C file

ALDENS

ANNUAL REPORT 1961

Directors

R. L. Arnheim, *Financial Consultant, Chicago*

C. E. Butler, *Business Consultant*

R. W. Jackson, *President, Aldens, Inc.*

H. V. McNamara, *Chairman Executive Committee, 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. Staehle, *Vice President, Aldens, Inc.*

Alvin D. Star, *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.*

R. W. Jackson, *President*

R. E. Riley, *Vice President*

J. C. Staehle, *Vice President*

Alvin D. Star, *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*

Trustee—5⅜% Sinking Fund Debentures, *The First National Bank of Chicago*

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, 5% Convertible Debentures and
5⅜% Sinking Fund Debentures Listed on New York Stock Exchange

1961 ALDENS ANNUAL REPORT

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 22, 1962, at 2:00 P. M. The notice of the meeting and proxy material will be mailed to shareholders on or about April 16, 1962.

HIGHLIGHTS

		1961	1960[a]
Operating Results	Net Sales	$164,474,895	$145,531,505
	Net profit before taxes	8,557,207	8,445,712
	Net profit after taxes	4,401,207	4,304,030
Per Share	Earnings per Common Share[b]	2.15	2.10
	Dividend rate per Common Share		
	Cash	1.20	1.20
	Stock	100%	5%
	Equity (Book Value) per Common Share	17.91	16.08
At Year-End	Working Capital	75,934,180	58,419,675
	Merchandise Inventories	19,282,159	17,547,384
	Accounts Receivable	80,153,411	64,725,368
	Ratio of Current Assets to Current Liabilities	3.44	2.78
Shares Outstanding at Year-End	Common	1,964,515	937,832
	4½% Cumulative Preferred	23,875	25,895
	Convertible Second Preference	2,713	2,719
	Number of Common Shareholders	5,100	4,600
	Number of Catalog Sales Stores and Offices	84	77
	Number of Retail Department Stores	16	15
	Number of Shoppers World Discount Stores	9	6

(a) The year 1960 has been restated to give retroactive effect to the pooling of interests with Greatway Corporation (Shoppers World) in 1961.

(b) Both years based on shares outstanding at January 31, 1962.

To Our Shareholders:

We are pleased to report once again sales and earnings which are the highest in our history—a new record achieved through the excellent results of our third and fourth quarters. This is the seventh consecutive year for which we have reported new highs in both sales and earnings. In the past ten years sales have almost doubled, while profits are four times as great.

We are especially pleased to report that while the mail order industry, continuing a long and steady growth, shows sales increases of 3% for the fourth calendar quarter of 1961, compared to last year, our Mail Order Division chalked up sales increases of 14% for the same period.

Our conventional Retail Store Division continues to be a profitable and growing part of our organization, producing pre-tax profit margins of more than 7%, which is in keeping with the best operated retail store chains.

The Shoppers World self-service discount stores became a part of our organization as of the beginning of the fiscal year. Rapid expansion was accomplished, as planned, with the opening of three new stores in the fall season, to bring the total number to nine. Costs inherent in such rapid expansion, and in the delayed openings of the new stores served to narrow the profit margins from our original forecast.

We begin 1962 with the impetus of excellent sales increases carried over from last year's fourth quarter. Our big spring catalog has found good consumer acceptance. We continue to show increases in new credit accounts. Four new Shoppers World stores will be opened this year, including one in St. Paul, Minnesota, which will represent our first important move into an area distant from Chicago. We hope to expand our conventional Retail Store Division by acquisitions, as good, profitable stores are offered to us. We plan to open a minimum of twelve catalog sales stores and telephone sales offices this year. Negotiations have been completed for new financing, through private placement, which will accommodate this expansion and provide the additional long-term funds required through 1965.

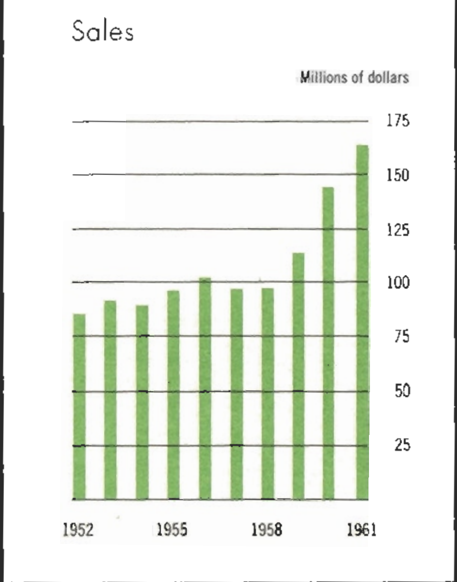
As we move into our seventy-third year, we look forward to solid growth for 1962 and the years beyond. The enthusiasm and vitality of our organization point again to a new record in sales and earnings for the current year, supported by our steadily growing customer list and aggressive promotional programs. Our goal each year is to better the results of the previous year, and we are confident that this objective will be accomplished by an appreciable margin in 1962.

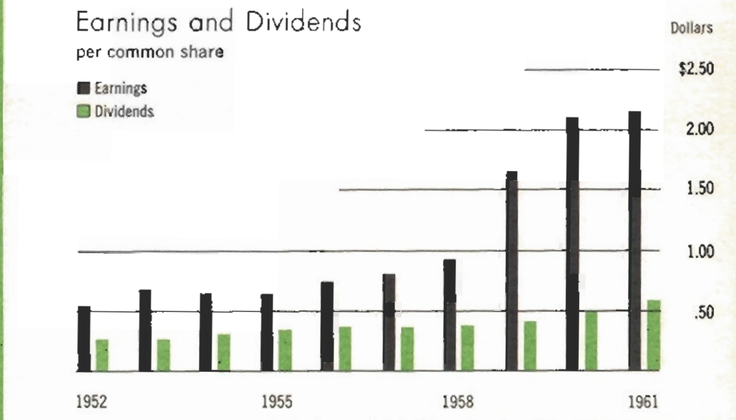
We could not have realized the progress we have made without the loyalty and support of our employees, our management, our directors, and our suppliers. My warm thanks are extended to all of these and the many others who contribute to the success of our business.

Sincerely,

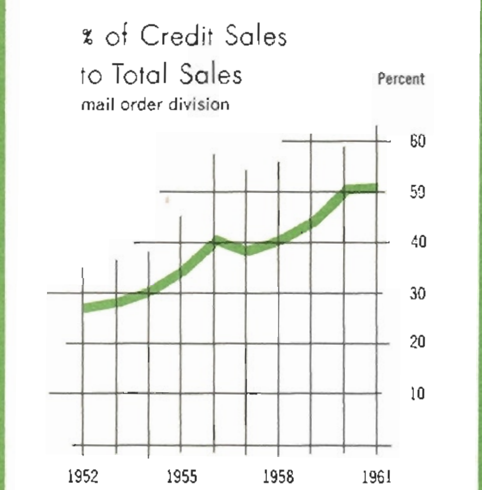
President

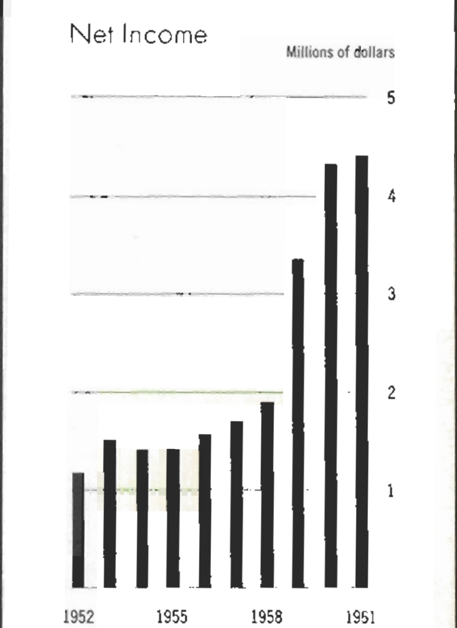
These charts reflect restatement of the year 1960 to give retroactive effect to the pooling of interests with Greatway Corporation in 1961



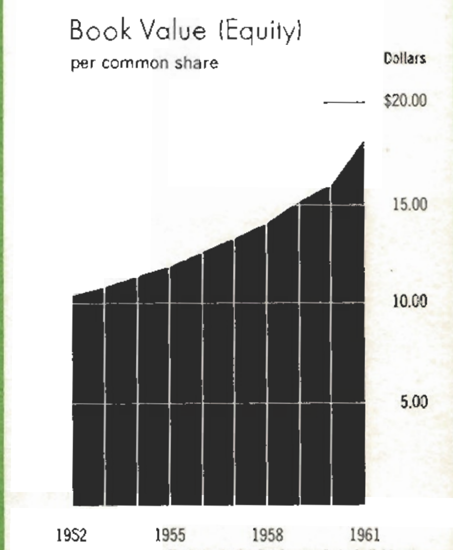


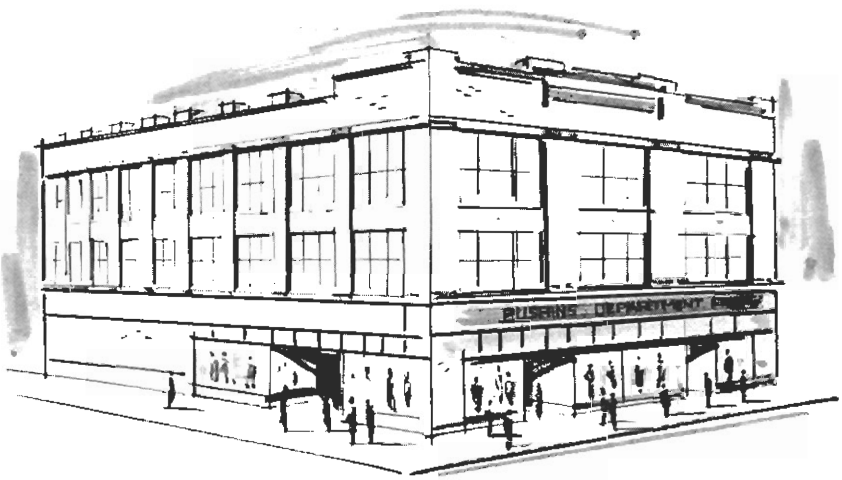
All years adjusted to shares outstanding at 1/31/62. Does not include $.23 per share from 1959 non-recurring special credit.





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





THE YEAR

in review

Sales

In the year 1961 we reached a new record in sales and earnings. Sales of $164,474,895 are the highest in our history, and bring us an increase of 13% over last year's volume of $145,531,505, when we also achieved a new record. Every division of your company contributed to this increase, each attaining a new high. These increases occurred primarily in the second half of the year, particularly in the fourth quarter, for in the first half of the year we faced the effects of the recessionary period which began in the previous year.

Earnings

Consolidated profit before federal taxes on income for fiscal 1961 rose to a new high of $8,557,207, compared with last year's new record of $8,445,712. After provision for federal taxes, consolidated net profit for 1961 was $4,401,207 compared with $4,304,030 for the previous year. Profits in the final quarter of 1961 were even greater than we anticipated, and served to offset the downward trend of the spring months. The net result gave us another banner year.

Profit per common share, after preferred and second preference dividends, was $2.15, which compares with $2.10 in 1960 (both years based on shares presently outstanding).

Dividends

The year 1961 marks the 28th consecutive year in which Aldens has paid dividends. Cash dividends per common share totalled $1.20, which compares with the same rate in the previous year. The dividend rate on our cumulative preferred stock is $4.50 annually.

On January 1, 1962, we issued a 100% common stock distribution which had the effect of a stock split. Your management felt that such a stock distribution was timely in reflecting the growth of the company, and that it would broaden and improve the market for the stock. Last year at January 1 a 5% stock dividend was paid.

Coincident with the declaration of the stock split, we announced an increase in the cash dividend on the common stock to $.80 a year. This is equivalent to $1.60 before the split, and represents an increase in the cash dividend from the previous rate of $1.20. The new rate is effective with the dividend payment of April 1, 1962.

Credit Sales and Accounts

Nationally, the first three quarters of 1961 were marked by liquidation or lack of growth in the outstanding installment debt, the longest such period in postwar history. The fourth quarter of 1961 began to show signs of a resumption of the upward trend in consumer credit buying. Aldens

Typical of our catalog sales stores which serve more than 1200 urban communities.

More than two-thirds of our consolidated sales are in our mail order division. It is by mailing pieces such as these that we bring our merchandise into our customers' homes for selection.

credit sales followed this trend, showing the greatest strength in the fourth period of the year. As a result of extensive direct mail promotional effort, the number of active credit accounts in the Mail Order Division increased during the year from 550,000 to 680,000, or 24%. Credit sales rose 14%, with the ratio of credit sales to total sales now at 52%.

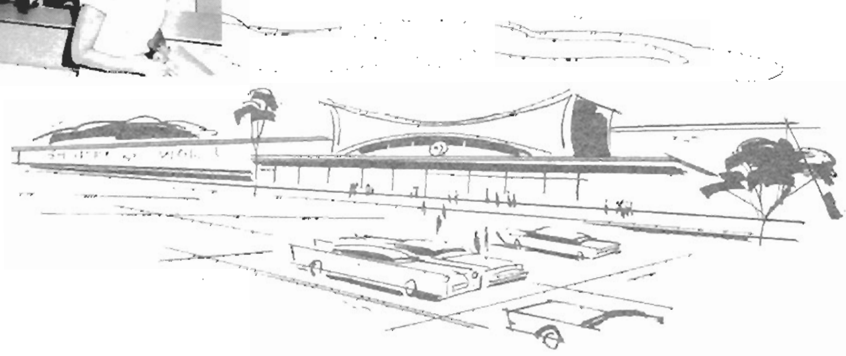
The increase in the number of accounts is particularly significant in projecting future sales increases, for the credit customer purchases annually about three times as much as a cash or C.O.D. customer, and is much more loyal to us.

We continue to maintain the caliber of our accounts at a satisfactory level. With the national trend we, too, experienced somewhat more account delinquency in 1961. However, our credit losses have not become excessive, and we have provided adequate bad debt reserves.

Financing

We are very pleased to report that negotiations have been completed for the private placement of $7,600,000 in subordinated notes to mature in 1982, and $10,000,000 in senior notes maturing in 1980. On June 1 we sold by public offering $15,000,000 of 5⅜% Sinking Fund Debentures, due in twenty years. This financing is ex-

Convenient shopping and unusual values bring crowds of customers to Shoppers World.
(Below) Shoppers World store to be opened soon at Lincoln and Devon Avenues in Chicago.



pected to be adequate for the company's needs for the projected expansion program of increased credit sales, new stores, and general overall expansion. We do not think we will require any additional equity financing for the next three years.

Effective with the tax returns filed as of January 31, 1961, the company has adopted the installment method of reporting for income tax purposes, which has the effect of deferring federal taxes on income until the year in which collections on the accounts affected are received.

Inventories and Commitments

Merchandise inventories at January 31, 1962, totalled $19,282,159, compared with $17,547,384 last year, an increase of 10%. This increase is attributable principally to the three large new Shoppers World stores opened in the last few months, and to the additional conventional retail store purchased August 1. There is also reflected here "trading-up" in the quality of our merchandise to serve the rising caliber of our customer list. Merchandise commitments at year-end were $4,336,346, compared with $4,008,837 last year.

To satisfy our need for additional space to house the inventory which services our growing mail order sales, particularly in hardlines, a warehouse was purchased at 600 West Fulton Street in Chicago. This provides additional space of 250,000 square feet, and facilitates further mail order expansion.

As is our practice, all goods were inventoried at January 31, 1962 on the basis of cost or market, whichever was lower.

Shoppers World

Greatway Corporation, which we acquired as of February 1, 1961, operates nine self-service discount stores under the trade name "Shoppers World."

Three new stores were opened this fall—Gary, Indiana, Decatur, Illinois, and Chicago Heights, Illinois. Construction delays prevented the opening of all three on schedule, the delay in one case extending to two months. This resulted in excessive pre-opening costs and sales lower than we had projected.

We offer revolving credit in three of the larger Shoppers World stores, as a test to determine whether customers of these stores are desirous of credit accommodations.

Four additional stores will be opened in 1962, ranging in size from 60,000 to 120,000 square

Furniture Department O. T. Johnson's Galesburg, Illinois.

feet. One of these, now nearing completion at Lincoln and Devon Avenues in Chicago, will be our biggest store. A grocery super-market operated by Jewel Tea Company will occupy 20,000 square feet of this space. Our plans include a grocery super-market in conjunction with all new stores, for the benefit each will derive from traffic generated by the other.

This has been a year of reorganization and consolidation for this newest division of your company. While the number of stores increased from six to nine, selling area more than doubled. Lines of merchandise were expanded. Middle management personnel was greatly strengthened.

We are pleased with our acquisition of Shoppers World and optimistic about its future. Its rapid expansion will continue, and we expect its profits to contribute materially to the consolidated earnings of Aldens.

Retail Department Store Division

Our conventional Retail Store Division was expanded in 1961 by the purchase of Sam Pushin Co. in Bowling Green, Kentucky, an old and well established retail store. This new outlet adds in excess of $1,000,000 to our annual sales volume. The division as a whole produced profit

Women's Fashion Department, Terre Haute, Indiana, Retail Store.

margins in excess of generally accepted standards of profitable retail operation. A new high in both sales and earnings was achieved by the division in the year just ended.

Most of the expansion in this area is accomplished through the purchase of additional well established stores. We hope to continue to acquire such additional stores year by year, and are actively seeking those which meet our requirements.

Catalog Sales Stores and Telephone Sales Offices

This division shared in the growth of Aldens in 1961. The number of units grew from 77 to 84. Sales increased 18%. Successful credit promotions almost doubled the number of customer accounts by year-end. Our catalog stores and telephone offices continue to be an effective and profitable means of obtaining new customers, particularly in urban areas. The year 1962 will see continued expansion here.

John Alden Life Insurance Company

This new subsidiary first offered life insurance to our customers with our June, 1961, mailings. The trend upward, month by month, of insurance written indicates a successful entrance into the life insurance field. As we have previously stated, we project that within from two to three years this division of your company will begin to contribute, increasingly and satisfactorily, to the consolidated earnings of Aldens.

Automation

We have given considerable study to the benefits, both in cost and efficiency of operation, in our use of electronic data processing equipment. At the present time we have adopted the use of this equipment for most of our clerical functions in financial areas. Further study and careful evaluation of the economies to be realized in automation may lead us to the conversion of other activities to electronic processing systems.

"Conflict of Interest" Survey

It has always been the policy of your company, in all phases of its operation, to do its purchasing through a fully controlled and carefully checked system of competitive bidding whenever and wherever possible. Our recent annual survey of all of our executives shows no deviation from this established policy, and discloses no conflict of interest among our key personnel.

ALDENS

	1961	1960 (4)	1959	1958
FOR THE YEAR				
Net Sales	$164,474,895	$145,531,505	$114,682,148	$98,419,644
Net Profit before Taxes	8,557,207	8,445,712	5,861,931	3,772,028
Percentage of Pre-Tax Profit to Sales	5.2%	5.8%	5.1%	3.8%
Federal Taxes on Income	4,156,000	4,141,682	2,482,000(1)	1,850,000
Net Profit after Federal Taxes	4,401,207	4,304,030	3,379,931(1)	1,922,028
Capital Expenditures	2,300,229	1,744,183	945,982	233,682
Depreciation and Amortization	873,416	696,795	536,029	581,038
AT YEAR-END				
Net Accounts Receivable (including sold accounts)	80,153,411	64,725,368	44,624,706	32,657,708
Merchandise Inventories	19,282,159	17,547,384	14,575,142	12,218,131
Working Capital	75,934,180	58,419,675	32,916,332	24,700,352
Excess of Liquid Assets (cash and net accounts receivable) over Current Liabilities	52,168,062	36,259,348	14,740,954	9,259,161
Percent of Excess	168%	111%	82%	77%
Net Worth	39,560,390	34,551,520	26,633,848	21,109,580
Short-term Debt	16,804,132	18,951,260	8,610,000	4,639,100
Long-term Debt	42,206,900	30,685,739	11,537,000	8,391,704
Ratio of Current Assets to Current Liabilities	3.44	2.78	2.82	3.06
PER SHARE DATA				
Earnings per Common Share after Preferred and Second Preference Dividends (2)	2.15	2.10	1.66(1)	.91
Dividends Paid per Common Share Cash (2)	.58	.49	.42	.36
Stock	100%	5%	3%	2%
Equity (Book Value) per Common Share (3)	17.91	16.08	15.16	14.10

(1) Includes non-recurring special credit of $460,000, equivalent to $.23 per Common Share.

(2) All years based on shares outstanding at January 31, 1962.

10 YEAR

performance record—1952-1961

1957	1956	1955	1954	1953	1952
$97,905,259	$102,371,843	$97,352,388	$90,505,270	$92,442,630	$85,725,928
3,506,204	3,453,447	2,719,644	2,687,063	3,407,273	2,110,653
3.6%	3.4%	2.8%	3.0%	3.7%	2.5%
1,800,000	1,865,000	1,300,000	1,268,159	1,906,130	920,185
1,706,204	1,588,447	1,419,644	1,418,904	1,501,143	1,190,468
245,897	1,295,791	1,154,311	478,339	222,655	451,388
602,954	549,930	422,079	374,320	378,289	324,929
30,122,181	30,518,216	24,886,336	21,155,656	19,564,335	16,947,723
14,378,779	13,624,559	13,070,913	11,180,664	10,207,412	10,591,429
24,452,754	23,574,851	23,885,640	20,836,573	20,564,644	20,124,291
6,871,693	6,602,172	7,256,460	6,883,257	7,557,252	6,648,298
42%	37%	34%	42%	50%	51%
20,077,557	19,273,398	18,591,062	18,049,635	17,432,801	16,670,982
9,500,000	11,600,000	15,100,000	10,750,000	8,850,000	8,075,000
8,886,258	9,489,442	9,935,648	6,500,000	6,800,000	7,100,000
2.50	2.34	2.13	2.26	2.36	2.54
.80	.74	.65	.65	.69	.53
.36	.36	.34	.31	.27	.27
—	—	10%	50%	—	—
13.25	12.56	11.96	11.47	10.94	10.27

(3) All years adjusted for stock distributions and stock dividends.

(4) The year 1960 has been restated to give retroactive effect to the pooling of interests with Greatway Corporation in 1961.

ALDENS

ASSETS

	January 31, 1962	January 31, 1961
CURRENT ASSETS:		
Cash Resources	$ 3,095,022	$ 4,337,815
Accounts Receivable—		
Customers installment accounts	$ 82,721,776	$ 66,584,093
Other customers accounts	1,160,238	967,274
Miscellaneous accounts	603,129	691,278
	$ 84,485,143	$ 68,242,645
Less—Reserve for doubtful accounts	4,331,732	3,517,277
	$ 80,153,411	$ 64,725,368
Inventories (at lower of cost or market)	$ 20,101,708	$ 18,392,498
Advances on catalogs and expenses	$ 3,664,410	$ 3,767,829
TOTAL CURRENT ASSETS	$107,014,551	$ 91,223,510
OTHER ASSETS:		
Investment in real estate subsidiaries (Note 2)	$ 771,999	$ 652,549
Investment in life insurance subsidiary (Note 2)	302,005	300,000
Sundry	972,578	485,674
	$ 2,046,582	$ 1,438,223
FIXED ASSETS:		
Real estate, leasehold improvements and equipment (at cost)	$ 12,052,833	$ 9,959,153
Less—Reserves for amortization and depreciation	4,940,705	4,261,568
	$ 7,112,128	$ 5,697,585
	$116,173,261	$ 98,359,318

consolidated
BALANCE SHEET

LIABILITIES AND CAPITAL

	January 31, 1962	1961
CURRENT LIABILITIES:		
Due to banks	$ 16,804,132	$ 18,951,260
Current installments on long term debt	924,400	1,006,776
Merchandise and expense accounts payable	5,324,386	4,364,477
Due customers	1,563,622	1,349,485
Accrued payrolls	1,583,459	1,720,226
Accrued property and franchise taxes	576,786	464,649
Accrued federal and state taxes (Note 3)	3,121,915	4,023,453
Sundry payables and accruals	1,181,671	923,509
TOTAL CURRENT LIABILITIES	$ 31,080,371	$ 32,803,835
LONG TERM DEBT (Note 4)	$ 41,282,500	$ 29,678,963
FEDERAL INCOME TAX DEFERRED		
(Arising from election by the Company in 1961 to report income from credit sales on the installment basis for Federal income tax purposes) (Note 3)	$ 4,250,000	$ 1,325,000
CAPITAL:		
4½% Preferred stock, cumulative, $100 par (Note 5)—Authorized and issued—27,530 and 28,800 shares at respective dates	$ 2,753,000	$ 2,880,000
Convertible second preference stock, no par (Note 6)—Authorized—4,000 shares, issued—2713.45 shares	860,903	702,597
Common stock, $5 par—Authorized—3,000,000 shares and 1,500,000 shares at respective dates		
Issued—1,966,895 shares and 939,022 shares at respective dates	9,834,475	4,695,110
Capital in excess of par values	7,902,963	10,906,070
Retained earnings (Note 9)	18,555,988	15,629,414
	$ 39,907,329	$ 34,813,191
Less—Treasury stock (at cost)	346,939	261,671
	$ 39,560,390	$ 34,551,520
	$116,173,261	$ 98,359,318

STATEMENT OF CONSOLIDATED INCOME

	Fiscal Year Ended January 31, 1962	1961
NET SALES	$164,474,895	$145,531,505
OTHER INCOME (Net)	255,569	215,014
Total	$164,730,464	$145,746,519
COSTS AND EXPENSES:		
Cost of goods sold (including publicity, occupancy and buying expense)	$131,748,575	$116,188,594
Selling, general and administrative expense (net of installment account service charges)	18,422,025	16,385,744
Maintenance and repairs	389,988	302,404
Depreciation and amortization	813,956	637,709
Social security, property and sundry taxes	1,817,571	1,465,447
Interest expense	2,981,142	2,320,909
Total costs and expenses	$156,173,257	$137,300,807
INCOME BEFORE PROVISION FOR FEDERAL TAXES ON INCOME	$ 8,557,207	$ 8,445,712
PROVISION FOR FEDERAL TAXES ON INCOME	4,156,000	4,141,682
NET INCOME FOR YEAR	$ 4,401,207	$ 4,304,030

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

	1962	1961
BALANCE AT BEGINNING OF YEAR (Per prior report)	$ 15,629,414	$ 14,766,952
EXCHANGE OF STOCK ADJUSTMENTS (Note 1):		
Retained earnings of Greatway Corporation and subsidiaries at beginning of year	549,108	171,285
Excess of stated value of convertible second preference shares and par value of common shares over stated value of capital stock of Greatway Corporation acquired in exchange therefor	709,318*	549,108*
BALANCE AT BEGINNING OF YEAR AS ADJUSTED	$ 15,469,204	$ 14,389,129
NET INCOME FOR YEAR	4,401,207	4,304,030
	$ 19,870,411	$ 18,693,159
DIVIDENDS PAID:		
Cash dividends—		
Common stock	$ 1,138,076	$ 971,695
Convertible second preference stock	65,267	—
Preferred stock	111,080	111,803
	$ 1,314,423	$ 1,083,498
Market value of common shares issued as dividend on common stock (transferred to capital stock and capital in excess of par value)	—	1,980,247
	$ 1,314,423	$ 3,063,745
BALANCE AT END OF YEAR	$ 18,555,988	$ 15,629,414

*Denotes red.

AUDITORS' OPINION

To Shareholders of Aldens, Inc.:

In our opinion, the accompanying financial statements, together with the notes thereto, present fairly the financial position of Aldens, Inc. and its consolidated subsidiaries at January 31, 1962 and January 31, 1961 and the results of their operations for the fiscal years then ended in conformity with generally accepted accounting principles applied on a consistent basis during the two years.

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 23, 1962

David Himmelblau & Co.
CERTIFIED PUBLIC ACCOUNTANTS

CAPITAL IN EXCESS OF PAR VALUES

	Fiscal Year Ended January 31, 1962	1961
BALANCE AT BEGINNING OF YEAR (Per prior report)		$ 5,398,441
EXCHANGE OF STOCK ADJUSTMENT (Note 1):		
Net credit arising from sale and issuance of treasury common shares in connection with exchange of common shares for capital stock of Greatway Corporation		307
BALANCE AT BEGINNING OF YEAR AS ADJUSTED	$10,906,070	$ 5,398,748
ADD:		
Credits arising from conversions of the following into common stock of the company—		
Convertible subordinated debentures	1,870,812	3,721,696
Convertible second preference stock	704	—
Excess of par value over cost of preferred shares cancelled	26,962	22,559
Excess of market value over par value of common shares issued as a dividend on common stock (transferred from retained earnings)	—	1,763,067
	$12,804,548	$10,906,070
DEDUCT:		
Par value of common shares issued as 100% distribution on common stock	4,901,585	—
BALANCE AT END OF YEAR	$ 7,902,963	$10,906,070

NOTES TO FINANCIAL STATEMENTS

(1) EXCHANGE OF STOCK:

All of the capital stock of Greatway Corporation was acquired on June 14, 1961 in exchange for 25,611 common shares (equivalent to 51,222 of the shares presently outstanding) and 2,719.45 convertible second preference shares of the Company in accordance with the terms of an exchange agreement. This exchange of stock constituted a pooling of interests for accounting purposes. Accordingly, the consolidated balance sheet at January 31, 1961 has been restated to include the accounts of Greatway Corporation and subsidiaries; likewise the statements of consolidated income and retained earnings for the fiscal years ended January 31, 1962 and January 31, 1961 include the consolidated operating results of Greatway Corporation and subsidiaries.

(2) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements inclnde all subsidiaries except (a) real estate subsidiaries and, (b) the life insurance subsidiary which began operations during 1961 and does not yet constitute a significant subsidiary. Investment in unconsolidated subsidiaries is stated at the amount of the net assets of such subsidiaries and their undistributed net income is included in the statement of consolidated income. The combined balance sheet of the real estate subsidiaries at January 31, 1962, is summarized as follows:

ASSETS		
Cash and U. S. Government securities		$ 372,477
Deferred charges		34,283
Properties, at cost:		
Land	$ 589,331	
Buildings and equipment less $1,203,152 depreciation	3,744,602	4,333,933
		$4,740,693
LIABILITIES AND CAPITAL		
Current liabilities		$ 250,110
Long term mortgage loans less $184,423 current installments included above (see note 4)		3,718,584
		$3,968,694
Capital:		
Capital stock	$ 690,000	
Retained earnings	81,999	771,999
		$4,740,693

All subsidiaries are 100% owned.

(3) PROVISION FOR FEDERAL TAXES ON INCOME:

Federal income tax returns of Aldens, Inc. and its finance and retail division subsidiaries have been reviewed by the Internal Revenue Service through January 31, 1960. Federal income tax returns of Greatway Corporation and subsidiaries are being reviewed by the Internal Revenue Service; no material adjustments have been proposed.

Provision for federal taxes on income deducted on the consolidated statement of income was computed on the accrual basis and includes the tax deferral resulting from the Company's election to report installment credit sales on the installment basis for federal income tax purposes. The amount shown for federal income tax deferred at January 31, 1961 has been segregated from accrued federal taxes.

(4) LONG TERM DEBT:

Long term debt at January 31, 1962 consisted of the following:

Promissory notes due in annual installments of (a) \$920,000 in the years 1962-1964, (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—		
5¼% notes	\$ 8,640,000	
5¾% notes	13,440,000	\$22,080,000
Sinking fund debentures, 5⅜%; sinking fund retirement is \$750,000 principal amount per year beginning June 1, 1971; final maturity, 1981		15,000,000
Convertible subordinated debentures, 5%; sinking fund retirement is \$350,000 principal amount per year beginning October 1, 1966; final maturity, 1980 (currently convertible into common stock of the Company at \$23.81 per share)		5,122,500
		\$42,202,500
Less—Installments due currently		920,000
		\$41,282,500

Mortgage loans of the unconsolidated real estate subsidiaries at January 31, 1962 consisted of (a) 4½% sinking fund bonds (\$3,634,000) due in quarterly installments of \$88,588 for principal and interest; final installment is due April 1, 1976 and (b) 5½% installment note (\$269,007) due in monthly installments of \$2,248 for principal and interest, final installment is due August 10, 1976. Land and buildings of the real estate subsidiaries carried at a net cost of \$4,304,173 are leased to the Company under long term leases. The leases, land and buildings are pledged under the mortgages.

(5) 4½% PREFERRED STOCK:

Preferred stock was redesignated 4½% series from 4¼% series and requirements for retirement thereof were changed from 800 shares per year to \$100,000 per year by amendment to the articles of incorporation of the Company approved at the annual meeting of shareholders on May 23, 1961.

(6) CONVERTIBLE SECOND PREFERENCE STOCK:

This stock was authorized by amendment to articles of incorporation of the Company which was approved at a special meeting of shareholders on April 11, 1961. It was issued on June 14, 1961 in connection with the exchange of stock referred to in note (1). The 2,713.45 shares outstanding at January 31, 1962, may be converted into common stock of the company as follows: (a) 265.94 shares currently, (b) 271.95 shares after December 14, 1962 and (c) 2,175.56 shares after December 14, 1963. The present conversion rate is 40 shares of common stock per share of second preference stock. The second preference stock is entitled to receive cumulative preferential dividends of \$24.00 per share per annum. In addition, each of these shares is entitled to participate in dividends (other than dividends payable in common stock of the Company) declared upon the common stock to the extent that such dividends per common share exceed the preferential dividend rate divided by the conversion rate. Such excess dividends shall be credited against preferential dividends in succeeding years.

(7) LONG TERM LEASES:

The Company and its subsidiaries are lessee under 65 leases (other than intercompany leases) with expiration dates ranging from 1965 to 1982 and providing for minimum annual rentals aggregating \$1,690,140; in addition, certain of the leases provide for payment of taxes and other expenses.

(8) EXECUTIVE RETIREMENT PLAN:

The Company has adopted an unfunded executive retirement plan which became effective February 1, 1961. Under this plan, annual retirement benefits will be based on years of service and average basic compensation for the last five years prior to retirement. The earliest year in which early retirement payments could begin is 1962. Payments when made will be charged against income.

(9) UNRESTRICTED RETAINED EARNINGS:

The Company is restricted as to the amount of dividends (other than stock dividends) which can be declared on the common stock under terms of (a) the various loan agreements covering long term debt detailed in Note (4) and (b) articles of incorporation covering the 4½% cumulative preferred stock. Under the most restrictive of these provisions, approximately \$8,800,000 of consolidated retained earnings was unrestricted at January 31, 1962.

ALDENS

locations

EXECUTIVE OFFICES BUYING OFFICES CLERICAL OPERATIONS HARD LINES PLANT & WAREHOUSE	5000 Roosevelt Road, Chicago, Illinois
SOFT LINES PLANT & WAREHOUSE	511 South Paulina Street, Chicago, Illinois
SOFT LINES WAREHOUSE	600 West Fulton Street, Chicago, Illinois
NEW YORK BUYING OFFICE	200 Madison Avenue, New York, New York

ALDENS RETAIL STORES

ARKANSAS
Texarkana (Dillard's)

ILLINOIS
Alton (Young's)
Chicago
Elmwood Park
Galesburg (O. T. Johnson's)
Kankakee

INDIANA
Bedford
Bloomington
Frankfort
Terre Haute
Vincennes (Gimbel-Bond)

IOWA
Iowa City

KENTUCKY
Bowling Green (Pushin's)
Owensboro (McAtee's)

MICHIGAN
Port Huron (Sperry's)

PENNSYLVANIA
Uniontown (Kaufman's)

SHOPPERS WORLD SELF-SERVICE DISCOUNT STORES

5275 and 5308 North Milwaukee Avenue, Chicago

5940 West Cermak Road, Cicero, Illinois

8800 West North Avenue, Melrose Park, Illinois

8301 Wicker Park Blvd., Highland, Indiana

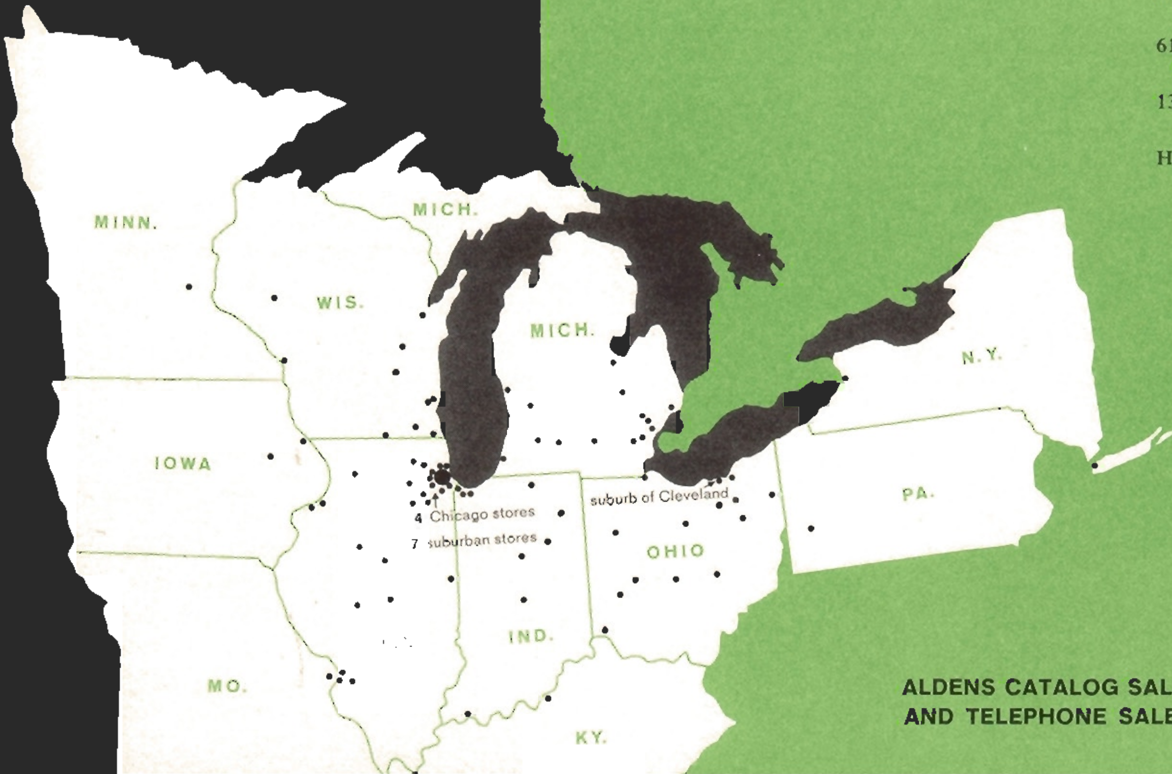
9639 South Cicero Avenue, Oak Lawn, Illinois

9301 North Milwaukee Avenue, Niles, Illinois

6125 East Melton Road, Gary, Indiana

1333 Western Avenue, Chicago Heights

Highway 51 and Pershing Road, Decatur, Illinois



ALDENS CATALOG SALES STORES AND TELEPHONE SALES OFFICES

ALDENS