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Annual Report 1960

ALDENS



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MICHIGAN UNIVERSITY

Aldens Management

DIRECTORS R. L. Arnheim, FINANCIAL CONSULTANT, CHICAGO
C. E. Butler, BUSINESS CONSULTANT
R. W. Jackson, PRESIDENT, ALDENS, INC.
G. P. Madigan, VICE PRESIDENT, MADIGAN BROTHERS, INC., CHICAGO
H. V. McNamara, PRESIDENT, NATIONAL TEA CO., CHICAGO
M. A. Riskind, PARTNER, D'ANCONA, PFLAUM, WYATT & RISKIND, CHICAGO
E. H. Rosenthal, REAL ESTATE INVESTMENTS
Lawrence K. Schnadig, PRESIDENT, INTERNATIONAL FURNITURE COMPANY, CHICAGO
J. C. Stachle, VICE PRESIDENT, ALDENS, INC.
H. J. Stentiford, VICE PRESIDENT, ALDENS, INC.
W. P. Wiseman, VICE PRESIDENT & TRUST OFFICER, CHICAGO TITLE & TRUST CO.
G. R. Worley, VICE PRESIDENT & TREASURER, ALDENS, INC.

OFFICERS R. W. Jackson, PRESIDENT
R. E. Riley, VICE PRESIDENT
J. C. Stachle, VICE PRESIDENT
H. J. Stentiford, VICE PRESIDENT
G. R. Worley, VICE PRESIDENT & TREASURER
J. A. Gross, SECRETARY
P. J. Barrett, ASSISTANT SECRETARY

SECURITIES INFORMATION Transfer Agent—Common, MORGAN GUARANTY TRUST COMPANY OF NEW YORK
Registrar—Common, THE CHASE MANHATTAN BANK
Transfer Agent—Preferred, THE FIRST NATIONAL CITY BANK OF NEW YORK
Registrar—Preferred, BANKERS TRUST COMPANY OF NEW YORK
Trustee—5% Convertible Debentures, THE CHASE MANHATTAN BANK
Conversion Agent—5% Convertible Debentures,
MORGAN GUARANTY TRUST COMPANY OF NEW YORK

AUDITORS Certified Public Accountants, DAVID HIMMELBLAU & CO., CHICAGO

COUNSEL General Counsel, D'ANCONA, PFLAUM, WYATT & RISKIND, CHICAGO

STOCK EXCHANGE DATA Preferred Stock, Common Stock and 5% Convertible Debentures
Listed on New York Stock Exchange



1960

ALDENS ANNUAL REPORT

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Executive Offices

5000 West Roosevelt Road, Chicago 7, Illinois

ANNUAL MEETING The annual meeting of the shareholders of Aldens, Inc. will be held at the offices of the company, 5000 West Roosevelt Road, Chicago, Illinois, on Tuesday, May 23, 1961, at 2:00 P. M. The notice of the meeting and proxy material will be mailed to shareholders on or about April 17, 1961. A special meeting of shareholders has been called for April 11, 1961, to approve the acquisition, through an exchange of stock, of The Shoppers World self-service discount stores. Proxy material for this meeting was mailed to shareholders March 8, 1961.



Highlights

	1960	1959
OPERATING RESULTS		
Net Sales	\$126,210,157	\$114,682,148
Net Profit before Taxes	7,741,207	5,861,931
Net Profit after Taxes	3,926,207	3,379,931(a)
PER SHARE		
Earnings per Common Share	4.18	3.58(a)
Dividend Rate per Common Share		
Cash	1.20	1.20
Stock	5%	3%
Dividends Paid per Preferred Share	4.25	4.25
Equity (Book Value) per Common Share	34.06	30.32
AT YEAR-END		
Working Capital	56,986,629	32,916,332
Merchandise Inventories	15,820,149	14,575,142
Accounts Receivable	64,725,368	44,624,706
Ratio of Current Assets to Current Liabilities	2.76	2.82
SHARES OUTSTANDING AT YEAR-END		
Common	912,196	750,307
Preferred	25,895	26,770
NUMBER OF SHAREOWNERS		
Common Stock	4,600	4,200
Preferred Stock	400	400
NUMBER OF CATALOG SALES STORES AND OFFICES	77	65
NUMBER OF RETAIL STORES	15	13

(a) Includes non-recurring special credit of \$460,000, equivalent to \$.50 per common share. 1959 per share earnings adjusted to reflect 1960 common stock dividend and issuance of common shares resulting from conversion of debentures.

To Our Shareholders

We are pleased to report for 1960 sales and earnings which are the highest in our history—earnings which for the sixth consecutive year show an increase over the previous year.

The year 1960 was one of significant accomplishment for Aldens, with expansion in every division of the company. Two additional retail stores were purchased. Twelve new catalog sales stores were opened. Total credit sales increased 25% over the previous year. Our customer list continues a satisfactory rate of growth, showing at the same time greater annual sales per customer.

Most significant in pacing our future growth are our new enterprises. The John Alden Life Insurance Company has recently been chartered and will begin to sell life insurance through our catalogs starting with the 1961 Fall catalog, which will be mailed the latter part of June. We believe our catalog represents an excellent opportunity to sell life insurance to our customers at a relatively low rate, as our costs will reflect no agent's commission. We are aware that it will take from two to three years before this subsidiary will show a satisfactory profit, but after that time the John Alden Life Insurance Company should be in a position to contribute continuing increases in profit to the consolidated earnings of Aldens.

You have already been advised of our proposed acquisition, through an exchange of stock, of the Shoppers World self-service discount department stores. The growth and rising importance of this method of retailing have become increasingly evident. In entering this field we diversify our methods of retail distribution still further—direct mail order, catalog sales stores, conventional retail stores, and now adding self-service discount department stores. In 1960 the six Shoppers World stores attained sales volume of approximately

\$19,000,000. Four additional openings are planned for 1961.

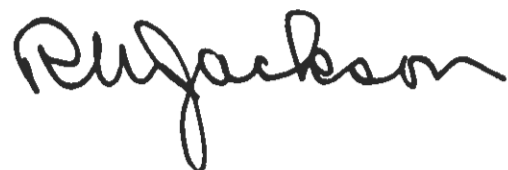
We began 1961 in an economy which has been trending downward for several months. Competition has grown stronger. Although our sales have shown an increase over this period a year ago, we are nevertheless disappointed in the results of the last three months. We recognize that we are in a recessionary period, and that it will be difficult to meet the all-time high profits of last spring.

But we have geared our sales plans to meet these conditions. Our spring catalog, which has already reached our customers, is one of the largest, most colorful, and most glamorous we have issued. Our sale books, to be mailed during April and May, are more attractive than in previous years, and give special emphasis to values in all categories. We have stepped up our credit promotions for new customers, and our retail stores are also developing fresh and vigorous sales promotion plans. Our new enterprises, Shoppers World and John Alden Life Insurance Company, will lead us into new fields.

We project for your company continued growth in both sales and profits. Our organization, aggressive and energetic, looks to the future with enthusiasm. We are confident that 1961 will be another Aldens year.

For a year of progress, I extend my appreciation and warm thanks to our employees, our management, our directors, and suppliers. Without the loyalty and whole-hearted support of these and many others we could not have realized the substantial growth of the past year.

Sincerely,





The Management Committee. Seated, R. W. Jackson, President. Standing, left to right, R. E. Riley, Vice President and Director of the Retail Store Division; J. C. Staehle, Vice President and Director of Operations and Industrial Relations; H. J. Stentiford, Vice President and Director of Sales and Merchandising; G. R. Worley, Vice President, Treasurer, and Director of Finance.

The Management Committee is composed of the President and all of the Vice Presidents of the company. Regular meetings serve to keep each divisional head apprised of the activities in the other divisions of the company, to effect coordination among the various divisions, and to form the basis for long range planning. One hundred and twenty-three years of service to Aldens is represented in this top management team.



THE YEAR IN REVIEW

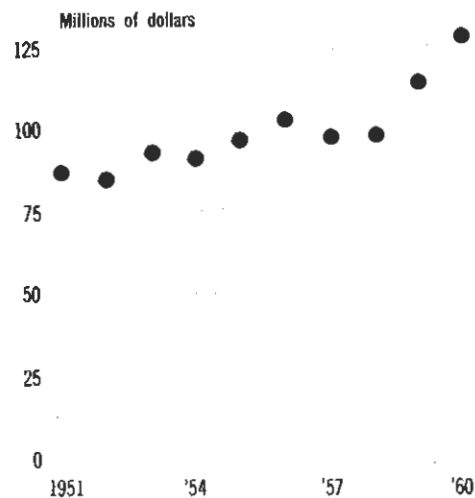
SALES In the year 1960, our seventy-first year, we established a new record in sales and earnings. Sales of \$126,210,157 are the highest in our history, and represent an increase of 10% over last year's volume of \$114,682,148, which was also a new record. Each month during the year showed an increase over the corresponding month in the previous year, though the greatest increases were attained in the first six months of the fiscal year. In the second half of the year we felt the effects of the levelling off of the national economy, and faced also comparisons with our excellent results in the final quarter of 1959.

EARNINGS Consolidated profit before federal taxes on income for fiscal 1960 rose to a new high of \$7,741,207, or 6.1% of sales, compared with \$5,861,931, or 5.1% of sales in 1959. After provision for federal taxes, consolidated net profit for the year was \$3,926,207, compared to \$3,379,931, an increase in net after-tax earnings of 16%. Our earnings have risen steadily over the past six years, reflecting for 1960 almost triple the earnings of six years ago.

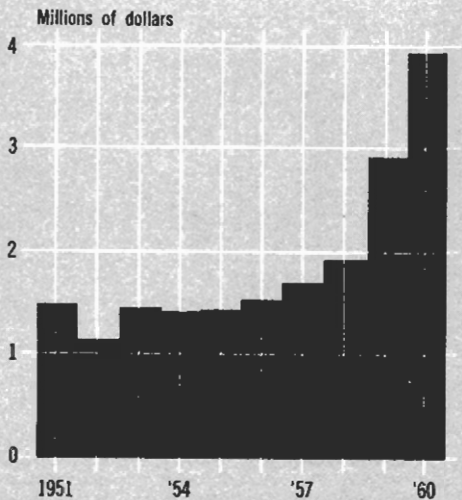
Profit per common share, after preferred dividends, was \$4.18, which compares with \$3.58 in 1959 (adjusted to shares presently outstanding). Last year's figure includes a non-recurring special credit of \$460,000 or 50c a share (adjusted), representing a reduction in provision for federal taxes which resulted from the conversion of our customer accounts to revolving credit.

DIVIDENDS The year 1960 is the 27th consecutive year in which Aldens has paid dividends. Cash dividends per common share totalled \$1.20, compared with the same rate in 1959. Regular cash dividends totalling \$4.25 were also paid on our preferred shares. Total cash dividends, both common and preferred, paid during the year amounted to \$1,083,498.

On January 1, 1961, a 5% common stock dividend was paid. This compares with 3% in 1959. As in previous years, we took this means of extending to our shareholders an increased participation in the profits of the company, so that cash funds might be retained in the business to help finance our expanding credit sales.

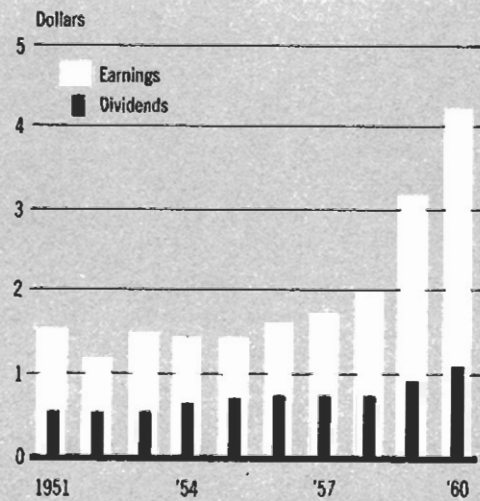


NET INCOME



Does not include 1959 non-recurring special credit of \$460,000.

STATISTICAL INFORMATION
per common share



All years adjusted to reflect stock distribution, stock dividends and shares issued as a result of conversion of Debentures. Does not include \$.50 per share from 1959 non-recurring special credit.

It is our intention to continue the present annual cash dividend rate of \$1.20 per common share, as well as to pay a common stock dividend each year if our earnings continue their present upward trend.

CREDIT SALES AND ACCOUNTS Our credit sales continued to rise sharply during the year, representing 50% of total sales, compared with 44% last year, an increase which accounts for a substantial part of our total sales increase. This is demonstrated by the increase of 25% in credit sales over last year, compared with our total sales increase of 10%.

The conversion of all of the accounts in our Mail Order Division to revolving credit was completed in November, 1959, and with this change we also adopted a plan of simplified, longer credit accommodations for our customers. The year just past is the first full year of operation under this new system.

During the year we also developed in our Mail Order Division a unique method of direct mail credit sales promotion, which has brought very satisfactory results. The success of our credit promotion methods, coupled with our new system of credit operation, may be measured by the rise in active credit accounts to 550,000 from last year's 418,000 (an increase of 31%), by the average balance per account which rose from \$102 to \$113, and by the total outstanding receivables in the Mail Order Division of \$61,853,366 at January 31, 1961, compared with \$42,415,520 a year ago.

For 1961 we plan to increase our direct mail promotions for new credit accounts. The successful application of our promotional methods, reflected in the rising number of new accounts and our expanding



credit customer list, is the basis for a projected continuing growth in the years ahead.

We continue to maintain the caliber of our accounts at a very satisfactory level. However, the recent downward trend in the economy, with increased unemployment, has resulted in somewhat more account delinquency. As has been proven in previous recessionary periods, bad debts do not become excessive, and we believe we have provided more than adequate bad debt reserves.

FINANCING The financing for these expanding customer receivables is provided in several ways. Arrangements were completed late in 1959 for \$23,000,000 in long-term loans; the final installment of these funds was paid to us on May 10, 1960. This financing permitted us to repurchase \$15,000,000 of accounts receivable which had been sold to a group of banks, and through this conversion of short-term financing to long-term, brought a sharp rise in working capital to \$56,986,629 from last year's \$32,916,332.

Bank lines totalling \$28,000,000 have been established by Aldens, Inc. and its wholly owned subsidiary, Aldens Acceptance Corporation, for short-term borrowings, as needed.

Our outstanding 5% Convertible Subordinated Debentures, due August 1, 1979, were called for redemption in July. The original issue, totalling \$4,550,600, was 98% converted into common stock,



Furniture Department, Dillard's,
Texarkana, Arkansas

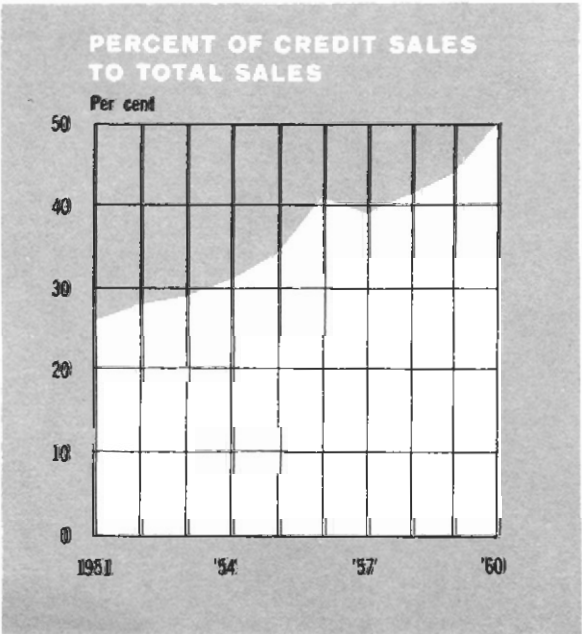


Women's Fashion Department,
Kaufman's, Uniontown, Penn.



resulting in the issuance of 118,739 shares. Our net worth rose in 1960 from \$26,633,848 to \$33,719,617, as a result of the conversion of these Debentures into common stock plus that part of the year's earnings retained in the business. In October we offered \$7,239,100 of new 5% Convertible Subordinated Debentures, due October 1, 1980, and this offering was very well received.

INVENTORIES AND COMMITMENTS Merchandise inventory at January 31, 1961 totalled \$15,820,149, compared with \$14,575,142, an increase of 8.6%. This increase reflects the larger inventory needed to service a greater volume of sales, and also includes the two new retail stores acquired in 1960. Our merchandise commitments at year-end were \$3,610,815, compared with \$3,882,029 last year. As is our practice, all goods were inventoried at January 31, 1961 on the basis of cost or market, whichever was lower.



RETAIL DIVISION Our Retail Store Division was expanded in 1960 by the purchase of two stores—Dillard's in Texarkana, Arkansas, which also operates a branch store in Magnolia, Arkansas, and J. B. Sperry Company in Port Huron, Michigan. Each of the fifteen stores in this Division operates on a profitable basis, and sales and profits for the entire Division in fiscal 1960 were the highest in its history. Further expansion is planned for this division by the acquisition of additional stores as those which meet our requirements are made available to us.

CATALOG SALES STORES AND TELEPHONE SALES OFFICES Substantial growth was attained by this division during the year. Twelve additional openings have brought the number of these outlets to 77. Total sales increased 20%. Reflected here, too, is the result of successful credit promotion, with a substantial rise in the number of active accounts and outstanding customer receivables.

We are continuing a program of improving locations, modernizing and refurbishing. At present eighteen new outlets are planned for 1961. We have found these catalog stores and telephone offices to be a successful means of reaching the urban market, and their expansion is an important part of your company's future growth.

"CONFLICT OF INTEREST" SURVEY There has been considerable publicity about conflict of interest among key personnel of various corporations. It has always been the policy of your company, in all of its divisions, to do its purchasing through a fully controlled and carefully checked system of competitive bidding whenever and wherever possible. A recent survey of all of our executives shows no deviation from this established policy, and discloses no conflict of interest among our key personnel. This survey will be conducted annually.



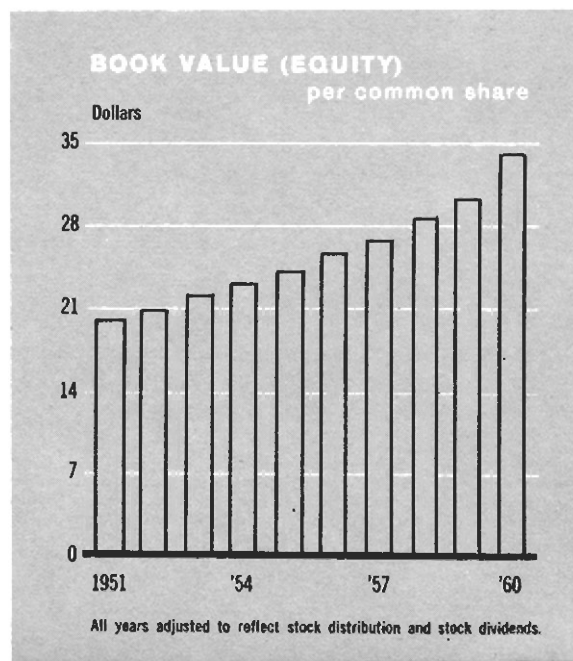
SOURCE AND DISTRIBUTION OF FUNDS—1960

FUNDS WERE ACQUIRED FROM:

Net income	\$ 3,926,207
Depreciation and amortization of plant and equipment.....	626,022
Long-term debt	22,319,100
	<u>\$26,871,329</u>

FUNDS WERE DISTRIBUTED TO:

Dividends to shareholders.....	\$ 1,083,498
Expenditures for plant and equipment....	948,235
Purchase of 875 shares of the company's Preferred stock	70,901
Investment in unconsolidated life insurance subsidiary	300,000
Miscellaneous	398,398
Net increase in working capital.....	24,070,297
	<u>\$26,871,329</u>



10 YEAR PERFORMANCE

FOR THE YEAR	1960	1959	1958	1957
Net Sales	\$126,210,157	\$114,682,148	\$98,419,544	\$97,905,259
Net Profit before Taxes	7,741,207	5,861,931	3,772,028	3,506,204
Percentage of Pre-Tax Profit to Sales	6.1%	5.1%	3.8%	3.6%
Federal Taxes on Income	3,815,000	2,482,000(2)	1,850,000	1,800,000
Net Profit after Federal Taxes	3,926,207	3,379,931(2)	1,922,028	1,706,204
Capital Expenditures	948,235	945,982	233,682	245,897
Depreciation and Amortization	626,022	536,029	581,038	602,954
AT YEAR-END				
Net Accounts Receivable (including sold accounts)	64,725,368	44,624,706	32,657,708	30,122,181
Merchandise Inventories	15,820,149	14,575,142	12,218,131	14,378,779
Working Capital	56,986,629	32,916,332	24,700,352	24,452,754
Excess of Liquid Assets (cash and net accounts receivable) over Current Liabilities	36,590,549	14,740,954	9,259,161	6,871,693
Percent of Excess	113%	82%	77%	42%
Net Worth	33,719,617	26,633,848	21,109,580	20,077,557
Short-term Debt	18,850,000	8,610,000	4,639,100	9,500,000
Long-term Debt	30,236,100	11,537,000	8,391,704	8,886,258
Ratio of Current Assets to Current Liabilities	2.76	2.82	3.06	2.50
PER SHARE DATA				
Earnings per Common Share after Preferred Dividends (3)	4.18	3.58(2)	1.97	1.73
Dividends Paid per Common Share				
Cash (3)	1.07	.92	.77	.77
Stock	5%	3%	2%	—
Dividends Paid per Preferred Share	4.25	4.25	4.25	4.25
Equity (Book Value) per Common Share (4)	34.06	30.32	28.21	26.50

(1) Includes carry-back excess profits tax credit adjustment of \$161,116, equivalent to \$.18 per Common share.

(2) Includes non-recurring special credit of \$460,000, equivalent to \$.50 per Common Share.

(3) All years adjusted for stock distribution, stock dividends, and Common Shares issued in conversion of Debentures.

(4) All years adjusted for stock distribution and stock dividends.

RECORD—1951-1960

1956	1955	1954	1953	1952	1951
\$102,371,843	\$97,352,388	\$90,505,270	\$92,442,630	\$85,725,928	\$87,443,314
3,453,447	2,719,644	2,687,063	3,407,273	2,110,653	3,673,494
3.4%	2.8%	3.0%	3.7%	2.5%	4.2%
1,865,000	1,300,000	1,268,159	1,906,130	920,185 (1)	2,144,150
1,588,447	1,419,644	1,418,904	1,501,143	1,190,468 (1)	1,529,344
1,295,791	1,154,311	478,339	222,655	451,388	373,334
549,930	422,079	374,320	378,289	324,929	306,415
30,518,216	24,886,336	21,155,656	19,564,335	16,947,723	15,500,170
13,624,559	13,070,913	11,180,664	10,207,412	10,591,429	10,625,141
23,574,851	23,885,640	20,836,573	20,564,644	20,124,291	20,126,893
6,602,172	7,256,460	6,883,257	7,557,252	6,648,298	6,679,591
37%	34%	42%	50%	51%	56%
19,273,398	18,591,062	18,049,635	17,432,801	16,670,982	16,176,842
11,600,000	15,100,000	10,750,000	8,850,000	8,075,000	5,550,000
9,489,442	9,935,648	6,500,000	6,800,000	7,100,000	7,400,000
2.34	2.13	2.26	2.36	2.54	2.68
1.60	1.41	1.41	1.49	1.15 (1)	1.52
.77	.74	.67	.58	.58	.58
—	10%	50%	—	—	—
4.25	4.25	4.25	4.25	4.25	4.25
25.13	23.93	22.94	21.88	20.54	19.71

CONSOLIDATED

ASSETS

	JANUARY 31	
	1961	1960
CURRENT ASSETS:		
CASH RESOURCES—		
Cash on deposit and on hand.....	\$ 4,179,423	\$ 3,124,052
U. S. Government securities plus accrued interest.....	47,068	46,735
	<u>\$ 4,226,491</u>	<u>\$ 3,170,787</u>
ACCOUNTS RECEIVABLE—		
Customers' installment accounts.....	\$66,584,093	\$45,580,737
Less—Accounts sold	—	15,000,000
	<u>\$66,584,093</u>	<u>\$30,580,737</u>
Other customers' accounts.....	967,274	845,106
Miscellaneous accounts	691,278	611,041
	<u>\$68,242,645</u>	<u>\$32,036,884</u>
Less—Reserve for doubtful accounts.....	3,517,277	2,412,178
	<u>\$64,725,368</u>	<u>\$29,624,706</u>
Inventories (at lower of cost or market).....	<u>\$16,665,263</u>	<u>\$15,281,900</u>
Advances on Spring season catalogs and expenses.....	<u>\$ 3,730,817</u>	<u>\$ 2,893,478</u>
TOTAL CURRENT ASSETS.....	<u><u>\$89,347,939</u></u>	<u><u>\$50,970,871</u></u>
OTHER ASSETS:		
Investment in real estate subsidiaries (Note 1).....	\$ 652,549	\$ 615,000
Investment in life insurance subsidiary (Note 1).....	300,000	—
Sundry	369,741	282,891
	<u>\$ 1,322,290</u>	<u>\$ 897,891</u>
FIXED ASSETS:		
Real estate, leasehold improvements and equipment (at cost)	\$ 8,837,580	\$ 8,221,115
Less—Reserves for amortization and depreciation.....	4,110,782	3,864,490
	<u>\$ 4,726,798</u>	<u>\$ 4,356,625</u>
	<u><u>\$95,397,027</u></u>	<u><u>\$56,225,387</u></u>

BALANCE SHEET

LIABILITIES AND CAPITAL

	JANUARY 31	
	1961	1960
CURRENT LIABILITIES:		
Bank loans	\$18,850,000	\$ 8,610,000
Accounts payable—trade creditors	3,416,327	2,253,594
Due customers	1,349,485	1,328,628
Current installment on 5¼% - 5¾% promissory notes	920,000	—
Accrued payrolls	1,551,693	1,257,743
Accrued property and franchise taxes	458,023	435,751
Accrued federal and state taxes (Note 2)	4,922,492	3,511,364
Sundry payables	893,290	657,459
Total current liabilities	<u>\$32,361,310</u>	<u>\$18,054,539</u>
LONG TERM DEBT:		
5¼% - 5¾% Promissory notes less current installment (Note 3)	\$22,080,000	\$ 7,000,000
5% Convertible subordinated debentures (Note 4)	7,236,100	4,537,000
	<u>\$29,316,100</u>	<u>\$11,537,000</u>
CAPITAL:		
4¼% Preferred stock, cumulative, \$100 par—Issued	\$ 2,880,000	\$ 2,960,000
Common stock, \$5 par— Authorized—1,500,000 and 1,000,000 shares at respective dates		
Issued—913,428 and 751,539 shares at respective dates	4,567,140	3,757,695
Paid-in surplus (premium on capital stocks)	10,905,763	5,398,441
Retained earnings (Note 5)	15,629,414	14,766,952
	<u>\$33,982,317</u>	<u>\$26,883,088</u>
Less—Treasury stock (at cost)	262,700	249,240
	<u>\$33,719,617</u>	<u>\$26,633,848</u>
	<u>\$95,397,027</u>	<u>\$56,225,387</u>

STATEMENT OF CONSOLIDATED INCOME

FISCAL YEAR ENDED JANUARY 31
1961 1960

NET SALES	<u>\$126,210,157</u>	<u>\$114,682,148</u>
DEDUCT:		
Cost of goods sold (including publicity, occupancy and buying expense)	\$100,111,171	\$ 90,616,281
Selling, general and administrative expenses.....	14,037,431	15,227,420
Maintenance and repairs.....	285,402	219,323
Depreciation and amortization.....	566,936	472,862
Social security, property and sundry taxes.....	1,360,096	1,063,337
Interest expense	2,301,753	1,386,250
	<u>\$118,662,789</u>	<u>\$108,985,473</u>
	\$ 7,547,368	\$ 5,696,675
MISCELLANEOUS INCOME (net).....	193,839	165,256
Income before provision for federal taxes on income.....	\$ 7,741,207	\$ 5,861,931
PROVISION FOR FEDERAL TAXES ON INCOME.....	3,815,000	2,942,000
NET INCOME FOR YEAR.....	<u>\$ 3,926,207</u>	<u>\$ 2,919,931</u>
SPECIAL CREDIT (Note 2).....	—	460,000
NET INCOME AND SPECIAL CREDIT.....	<u>\$ 3,926,207</u>	<u>\$ 3,379,931</u>

STATEMENT OF CONSOLIDATED PAID-IN SURPLUS

Balance at beginning of year.....	\$ 5,398,441	\$ 1,956,489
Excess of par value over cost of preferred shares cancelled during year	22,559	19,094
Excess of conversion price over par value of common shares issued upon conversion of convertible subordinated debentures less net expenses.....	3,721,696	2,569,498
Excess of market value over par value of common shares issued as dividend on common stock (transferred from retained earnings)	1,763,067	853,360
Balance at end of year.....	<u>\$ 10,905,763</u>	<u>\$ 5,398,441</u>

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Balance at beginning of year.....	\$ 14,766,952	\$ 13,301,990
Net income for year.....	3,926,207	3,379,931
	<u>\$ 18,693,159</u>	<u>\$ 16,681,921</u>
Cash dividends paid—		
Common stock (\$1.20 per share).....	\$ 971,695	\$ 834,860
Preferred stock (\$4.25 per share).....	111,803	117,484
	<u>\$ 1,083,498</u>	<u>\$ 952,344</u>
Market value of common shares issued as dividend on common stock (transferred to capital stock and paid-in surplus).....	1,980,247	962,625
	<u>\$ 3,063,745</u>	<u>\$ 1,914,969</u>
Balance at end of year.....	<u>\$ 15,629,414</u>	<u>\$ 14,766,952</u>

ALCO REALTY CO. and CIRO LAND CORP.

COMBINED BALANCE SHEET

ASSETS	JANUARY 31	
	1961	1960
CURRENT ASSETS:		
Cash on deposit.....	\$ 68,186	\$ 177,043
U. S. Government securities plus accrued interest (at cost).....	51,375	102,437
Total current assets.....	<u>\$ 119,561</u>	<u>\$ 279,480</u>
OTHER ASSETS	<u>\$ 29,186</u>	<u>\$ 31,110</u>
FIXED ASSETS:		
Real estate and equipment (at cost) (Note 6).....	\$5,214,085	\$5,214,085
Less—Reserves for depreciation.....	1,023,159	829,777
	<u>\$4,190,926</u>	<u>\$4,384,308</u>
	<u>\$4,339,673</u>	<u>\$4,694,898</u>
 LIABILITIES AND CAPITAL		
CURRENT LIABILITIES:		
Current installments on long term debt.....	—	\$ 157,000
Accrued interest	\$ 13,629	17,322
Accrued federal income taxes (Note 2).....	4,861	4,416
Prepaid rent	34,634	34,634
Total current liabilities.....	<u>\$ 53,124</u>	<u>\$ 213,372</u>
LONG TERM DEBT:		
First and leasehold mortgage 5% - 4½% sinking fund bonds less current installments (Note 6).....	<u>\$3,634,000</u>	<u>\$3,866,000</u>
CAPITAL:		
Common stock	\$ 615,000	\$ 615,000
Retained earnings	37,549	526
	<u>\$ 652,549</u>	<u>\$ 615,526</u>
	<u>\$4,339,673</u>	<u>\$4,694,898</u>

TO SHAREHOLDERS OF ALDENS, INC.

In our opinion, the accompanying financial statements present fairly:

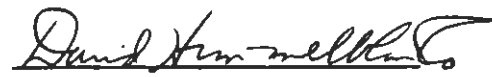
- (a) the consolidated financial position of Aldens, Inc. and its consolidated subsidiaries at January 31, 1961 and January 31, 1960 together with the related statements of income and retained earnings for the years then ended; and
- (b) the combined financial position of the real estate subsidiaries at January 31, 1961 and January 31, 1960,

in conformity with generally accepted accounting principles applied on a consistent basis during the two years.

AUDITORS' OPINION

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

Chicago, Illinois
March 15, 1961


CERTIFIED PUBLIC ACCOUNTANTS

NOTES TO FINANCIAL STATEMENTS

(1) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of Aldens, Inc. include all merchandising subsidiaries and Aldens Acceptance Corporation; they do not include the real estate subsidiaries which are combined in a separate balance sheet.

At January 31, 1961, investment in real estate subsidiaries is stated at the Company's equity in the net assets of these subsidiaries. Retained earnings of these subsidiaries at January 31, 1961 of \$37,549 consists of \$37,023 net income for the fiscal year then ended and \$526 accumulated to January 31, 1960. The \$37,549 is included in consolidated retained earnings at January 31, 1961 and consolidated net income for the year then ended. Net income of the real estate subsidiaries for the year ended January 31, 1961 consisted of \$415,609 rent received from parent less (a) depreciation—\$193,382, (b) interest expense—\$178,068 and (c) other expenses and federal income tax—\$7,136.

Investment in life insurance subsidiary represents cash advanced for the acquisition of stock in a newly organized life insurance subsidiary which has not yet begun operations.

All subsidiaries are wholly-owned.

(2) PROVISION FOR FEDERAL TAXES ON INCOME

Federal income tax returns of Aldens, Inc. and subsidiaries have been reviewed by the Internal Revenue Service through January 31, 1960.

The non-recurring special credit applicable to fiscal year ended January 31, 1960 represents the difference between tax on net income as reported in the financial statements, and tax as estimated to be payable after giving recognition to non-taxability of the reserve for collection expense (nor previously deducted for federal income tax purposes) no longer required.

The elimination of the need for this reserve (a measure of unearned carrying charge income) resulted from the conversion of customer installment accounts to revolving credit. Under this plan, no unearned carrying charge income is included in the accounts.

(3) 5¼%—5¾% PROMISSORY NOTES

Promissory notes outstanding were issued under terms of Loan Agreements dated as of November 30, 1959 between the Company and a group of lend-

ers consisting of fourteen insurance companies and one state investment board. Principal amount of notes outstanding at January 31, 1961 consists of \$9,000,000 at 5¼% and \$14,000,000 at 5¾%. The notes are due in annual installments of (a) \$920,000 in the years 1961-1964, (b) \$1,380,000 in the years 1965-1969, (c) \$1,725,000 in the years 1970-1975 and (d) \$2,070,000 in 1976.

(4) 5% CONVERTIBLE SUBORDINATED DEBENTURES

Of the \$4,537,000 principal amount of debentures outstanding at January 31, 1960, (a) \$4,445,200 was converted into 118,393 shares of common stock and (b) \$91,800 was redeemed at 105 plus accrued interest.

In October 1960, the Company issued \$7,239,100 principal amount of 5% convertible subordinated debentures due October 1, 1980. These debentures are subject to sinking fund retirement at the rate of \$350,000 principal amount per year beginning October 1, 1966 and are currently convertible into common stock of the Company at \$47.62 per share. As of January 31, 1961, \$3,000 had been converted.

(5) UNRESTRICTED RETAINED EARNINGS

Under terms of the loan agreements covering the 5¼% - 5¾% promissory notes, approximately \$6,500,000 of consolidated retained earnings was available at January 31, 1961 for the payment of cash dividends.

(6) FIRST AND LEASEHOLD MORTGAGE 5%—4½% SINKING FUND BONDS

These bonds, dated as of January 1, 1955, bear interest at 5% until the first date on which the maximum principal amount outstanding shall have been reduced by 20%, and 4½% thereafter. Payments which cover interest and sinking fund contributions are due in quarterly installments of \$88,588; final installment is due April 1, 1976.

Land and building carried at a net cost of \$4,155,301 at January 31, 1961, owned by Ciro Land Corp. and Alco Realty Co., are leased to the Company under a long term lease. The lease, land and building are pledged under the bond indenture.

As of January 31, 1961, sinking fund contributions covering principal had been prepaid through April 1, 1962, thus reducing the interest rate to 4½%.

ALDENS LOCATIONS

EXECUTIVE OFFICES
BUYING OFFICES
CLERICAL OPERATIONS
HARD LINES PLANT & WAREHOUSE

5000 ROOSEVELT ROAD, CHICAGO 7, ILLINOIS

SOFT LINES PLANT & WAREHOUSE 511 SOUTH PAULINA STREET, CHICAGO 7, ILLINOIS
NEW YORK BUYING OFFICE 200 MADISON AVENUE, NEW YORK 16, NEW YORK

ALDENS RETAIL STORES

ARKANSAS
 MAGNOLIA
 TEXARKANA

ILLINOIS
 ALTON (Young's)
 CHICAGO
 ELMWOOD PARK
 GALESBURG (O.T. Johnson's)
 KANKAKEE

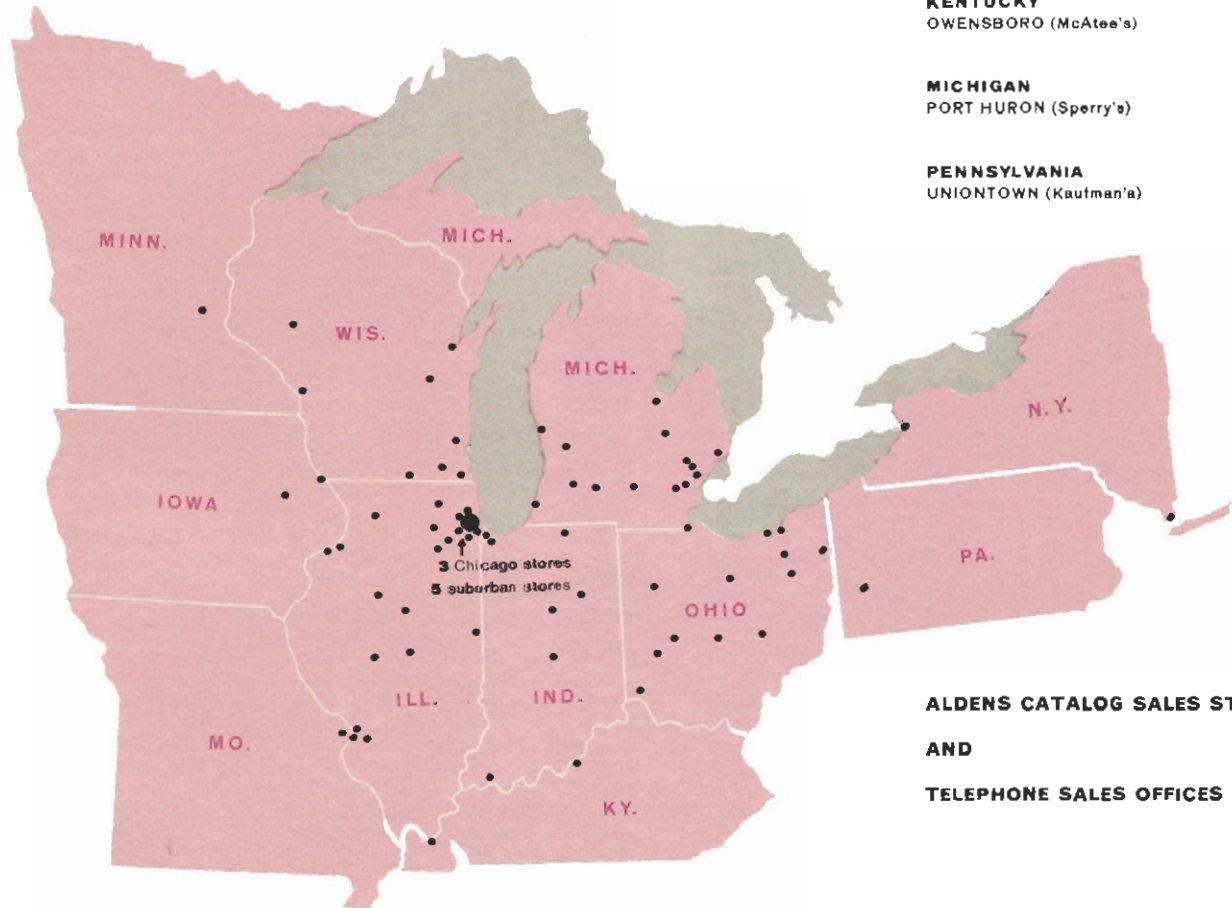
INDIANA
 BEDFORD
 BLOOMINGTON
 FRANKFORT
 TERRE HAUTE
 VINCENNES (Gimbel-Band)

IOWA
 IOWA CITY

KENTUCKY
 OWENSBORO (McAtee's)

MICHIGAN
 PORT HURON (Sperry's)

PENNSYLVANIA
 UNIONTOWN (Kaufman's)



ALDENS CATALOG SALES STORES AND TELEPHONE SALES OFFICES

ALDENS