



PAY 'N PAK  
STORES, INC.  
FISCAL  
1976

# ANNUAL REPORT

## A PICTURE STORY

TYPICAL PAY 'N PAK "IN-STORE" DISPLAY  
DEMONSTRATES EXACTLY HOW THESE CABINETS  
AND APPLIANCES WILL LOOK IN THE HOME.





## PAY 'N PAK COUNTRY



### WASHINGTON

- Bellevue
- Bellingham
- Bremerton
- Everett
- Kennewick
- Kent
- Longview
- Lynnwood
- Moses Lake
- Mt. Vernon
- Olympia
- Redmond
- Renton
- Seattle
- Seattle
- Seattle
- Spokane
- Spokane
- Spokane
- Tacoma
- Walla Walla
- Wenatchee
- White Center
- Yakima

### ALASKA

- Anchorage
- Fairbanks

### CALIFORNIA

- Redding
- Roseville
- Sacramento
- Sacramento
- Yuba City

- Napa
- Hayward
- Fresno
- Bakersfield
- Modesto

### COLORADO

- Aurora
- Denver
- Denver
- Pueblo
- Colorado Springs
- Grand Junction

### HAWAII

- Honolulu

### IDAHO

- Lewiston
- Pocatello

- Boise

### KANSAS

- Wichita
- Wichita
- Topeka

### MONTANA

- Billings
- Missoula

### NORTH DAKOTA

- Minot
- Bismark

### NEVADA

- Las Vegas
- Reno

### OKLAHOMA

- Oklahoma City
- Oklahoma City

- Tulsa
- Tulsa

### OREGON

- Albany
- Eugene
- Milwaukie
- Portland
- Portland
- Salem

- Portland

### UTAH

- Ogden
- Salt Lake City
- Salt Lake City
- Provo

### WYOMING

- Casper
- Cheyenne



# PAY 'N PAK STORES, INC.

Pay 'N Pak Stores, Inc. is a retail company dedicated to the needs of the *do-it-yourself* market. As of February 29, 1976 the company operated 59 stores in 44 cities in 11 western and mid-western states.

The company is engaged in the retail sale of electrical, lighting, plumbing and building materials on a cash and carry basis. 10 of the 59 stores carry complete lines of automotive parts, accessories and sporting goods.

During fiscal 1976 (ended February 29, 1976) the company continued its aggressive expansion program with the addition of 7 new stores and 2 new replacement stores. During the year the company sold 2 stores and closed 1.

Corporate headquarters are located in the 62,000 square foot Pay 'N Pak Mall at 1209 South Central in Kent, near Seattle, Washington.

## FISCAL 1976 FINANCIAL HIGHLIGHTS

	YEAR ENDED FEBRUARY 29, 1976	FEBRUARY 28, 1975
Revenues .....	\$73,279,952	\$61,470,839
Income before income taxes .....	\$ 4,878,524	\$ 4,285,203
Net income .....	\$ 2,574,624	\$ 2,226,045
Average number of common shares .....	1,509,897	1,519,275
Net income per share .....	\$ 1.71	\$ 1.47
Cash dividends paid per share .....	\$ .46	\$ .318
*Average weighted number of common shares .....	1,660,887	1,671,203
*Net income per common share .....	\$ 1.55	\$ 1.33
*Cash dividends paid per common share .....	\$ .418	\$ .289

\*After giving retroactive effect to 10% stock dividend declared on March 16, 1976 payable May 10, 1976 to shareholders of record on April 10, 1976.

### BANK

Peoples National Bank of Washington  
Seattle, Washington

### TRANSFER AGENTS

Citibank, N. A.  
New York City, New York

Peoples National Bank of Washington  
Seattle, Washington

### OFFICERS

David J. Heerensperger  
*Chairman of the Board and President*

Harold F. Bacon  
*Vice President — Merchandising*

Jerry Marlow  
*Vice President — Operations*

Halvor Knudtson, Jr.  
*Secretary-Treasurer, Controller*



# BOARD OF DIRECTORS



David J. Heerensperger, *Chairman of the Board and President*



Woodrow C. Button  
*Vice Chairman  
Old National Bank  
Seattle, Washington  
Formerly Chairman  
of the Board  
Bank of the West,  
Bellevue, Washington*



Halvor Knudtson, Jr.  
*Secretary-Treasurer,  
Controller*



Curtis L. Rhodes  
*Purchasing  
Co-ordinator*



Marshall J. Weigel  
*Corporate Finance  
Specialist*



# shareholders review:

Sales of Pay 'N Pak Stores, Inc. reached \$73,279,952 for the fiscal year ended February 29, 1976, a 19 percent increase over last year. Net income was \$2,574,624 as compared with \$2,226,045 in fiscal 1975, an increase of 16 percent. Per share net income was \$1.71 on the weighted average number of common shares outstanding of 1,509,897 as compared to \$1.47 the prior year.

After giving retroactive effect to a 10% stock dividend paid on May 10, 1976, per share net income would be \$1.55 on the weighted average number of common shares outstanding of 1,660,887 as compared to \$1.33 per share on 1,671,203 shares the prior year.

Quarterly cash dividends paid this fiscal year were \$.46 as compared to \$.318 last year. This reflects the company's policy of increasing dividends for the benefit of shareholders as earnings and other conditions warrant.

After giving retroactive effect to the stock dividend, the adjusted cash dividends reported above would be \$.418 this year as compared to \$.289 last year.

In November, John M. Headley, the former president and chief operating officer, resigned and relinquished his directorship in the company. The board of directors came to an agreement with Mr. Headley to acquire 56,267 shares of his stock in exchange for the com-

pany's Santa Rosa and Vallejo, California stores effective December 31, 1975.

Subsequently, the board of directors established an Employee Stock Ownership Trust (ESOT) which purchased the remaining 150,612 shares held by Mr. Headley.

Because of your company's management depth and its policy of having back-up people in every key position, it was an easy matter to restructure the management team. Jerry Marlow was named vice president for operations; Hal Bacon assumed greater merchandising responsibilities and I assumed the office of the president. Other people were moved into more responsible positions, with the result that your company is continuing to move ahead strongly.

During the year your company continued its expansion by opening seven new stores and replacing two outmoded stores with larger, modern facilities. New stores were opened this year in Lynnwood and Renton, Washington, increasing our market penetration in the Seattle area. A third Denver, Colorado store was opened; also, one in Roseville, California to enhance our marketing penetration in the Sacramento area. The remaining three new stores marked our entry into Grand Junction, Colorado, Pocatello, Idaho, and Ogden, Utah. The replacement stores were in Longview and Wenatchee, Washington.

These new and replacement facilities, less the Santa Rosa and Vallejo stores, increased the company's net square footage by 9% to 1,123,062 square feet.

Also, during the year the company reacquired the Tucson, Ari-

zona store which it had previously sold and decided to liquidate the merchandise and sublease the store.

On a minor note, my personal time commitment along with the expense associated with our championship hydroplane racing program was eliminated with the sale of the equipment in January.

The company's gross margins were adversely affected by stubborn customer resistance to anything but the lower, more competitively priced advertised merchandise and, to some degree, by a deflationary trend in the price of commodities in inventory, particularly copper, brass and plastics. However, we are overcoming this by more intensive sales training with the result that, as of this writing, margins are beginning to widen.

The natural question is where do we go from here?

While we will obtain some of our growth from new store openings we expect to increase sales per square foot in existing stores with a new re-merchandising program which was started last year. This new program puts more of our merchandise on the floor, less in the back-room and puts a greater number of compatible items together. I am pleased to say that it is working well.

Once again we thank our shareholders and employees for their support and look forward to an excellent year assuming general business conditions remain stable.

Respectfully submitted,

*David J. Neerensperger*



# staff and assistants



Harold F. Bacon,  
Vice President —  
Merchandising



Halvor Knudtson, Jr.,  
Secretary-Treasurer  
and Controller



Jerry Marlow,  
Vice President —  
Operations



Robert Moutrie,  
Merchandising Director



Randy Hunsaker,  
District Manager —  
Colorado, Kansas,  
Oklahoma



Mel Kelley,  
District Manager —  
Oregon, S.W. Washington,  
Alaska



Ted Lewis,  
District Manager —  
California and Nevada



Larry Marlow,  
District Manager —  
Eastern Washington



Russell Morgan,  
District Manager —  
Northwestern  
Washington



Wally Tesch,  
District Manager —  
Utah, Idaho, Wyoming,  
and Montana



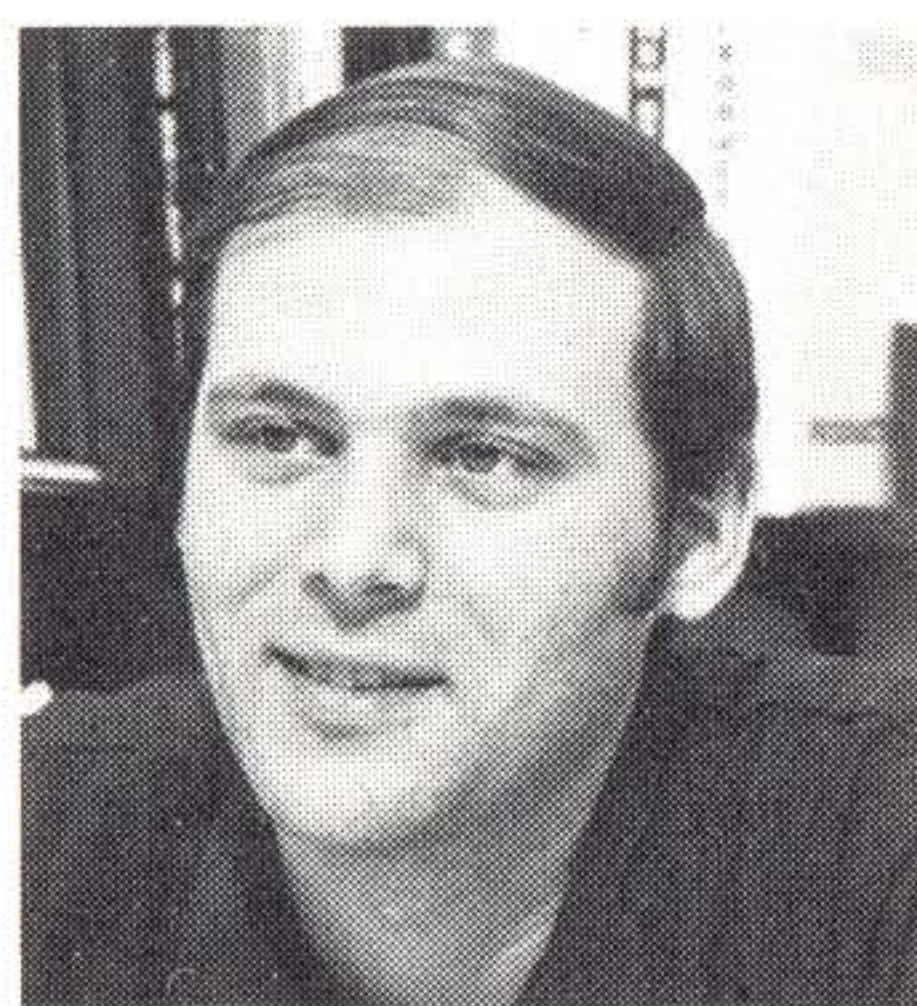
Ralph Beniasch,  
Purchasing Agent —  
Building Materials



Rod Cosgriff,  
Purchasing Agent —  
Automotive



Bill Crosswhite,  
Purchasing Agent —  
Electrical



Larry Elliott,  
Purchasing Agent —  
Sporting Goods



Peter Gallina,  
Store Development and  
Real Estate Director



Bud Larsen,  
Purchasing Agent —  
Plumbing-Cabinets



Terri Lucero,  
Personnel Director



Curtis L. Rhodes,  
Purchasing  
Co-ordinator



George Smith,  
Training Director



Gary Wieber,  
Advertising Director



Thomas J. McCloskey,  
Assistant Controller



William Gottbreht,  
Office Manager



Don Ellingson,  
Store Development  
Assistant



Clemens Erlander,  
Advertising Manager



Gerald Wishman,  
Procedures and  
Security



## operations profile:

Pay 'N Pak Stores, Inc., is operating 59 stores in 11 states. The company has a strong image in electrical, plumbing and building materials. In the 10 stores in which the company operates automotive supply and sporting goods, we are quickly building the same image.

Operations this fiscal year were divided into six districts, each headed by a district manager. Each district manager is responsible for sales and profits within his district. He works closely with his store managers in developing future management potential people.

The company holds managers' meetings at least three times each year at central locations within each district with store managers, the district managers and the operations team.

The belief that a properly trained salesperson is a better salesperson necessitates an on-going training program. The company has a training director who, in conjunction

with our manufacturing suppliers, maintains a continuing program of product training and administers the company's extensive film training program.

The film training program provides our personnel with the necessary knowledge about how to install and use the products that the company sells. It utilizes a Technicolor Training theatre in each store and a library of over 60 company produced films. Employees are constantly refreshing their skills by a scheduled exposure to these training films.

Additionally, the company has its own Retail Selling Skills program. This program develops and teaches sales techniques to all the company salespersons. Both the film training program and the sales technique program have their own testing procedures to constantly evaluate the effectiveness of the programs.

This year saw the company's store evaluation program reach a peak of effectiveness. This practice, whereby the purchasing and merchandising staff members from the

Kent office visit company stores and study the store's performance, communicates invaluable information both ways to management and to the store's operating team.

The management team conducts a minimum of six staff meetings per year. These meetings provide closer liaison among all administrative and operating units, headquarters and district managers, who in turn complete the communication cycle to the personnel in the stores. This ongoing communication generates valuable ideas at all levels, develops initiative and helps maintain the close control over operations which rapid corporate expansion often dilutes.

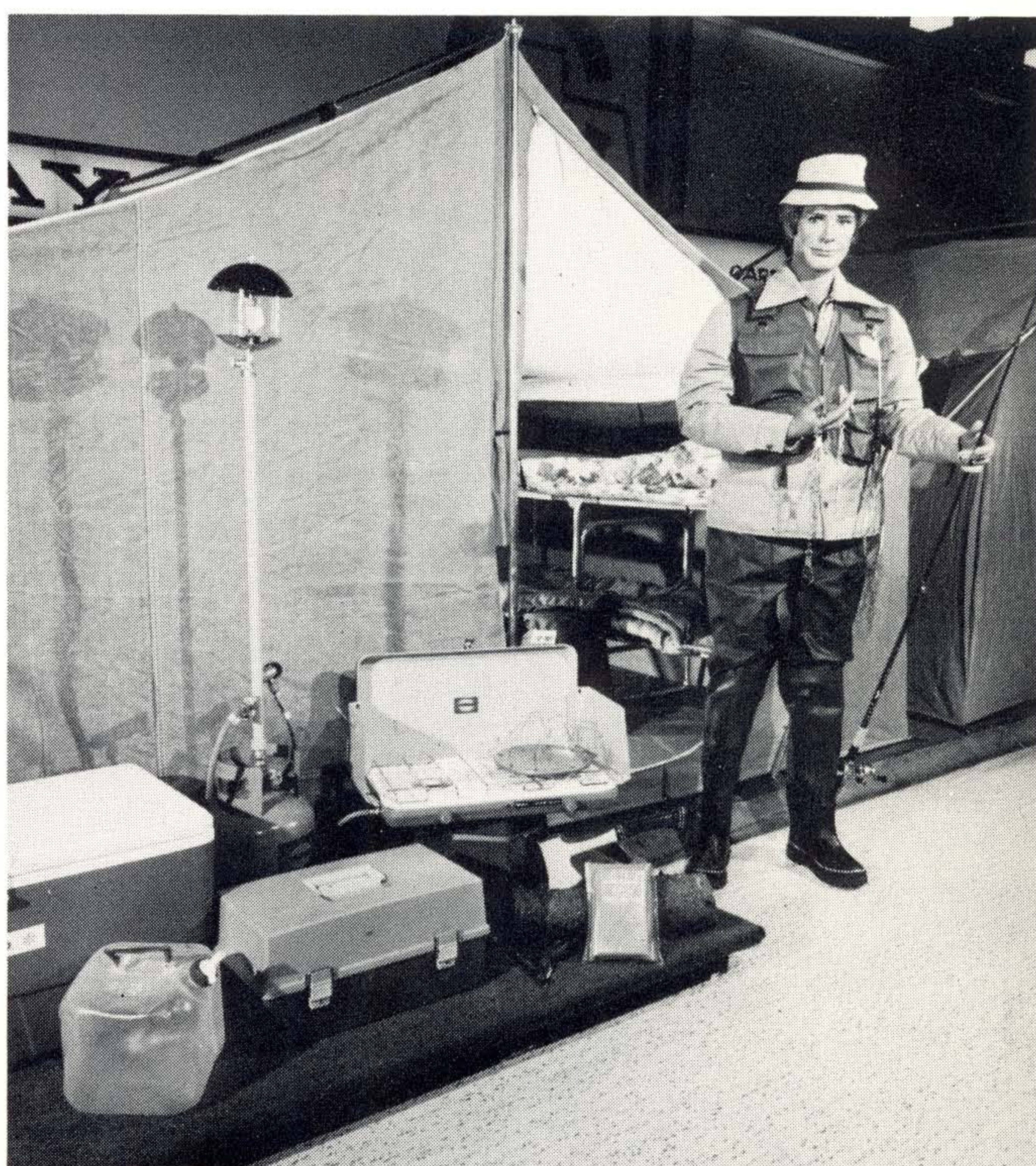
The company's central purchasing agents are all experts in their individual merchandise categories. These agents attend national and regional trade shows and are continually analyzing new products for possible inclusion in, or extension of, the company's merchandising mix. They administer a chainwide pricing, stock control and source system. They also coordinate merchandising and buying practices

Continued, page 8



Accessorized bathroom displays show the customer exactly how the product will look in the home.





A product well displayed has been said to be "half sold". Finished "in use" displays reinforce our belief in this maxim.



and supply product knowledge for both the training department and the advertising department.

These buyers develop strong relationships with suppliers in all fields which, in turn, are beneficial to the company in the development of merchandising programs.

The consistent, aggressive, advertising program keeps Pay 'N Pak before the consumer at all times and gives direction to the merchandising thrust of the company. The advertising - merchandising team further defines the good, better, best concept in product mix, assuring the company maximum gross margins without compromising the competitive edge in the market place.

The innovative advertising team produces the distinctive ads for all 59 stores on a weekly or twice weekly basis.

Four major promotional efforts are conducted each year to complement the regular advertising program. Each of these events utilize approximately 5 million pre-print tabloids in either 8 or 12-page size distributed in 62 newspapers, covering the company's entire marketing area. Another separate pre-print tabloid is produced for December in the automotive supply and sporting goods division. This effort, in conjunction with added seasonal promotional items, has vastly improved December's sales volume (a month not normally big in electrical, plumbing, and building materials).

The promotional effort with each tabloid has been carefully orchestrated to assure maximum effectiveness. For example, a complete signing program for every item in each tabloid, as well as each step-up item beyond the lead item, is produced by the advertising department and sent to all stores. These signs identify with the theme of the event, relate all benefits to the customer and highlight the special price.

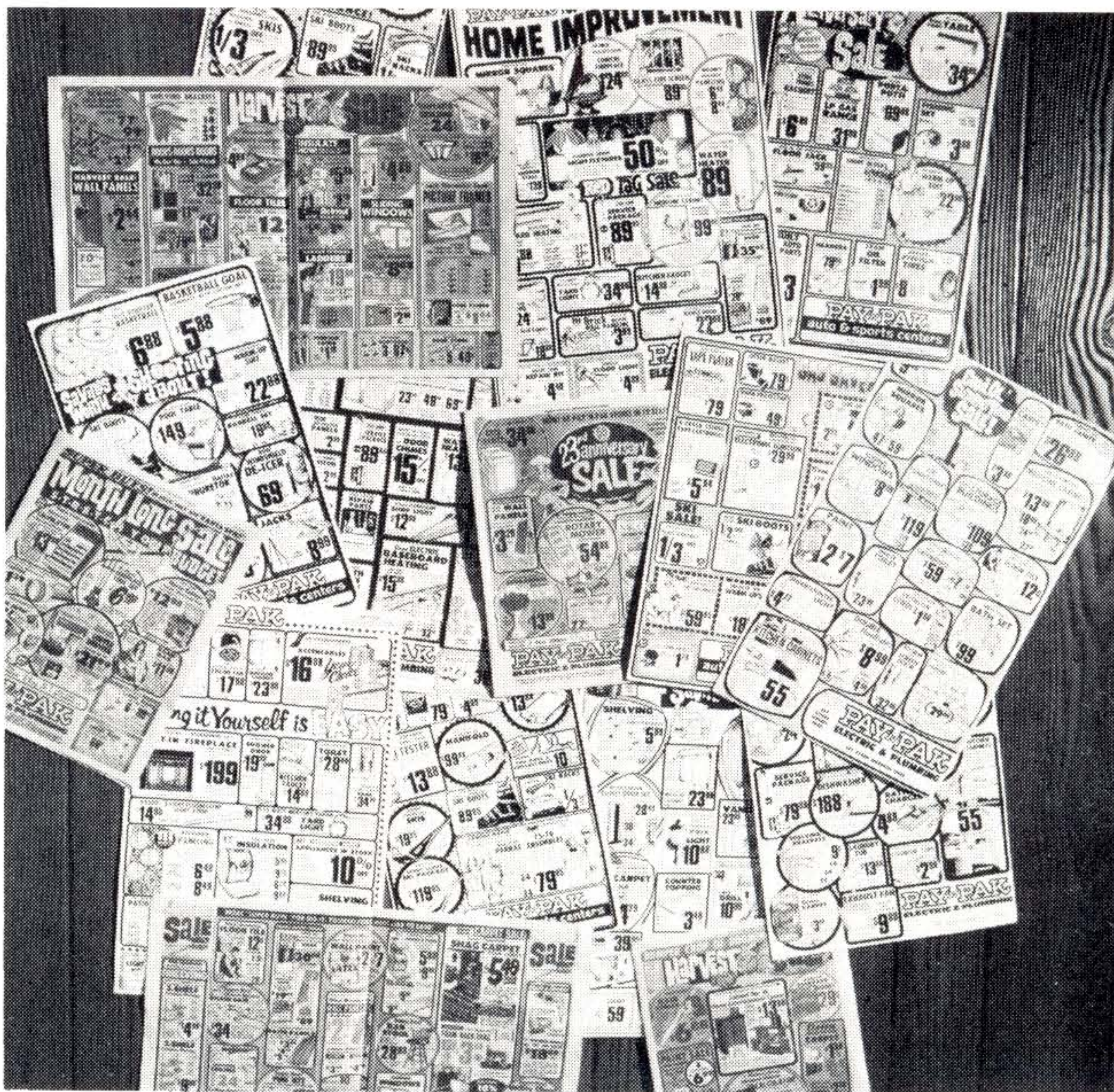
The complete follow up to this innovative advertising effort is a

strong factor in the company's continuing growth.

The company has long been aware of the importance of the display of the products it sells and has developed a high degree of professionalism in presentation. Every store displays kitchen cabinets, appliances and bathroom products in environmental displays demonstrating exactly how the product will look when installed in the customer's home. This annual report features many of these displays.

Additionally, in this area the company has been re-laying the merchandising displays of all stores to get more merchandise on the sales floor, less in the backroom and to create a greater degree of compatibility of all merchandise in the stores — more of a shop-within-a-shop concept.

In this same area new emphasis has been placed on the company's display book program. These display books (there are actually three books in all) show by both photographs and diagrams how merchandise presentation should look in every store and provide instruction on how to build the display.



Consistent, aggressive promotion is a Pay 'N Pak trademark.

An integral part of this follow-up merchandising program is the maintenance of a complete central signing program. This program assures every store will have a "silent-salesperson-sign" for every product the store stocks. This program must be subject to constant change and revision and demands teamwork from all the merchandising and advertising staff.

Naturally, with this kind of corporate growth and proliferation of more and more sophisticated programs, the utilization of a high degree of controls becomes necessary. The centrally controlled accounting department, directly under the control of the secretary-treasurer, has the computerized facilities to cope with this growth.

The record keeping programs and management information systems assure the capability for the continuing corporate growth. The use of the company's computer guarantees a prompt and dependable flow of information on sales, costs and other statistical data that management needs on a day to day basis.

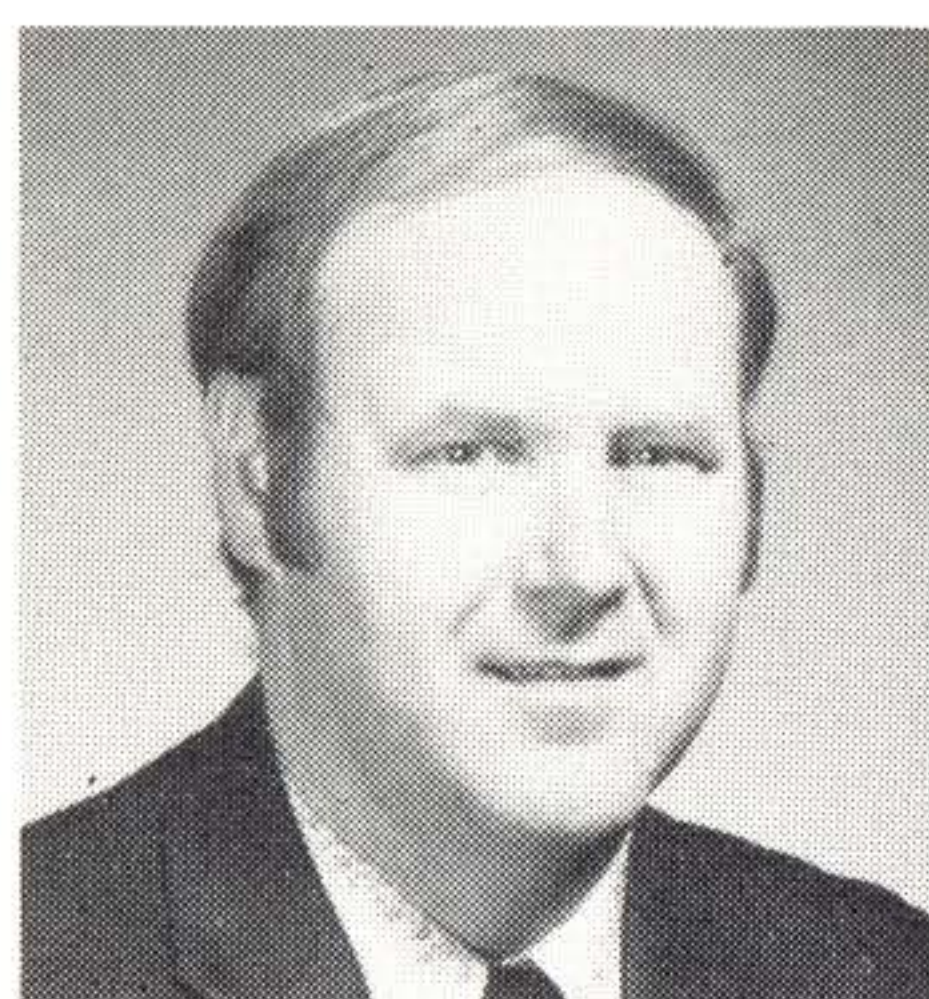
Store managers and all members of the management team receive a statement of income, showing in detail each store's operations compared with the same period of the previous year, with budget projections and year-to-date comparisons.

Inventory levels, purchases by category, inventory turns and other needed data are furnished and used daily in controlling the operations of the company.

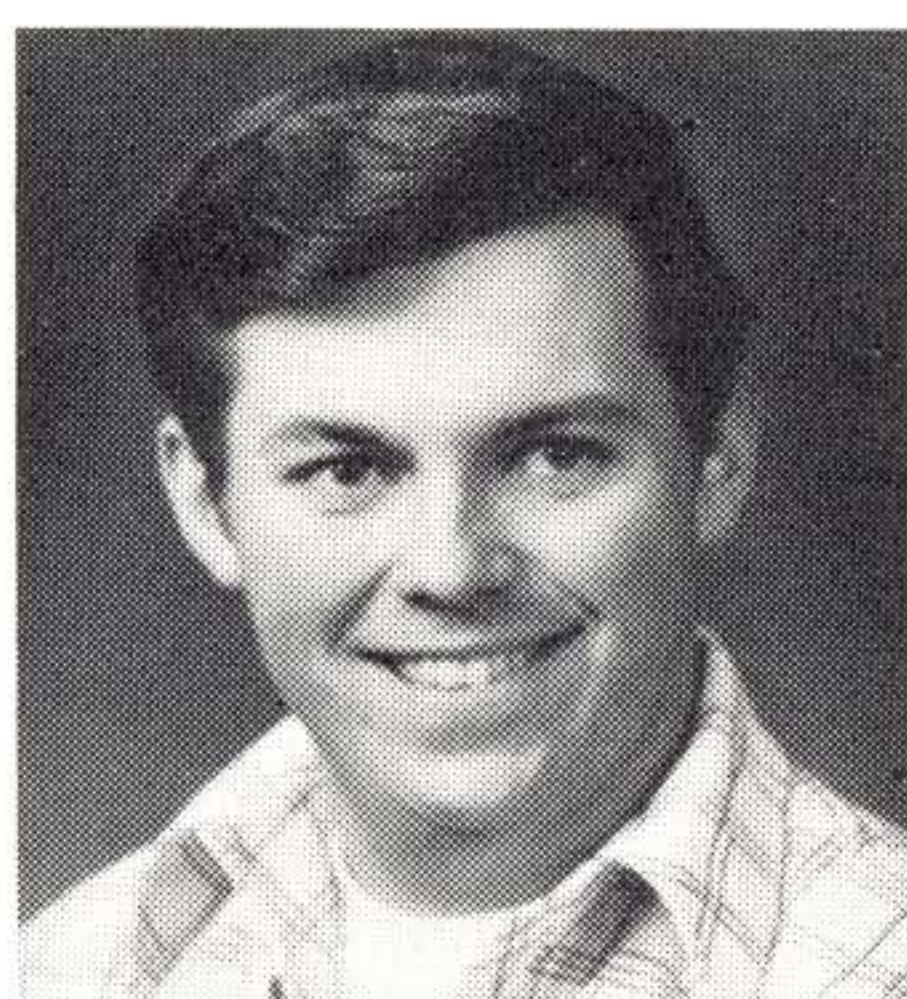
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# The store managers



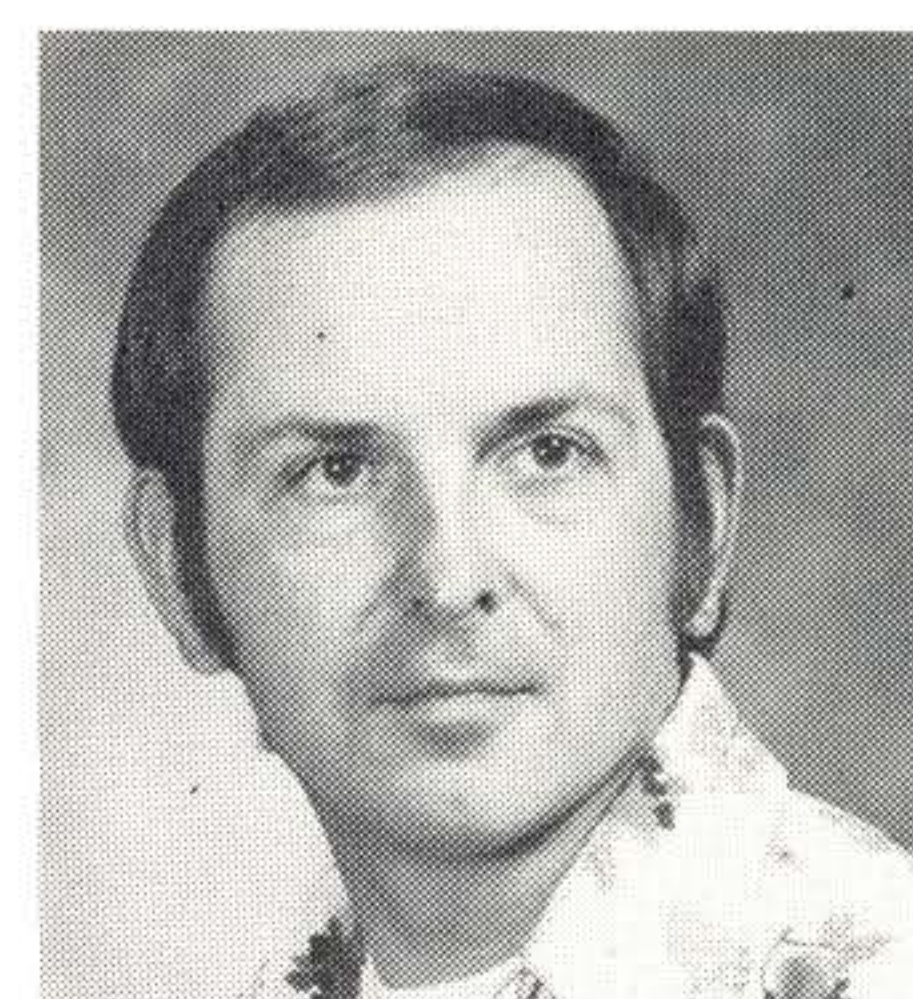
Cal Karbowski  
Kent Warehouse  
M.T.S. '75



Fred Playle  
Longview, Wa.  
M.T.S. '73



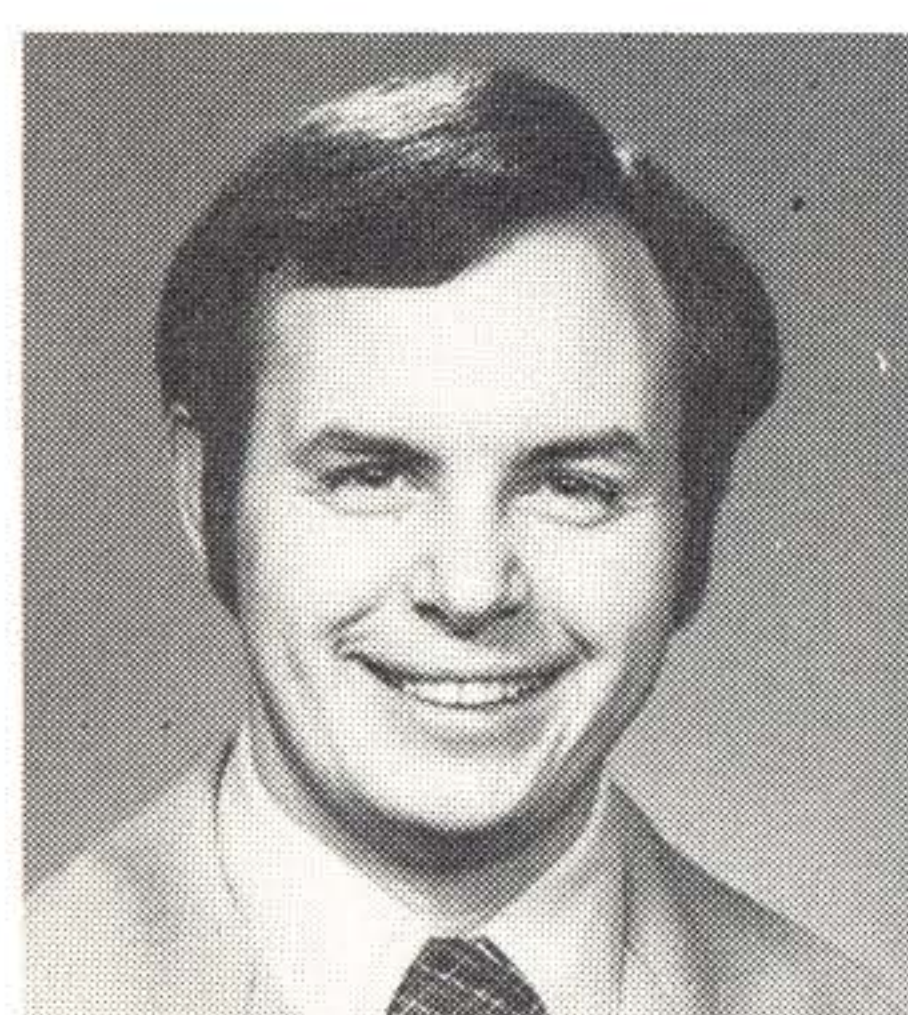
Jim Robison  
Tacoma, Wa.  
M.T.S. '72



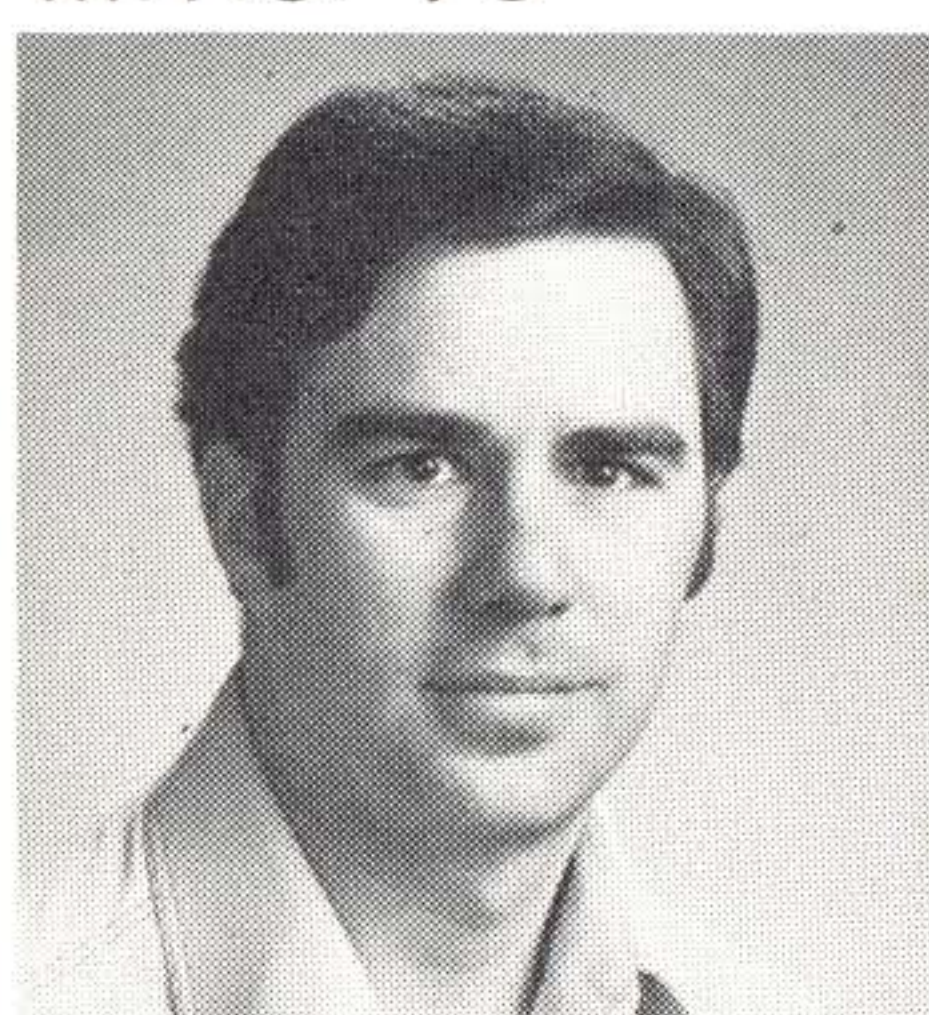
Cal Sennett  
Seattle, Wa.  
M.T.S. '74



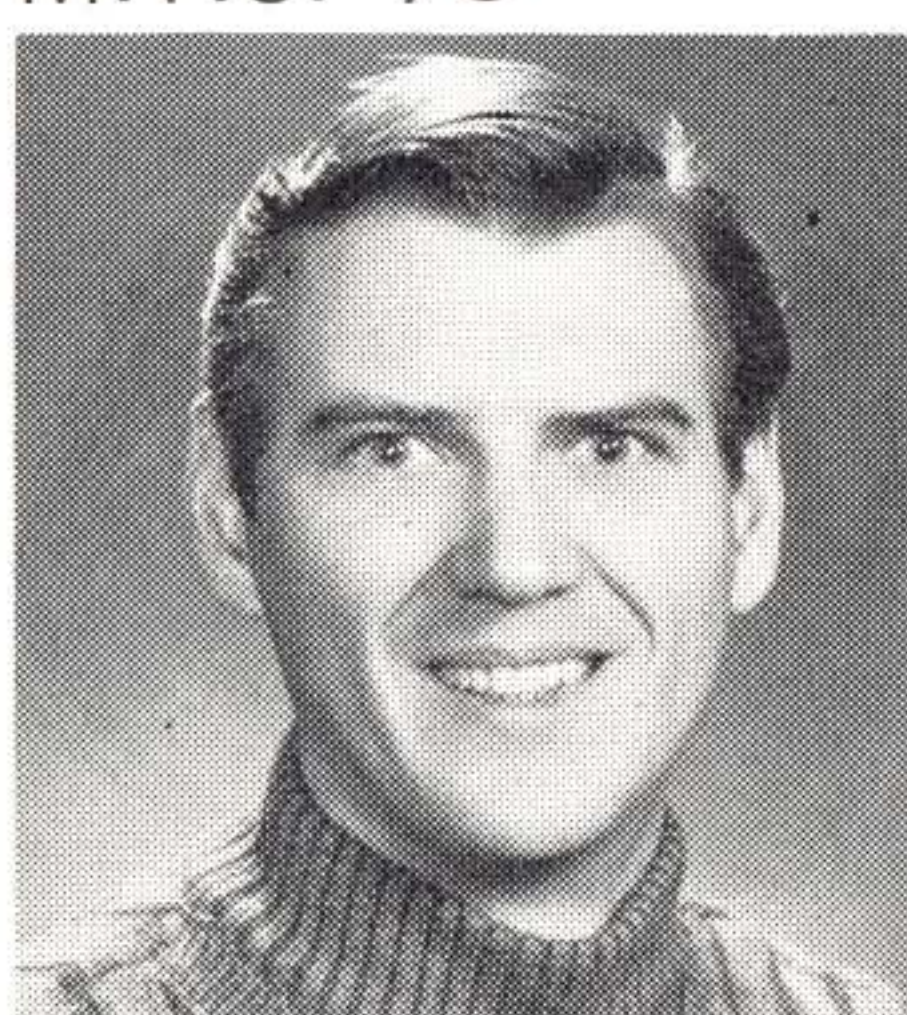
Gene Hauf  
Spokane, Wa.  
M.T.S. '70



Jim Dunlap  
Olympia, Wa.  
M.T.S. '74



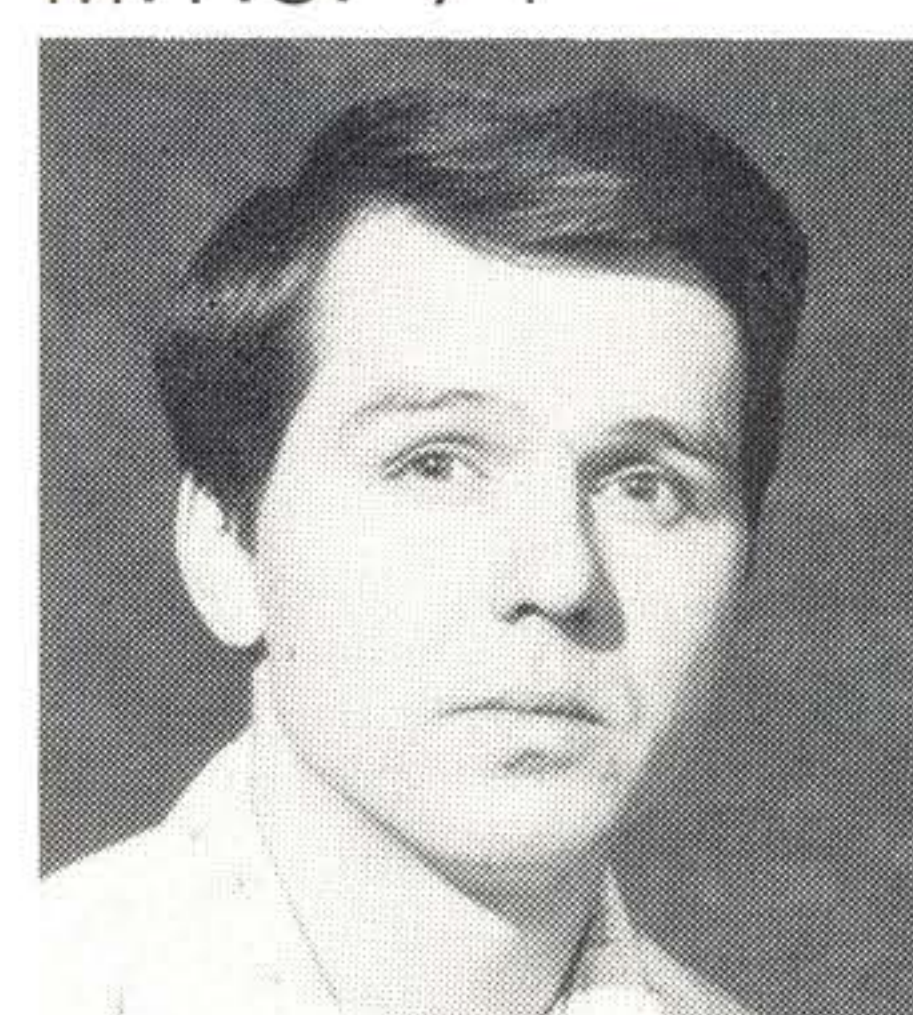
Marv Taylor  
Wenatchee, Wa.  
M.T.S. '73



Terry Wagner  
Bellingham, Wa.  
M.T.S. '72



Ernie Kelly  
Kent, Wa.  
M.T.S. '72



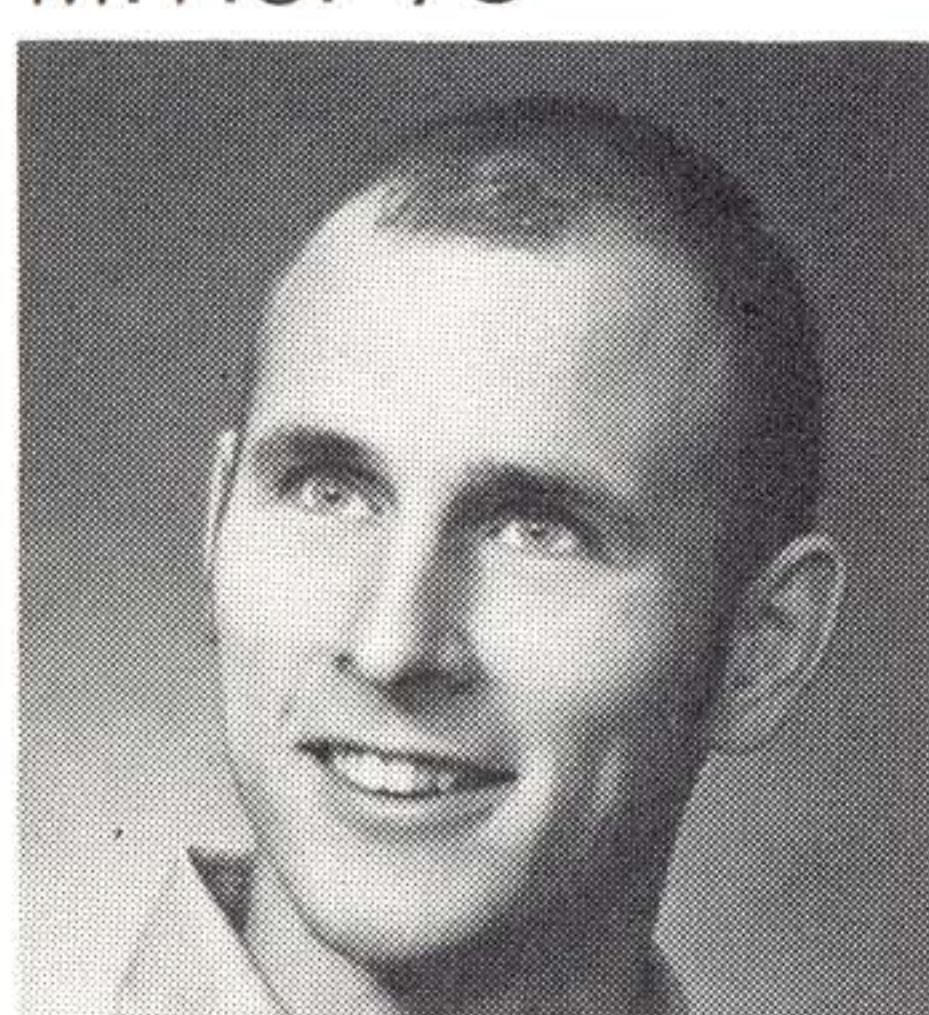
John Schweitzer  
Mt. Vernon, Wa.  
M.T.S. '75



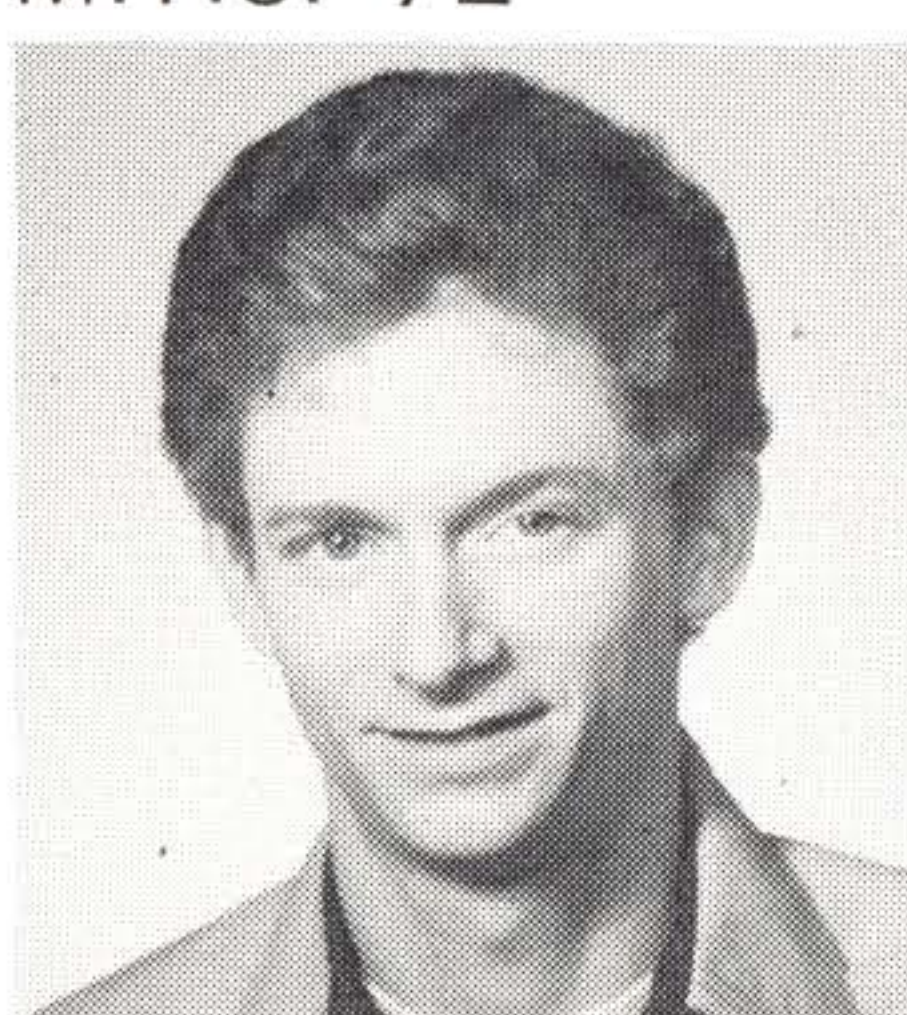
Mick Stark  
Spokane, Wa.



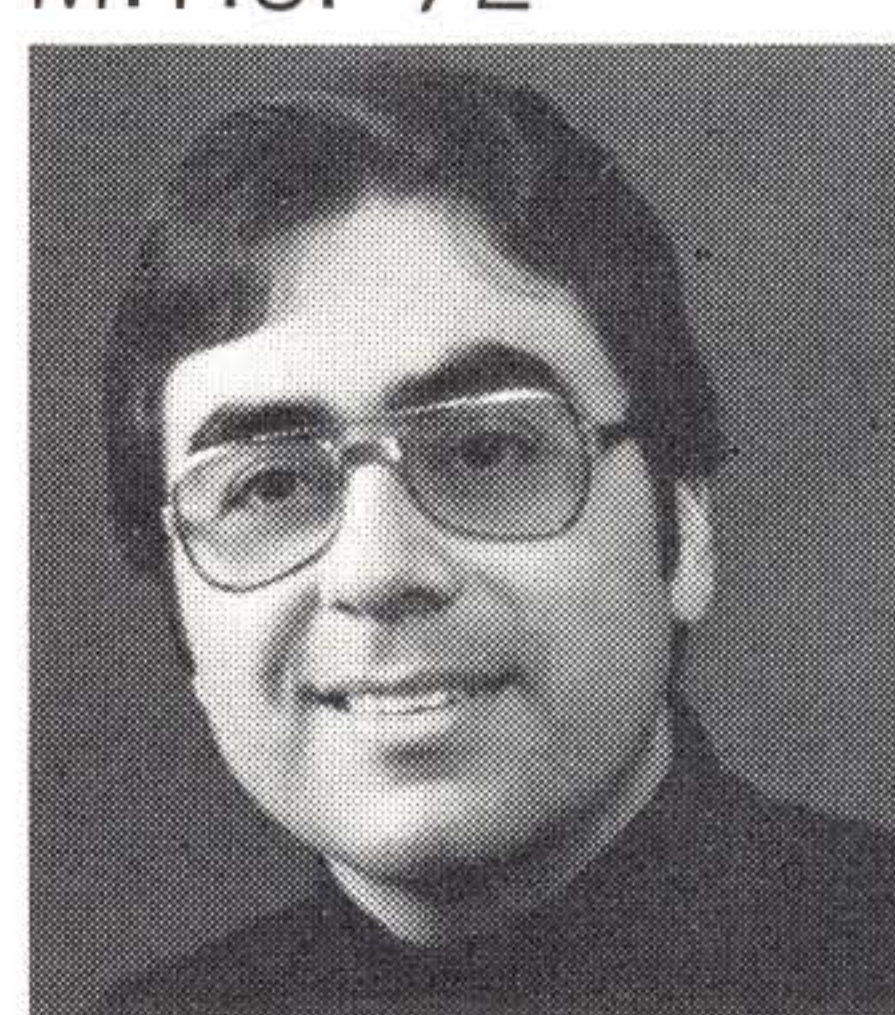
Charles Hogue  
Moses Lake, Wa.



Mark Kranz  
Yakima, Wa.  
M.T.S. '72



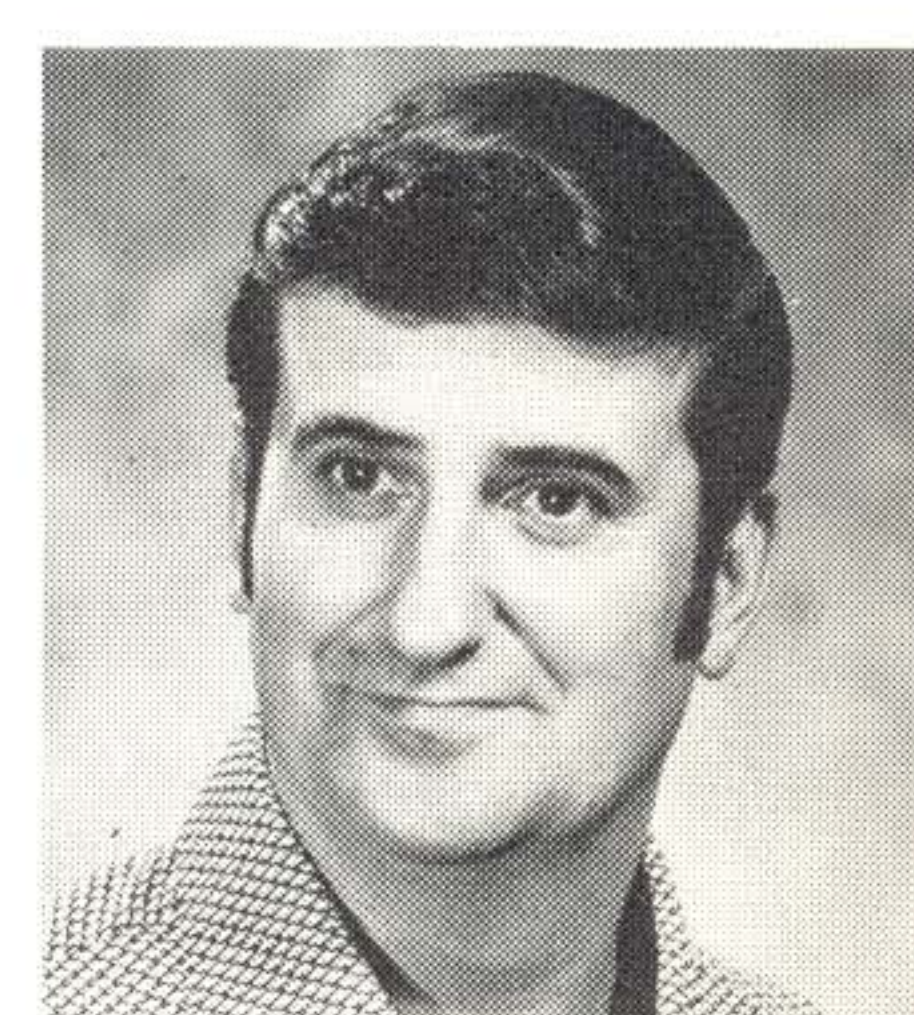
Jack O'Keefe  
Seattle, Wa.  
M.T.S. '72



Jesse Salazar  
Seattle, Wa.  
M.T.S. '70



Jim Verhey  
Denver, Co.  
M.T.S. '73



Jack Regan  
Everett, Wa.  
M.T.S. '72



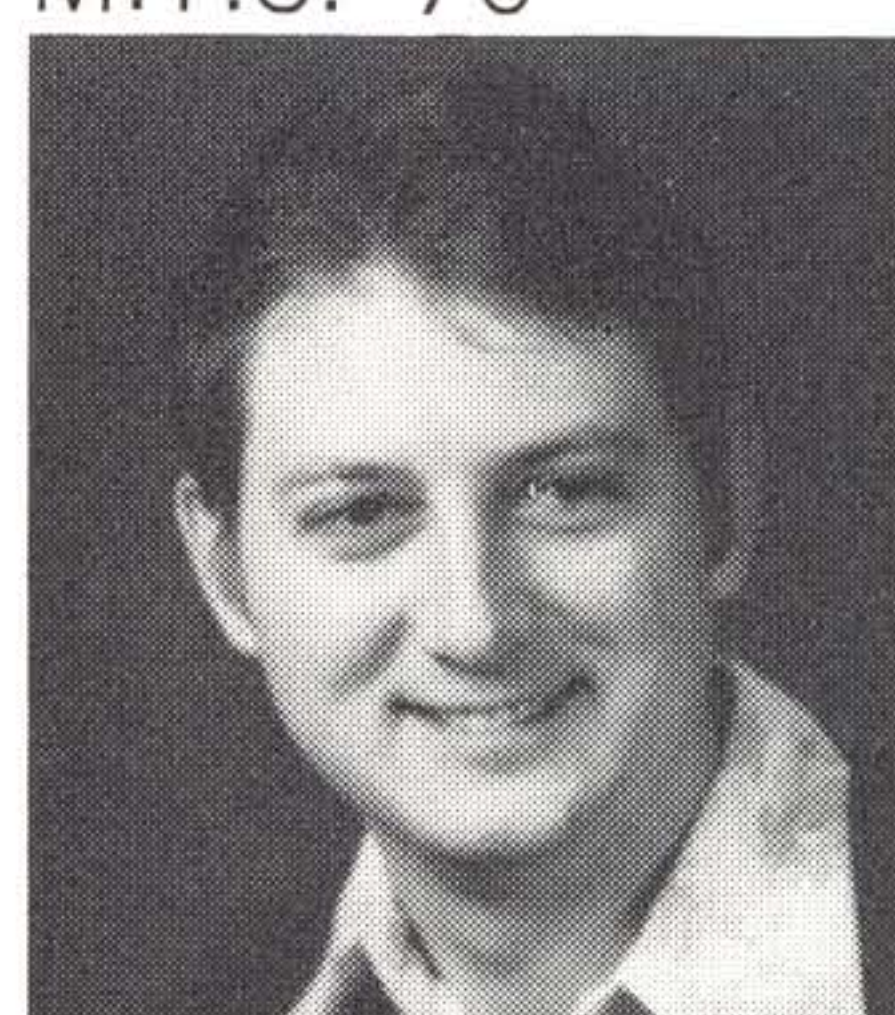
Gary Marlow  
Redding, Ca.  
M.T.S. '70



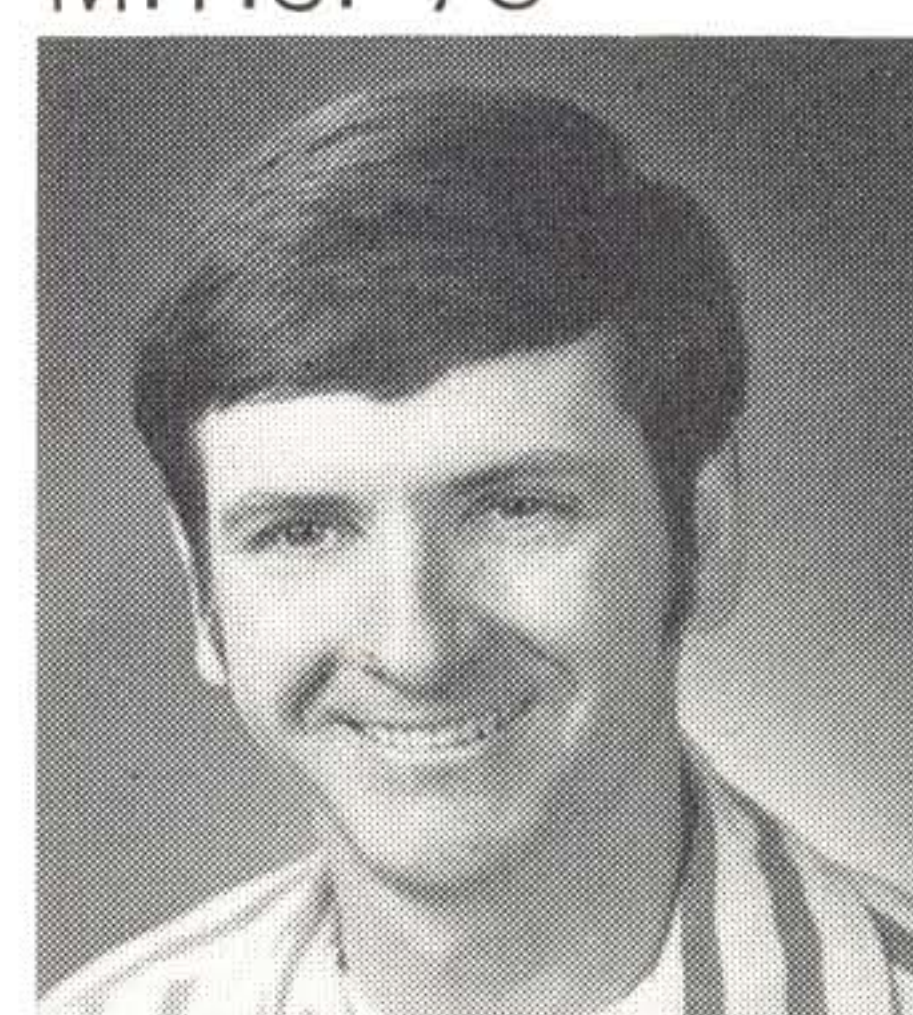
Mike Mandick  
Spokane, Wa.



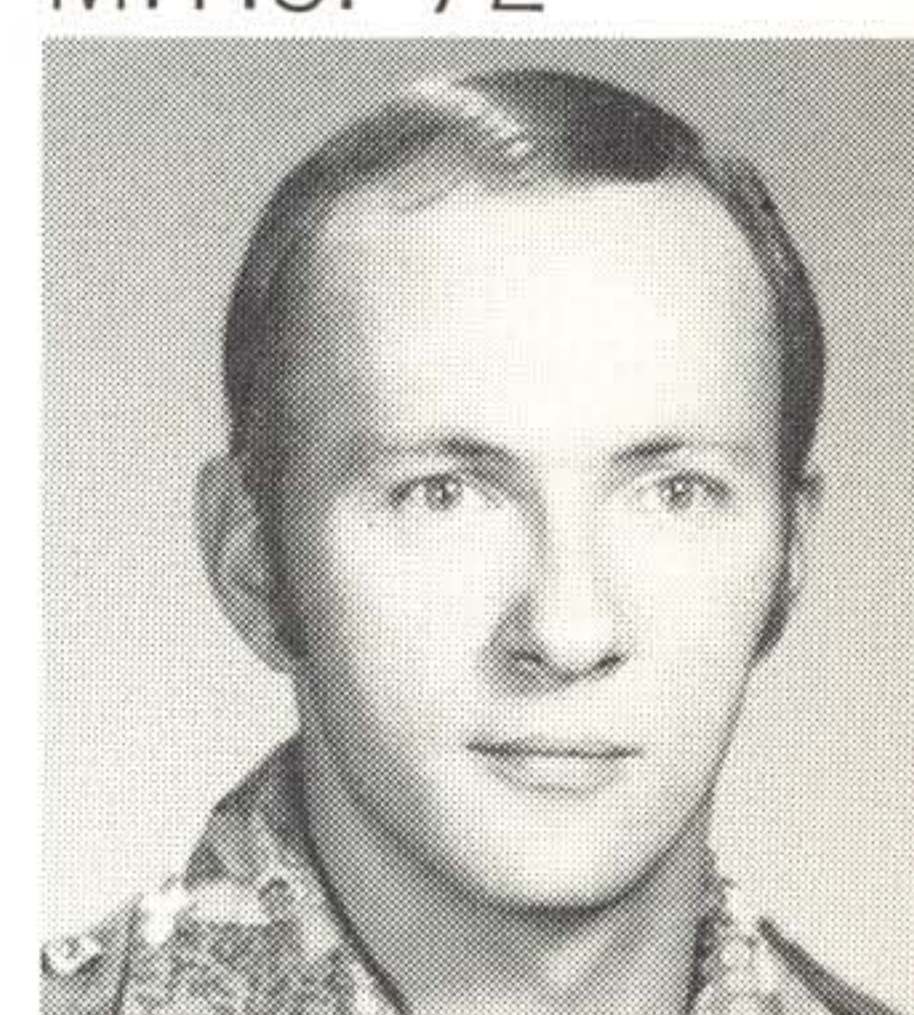
Don Freeman  
Yuba City, Ca.  
M.T.S. '75



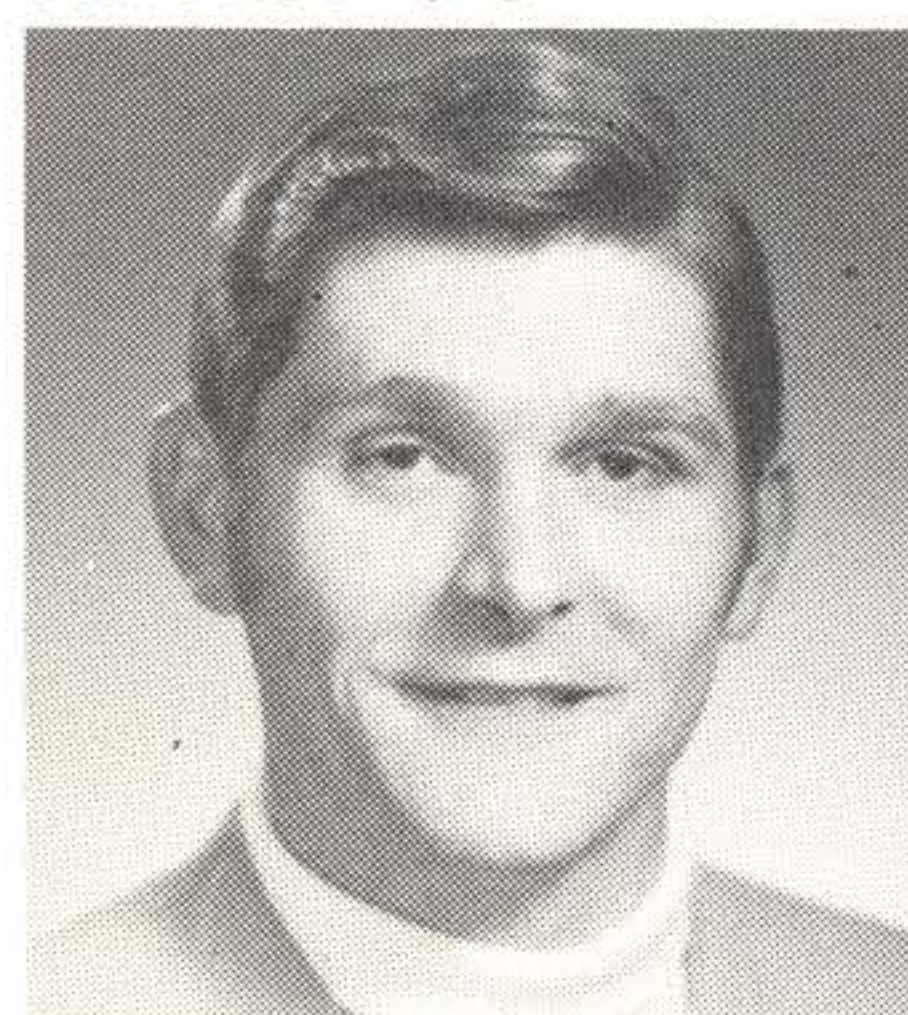
Dale Craker  
Kent, Wa.  
M.T.S. '73



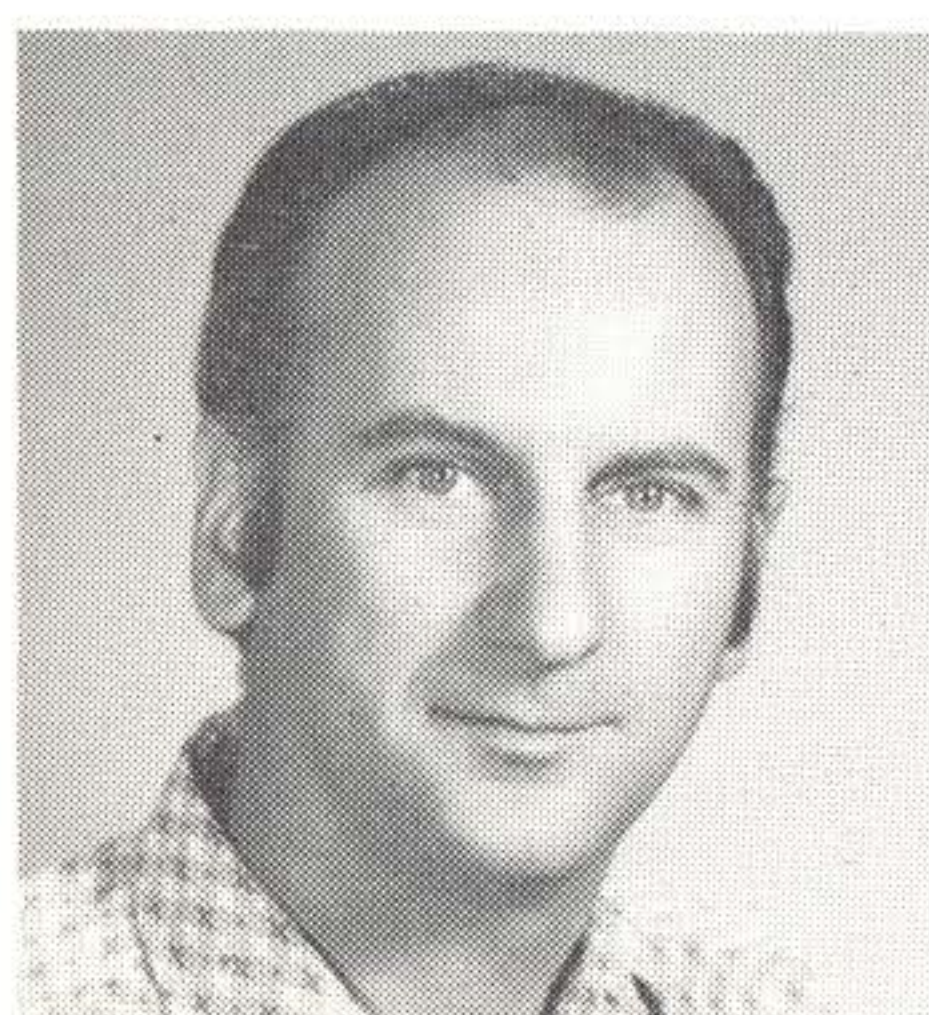
Mickey Lindgren  
Kent, Wa.  
M.T.S. '75



Lynn Gettis  
Salem, Or.  
M.T.S. '72



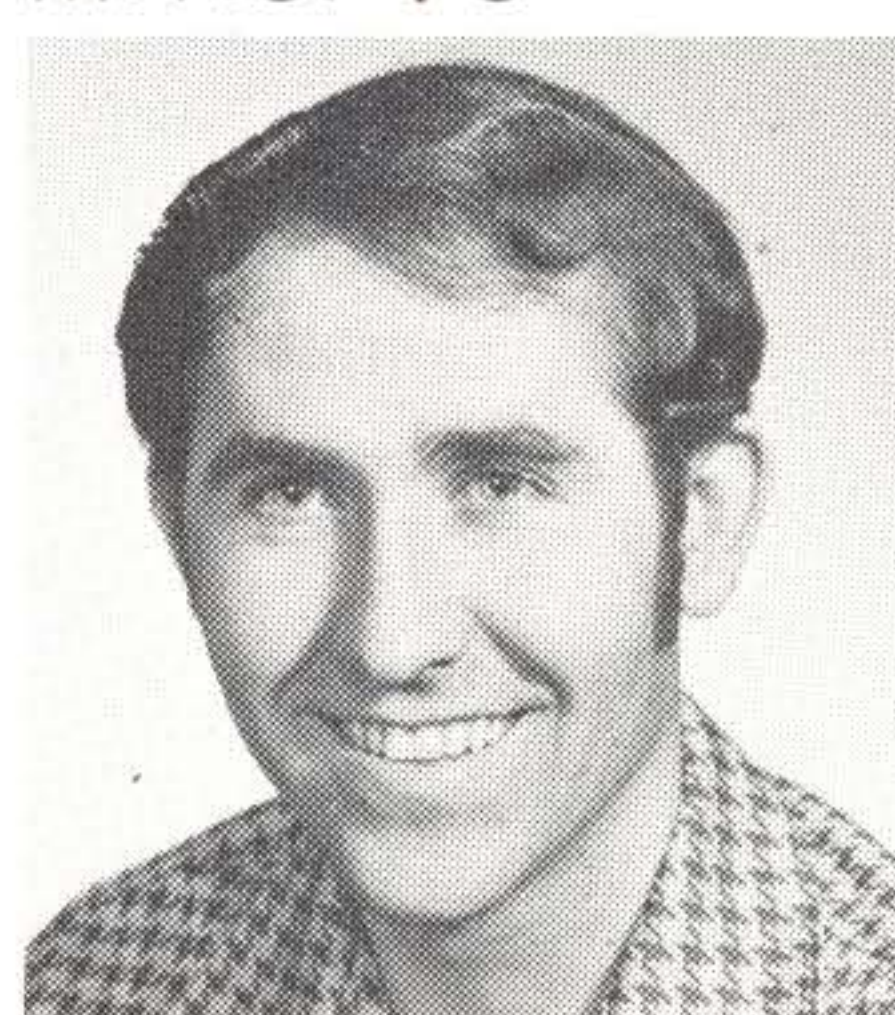
Don Conklin  
Eugene, Or.  
M.T.S. '72



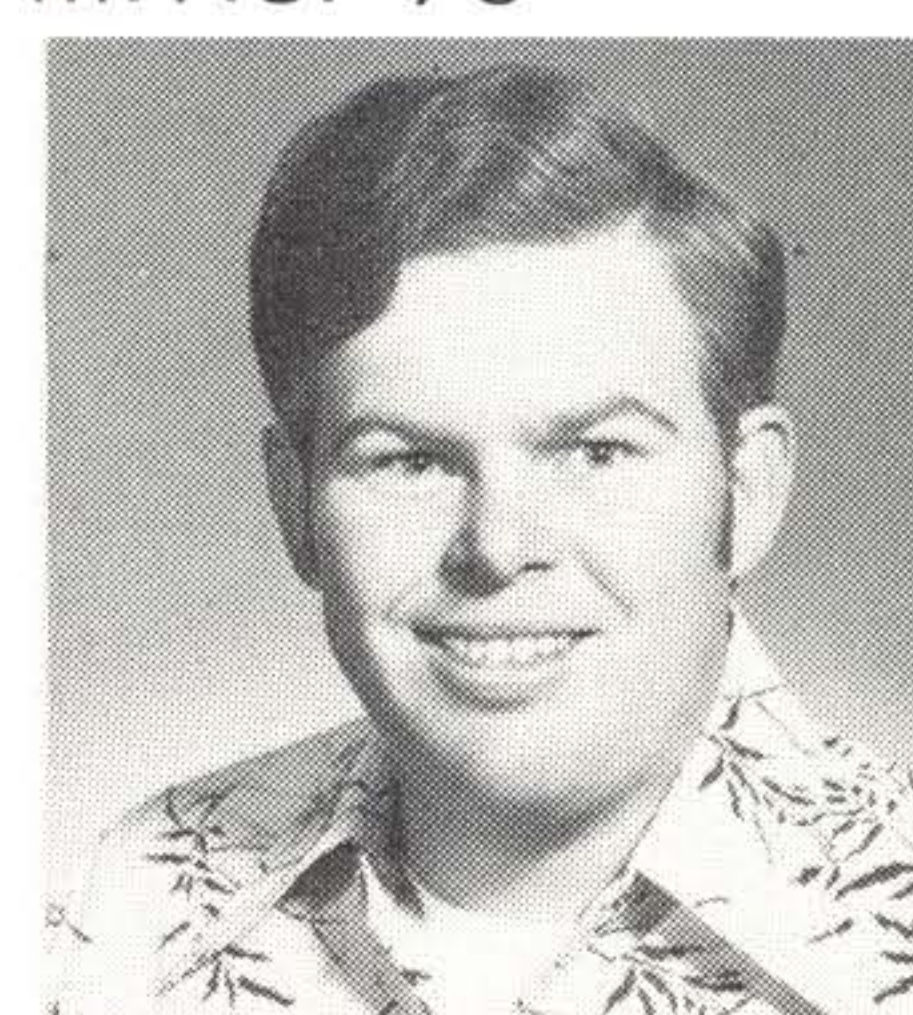
Bud Brown  
Portland, Or.



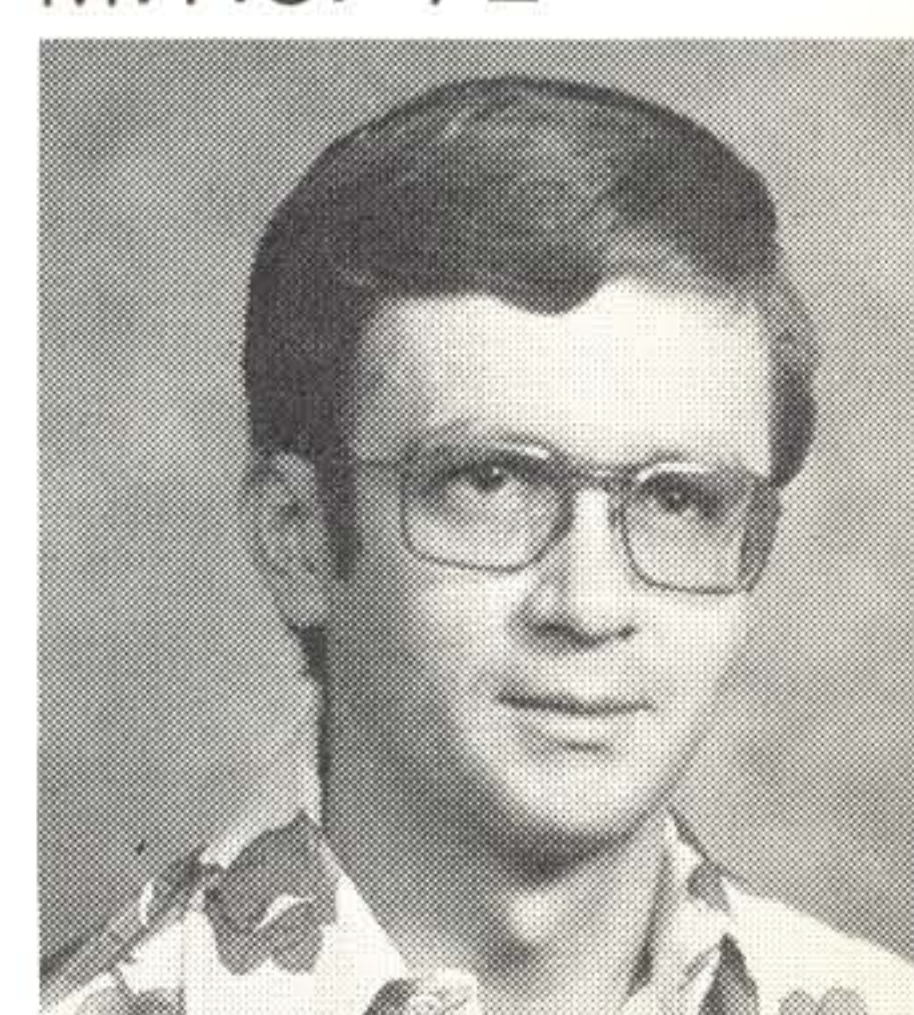
Stan Webster  
Aurora, Co.  
M.T.S. '70



Rich Knight  
Reno, Nv.  
M.T.S. '72



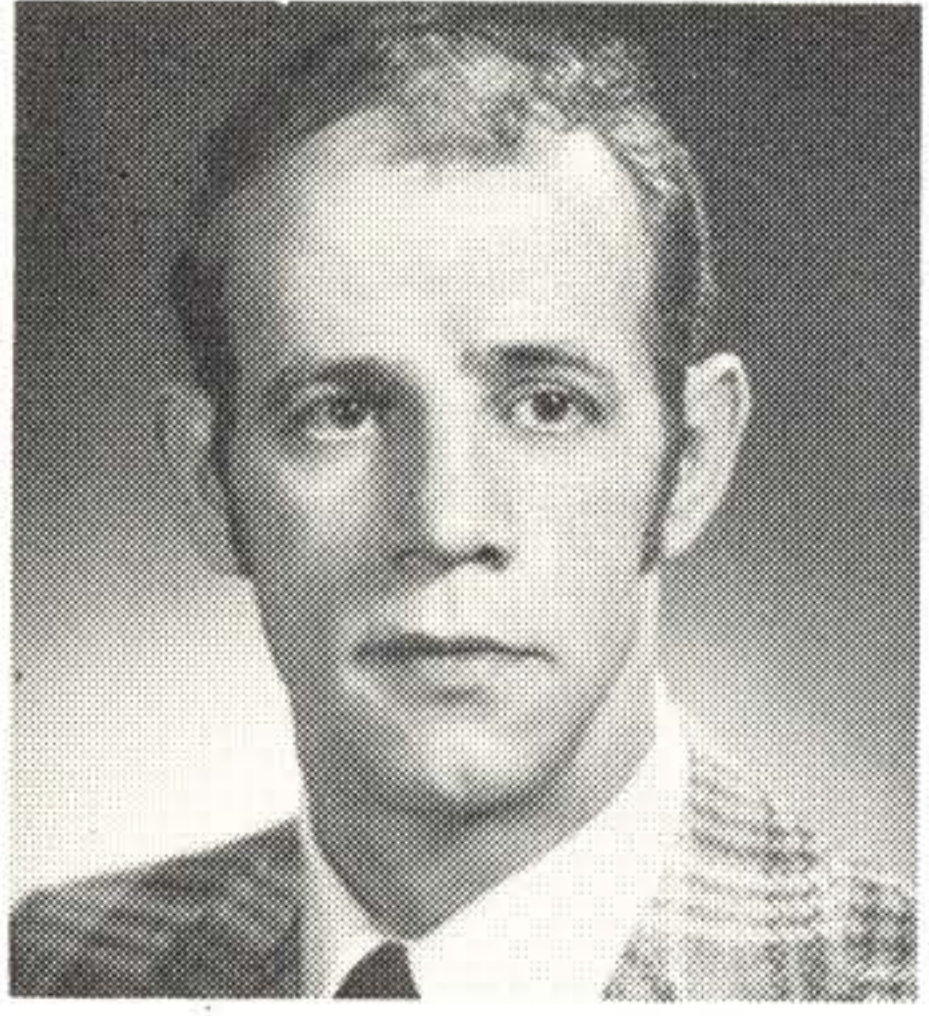
Bill Smith  
Sacramento, Ca.  
M.T.S. '73



Howard Gilbert  
Salt Lake City, Ut.  
M.T.S. '73

(M. T. S.) Management Training Seminar and graduate year.





Dale Dellinger  
Fairbanks, Alaska  
M.T.S. '72



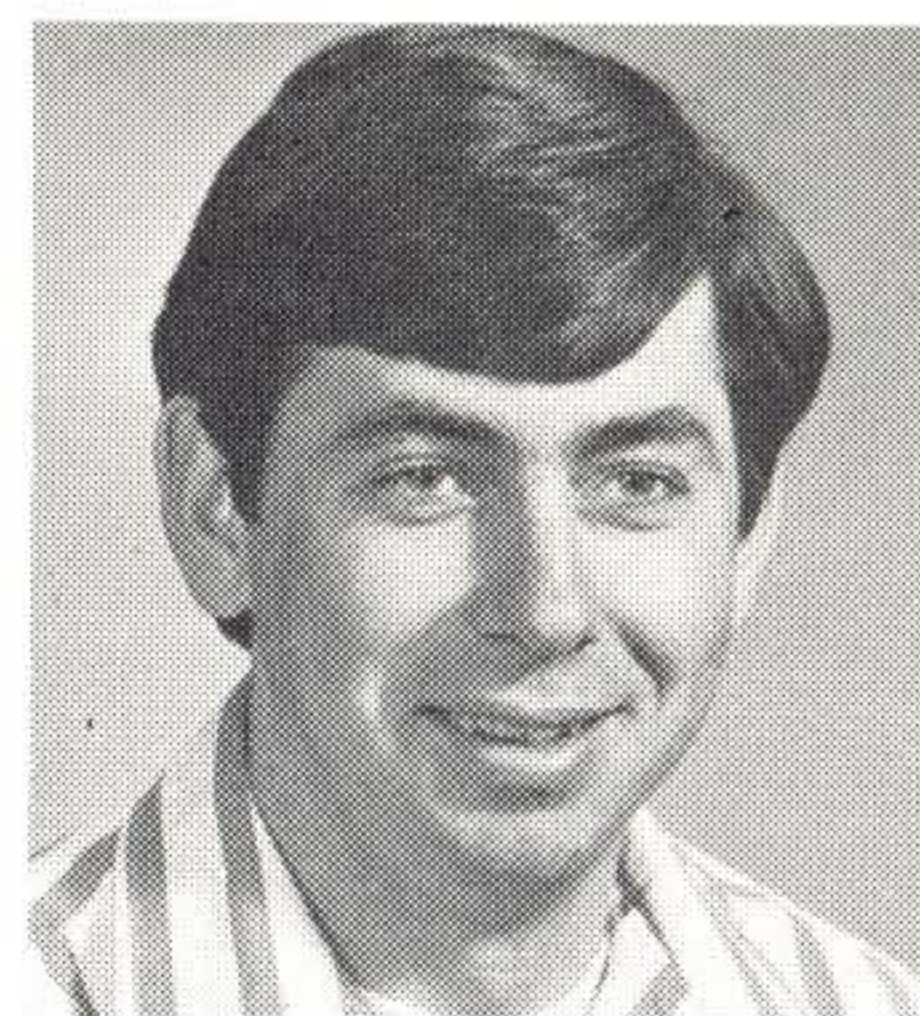
Carl Fritts  
Kennewick, Wa.  
M.T.S. '70



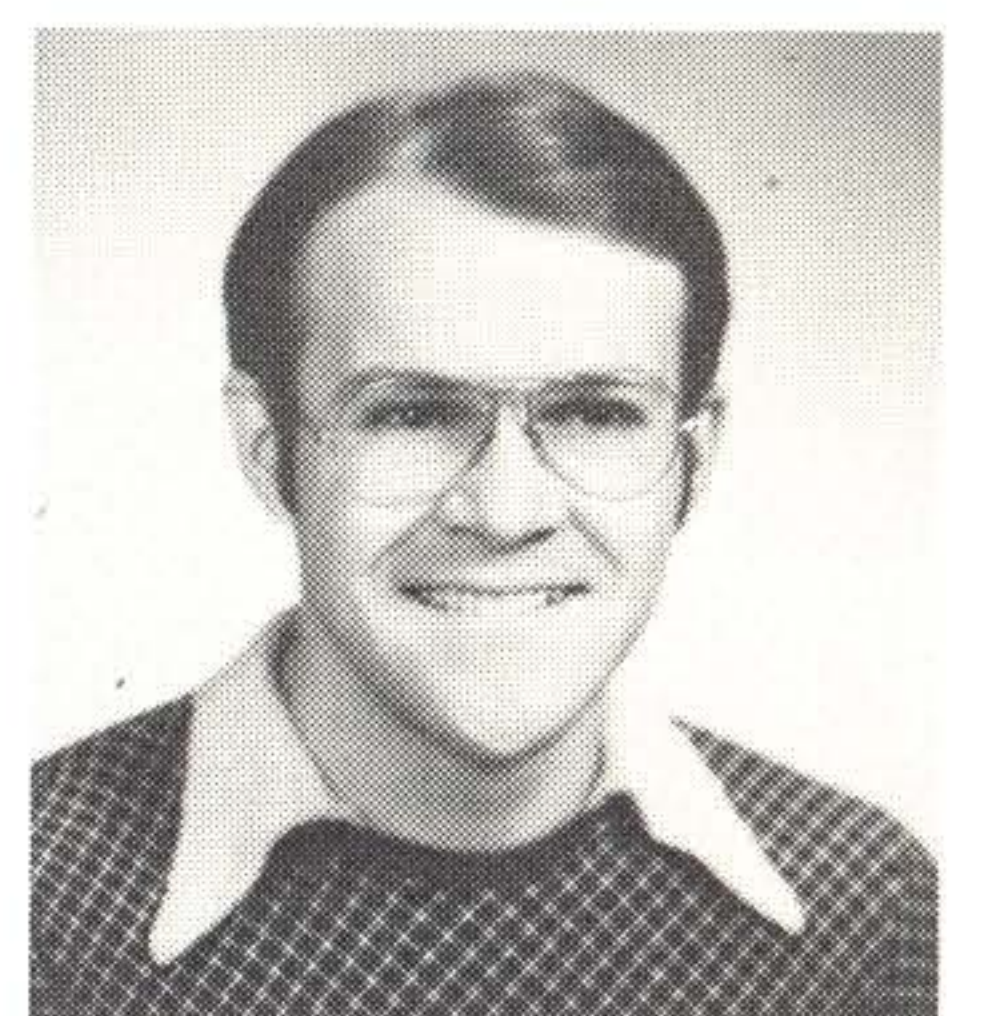
Warren Jones  
Seattle, Wa.



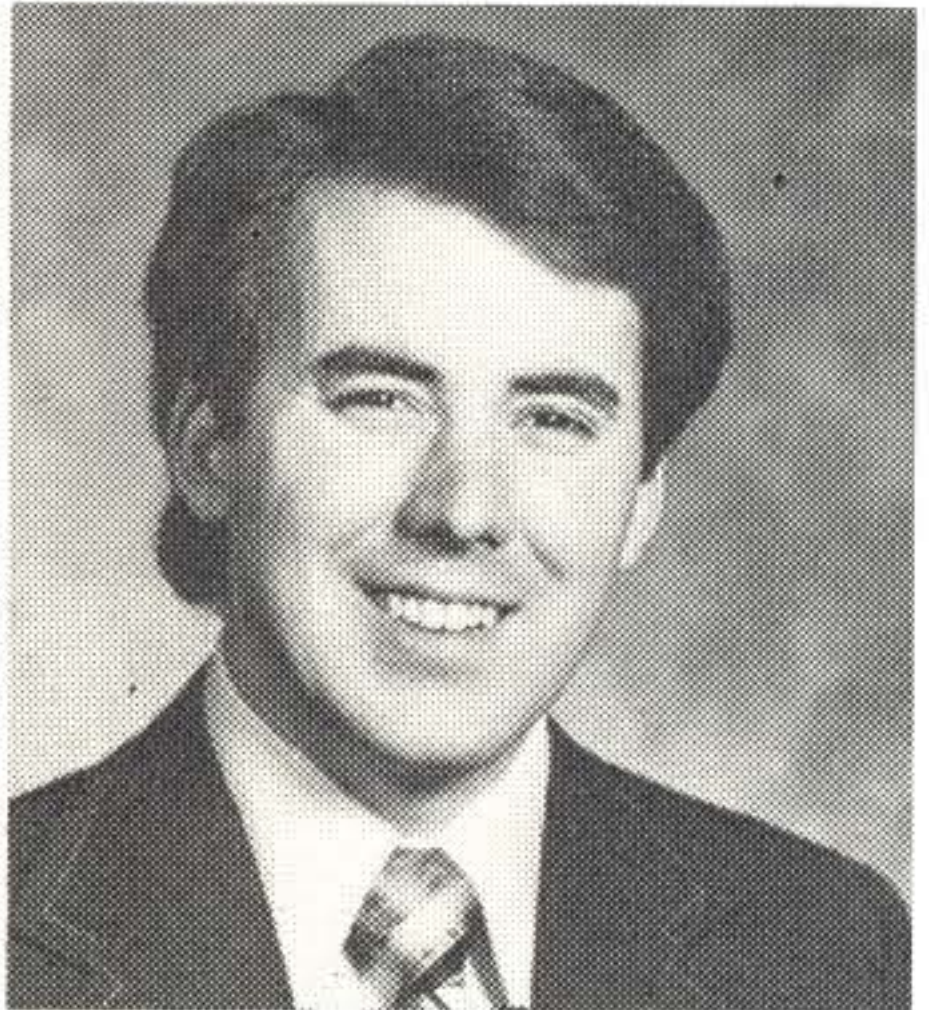
Bob Bock, III  
Wichita, Ka.  
M.T.S. '75



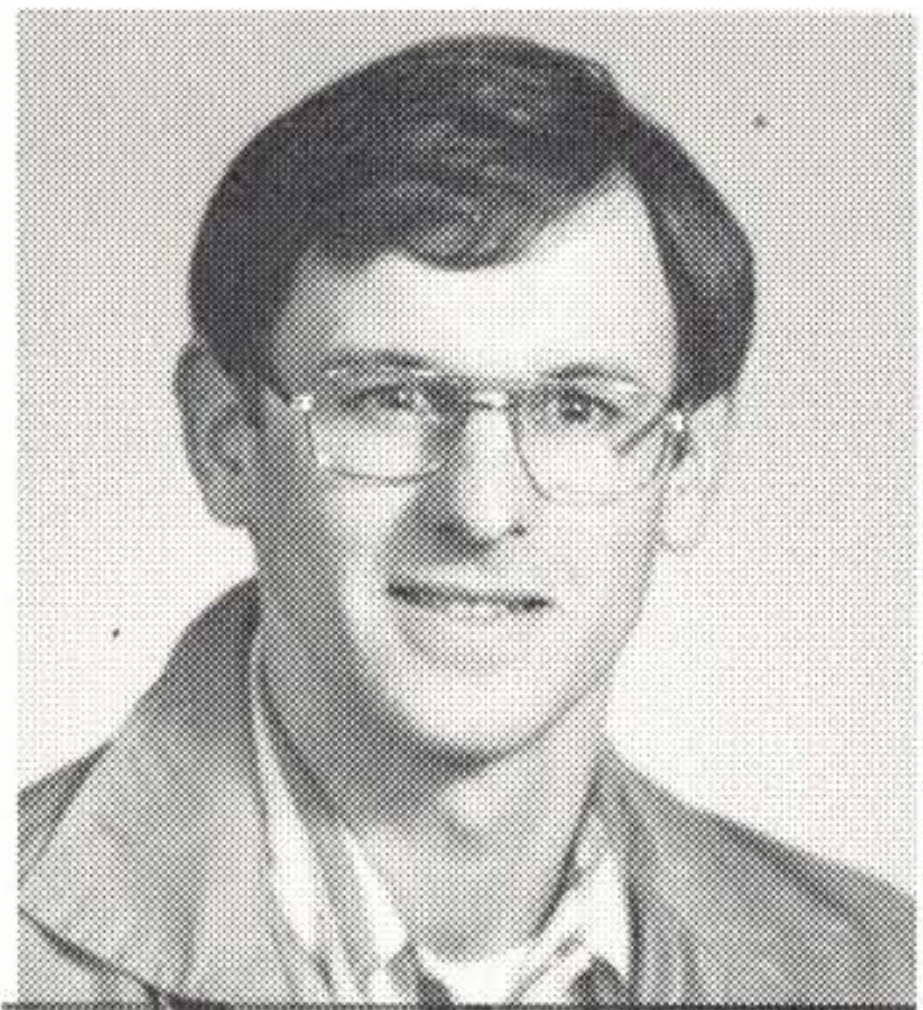
Dale Williams  
Sacramento, Ca.  
M.T.S. '75



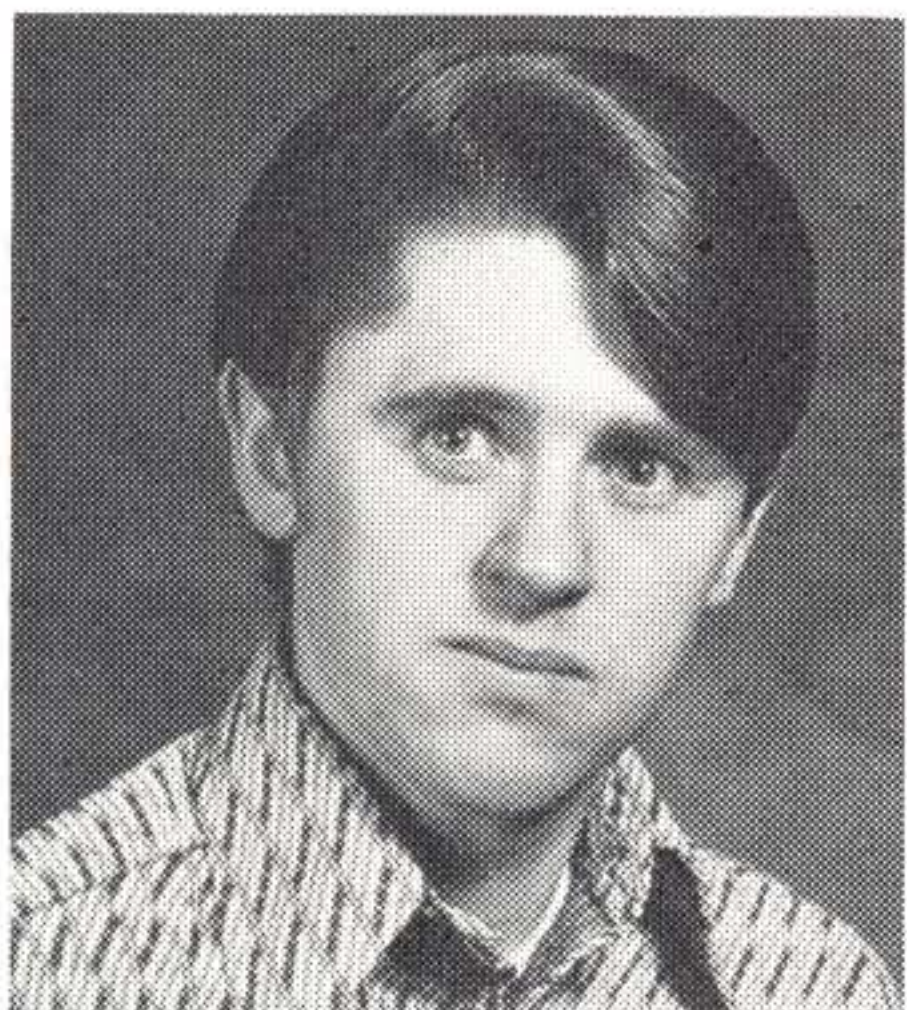
Al Harris  
Portland, Or.  
M.T.S. '74



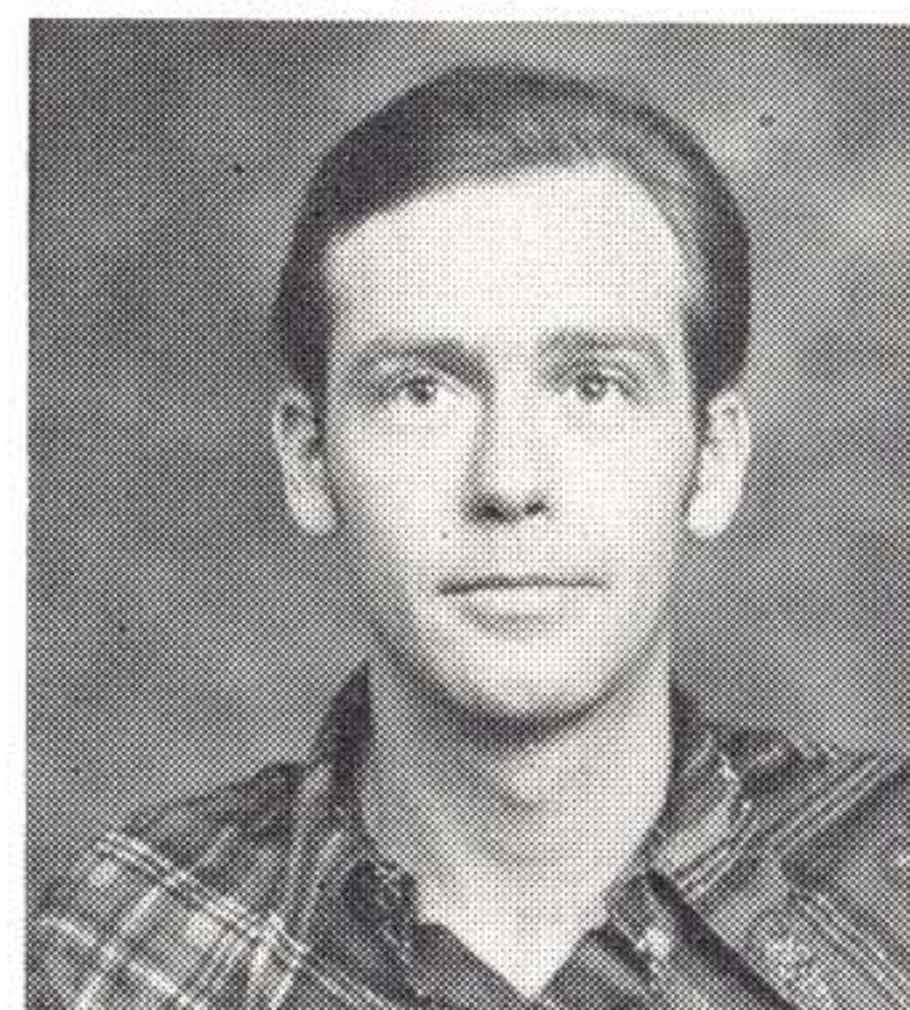
Rick Noegel  
Anchorage, Alaska  
M.T.S. '73



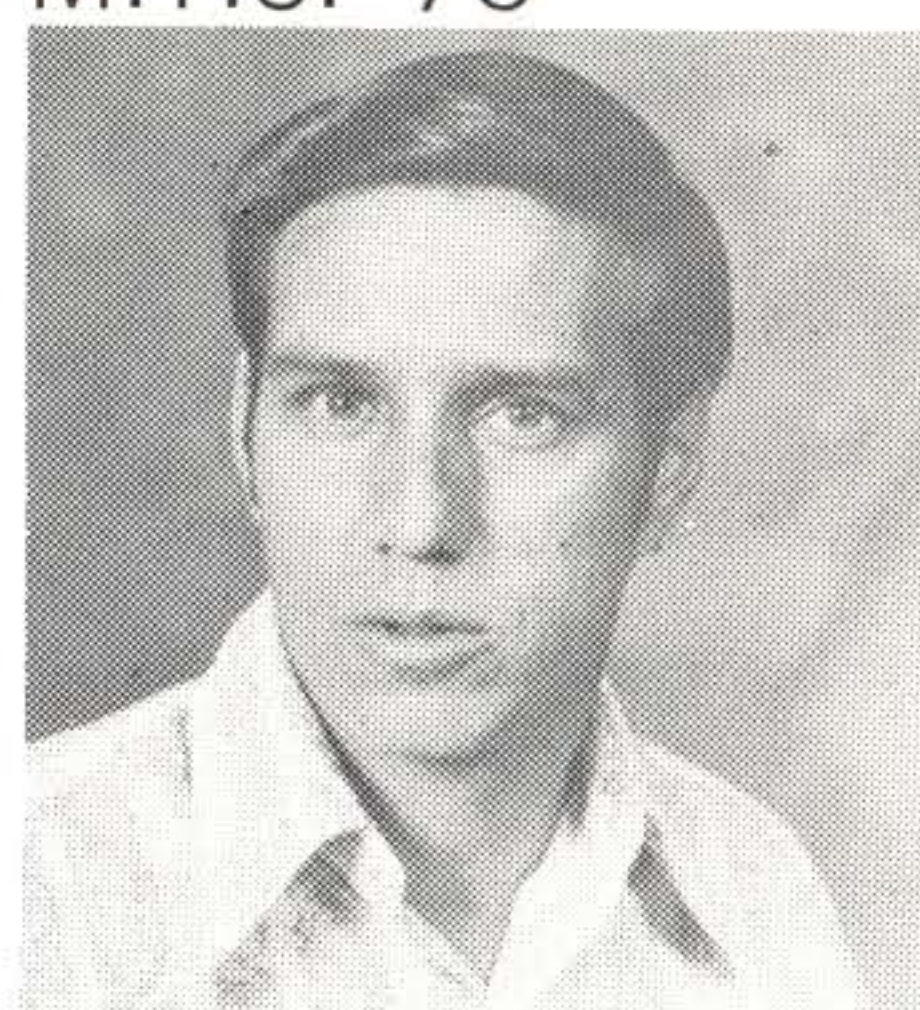
Terry Thornton  
Tulsa, Ok.  
M.T.S. '73



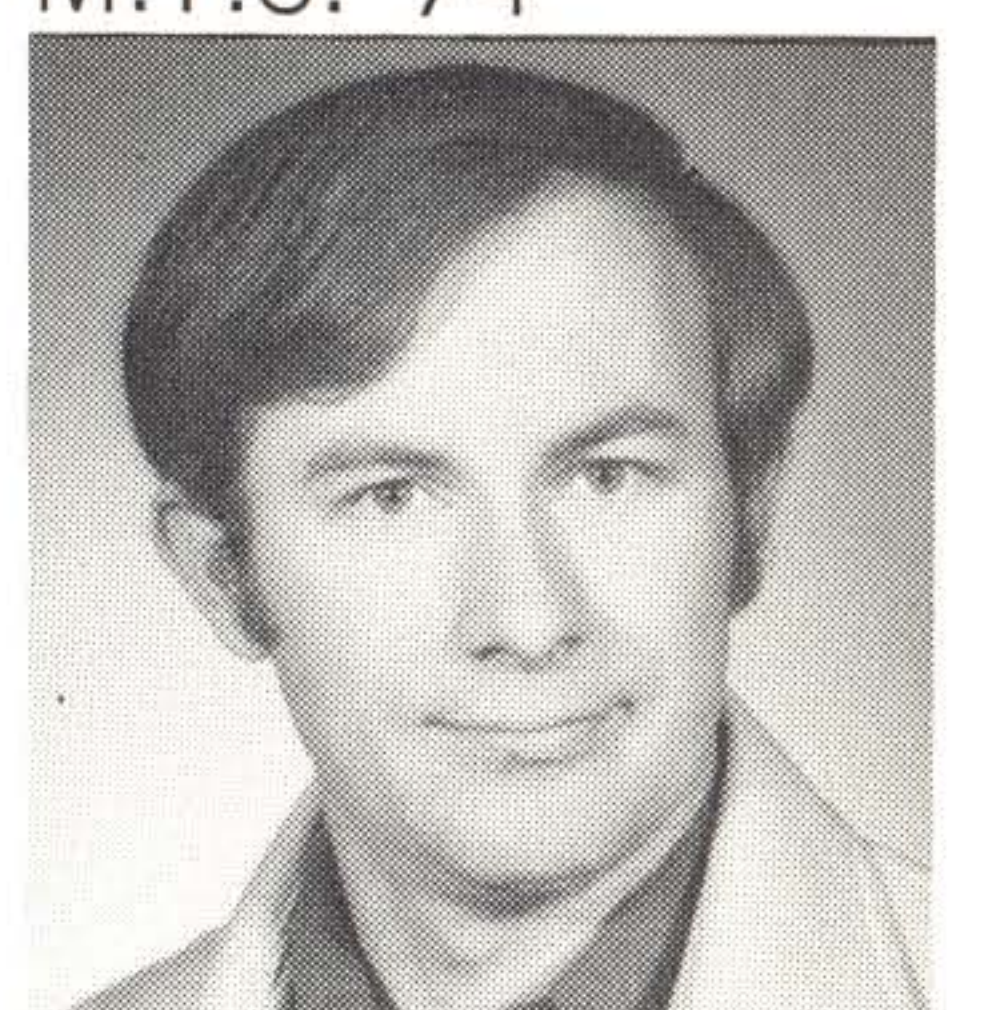
John Coogan  
Pueblo, Co.  
M.T.S. '70



Terry Fisher  
Milwaukie, Or.  
M.T.S. '75



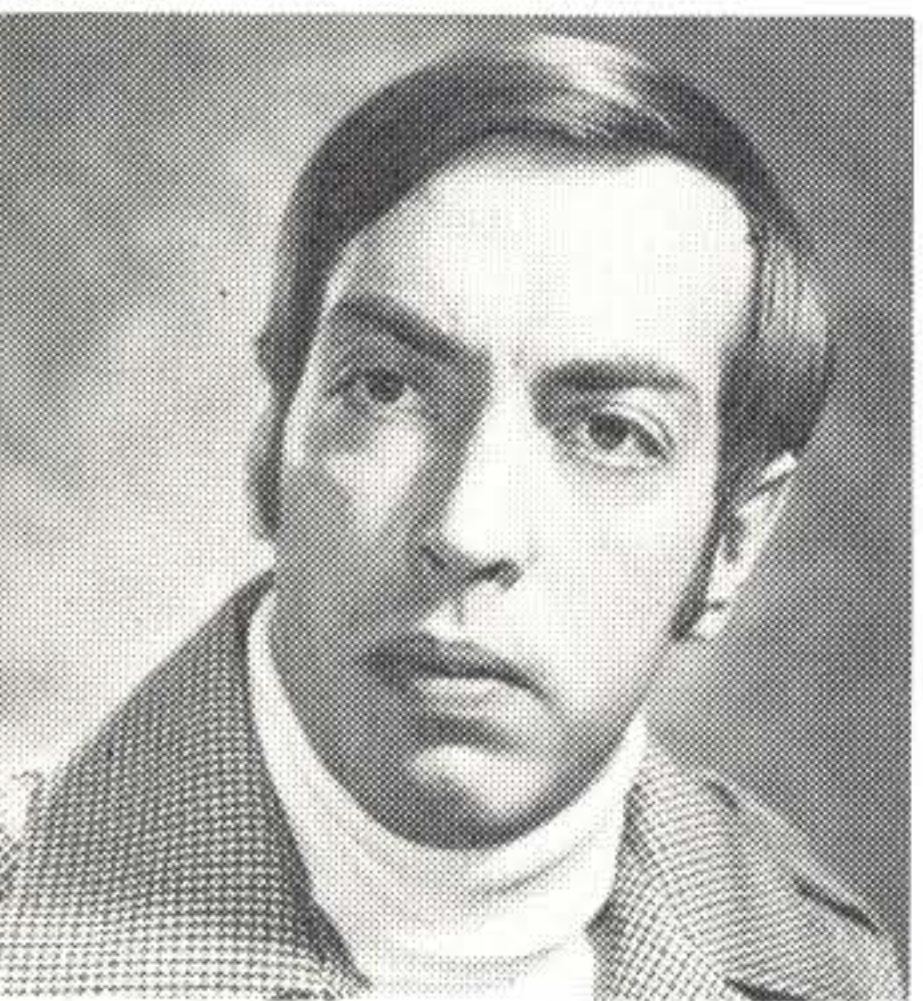
Ben Fleming  
Oklahoma City, Ok.  
M.T.S. '73



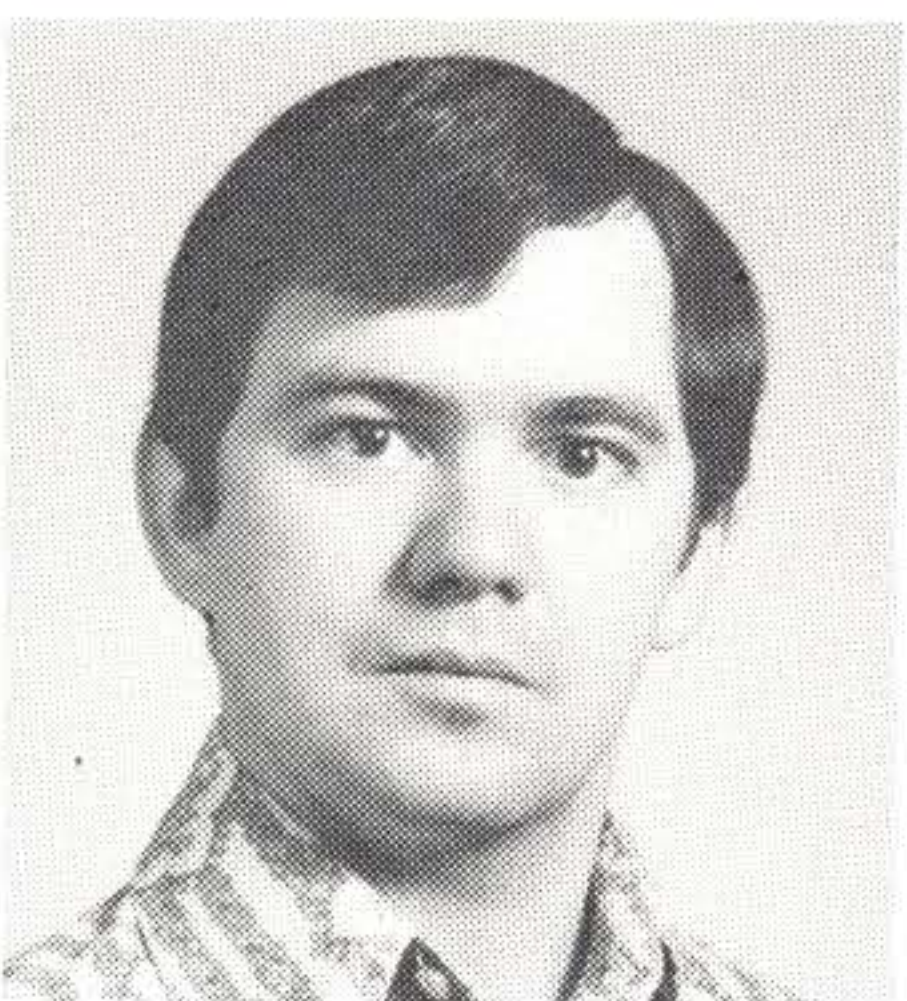
Ken Kowalczyk  
Oklahoma City, Ok.  
M.T.S. '72



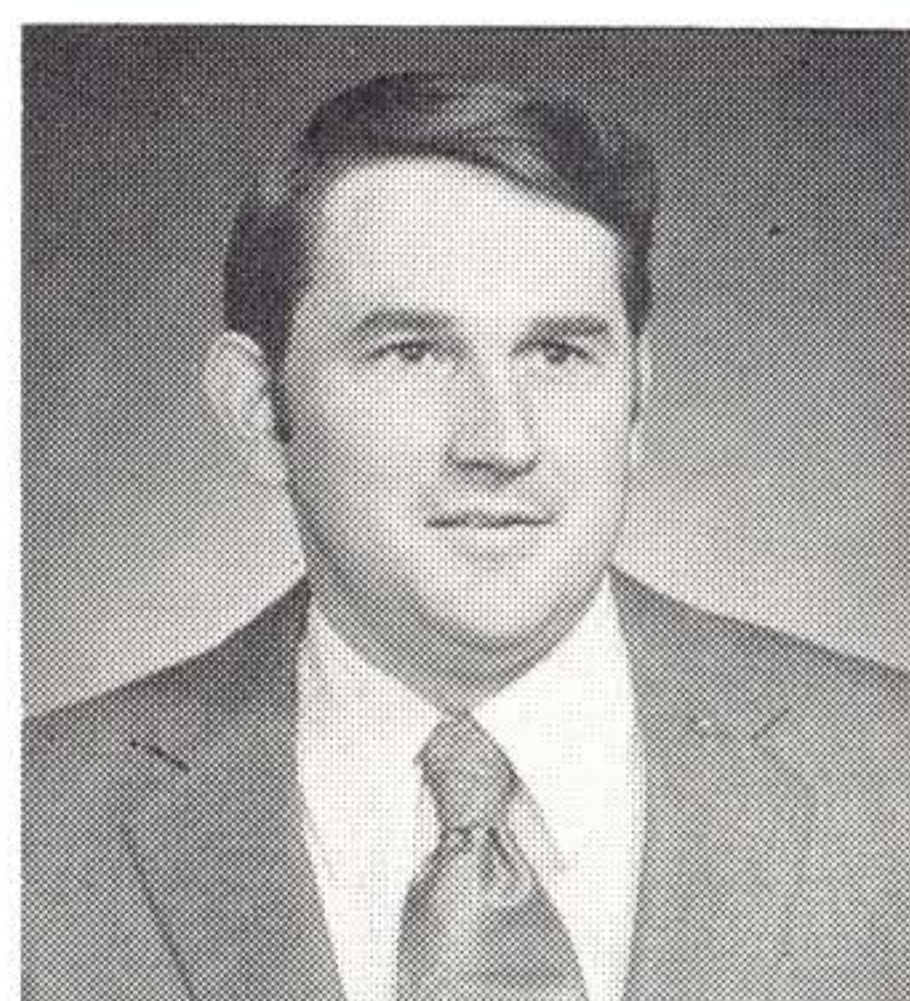
Barney Leach  
Lewiston, Id.  
M.T.S. '73



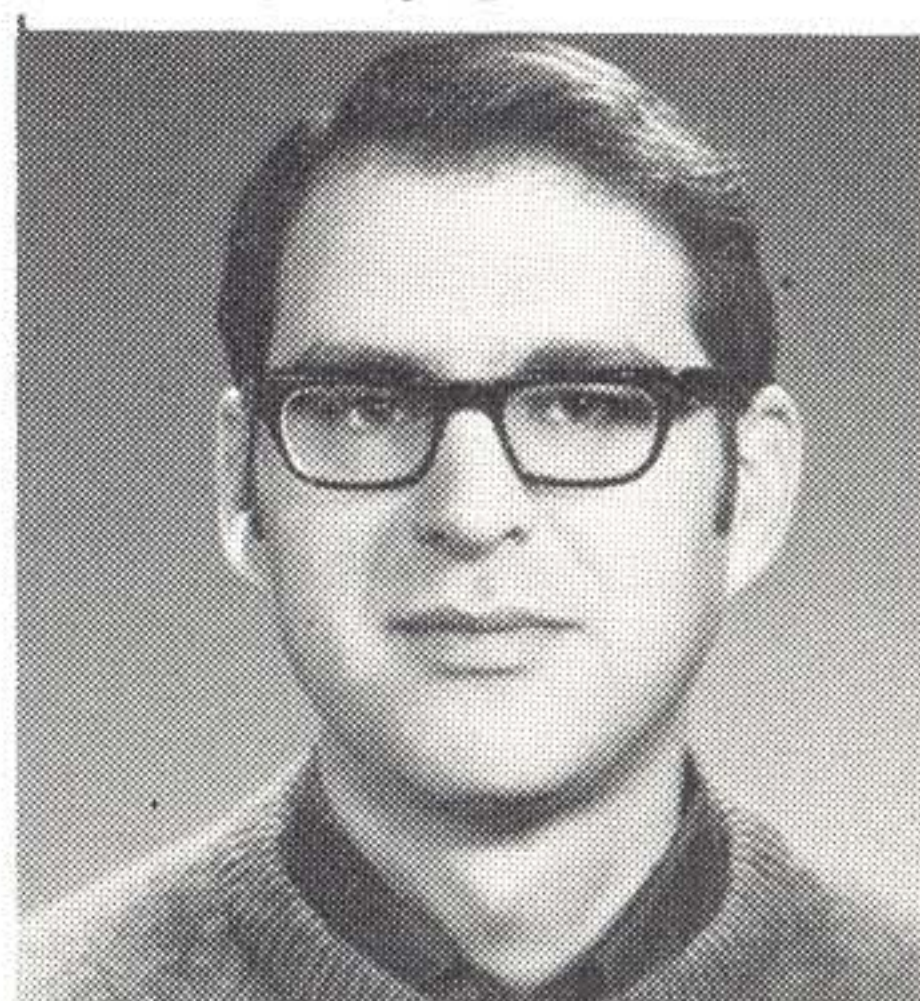
Keith Beniasch  
Bellevue, Wa.  
M.T.S. '72



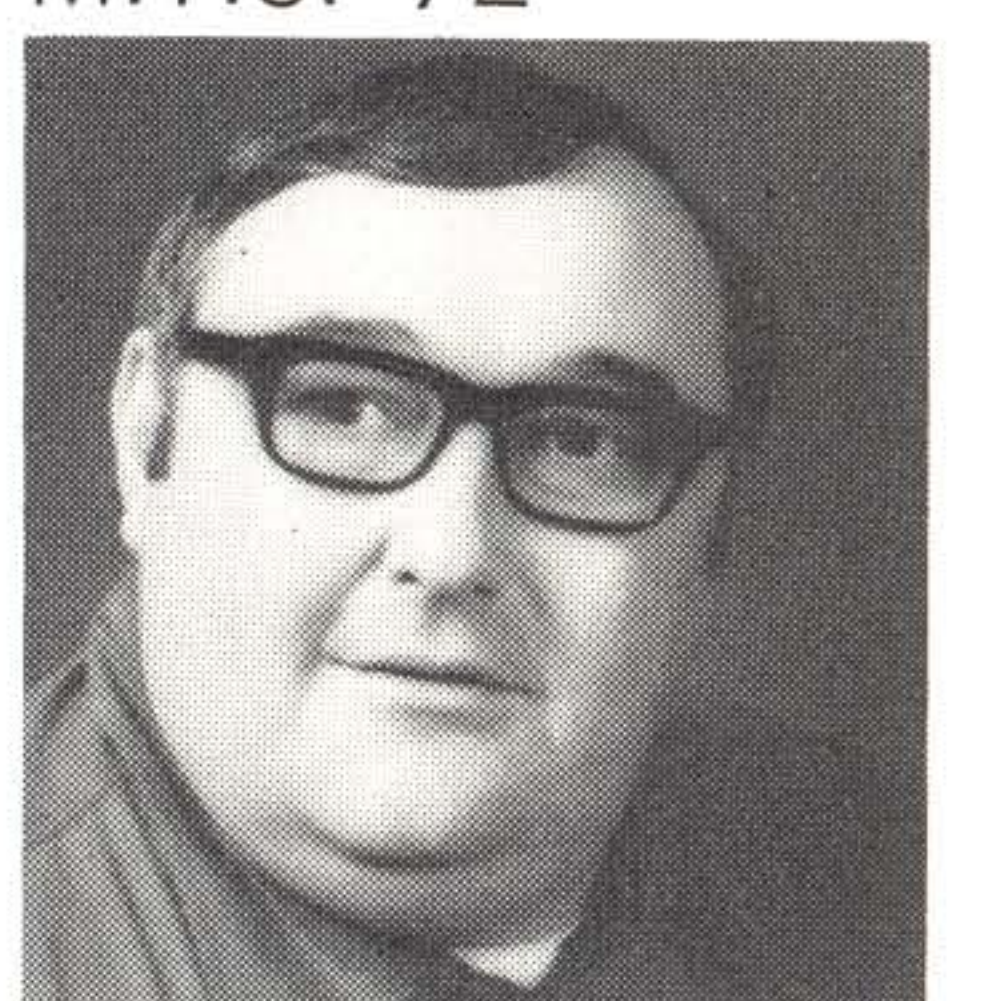
Len Steinberg  
Albany, Or.  
M.T.S. '74



Bob Gleason  
Bremerton, Wa.  
M.T.S. '72



John Burnard  
Redmond, Wa.  
M.T.S. '75



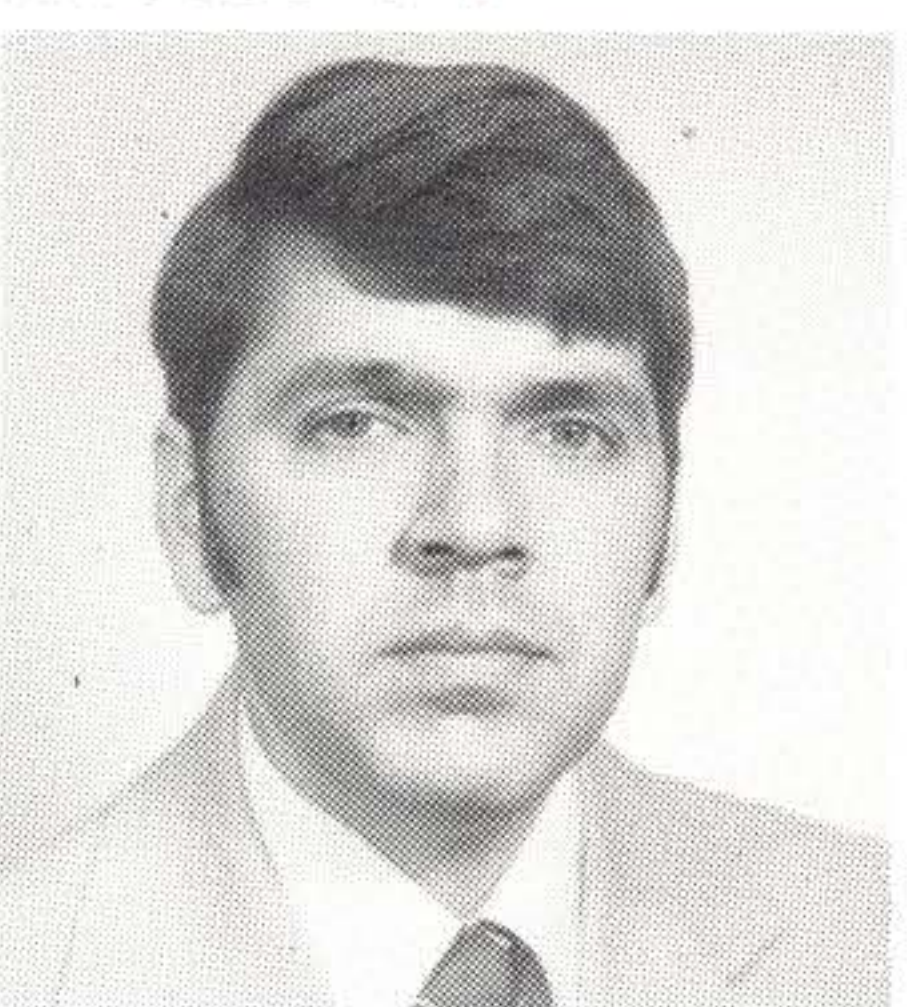
Jack Eckhaus  
Kent, Wa.



Tom Burton  
Walla Walla, Wa.  
M.T.S. '73



Bill McCaleb  
Billings, Mt.



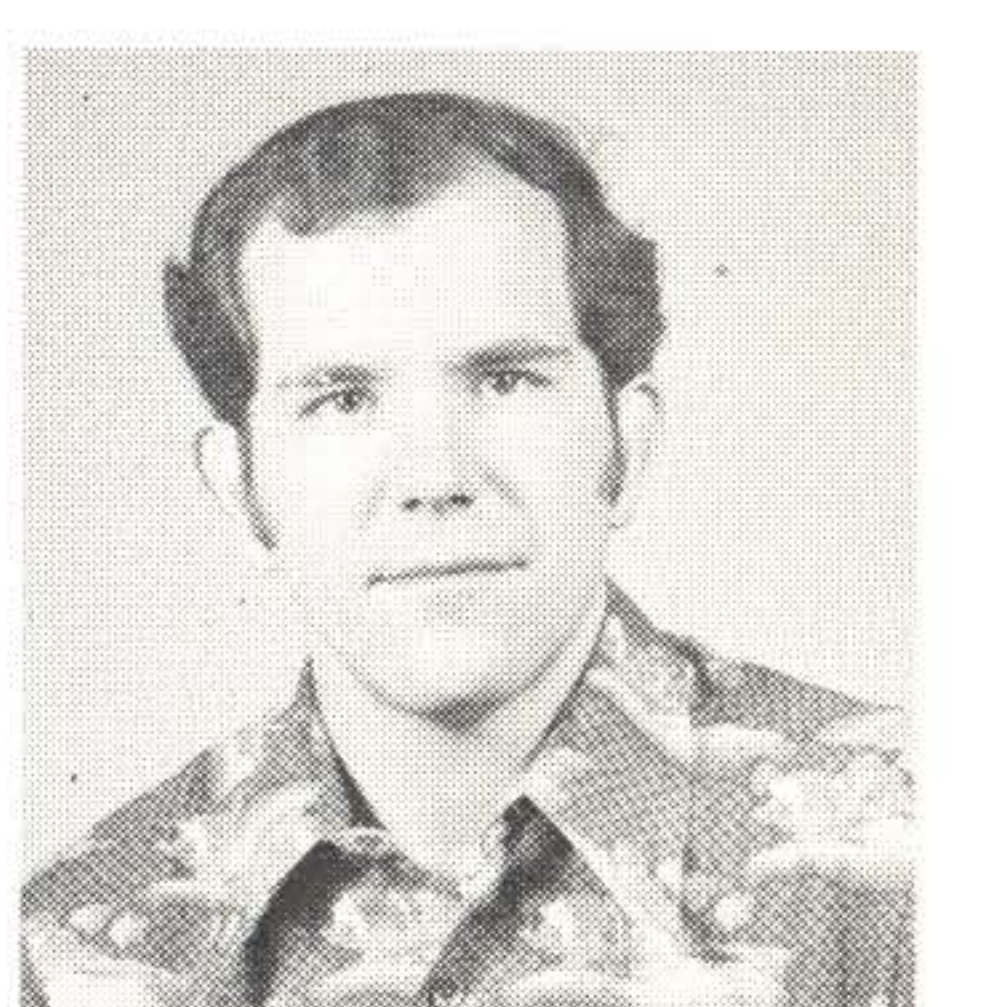
Don Goldsby  
Tulsa, Ok.  
M.T.S. '74



Chuck Pfaff  
Las Vegas, Nv.  
M.T.S. '72



Gene Kasper  
Pocatello, Id.  
M.T.S. '74



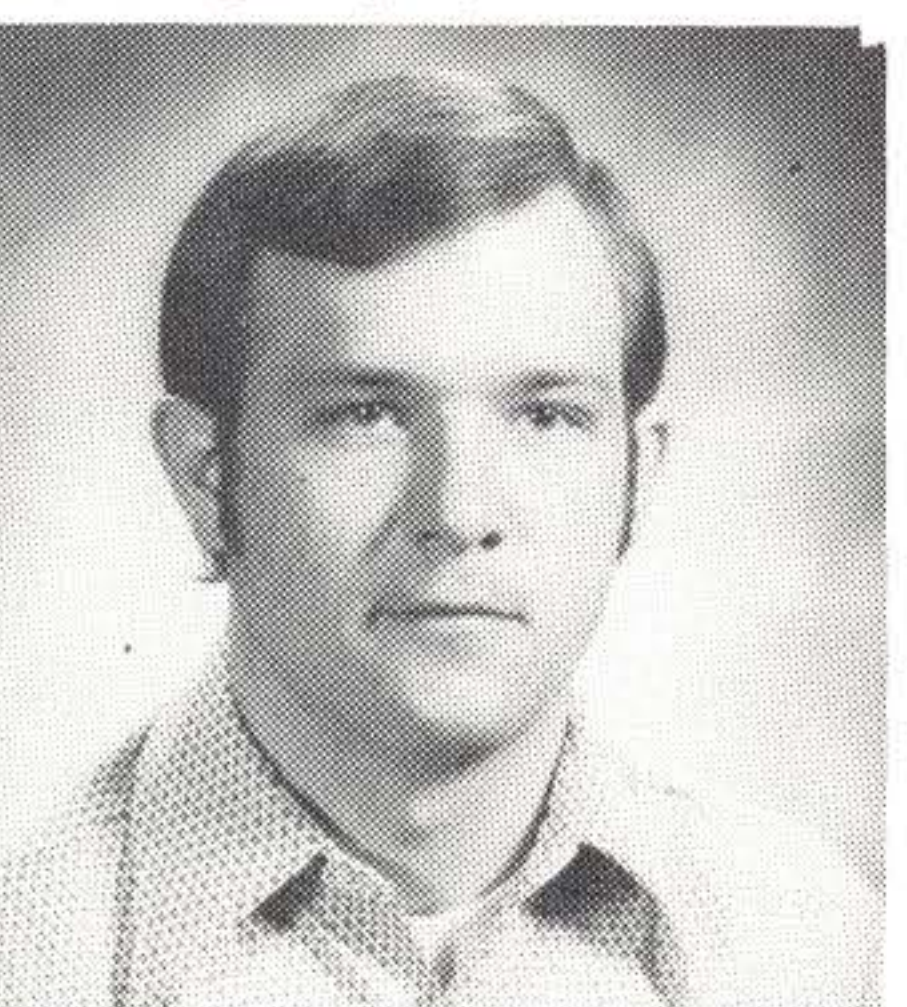
Greg Perry  
Colorado Springs, Co.  
M.T.S. '73



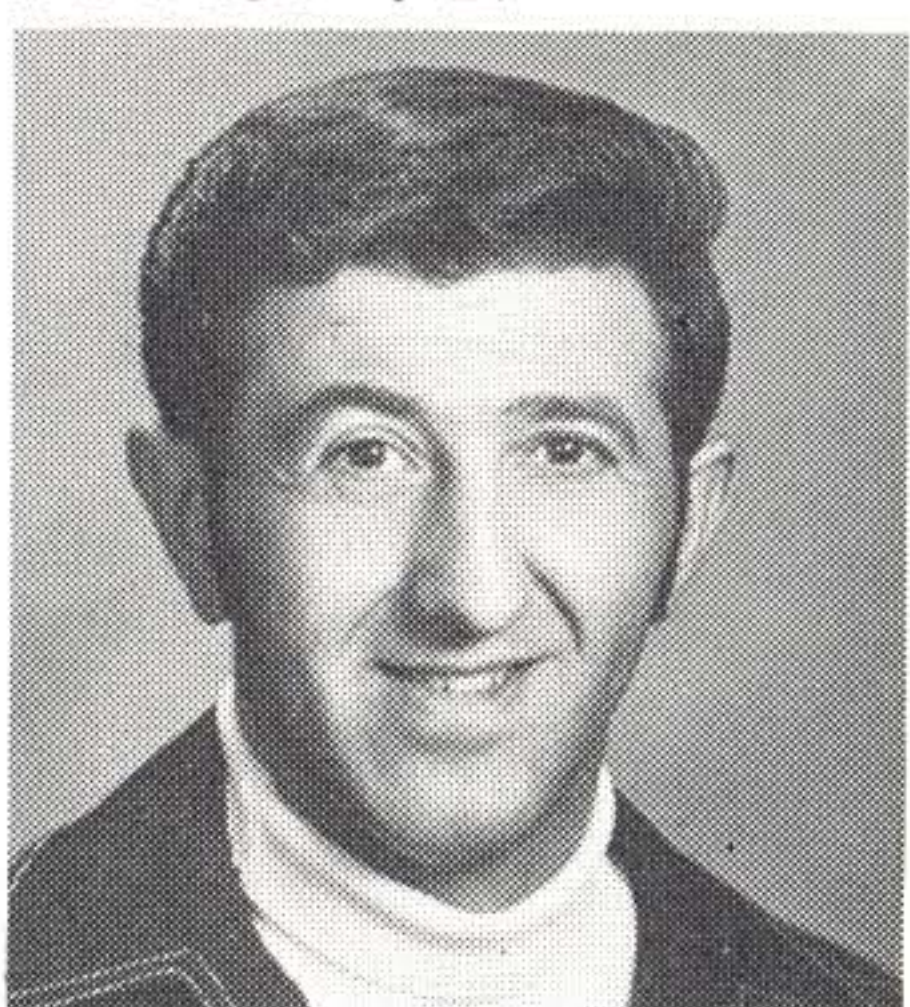
Mike Gayler  
Denver, Co.  
M.T.S. '75



John Molder  
Roseville, Ca.  
M.T.S. '74



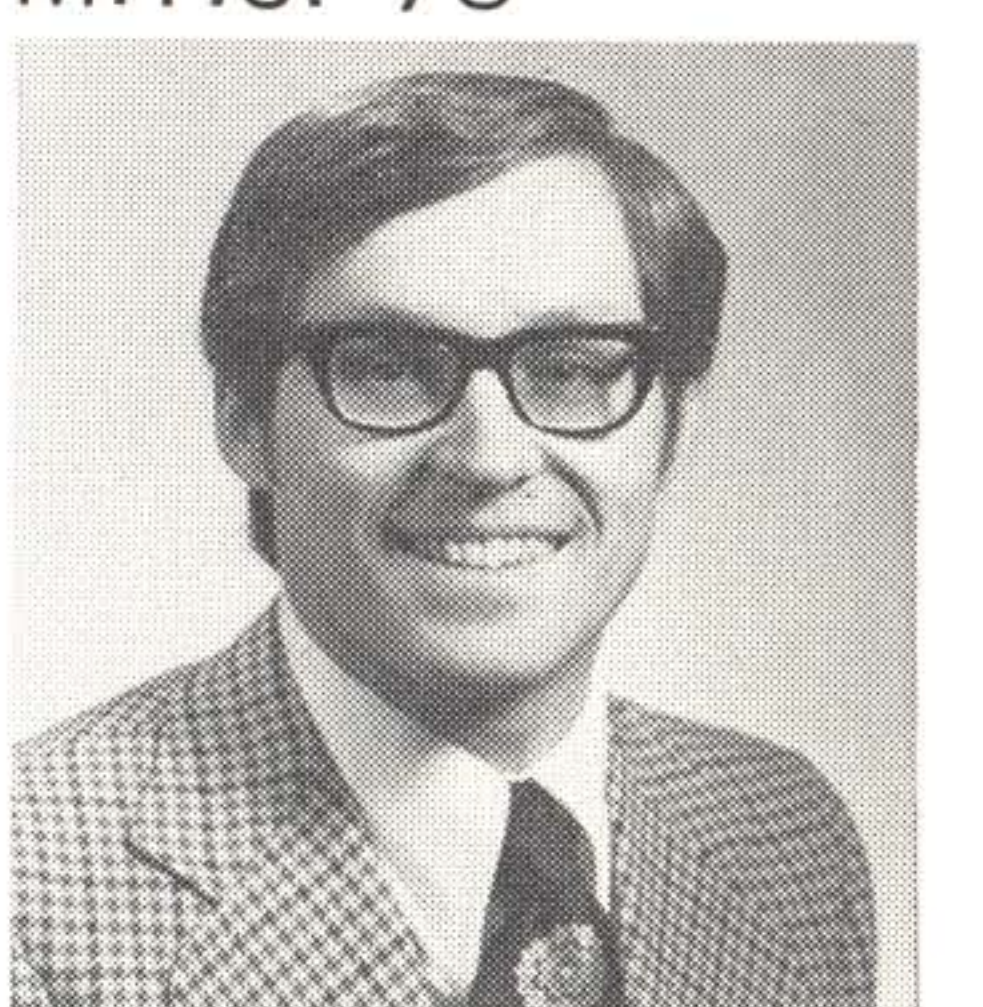
Dan Fissel  
Grand Junction, Co.  
M.T.S. '74



Sam Arrigo  
Ogden, Ut.  
M.T.S. '75



Rod Jatton  
Lynnwood, Wa.  
M.T.S. '72



Eric Breeze  
Renton, Wa.  
M.T.S. '72



The continuing expansion and growth of the company demands that the company have knowledgeable career people in the real estate field who are continually analyzing locations. The store development department completely plans and directs the construction and modification of new and remodeled stores.

The store development design team creates the store atmosphere, the color coordination and distinctive Pay 'N Pak graphic "look". They are constantly upgrading the in-store displays mentioned earlier and are largely responsible for the professional presentation in these displays.

Every company worth its salt has more than just sales and earnings and provides incentives to motivate its' people. These programs are important to any company's growth and corporate "well-being". Our company is no different.

The company's profit sharing plan gives employees an individual sense of ownership, responsibility and participation and is a very strong incentive for continuing employment.

Longevity pins are issued at 3, 5, 10 and 15 years to all employees and profit share check facsimiles showing each employee's share of the fund are issued every year after the first three years of employment.

A major medical and dental plan, with life insurance provisions, is available to all employees and adds an important measure of security for their families.

Each store is on an incentive bonus plan, in which both the store manager and his entire crew share.

The entire staff also has a liberal bonus plan.

There are several rewarding sales contests each year plus the "Top Achiever" program that recognize top sales producers on a continuing basis. The most prestigious award of all is the coveted Manager of the Year Award which was started in

1973. The five nominees selected each year for this program are judged on strict criteria covering all elements of successful store management. It is interesting to note that the three recipients of this award are now district managers and are responsible for many stores.

The unique "Selling-is-Serving" award program rewards two outstanding employees each month with a plaque and a ceremony in their respective store, a special bonus check and distinctive gold "Selling-is-Serving" ring. The contribution leading to their selection is featured in the company newspaper. It is an elite corps of Pay 'N Pakers who proudly wear their "rings" of distinction.

The company personnel director conducts Management Training Seminars each year covering all phases of the management of Pay 'N Pak stores. These seminars are week long accelerated management symposiums featuring workshop experiences and role play situations. The participants learn not only by hearing but also by doing. All sub-

jects are taught by the management or staff person with particular expertise in that subject. A measure of the value of these seminars is that over 90 managers, assistant managers or department heads are graduates of this program (See the pages entitled, "The Store Managers").

A very careful selection process occurs over an extended period of time to determine those (within the company) in which the company makes the investment before they are chosen for these training efforts.

No report would be complete if it failed to mention the contribution to total communication made by the company's newspaper. The Pipeyard Gazette, named after the store's outside yard where pipe is stored, is a 30 to 36 page newspaper with hundreds of pictures which is sent to each employee's home every other month. This publication is all news about Pay 'N Pakers everywhere. Each store group hears from all other store groups and hears about happenings all over the company.



Over 100 years of retail experience marks the Pay 'N Pak top management team. Heerensperger, Bacon, Knudtzon and Marlow.



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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-K

Annual Report Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934

For the fiscal year ended February 29, 1976

Commission file number 0-4967

PAY 'N PAK STORES, INC.

Washington

(State of incorporation)

91-0729852

(I.R.S. Employer I.D. No.)

1209 South Central, Kent, Washington 98031

Telephone: (206) 854-5450

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class

None

Name of each exchange  
on which registered

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes       X       No



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### **Part II:**

11. thru 15. are omitted as the required information will be furnished in the Company's proxy statement.



## **Part I**

### **Item 1 — Business**

(a) The Company and its subsidiaries are engaged in the retail selling of home improvement products, including electric and plumbing supplies, heating and lighting fixtures, building materials, cabinets and built-in appliances, and floor covering. Several stores carry complete lines of automotive parts and accessories and sporting goods. Most sales are made to homeowners and other do-it-yourself customers, and primarily on a cash basis. Although the Company does not deliver, install or service such products, its employees are trained to instruct customers as to how to install and use the products.

As of April 15, 1976, the Company and its subsidiaries operated 60 stores located in the states of Washington, Oregon, California, Colorado, Nevada, Montana, Alaska, Oklahoma, Kansas, Idaho and Utah. All of the stores are leased except that the Fairbanks, Alaska, and the Pocatello, Idaho stores are owned by the Company. The Company is attempting to sell and lease back or obtain long-term mortgage financing on these two stores. During its fiscal year ended February 29, 1976, the Company entered new market areas in Pocatello, Idaho, Ogden, Utah, Grand Junction, Colorado, and Roseville, California; and increased its market penetration in the Seattle, Washington area by opening stores in Lynnwood and Renton (Seattle suburbs), and opened its third store in Denver, Colorado. During this same period of time, the Company replaced smaller stores in Longview and Wenatchee, Washington with new, larger stores; sold its Santa Rosa and Vallejo, California stores to John M. Headley, a former officer and director of the Company, in exchange for the redemption of 56,267 shares of Mr. Headley's stock in the Company; and reacquired and closed its former store in Tucson, Arizona.

Additional information regarding the Company's stores for the past five years is set forth below as follows:

	Year ended February 28 or 29,				
	1976	1975	1974	1973	1972
Stores in operation at beginning of year	54	48	44	40	36
Stores opened	9	7	8	10	4
Stores reacquired	1				
Stores sold or closed	(3)	(1)	(1)	(1)	
Stores replaced with new stores	(2)		(3)	(5)	
Stores in operation at end of year	<u>59</u>	<u>54</u>	<u>48</u>	<u>44</u>	<u>40</u>

The Company opened its second store in Tacoma, Washington, in March 1976, and has also entered into a lease and plans to open a new store later this year in Portland, Oregon, an area where it already has three existing stores. The Company also owns property in Casper, Wyoming, upon which it is constructing a new store building to be opened later this year, its first entry into the State of Wyoming. The Company is also negotiating leases and plans to open new stores later this year in Boise, Idaho, which would be its first entry into the Boise area, and in Denver, Colorado, where it already has three existing stores.

The Company's sole method of distribution is through sales at its retail stores, which are operated by the Company. Although the Company formerly used the franchise method of distribution to a limited extent, this method has not been used since approximately October, 1971, and the Company has no plans to grant franchises in the future.

(b) (1) The retail sales business engaged in by the Company is highly competitive. The Company competes with numerous retail organizations, including integrated department stores such as Sears and Montgomery Ward, as well as large and small hardware and lumber stores, auto supply stores, and



**Item 1—Business, continued**

sporting goods stores. Some of these competitors have substantially greater financial resources and more complete product warranties than the Company. The Company's competitors are continually expanding and opening new stores in market areas in which the Company has existing stores as well as in new market areas in which the Company plans to expand. Because of the variety of products sold by the Company and the number and variety of its competitors, it is virtually impossible to determine a competitive position for the Company.

The Company attempts to charge competitive prices with respect to the merchandise sold through its stores and whenever possible engages in volume buying directly from factories to obtain lower unit costs. The Company places particular emphasis on the training of its sales people in an effort to offer improved service to its customers. The Company has a full-time product training director and also utilizes a training film program and seminars to qualify its employees in product knowledge and selling skills. This enables the Company's sales people to explain and instruct customers as to how to install and use the products that are sold throughout the Company's stores.

(2) The business of the Company is not dependent upon a single customer or a few customers, whereby the loss of any one would have a material effect on the Company.

(3) The Company does not at any time have a significant backlog of orders.

(4) The Company buys its merchandise from several hundred independent suppliers, no one of which supplies a significant portion of the products sold by the Company. It is estimated that no supplier provides more than 10% of the Company's merchandise. The Company sells most of its goods on a cash and carry basis and to a limited extent under installment sales contracts that are sold to finance companies, and attempts to carry sufficient amounts of inventory on stock to meet customer demand and to allow sufficient delivery time for new orders from the factories. The Company maintains a 74,500 square foot central warehouse in Kent, Washington, where it stores certain items only, and does very little other warehousing. The Company engages in volume buying direct from factories as much as possible to obtain the benefits of lower unit prices, as well as in anticipation of potential shortages and inflationary price increases. This helps to assure the Company of a continuous allotment of goods from suppliers and sometimes results in the Company carrying significant amounts of inventory for the above-described purposes.

(5) The Company holds no material patents, trademarks, licenses, franchises or concessions.

(6) The Company has incurred research expenses relating to the improvement of services to its customers, through the development of product knowledge training films, a Retail Selling Skills program, and the holding of training seminars, all of which are designed to constantly update product knowledge and selling skills. The goal of this program is to have the Company's sales people completely qualified to explain to customers how to install or use all of the products that the Company sells. The amount spent by the Company on such activities during each of the last two fiscal years is estimated at approximately \$104,000 and \$35,000, in 1975 and 1976, respectively.

(7) The Company is not aware of any environmental protection laws, compliance with which may have a material effect upon the capital expenditures, earnings and competitive position of the Company and its subsidiaries.

(8) The Company currently employs approximately 750 persons.

(9) No material portion of the Company's business is seasonal, except to the extent that sales of home improvement products tend to be slightly lower during the winter season, and sales of sporting goods, particularly skis and ski equipment, tend to be higher during the winter season.

(c) (1) Information as to lines of business. The Company is engaged in only one line of business — retail sales.



**Item 1—Business,** continued

(2) Information as to classes of similar products or services. The following table sets forth the approximate percentage contribution to net sales during the Registrant's last five years ended February 29, 1976 for each class of similar products which contributed 10% or more to total sales and revenues in either of the last two fiscal years.

	Net Sales				
	Year ended February 28 or 29				
	1976	1975	1974	1973	1972
Home improvement products .....	86%	85%	85%	85%	88%

(d) The Registrant and its subsidiaries do not engage in any operations in foreign countries, and only a minor portion of sales or revenues is derived from customers in foreign countries.



**Item 2 — Summary of operations**

The following consolidated statements of income, retained earnings and capital in excess of par value of Pay 'N Pak Stores, Inc. for the five years ended February 29, 1976, have been examined by Arthur Young & Company, certified public accountants, whose report with respect thereto appears elsewhere in this Form 10-K. The statements should be read in conjunction with the other financial statements appearing elsewhere herein.

**CONSOLIDATED STATEMENT OF INCOME**

	Year ended February 28 or 29				
	1972	1973	1974	1975	1976
Revenues:					
Net sales.....	\$30,844,478	\$42,332,166	\$51,832,114	\$61,379,628	\$73,221,950
Interest.....	9,629	1,022	5,949	61,633	25,394
Rentals and other.....	73,791	63,764	55,823	29,578	32,608
	<u>30,927,898</u>	<u>42,396,952</u>	<u>51,893,886</u>	<u>61,470,839</u>	<u>73,279,952</u>
Costs and expenses:					
Cost of sales (a).....	20,048,868	27,475,369	33,588,811	40,190,618	48,783,406
Selling and administrative.....	7,386,837	9,887,724	11,779,911	13,913,074	15,918,996
Rent.....	806,276	1,268,961	1,594,893	1,797,397	2,142,797
Depreciation.....	400,794	549,018	793,170	806,028	973,628
Interest on long-term debt.....	51,521	50,906	289,294	461,886	484,458
Other interest.....	65,427	224,580	228,601	16,633	98,143
	<u>28,759,723</u>	<u>39,456,558</u>	<u>48,274,680</u>	<u>57,185,636</u>	<u>68,401,428</u>
Income before income taxes.....	2,168,175	2,940,394	3,619,206	4,285,203	4,878,524
Provision (credit) for income taxes (b):					
Current.....	1,026,583	1,464,545	1,746,689	2,006,123	2,140,252
Deferred.....	(3,204)	1,749	1,749	30,945	163,648
	<u>1,023,379</u>	<u>1,466,294</u>	<u>1,748,438</u>	<u>2,037,068</u>	<u>2,303,900</u>
	1,144,796	1,474,100	1,870,768	2,248,135	2,574,624
Minority interest.....	12,484	14,299	13,468	22,090	
Net income.....	<u>\$ 1,132,312</u>	<u>\$ 1,459,801</u>	<u>\$ 1,857,300</u>	<u>\$ 2,226,045</u>	<u>\$ 2,574,624</u>
Average number of shares — after stock dividends (c).....	<u>1,619,475</u>	<u>1,655,977</u>	<u>1,671,203</u>	<u>1,671,203</u>	<u>1,660,887</u>
Net income per common share (c):					
Before 1976 stock dividend.....	<u>\$ .77</u>	<u>\$ .97</u>	<u>\$1.22</u>	<u>\$1.47</u>	<u>\$1.71</u>
After stock dividends.....	<u>\$ .70</u>	<u>\$ .88</u>	<u>\$1.11</u>	<u>\$1.33</u>	<u>\$1.55</u>
Cash dividends paid per common share (d):					
Before 1976 stock dividend.....	<u>\$.136</u>	<u>\$.141</u>	<u>\$.227</u>	<u>\$.318</u>	<u>\$ .46</u>
After stock dividends.....	<u>\$.125</u>	<u>\$.128</u>	<u>\$.207</u>	<u>\$.289</u>	<u>\$.418</u>

(See notes to consolidated statement of income on the following page.)



## Item 2—Summary of operations, continued

### Notes to consolidated statement of income

- (a) The Company's significant accounting policies are set forth in Note 1 of Notes to Consolidated Financial Statements.

Inventories of merchandise used in the computation of cost of sales were as follows: February 28, 1971 — \$5,064,665; February 29, 1972 — \$9,561,249; February 28, 1973 — \$13,925,388; February 28, 1974 — \$15,273,351; February 28, 1975 — \$15,460,230 and February 29, 1976 — \$17,691,688.

- (b) The provision (credit) for income taxes is comprised of the following:

	Year ended February 28 or 29				
	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Current federal income tax	\$1,033,339	\$1,420,122	\$1,696,728	\$1,956,954	\$2,108,967
Investment tax credit .....	(45,081)	(40,956)	(54,045)	(75,167)	(101,905)
Deferred income tax .....	(3,204)	1,749	1,749	30,945	163,648
State income taxes .....	38,325	85,379	104,006	124,336	133,190
	<u>\$1,023,379</u>	<u>\$1,466,294</u>	<u>\$1,748,438</u>	<u>\$2,037,068</u>	<u>\$2,303,900</u>

The effective tax rate in all years differs from the 48% federal statutory rate due primarily to the effect of the investment tax credit and state income taxes shown above.

The provision for deferred income taxes reflects timing differences between income and expenses reported for financial statement purposes and income tax purposes. The federal and state income tax effect of these differences are as follows:

	Year ended February 28 or 29				
	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Gain on sale and leaseback of properties deferred for financial statement purposes .....	\$ (4,840)	\$	\$	\$	\$
Accelerated depreciation for tax purposes in excess of the straight-line method for book purposes .....				58,179	132,916
Airplane repair costs deducted for tax purposes in the year paid .....				(28,983)	28,983
Amortization of deferred gain on sale and leaseback of properties .....	1,636	1,749	1,749	1,749	1,749
	<u>\$ (3,204)</u>	<u>\$ 1,749</u>	<u>\$ 1,749</u>	<u>\$ 30,945</u>	<u>\$ 163,648</u>



## Item 2 — Summary of operations, continued

### Notes to consolidated statement of income

- (c) Common share amounts represent the weighted average of such shares outstanding during each period. Net income per common share — after stock dividends gives retroactive effect to the 10% stock dividend declared March 16, 1976 and March 13, 1975. The dilutive effect of stock options was not material in any year.
- (d) Cash dividends paid per common share — after stock dividends are stated at amounts after giving retroactive effect to the 10% stock dividend declared March 16, 1976 and March 13, 1975. See Note 2 of Notes to Consolidated Financial Statements for restrictions on payment of cash dividends.

### Management's Discussion and Analysis of the Consolidated Statement of Income

Net sales in 1976 and 1975 increased over the 1975 and 1974 levels by \$9,548,000 for 1975 over 1974 and \$11,822,000 for 1976 over 1975 or 18.4% and 19.3% respectively. These increases were attributable to the following:

	Increase (decrease) in 1976 over 1975		Increase (decrease) in 1975 over 1974	
	Amount	%	Amount	%
	(In thousands, except %)			
Net sales of stores opened during the year.....	\$ 3,017	25	\$2,922	31
Increase in net sales over the preceding year of stores in their first full year of operation.....	6,241	53	2,146	22
Net increase in sales of stores opened for over 2 years.....	3,400	29	4,297	45
Increase (decrease) in net sales for stores closed or sold.....	(836)	(7)	183	2
	<u>\$11,822</u>	<u>100</u>	<u>\$9,548</u>	<u>100</u>

Interest revenue increased in 1975 as compared to 1974 as a result of investment of excess funds in short-term securities. The amount available for such investment in 1976 was reduced.

Cost of sales and selling and administrative expense increased due primarily to the increased sales volume. The cost of sales in 1976 increased as a per cent of net sales as compared to 1975 due to the customer acquiring more competitively priced merchandise, and to some degree, by a deflationary trend in the price of certain in-inventory items composed of copper, brass and plastics, etc.

Rent expense increased during the periods due principally to new store additions or replacements.

Depreciation expense increased in 1976 as compared to 1975 due primarily to new store expansion and the modernization of existing stores.

Interest on long-term debt increased in 1975 as compared to 1974 due primarily to the \$5,000,000 borrowed from The Prudential Insurance Company of America in August, 1973. Other interest declined in 1975 compared to 1974 as a result of this long-term financing and because of a reduction of inventory levels resulting in reduced short-term borrowing requirements.

Other interest expense increased in 1976 as compared to 1975 as a result of borrowing on a short term basis to meet merchandise inventory and store fixturing requirements for newly opened stores.



Item 2 — Summary of operations, continued

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**

	Year ended February 28 or 29				
	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Balance at beginning of year .....	\$3,081,944	\$4,011,245	\$5,258,486	\$6,770,496	\$8,513,135
Add (deduct):					
Net income .....	1,132,312	1,459,801	1,857,300	2,226,045	2,574,624
Dividends:					
Cash .....	(203,011)	(212,560)	(345,290)	(483,406)	(692,114)
10% stock at fair market value at date of issuance .....					(2,192,592)
Balance at February 28 or 29 (a) .....	<u>\$4,011,245</u>	<u>\$5,258,486</u>	<u>\$6,770,496</u>	<u>\$8,513,135</u>	<u>\$8,203,053</u>

(a) See Note 2 of Notes to Consolidated Financial Statements for restrictions on the payment of cash dividends.

**CONSOLIDATED STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE**

	Year ended February 28 or 29				
	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Balance at beginning of year .....	\$3,372,673	\$3,639,748	\$3,788,717	\$3,788,717	\$3,788,717
Add (deduct):					
Excess of fair market value over par value of 10% stock dividend .....					2,178,780
Excess of proceeds over par value of shares issued upon exercise of stock options .....	267,075	147,112			
Expenses applicable to prior year registration of shares .....		(5,643)			
Purchase of minority interest in subsidiary .....		7,500			
Balance at February 28 or 29 .....	<u>\$3,639,748</u>	<u>\$3,788,717</u>	<u>\$3,788,717</u>	<u>\$3,788,717</u>	<u>\$5,967,497</u>



### Item 3 — Properties

Of the Company's 59 stores, 28 are located in the State of Washington, 6 in Oregon, 5 in California, 2 in Nevada, 2 in Idaho, 1 in Montana, 2 in Utah, 6 in Colorado, 1 in Kansas, 4 in Oklahoma, and 2 in Alaska. All of the Company's stores except two are leased under leases expiring at various times between April 30, 1977 and February 1, 2001. Some of the leases contain options to renew. Operations of the Company are directed from its main offices in Kent, Washington, a Seattle suburb, where all administrative functions, including accounting, merchandising, purchasing and advertising, are performed. The main offices are leased under a lease expiring in 1995. The Company also leases a large central warehouse in Kent, Washington, under two leases that expire in 1979 and 1983, respectively. These leases contain options to renew.

In addition to the properties and buildings used in the Company's daily business operations, the Company owns approximately eighteen acres in Spokane, Washington, five acres adjacent to its store located at 10847 E. Marginal Way, Seattle, Washington, four acres adjacent to its Kent Mall, six lots adjacent to one of its Denver, Colorado stores and an acre in Casper, Wyoming. These properties are either being developed for new stores or held for investment and possible future expansion.

The Company presently owns its stores in Fairbanks, Alaska and Pocatello, Idaho, and is constructing a new store building on the above described parcel at Casper, Wyoming, to be opened later this year. The Company expects to finance construction of these facilities out of its normal working capital, and upon completion of construction will attempt to sell and leaseback or obtain mortgage financing on these properties.

All of the Company's buildings are of concrete or concrete block construction except for three stores, two of which are of frame construction and the other is a steel building. The Company has replaced and modernized most of its older, smaller stores during the past few years with larger, new stores. The buildings contain all of the trade fixtures and improvements which the Company believes are necessary in its business. Adequate off-street parking is provided adjacent to all stores.

### Item 4 — Parents and Subsidiaries

There are no parents of the Company. Following is a list setting forth the Company and its subsidiaries as of April 15, 1976:

Registrant:	Pay 'N Pak Stores, Inc. a Washington corporation
Subsidiaries:	(a) Pay 'N Pak Properties, Inc. a Washington corporation 100% owned by Registrant  (b) Eagle Electric & Plumbing Supply, Inc. a Washington corporation 100% owned by Registrant  (c) Don Mar, Inc. an Arizona corporation 100% owned by Registrant

There is no relationship between or among any of the subsidiaries listed above other than the fact that they are wholly owned subsidiaries of the Registrant. All of the above listed subsidiaries are included in consolidated financial statements of the Company.



## **Item 5 – Legal Proceedings**

None.

## **Item 6 – Increases and Decreases in Outstanding Securities**

(a) The Company's outstanding common stock was increased from 1,381,159 shares to 1,519,275 shares, an increase of 138,116 shares, on May 7, 1975, the date of distribution of a 10% stock dividend declared on March 13, 1975.

Effective December 31, 1975, the Registrant redeemed 56,267 shares of its common stock from John M. Headley, a former President and Director of the Registrant, in exchange for its Santa Rosa and Vallejo, California stores. The exchange was made on the basis of the book value of the assets of the two stores and the book value of the Registrant's outstanding shares. The Registrant held the shares as treasury stock and in April, 1976, cancelled and restored such shares to the status of authorized but unissued shares. This exchange decreased the number of shares of its common stock that the Registrant has outstanding from 1,519,275 shares to 1,463,008 shares.

The Company's common stock was increased from 1,463,008 shares to 1,609,309 shares, an increase of 146,301 shares, on May 10, 1976, the date of distribution of a 10% stock dividend declared on March 16, 1976.

(b) On February 27, 1976, the Registrant refinanced its long-term debt with The Prudential Insurance Company of America and received aggregate net cash proceeds of, after payment of accrued interest, \$3,521,461. The new note is in the amount of \$8,000,000, bears interest at 9½% per annum, and matures in 1988. Two notes previously issued by the Registrant to The Prudential Insurance Company of America, dated June 7, 1966 and August 7, 1973, and having outstanding principal balances together with accrued interest in the aggregate amount of \$4,478,539, were retired. No brokers, underwriters or finders were involved. The entire aggregate net cash proceeds of \$3,521,461 were used for the purpose of substantially retiring short-term bank debt. The note issued by the Registrant to The Prudential Insurance Company of America in the amount of \$8,000,000 was not registered under the Securities Act of 1933, in reliance upon Section 4(2) of that Act, as the note was not offered to any other person and was taken for investment by The Prudential Insurance Company of America. For these reasons, the note was not legended nor were stop-transfer instructions given in connection with the note.

## **Item 7 – Approximate Number of Equity Security Holders**

As of April 10, 1976 there were 1,436 holders of record of the Company's common stock.

## **Item 8 – Executive Officers of the Registrant**

(a)

<u>Name</u>	<u>Age</u>	<u>Positions and Offices</u>
David J. Heerensperger	39	Chairman of the Board and President; Director
Halvor Knudtson, Jr.	49	Secretary-Treasurer and Controller; Director
Harold F. Bacon	59	Vice President – Merchandising
Jerry Marlow	40	Vice President – Operations

There are no family relationships among the above officers. Each of the above officers are elected annually by the Board of Directors of the Registrant following the annual meeting of shareholders held



#### **Item 8 – Executive Officers of the Registrant, continued**

on the third Tuesday in June of each year. Mr. Heerensperger has served as Chairman of the Board since February, 1970 and as President since November, 1975. Mr. Knudtzon has served as Secretary-Treasurer since August, 1970. Mr. Bacon has served as Vice President since June, 1971, and Mr. Marlow has served as Vice President since November, 1975. There are no arrangements or understandings between any of the above officers and any other person pursuant to which he was selected as an officer.

(b) During the past five years David J. Heerensperger has served the Registrant as Chairman of the Board, and also, since November, 1975, as President. Halvor Knudtzon, Jr. has served the Registrant as Controller and Secretary-Treasurer during the past five years. Harold F. Bacon has served the Registrant as Vice President – Merchandising since September, 1974, and was first elected a Vice President in June, 1971, having also served during the past five years as Advertising and Public Relations Director for the Registrant. Jerry Marlow, prior to his election as Vice President – Operations in November, 1975, served the Registrant during the remainder of the past five years as a District Manager.

#### **Item 9 – Indemnification of Directors and Officers**

The general effect of Section VIII of the Registrant's By-Laws is that the officers and directors shall be indemnified by the Company against all costs, expenses, judgments and liabilities, including attorneys' fees, reasonably incurred by or imposed upon them in connection with or resulting from any action, suit or proceeding, civil or criminal, in which they may be made a party by reason of their position with the Company. Specifically excluded is liability for willful misconduct in the performance of duty as a director or officer.

The above indemnification provision is authorized by Section 23A.08.025 of the Revised Code of Washington which provides generally that a corporation has the power to indemnify any officer or director in connection with a civil or criminal proceeding, provided the officer or director has acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was unlawful. The statute also authorizes a corporation to purchase and maintain officers' and directors' liability insurance against any liability asserted against such persons by reason of their position with the Company.

The Registrant is insured under a directors' and officers' liability and corporation reimbursement policy under which the insurer has agreed to pay on behalf of the Registrant any amount the Company shall be required or permitted by law to pay to an officer or director as indemnity for any claim made against an officer or director by reason of any breach of duty, neglect, error, misstatement, misleading statement, omission or other act, done or wrongfully attempted by the officer or director in his capacity as an officer or director; but only when he shall have been entitled to indemnification by the Company, provided that such loss shall not include fines or penalties imposed by law or other matters which may be deemed uninsurable under the law pursuant to which the policy shall be construed.



## **Item 10 – Financial Statements and Exhibits Filed**

(a) **Financial Statements.** The consolidated financial statements and supporting schedules as set forth in the index to financial statements on the following page are filed as part of this Annual Report.

(b) **Exhibits.**

(1) Computation of weighted shares of common and common equivalent shares used in calculating primary earnings per share and computation of fully-diluted earnings per common and common equivalent share for the five years ended February 29, 1976.

## **PART II**

Items 11-15 are omitted as this information is furnished in the Company's definitive proxy statement being filed with the Securities and Exchange Commission.

### **SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PAY 'N PAK STORES, INC. (Registrant)**

By

A handwritten signature in dark ink, appearing to read 'Halvor Knudtzon, Jr.', with a stylized flourish at the end.

Halvor Knudtzon, Jr.  
Treasurer

Dated: May 14, 1976



**PAY 'N PAK STORES, INC.**  
**INDEX TO FINANCIAL STATEMENTS**  
**COVERED BY REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**  
**(Item 10(a))**

Consolidated balance sheet — February 29, 1976 and February 28, 1975

Consolidated statements of income, retained earnings and capital in excess of par value for the five years ended February 29, 1976 (Included in Item 2)

Consolidated statement of changes in financial position for the five years ended February 29, 1976

Notes to consolidated financial statements

Schedules for the years ended February 29, 1976 and February 28, 1975:

V — Property, plant and equipment

VI — Accumulated depreciation of property,  
plant and equipment

VII — Intangible assets and preoperating  
expenses

XII — Reserves

XVI — Supplementary income statement  
information

All other schedules have been omitted since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements, including the notes thereto.

Financial statements and schedules of Pay 'N Pak Stores, Inc. (not consolidated) are omitted since the Company is primarily an operating company, and all subsidiaries included in the consolidated financial statements are deemed to be totally-held.



## **PAY 'N PAK STORES, INC.**

### **REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

The Board of Directors  
Pay 'N Pak Stores, Inc.

We have examined the consolidated financial statements of Pay 'N Pak Stores, Inc. listed in the accompanying index to financial statements. 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 consolidated financial statements listed in the accompanying index to financial statements present fairly the consolidated financial position of Pay 'N Pak Stores, Inc. at February 29, 1976 and February 28, 1975, the consolidated results of its operations and the consolidated changes in financial position for the five years ended February 29, 1976, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Seattle, Washington  
March 26, 1976

**ARTHUR YOUNG & COMPANY**



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED BALANCE SHEET**  
February 29, 1976 and February 28, 1975

<u>ASSETS</u>		
	<u>1976</u>	<u>1975</u>
Current assets:		
Cash.....	\$ 815,722	\$ 133,895
Note and trade accounts receivable, less allowance of \$34,622 (\$58,943 in 1975) for doubtful accounts (Schedule XII).....	447,319	418,443
Merchandise inventories, at the lower of cost (first-in, first-out) or market.....	17,691,688	15,460,230
Prepaid expenses.....	863,132	579,713
Total current assets.....	19,817,861	16,592,281
Other assets:		
Cost of acquired stores in excess of amounts assigned to net assets at dates of acquisition (Note 1(c)) (Schedule VII).....	271,229	322,058
Note receivable.....		245,201
Pre-opening costs and other (Note 1(d)) (Schedule VII).....	218,651	175,377
Non-competition agreements (Note 1(e)).....	146,266	14,410
Deferred federal and state income taxes (Note 1(f)).....		6,374
Total other assets.....	636,146	763,420
Property, plant and equipment, at cost (Notes 1(b) and 2) (Schedule V):		
Land.....	441,700	366,700
Buildings.....	1,455,958	995,012
Leasehold improvements.....	3,529,905	3,015,832
Store equipment.....	5,344,436	4,188,763
Transportation equipment.....	504,853	222,323
Construction in progress.....	369,107	756,432
	11,645,959	9,545,062
Less accumulated depreciation and amortization (Schedule VI).....	2,921,425	2,127,849
	8,724,534	7,417,213
Properties held for development and/or investment.....	1,060,980	1,230,442
Net property, plant and equipment.....	9,785,514	8,647,655
	<u>\$30,239,521</u>	<u>\$26,003,356</u>

*See accompanying notes.*



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED BALANCE SHEET**  
February 29, 1976 and February 28, 1975

<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
	<b><u>1976</u></b>	<b><u>1975</u></b>
Current liabilities:		
Notes payable to bank (Note 2).....	\$	\$ 550,000
Accounts payable.....	5,596,863	5,846,361
Federal and state income taxes.....	450,943	484,708
Accrued liabilities:		
Payroll and profit sharing.....	459,716	467,017
Taxes, other than income.....	618,687	551,276
Interest and other.....	29,387	99,521
	<u>1,107,790</u>	<u>1,117,814</u>
Long-term debt due within a year.....	850,235	417,026
Total current liabilities.....	<u>8,005,831</u>	<u>8,415,909</u>
Long-term debt (Note 2).....	8,225,894	5,008,324
Employee benefit plan (Note 4).....	1,650,000	
Deferred income (Note 1(b)).....	132,291	139,155
Deferred income taxes (Note 1(f)).....	105,362	
Commitments (Note 5)		
Stockholders' equity:		
Preferred stock, without par value, 1,000,000 shares authorized, none issued		
Common stock, \$.10 par value 2,000,000 shares authorized, 1,519,275 shares issued (1,381,159 in 1975), including 56,267 shares in treasury.....	151,928	138,116
Capital in excess of par value.....	5,967,497	3,788,717
Retained earnings (Note 2).....	8,203,053	8,513,135
	<u>14,322,478</u>	<u>12,439,968</u>
Treasury stock, at cost (Note 3).....	(552,335)	
Deferred employee benefits (Note 4).....	(1,650,000)	
Total stockholders' equity.....	<u>12,120,143</u>	<u>12,439,968</u>
	<u><u>\$30,239,521</u></u>	<u><u>\$26,003,356</u></u>

*See accompanying notes.*



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**

	Year ended February 28 or 29				
	1972	1973	1974	1975	1976
Source of funds:					
Net income	\$1,132,312	\$1,459,801	\$1,857,300	\$ 2,226,045	\$2,574,624
Charges (credits) against income not involving working capital:					
Depreciation and amortization	611,619	865,571	1,065,709	1,211,434	1,274,083
Deferred federal income tax	(3,204)	1,749	1,749	30,945	163,648
Minority interest	12,484	14,299	13,468	22,090	
Net asset amount of land and equipment sold or retired	48,979	44,495	51,956	60,877	190,318
Working capital provided from operations	1,802,190	2,385,915	2,990,182	3,551,391	4,202,673
Increase in long-term debt	115,375	22,000	5,166,000	54,000	4,174,770
Exercise of stock options to purchase common stock	269,325	149,887			
Proceeds from sale; or sale and leaseback of properties	2,311,588	430,971	356,780	145,661	708,524
	<u>4,498,478</u>	<u>2,988,773</u>	<u>8,512,962</u>	<u>3,751,052</u>	<u>9,085,967</u>
Application of funds:					
Additions to property, plant and equipment	3,214,930	1,483,195	2,157,172	3,535,312	3,010,328
Cash dividends paid	203,011	212,560	345,290	483,406	692,114
Reduction of long-term debt	339,942	69,882	395,392	418,259	957,200
Purchase of treasury stock					552,335
Cost of investment in subsidiary and acquired stores in excess of amounts assigned to net assets	22,450	92,604			
Non-competition agreements	(47,170)	22,000			135,000
Pre-opening costs and other	291,400	260,781	173,490	389,804	348,533
Increase (decrease) in notes receivable				245,201	(245,201)
Purchase of minority interest in subsidiary		(7,500)		63,311	
	<u>4,024,563</u>	<u>2,133,522</u>	<u>3,071,344</u>	<u>5,135,293</u>	<u>5,450,309</u>
Increase (decrease) in working capital	<u>\$ 473,915</u>	<u>\$ 855,251</u>	<u>\$5,441,618</u>	<u>\$ (1,384,241)</u>	<u>\$3,635,658</u>
For the increase (decrease) in the elements of working capital, see below:					
Cash and treasury bills	\$ (213,032)	\$ 161,374	\$ (24,441)	\$ (437,485)	\$ 681,827
Receivables	534,476	(331,822)	(172,537)	140,988	28,876
Merchandise inventories	4,496,584	4,364,139	1,347,963	186,879	2,231,458
Prepaid expenses	136,896	95,198	(52,273)	125,366	283,419
Notes payable	(3,425,000)	(1,600,000)	4,985,000	115,000	550,000
Accounts payable	(1,066,763)	(1,679,890)	(86,029)	(1,265,777)	249,498
Federal and state income taxes	3,543	(3,951)	(46,723)	(30,130)	33,765
Accrued liabilities	(128,069)	(142,642)	(185,390)	(195,873)	10,024
Long-term debt due within one year	135,280	(7,155)	(323,952)	(23,209)	(433,209)
Increase (decrease) in working capital	<u>\$ 473,915</u>	<u>\$ 855,251</u>	<u>\$5,441,618</u>	<u>\$ (1,384,241)</u>	<u>\$3,635,658</u>

See accompanying notes.



**PAY 'N PAK STORES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**February 29, 1976 and February 28, 1975**

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**1. Basis of presentation and significant accounting policies**

(a) **Consolidation** — The financial statements consolidate the accounts of the parent company and its subsidiaries. At December 31, 1974, the Company purchased the minority interest in a subsidiary for its net book amount and merged the subsidiary into the parent company at February 28, 1975.

(b) **Property, plant and equipment** — Depreciation of property, plant and equipment is provided principally on the straight-line method. Estimated useful lives are as follows: buildings — 40 years; leasehold improvements — 10 years or life of the lease; equipment — 3-10 years.

Additions, replacements and betterments are capitalized; maintenance and repairs are charged to operations as incurred. When assets are sold or retired, the cost of the assets and the related accumulated depreciation are removed from the balance sheet accounts, and the resulting gain or loss is included in the consolidated statement of income unless the assets are leased back in which event the gain or loss is deferred and amortized to income over the period of the lease.

(c) **Investment in acquired stores** — Costs of acquired stores in excess of amounts assigned to net assets at dates of acquisition are amortized on the straight-line method using a twenty-five year life.

(d) **Pre-opening costs** — Pre-opening costs are capitalized and amortized on the straight-line basis over three years commencing with the opening of the store.

(e) **Non-competition agreement** — The costs of non-competition agreements are amortized on the straight-line basis over three and seven years, the lives of the agreements.

(f) **Income taxes** — Deferred federal and state income taxes are provided in the accompanying consolidated financial statements for differences in the timing of reporting income and expenses for financial statement and income tax purposes.

Investment tax credits realized at the time of property acquisitions are accounted for on the flow-through method.

(g) **Per share information** — Common share amounts were determined on the weighted average number of such shares outstanding after giving retroactive effect to the 10% stock dividend declared on March 16, 1976 and on March 13, 1975. The dilutive effect of stock options was not material.

**2. Short-term and long-term debt**

At February 29, 1976, the Company has available an unused line-of-credit of \$3,000,000 under an informal agreement with a bank, which expires June 30, 1976. The interest rate is at  $\frac{1}{2}\%$  above prime. The maximum amount of month-end short-term bank borrowings during the fiscal year ended February 29, 1976 was \$2,950,000 (\$550,000 in 1975), the approximate average daily amount of such borrowings was \$1,225,000 (\$54,000 in 1975), and the weighted daily average interest rate was 8% (11.6% in 1975).

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**PAY 'N PAK STORES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued**  
**February 29, 1976 and February 28, 1975**

**2. Short-term and long-term debt, continued**

Long-term debt outstanding at February 29, 1976 and February 28, 1975 is shown in the following summary.

	<u>1976</u>	<u>1975</u>
Notes payable to insurance company:		
9½%, due \$650,000 annually to 1987 and \$200,000 in 1988, plus interest.....	\$8,000,000	
8½%, refinanced.....		\$4,700,000
6¼%, refinanced.....		75,000
10½% capitalized lease due \$105,928 annually including interest through September, 1979.....	316,075	
9¾% equipment contract due annually including interest, \$70,980 to 1980 and \$17,745 in 1981.....	250,476	
7% — 8% real estate contracts, due annually including interest, \$89,000 in 1979, \$53,000 to 1984, and reduced amounts to 1989.....	423,812	549,817
6½% mortgage note payable, due \$15,738 annually including interest to 1982.....	76,966	87,333
Non-competition agreement, due \$4,400 annually to 1978.....	8,800	13,200
	9,076,129	5,425,350
Less long-term debt due within one year.....	850,235	417,026
	<u>\$8,225,894</u>	<u>\$5,008,324</u>

Properties held for development and/or investment at a cost of \$554,909 and operating plant and equipment having a net book amount of \$1,049,895 are pledged as collateral for the above debt.

In February, 1976, the Company borrowed additional working capital of approximately \$3,550,000 and retired the 6¼% note in the amount of \$50,000 and 8½% note in the amount of \$4,400,000 payable to an insurance company in exchange for the 9½% note payable issued to the same insurance company. The loan agreement covering the 9½% note payable provides, among other things, restrictions on the payment of cash dividends, redemption or reacquisition of the Company's stock and payment of certain stockholder-employee compensation. At February 29, 1976, retained earnings of \$1,096,223 was not restricted. Other provisions require that working capital of \$9,000,000 must be maintained, that current unsecured debt may not exceed \$6,000,000, and that new store expansion be limited to a planned program.

Payments on the principal of long-term debt for the four years ending February 28, 1981 are required as follows: 1978—\$869,000; 1979—\$874,000; 1980—\$822,000; 1981—\$727,000.

**3. Stockholders' equity**

In connection with the November, 1975 resignation of an officer/director, the Company entered into or is a participant in agreements to acquire all of the Company's common shares owned by the former officer/director. The common shares acquired are not registered under the Securities Act of 1933.

In a non-taxable exchange of the assets of two small retail stores, located in California, with a net asset amount of \$518,786, the Company acquired 56,267 shares of common stock, the basis of the exchange being the net book amount of the Company's common stock (\$9.22 per share) at November 30, 1975. The related unamortized intangible costs of \$33,549 have been included in the cost of these shares held as treasury stock at February 29, 1976.

Also, in December 1975, the Company's Employee Stock Ownership Trust purchased the remainder of common shares (150,612) held by the former officer/director, see (Note 4). In addition, by the payment of \$135,000 the former officer/director agreed not to compete with the Company through November, 1978.



# PAY 'N PAK STORES, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued

February 29, 1976 and February 28, 1975

### 4. Employee benefit plan

During 1976, the Company created an Employee Stock Ownership Trust (ESOT) and adopted amendments to the existing Profit Sharing Plan to convert the latter to an Employee Stock Ownership Plan (ESOP), which has been approved by the Internal Revenue Service. Substantially all employees participate in the ESOP after three years of employment.

In December 1975, the ESOT purchased from a former officer/director of the Company (Note 3) 150,612 shares of the Company's common stock at a cost of \$1,656,732. The price paid per share was less than the then market price per share and was a taxable transaction to the officer/director. These funds were borrowed from a bank by the ESOT and are payable at \$62,500 per quarter to 1982 including interest at 2¼% above prime. The Company has guaranteed repayment of the loan. The obligation of the ESOT is expected to be serviced through future Company contributions (\$218,596 in 1976) and dividends paid on the common stock. Therefore, the obligation has been reflected in the accompanying consolidated balance sheet at February 29, 1976 as a liability. An amount equal to the unpaid balance of the loan, representing deferred employee benefits, is recorded as a reduction from stockholders' equity.

### 5. Commitments

The Company leases substantially all retail store facilities. Rent expense during the years ended February 29, 1976 and February 28, 1975 was as follows:

	1976	1975
Operating leases	\$ 770,714	\$ 725,793
Non-capitalized financing leases	1,372,083	1,071,604
	<u>\$2,142,797</u>	<u>\$1,797,397</u>

Payments for property taxes, insurance and other costs under most lease arrangements are considered basic rentals.

Most lease agreements provide for minimum rental payments on the basis of lapse of time, with certain leases providing for additional percentage rentals at such time that an individual store's annual sales exceed a specified amount. The Company has options to renew most leases for three to ten-year periods at agreed amounts. There are no existing options to purchase leased property.

Minimum annual rent commitments, exclusive of insurance and property taxes, under non-cancelable leases for retail stores are payable as follows:

	Total commitment	Applicable to non-capitalized financing leases
	(000's omitted)	
1977	\$1,884	\$1,186
1978	\$1,819	\$1,186
1979	\$1,749	\$1,187
1980	\$1,670	\$1,187
1981	\$1,618	\$1,187
1982 - 1986	\$7,000	\$5,829
1987 - 1991	\$5,743	\$5,235
1992 - 1996	\$4,121	\$3,850
1997 - 2001	\$1,062	\$ 910



**PAY 'N PAK STORES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued**  
**February 29, 1976 and February 28, 1975**

**5. Commitments, continued**

Present values of minimum lease commitments for non-capitalized financing leases aggregate \$9,792,000 and \$9,077,000 at February 29, 1976 and February 28, 1975, respectively.

If all non-capitalized financing leases were capitalized, related assets were amortized on a straight-line basis over estimated useful lives of 15-25 years and interest cost was accrued on the basis of the outstanding lease liability, the impact on net income for the years ended February 29, 1976 and February 28, 1975 would be as follows:

	<u>1976</u>	<u>1975</u>
Pro forma adjustments:		
Reduction of rental expense .....	\$(1,184,000)	\$ (882,000)
Increase in amortization expense .....	484,000	391,000
Increase in interest expense .....	861,000	720,000
Income tax effects .....	(77,000)	(110,000)
Pro forma decrease in net income .....	<u>\$ 84,000</u>	<u>\$ 119,000</u>

The interest rates used in discounting net lease commitments vary from 7% to 12%, which are similar to the rates implicit in the terms of sale and leaseback agreements negotiated by the Company. The weighted average interest rate was 9.2% and 9.1% at February 29, 1976 and February 28, 1975, respectively.



**PAY 'N PAK STORES, INC.**  
**SCHEDULE V – PROPERTY, PLANT AND EQUIPMENT**  
Years ended February 29, 1976 and February 28, 1975

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions at cost</u>	<u>Retirements or sales</u>	<u>Balance at close of period</u>
1975:				
Land .....	\$ 195,700	\$ 171,000	\$	\$ 366,700
Buildings .....	233,634	761,378		995,012
Leasehold improvements .....	2,710,187	564,175	258,530	3,015,832
Store equipment .....	3,055,102	1,328,353	194,692	4,188,763
Transportation equipment .....	171,953	51,670	1,300	222,323
Construction in progress .....	1,696	754,736		756,432
	<u>6,368,272</u>	<u>3,631,312</u>	<u>454,522</u>	<u>9,545,062</u>
Properties held for development and/or investment .....	1,384,442	(96,000)	58,000	1,230,442
	<u>\$ 7,752,714</u>	<u>\$ 3,535,312</u>	<u>\$ 512,522</u>	<u>\$10,775,504</u>
1976:				
Land .....	\$ 366,700	\$ 183,500	\$ 108,500*	\$ 441,700
Buildings .....	995,012	922,393	461,447*	1,455,958
Leasehold improvements .....	3,015,832	645,721	131,647	3,529,906
Store equipment .....	4,188,763	1,291,309	135,636	5,344,436
Transportation equipment .....	222,323	453,963	171,434	504,852
Construction in progress .....	756,432	(387,325)		369,107
	<u>9,545,062</u>	<u>3,109,561</u>	<u>1,008,664</u>	<u>11,645,959</u>
Properties held for development and/or investment .....	1,230,442	(99,233)	70,229	1,060,980
	<u>\$10,775,504</u>	<u>\$ 3,010,328</u>	<u>\$ 1,078,893</u>	<u>\$12,706,939</u>

\*Properties sold and leased back.

**SCHEDULE VI – ACCUMULATED DEPRECIATION OF  
PROPERTY, PLANT AND EQUIPMENT**  
Years ended February 29, 1976 and February 28, 1975

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions charged to income</u>	<u>Retirements or sales</u>	<u>Balance at close of period</u>
1975:				
Buildings .....	\$ 18,185	\$ 8,352	\$	\$ 26,537
Leasehold improvements .....	581,190	294,714	166,177	709,727
Store equipment .....	1,001,384	469,094	138,707	1,331,771
Transportation equipment .....	27,046	33,868	1,100	59,814
	<u>\$ 1,627,805</u>	<u>\$ 806,028</u>	<u>\$ 305,984</u>	<u>\$ 2,127,849</u>
1976:				
Buildings .....	\$ 26,537	\$ 44,377	\$ 8,652*	\$ 62,262
Leasehold improvements .....	709,727	257,427	35,668	931,486
Store equipment .....	1,331,771	614,794	57,932	1,888,633
Transportation equipment .....	59,814	57,030	77,800	39,044
	<u>\$ 2,127,849</u>	<u>\$ 973,628</u>	<u>\$ 180,052</u>	<u>\$ 2,921,425</u>

\*Properties sold and leased back.



# PAY 'N PAK STORES, INC.

## SCHEDULE VII – INTANGIBLE ASSETS AND PREOPERATING EXPENSES

Years ended February 29, 1976 and February 28, 1975

	Balance at beginning of period	Additions at cost	Amortization charged to income	Deductions Charged to cost of treasury stock	Balance at close of period
Cost of acquired stores in excess of amounts assigned to net assets at dates of acquisition:					
1975.....	\$339,758		\$ 17,700		\$322,058
1976.....	\$322,058		\$ 17,280	\$ 33,549	\$271,229
Pre-opening costs and other:					
1975:					
Prepaid expense.....	\$141,780	\$160,144	\$141,780		\$160,144
Pre-opening and other.....	113,692	238,397	194,437		157,652
	\$255,472	\$398,541	\$336,217		\$317,796
1976:					
Prepaid expense.....	\$160,144	\$179,168	\$160,144		\$179,168
Pre-opening and other.....	157,652	186,820	126,751		217,721
	\$317,796	\$365,988	\$286,895		\$396,889

## SCHEDULE XII – RESERVES

Years ended February 29, 1976 and February 28, 1975

	Balance at beginning of period	Additions charged to income	Deductions accounts written-off	Balance at close of of period
Allowance for doubtful accounts deducted from the asset to which it applies:				
1975.....	\$ 36,943	\$ 77,288	\$ 55,288	\$ 58,943
1976.....	\$ 58,943	\$ 38,848	\$ 63,169	\$ 34,622



**PAY 'N PAK STORES, INC.**  
**SCHEDULE XVI – SUPPLEMENTARY INCOME STATEMENT INFORMATION**  
**Years ended February 29, 1976 and February 28, 1975**

	Charged to costs and expenses for years ended February 28 or 29	
	1975	1976
Taxes other than taxes on income .....	\$1,067,831	\$1,211,294
Depreciation (Schedule VI) .....	\$ 806,028	\$ 973,628
Rent – charged to:		
Rent .....	\$1,797,397	\$2,142,797
Selling and administrative .....	245,421	181,467
	\$2,042,818	\$2,324,264
Advertising .....	\$2,356,569	\$2,533,016
There were no research and development costs or royalties paid during the period. Maintenance and repairs and amortization of intangible assets did not exceed one percent of net sales.		
Depreciation and amortization as shown on Consolidated Statement of Changes in Financial Position:		
Depreciation – Schedule VI .....	\$ 806,028	\$ 973,628
Amortization – Schedule VII .....	17,700	17,280
Amortization of deferred gain on sale and leaseback of properties – credited to rent expense .....	(6,864)	(6,864)
Amortization of non-competition agreements .....	58,353	3,144
Amortization of pre-opening costs (Schedule VII) .....	336,217	286,895
	\$1,211,434	\$1,274,083



## EXHIBIT 1

## PAY 'N PAK STORES, INC.

SCHEDULE OF COMPUTATION OF WEIGHTED AVERAGE SHARES  
OF COMMON AND COMMON EQUIVALENT SHARES  
USED IN CALCULATING PRIMARY EARNINGS PER SHARE

<u>Date</u>	<u>Year ended February 28 or 29</u>				
	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Shares of common stock outstanding:					
Balance beginning of year (1) .....	1,610,400	1,637,625	1,671,203	1,671,203	1,671,203
Options exercised:					
11- 1-71 @ \$9.89 per share .....	27,225				
6-15-72 @ \$3.62 per share .....		9,680			
6-22-72 @ \$9.89 per share .....		4,538			
8-30-72 @ \$3.62 per share .....		9,680			
11-10-72 @ \$3.62 per share .....		9,680			
Purchase of treasury shares:					
12-31-75 @ \$8.38 per share .....					(61,894)
Balance at end of year (1) .....	<u>1,637,625</u>	<u>1,671,203</u>	<u>1,671,203</u>	<u>1,671,203</u>	<u>1,609,309</u>
Number of shares used to compute primary net income per share:					
Weighted average number of common shares outstanding (1) -	1,619,475	1,655,977	1,671,203	1,671,203	1,660,887
Common stock equivalent shares (2) -	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	<u>1,619,475</u>	<u>1,655,977</u>	<u>1,671,203</u>	<u>1,671,203</u>	<u>1,660,887</u>



**PAY 'N PAK STORES, INC.**  
**COMPUTATION OF FULLY-DILUTED EARNINGS PER COMMON AND**  
**COMMON EQUIVALENT SHARE**

	Year ended February 28 or 29				
	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Net income.....	<u>\$1,132,312</u>	<u>\$1,459,801</u>	<u>\$1,857,300</u>	<u>\$2,226,045</u>	<u>\$2,574,624</u>
Common and common equivalent shares:					
Average shares outstanding during the year (1).....	1,619,475	1,655,977	1,671,203	1,671,203	1,660,887
Potentially dilutive shares which affect fully diluted earnings per share — issuable for stock options...	<u>29,778</u>	<u>15,664</u>	<u>113</u>		
Maximum potential shares included in computation of fully-diluted earnings per share.....	<u>1,649,253</u>	<u>1,671,641</u>	<u>1,671,316</u>	<u>1,671,203</u>	<u>1,660,887</u>
Fully-diluted earnings per share (1)...	<u>\$ .69</u>	<u>\$ .87</u>	<u>\$1.11</u>	<u>\$1.33</u>	<u>\$1.55</u>

The Consolidated Statement of Income does not include fully-diluted earnings per share data since as explained in Note (c), "the dilutive effect of stock options was not material in any year."

(1) After giving retroactive effect to 10% stock dividend declared  
March 16, 1976 and March 13, 1975.

(2) Excluded since the dilutive effect would be less than 3%.



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