515,646 | 90,852 | 252,278 | 200,264 |
| 7,892 | 25,601 | 49,052 | (136,276) | 64,465 | 110,570 | 255,646 | 53,852 | 180,148 | 117,264 |
| | | | | | — | — | — | 65,613 | — |
| 7,892 | 25,601 | 49,052 | (136,276) | 64,465 | 110,570 | 255,646 | 53,852 | 245,761 | 117,264 |
| .11 | .29 | .37 | (.68) | .24 | .36 | .63 | .12 | .42 | .27 |
| — | — | — | — | — | — | — | — | .15 | — |
| .11 | .29 | .37 | (.68) | .24 | .36 | .63 | .12 | .57 | .27 |
| \$212,779 | \$318,594 | \$1,174,449 | \$1,542,424 | \$1,984,768 | \$3,038,230 | \$3,489,074 | \$4,662,744 | \$5,981,884 | \$6,281,719 |
| 26,315 | 223,563 | 32,359 | 279,109 | 300,855 | 310,220 | 1,099,164 | 853,808 | 639,616 | 1,439,723 |
| 12,319 | 51,739 | 352,321 | 538,927 | 497,111 | 670,661 | 653,890 | 1,335,802 | 2,099,139 | 2,422,092 |
| 39,891 | 284,544 | 333,296 | 719,609 | 784,074 | 935,671 | 1,294,965 | 1,350,417 | 1,596,178 | 1,796,905 |
| .55 | 2.16 | 2.52 | 2.66 | 2.90 | 2.46 | 3.00 | 3.12 | 3.69 | 4.14 |
| 72,000 | 132,000 | 132,000 | 270,750 | 270,750 | 380,814 | 431,180 | 432,580 | 432,580 | 433,965 |

Operating Facility
Unalaska, Alaska





"Crab is King"

PAN-ALASKA FISHERIES, INC.

Home Office:

1818 WESTLAKE AVE. NORTH
SEATTLE, WASHINGTON 98109

Alaska Offices:

P. O. BOX 847, KODIAK, ALASKA
UNALASKA, ALASKA

Operating Facilities:

M/V MERCATOR
UNALASKA, ALASKA
KODIAK, ALASKA
MONROE, WASHINGTON
ANACORTES, WASHINGTON

*Fishing Vessels acquired for
1968-1969 season:*

ALEUT
BIG SEA
CHARGER
JARL
NOVA
ROYAL ALASKAN
ROYAL ALEUTIAN
ROYAL FISHER
VIC HANSEN

