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Pay 'N Pak
Stores, Inc.
Annual Report
1974



YOUR COMPANY

As of February 28, 1974 Pay 'N Pak Stores, Inc. operated 48 retail stores in 11 western and mid-western states.

The home center units serve the extensive do-it-yourself market on a cash and carry basis. The stores feature complete lines of name brand home improvement products including electrical, lighting, plumbing fixtures and equipment, cabinets, built in appliances, building materials, hand tools and floor coverings. Nine stores also carry complete lines of automotive parts, accessories and sporting goods.

Management is continuing an aggressive and balanced expansion of stores.

The corporate offices are located in the large Pay 'N Pak Mall at 1209 South Central Avenue in Kent, Washington near Seattle.



David J. Heerensperger, Chairman of the Board



John M. Headley, President

BOARD OF DIRECTORS



Woodrow C. Button
Chairman of the Board,
Bank of The West, Bellevue



Halvor Knudtson, Jr.
Secretary-Treasurer,
Controller



Curtis L. Rhodes
Director of Purchasing



Marshall J. Weigel
Corporate Finance Specialist—
Mergers and Acquisitions

■ TO OUR SHAREHOLDERS

We are pleased to report that once again your company achieved record sales and earnings for the fiscal year ended February 28, 1974. Revenues totaled \$51,893,886 as compared with \$42,396,952 in fiscal 1973, an increase of 22%. Net income after taxes was \$1,857,300 as compared with \$1,459,801 the previous year, an increase of 27%. Per share income was \$1.34 on the weighted average number of common shares outstanding in fiscal 1974 of 1,381,159 as compared to \$1.07 per share on 1,368,576 shares outstanding in fiscal 1973.

Dividends totaling 25 cents per share were paid to shareholders during fiscal 1974. This was an increase over the 15.5 cents per share paid in the previous year. It is your company's policy to increase dividends for the benefit of shareholders as earnings and other conditions warrant.

Fiscal 1974 was a trying year for retailing. The industry was forced to cope with price controls, the energy crisis, many supply shortages and high interest rates. As a matter of fact the cost of borrowing for Pay 'N Pak was equal to 8 cents per share more during fiscal 1974 than in fiscal 1973.

During the year your company continued its vigorous expansion by opening new stores in Bellevue, Washington; Vallejo, California; Tucson, Arizona; Walla Walla, Washington and Tulsa, Oklahoma. These 5 new facilities added 124,435 square feet of store space.

In keeping with its policy of continual upgrading of existing stores your company closed small stores in Mt. Vernon, Everett and Bremerton, Washington, replacing each one with a new, larger unit, increasing the company's square footage in these 3 locations by 25,130 square feet.

In June 1973 the company sold its only store in Canada, in Burnaby, B. C. The company found the

do-it-yourself market in Canada quite different from the United States market and the 42,624 square foot Burnaby store had not been profitable. The company recovered its total investment by the sale of this subsidiary.

With the opening of the new stores, the upgrading of existing stores, less the sale of the Burnaby store, the company increased total store space from 783,588 square feet to 890,529 square feet, a net increase of 14%.

The level of trained sales people in retailing is the big difference toward a competitive edge in the market place. Pay 'N Pak not only has a full time product training director but also a complete how-to-do-it-yourself training film program.

This film program, produced internally using color and sound movie film, covers over 30 separate subjects with a viewing theatre unit in every store. These Technicolor Super 8 units have a one-on-one or group training capability and a testing program to evaluate the effectiveness of the program. The goal of this program is to have your company's personnel completely qualified to explain to customers how to install or use all of the products the company sells.

Your company is in excellent financial condition. In August management arranged a \$5 million loan from Prudential Insurance Company of America. The loan bears interest at 8½% and is repayable over a 15 year term. Proceeds were used to retire expensive short term bank debt.

We are proud of the spirit, initiative and self motivation of our staff and employees. Your officers and directors are also proud of the fact that sales and earnings have increased, over the comparable period, for 16 consecutive quarters under the direction of the present management team.

David J. Heerensperger

■ David J. Heerensperger
Chairman of the Board

John M. Headley

■ John M. Headley
President



David J. Heerensperger, *Chief Executive Officer, Chairman of the Board*



John M. Headley, *Chief Operations Officer, President*

Ralph Beniasch, *Purchasing Agent*

Rod Cosgriff, *Purchasing Agent*

Larry Elliott, *Purchasing Agent*

Bud Larsen, *Purchasing Agent*

Rod Shutt, *Purchasing Agent*

Thomas J. McCloskey, *Assistant Controller*

William Gottbreht, *Office Manager*

Clemens Erlander, *Advertising Manager*

Paul Morris, *Assistant Store Development*

Gary Wieber, *Assistant Advertising Director*

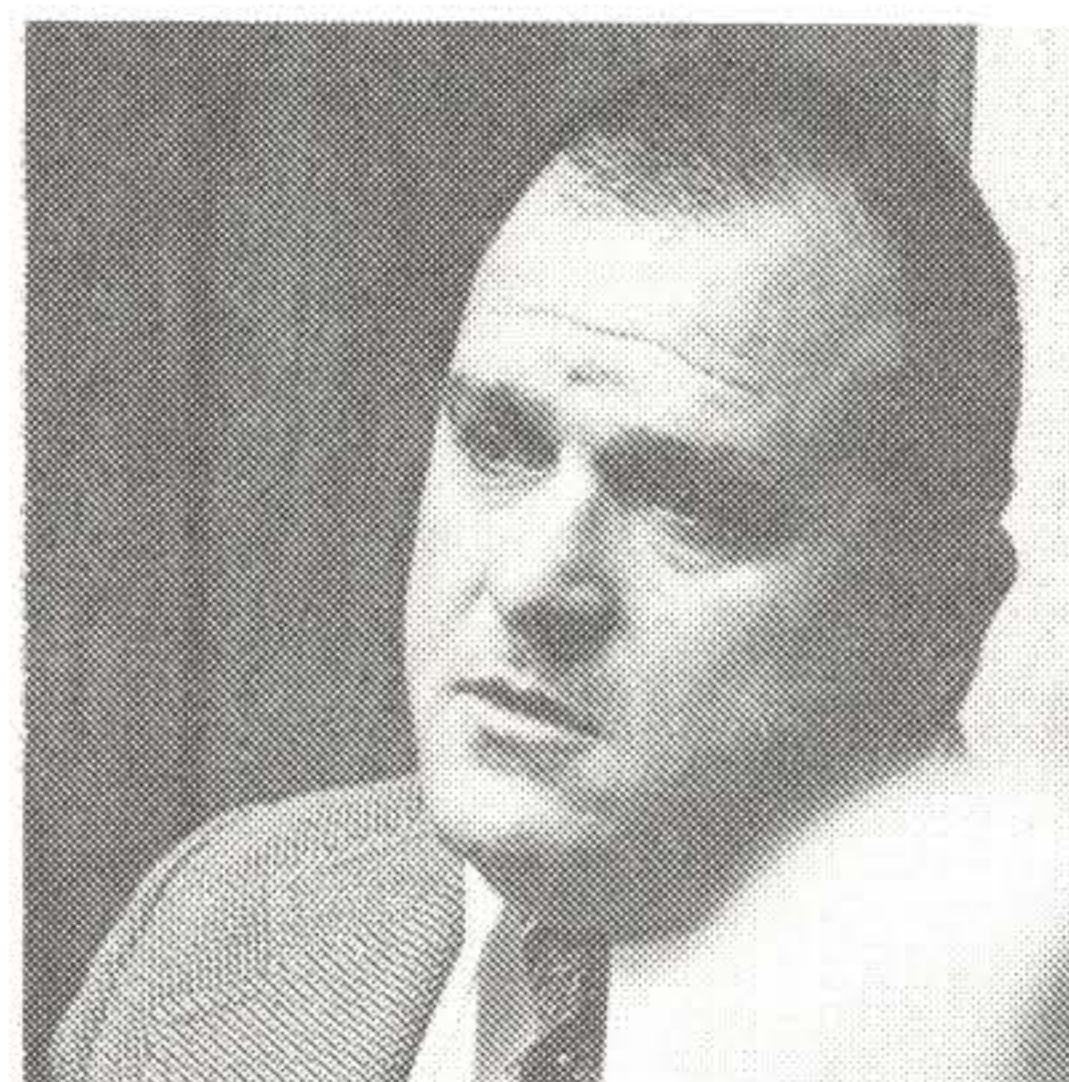
Gerald Wishman, *Security and Procedures Assistant*



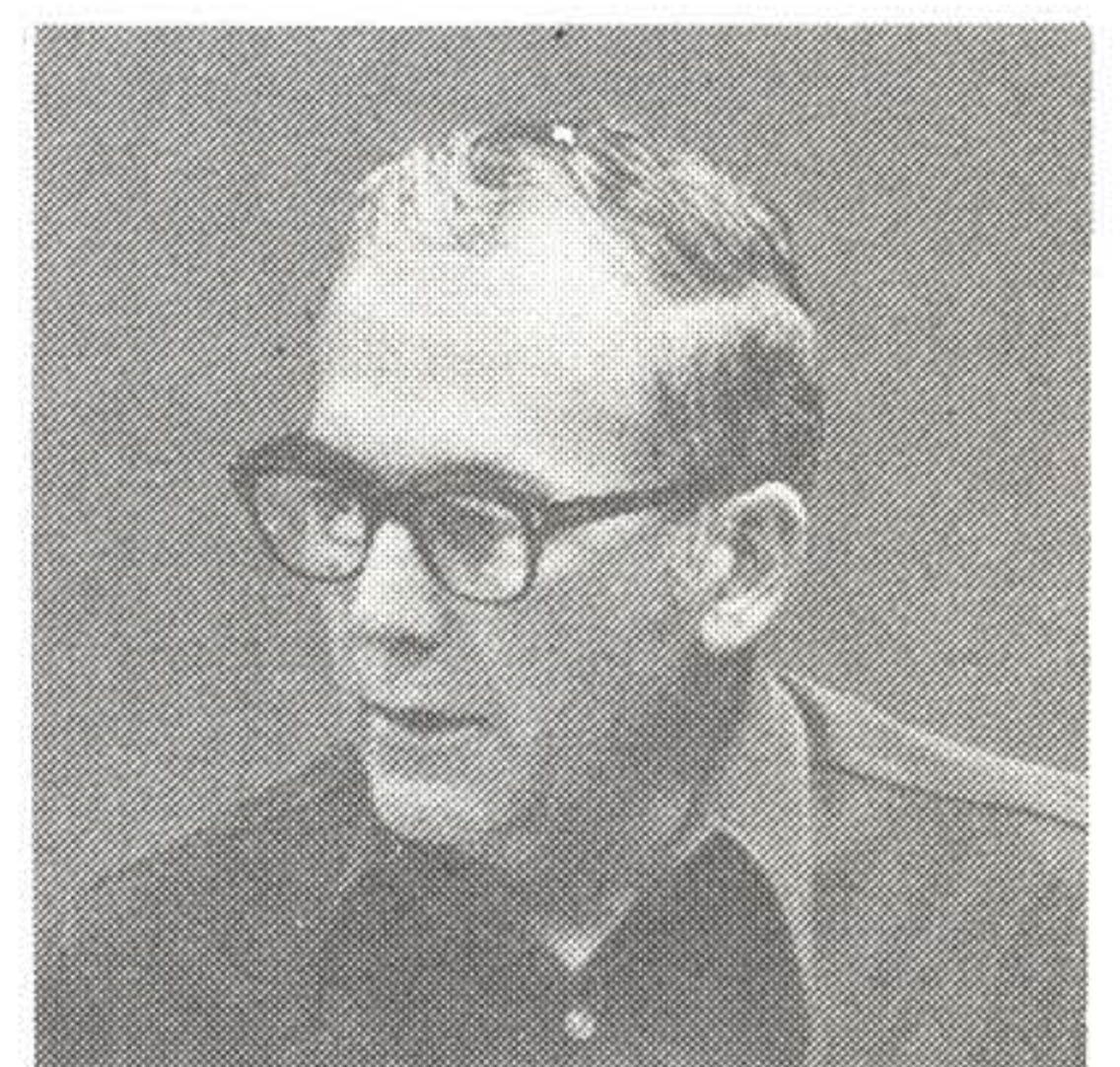
THE STAFF AND ASSISTANTS



Harold F. Bacon, *Vice President, Advertising and Public Relations Director*



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



Curtis L. Rhodes, *Purchasing Director*



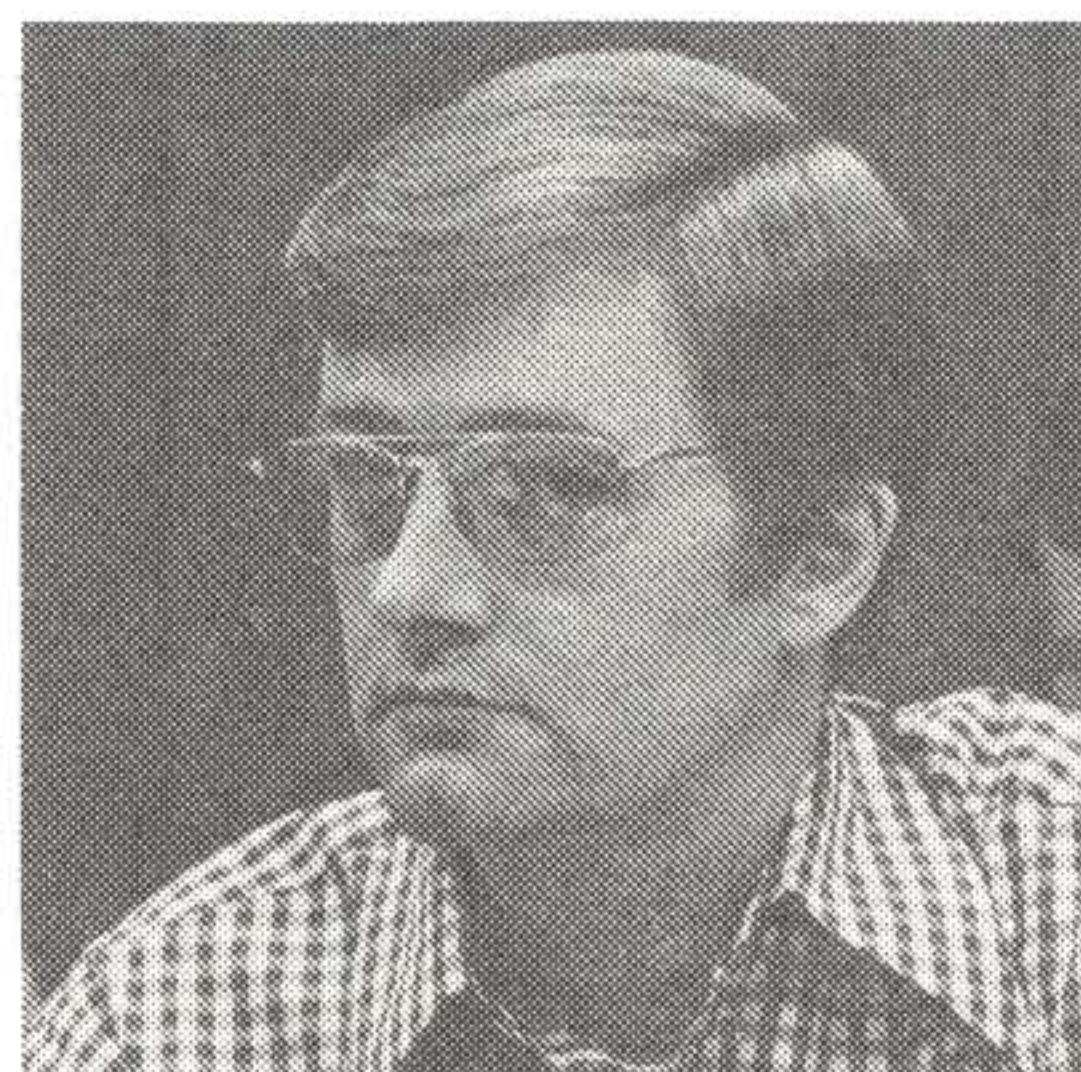
Monte Leen, *District Manager — California, Nevada, Arizona, Metro Oregon*



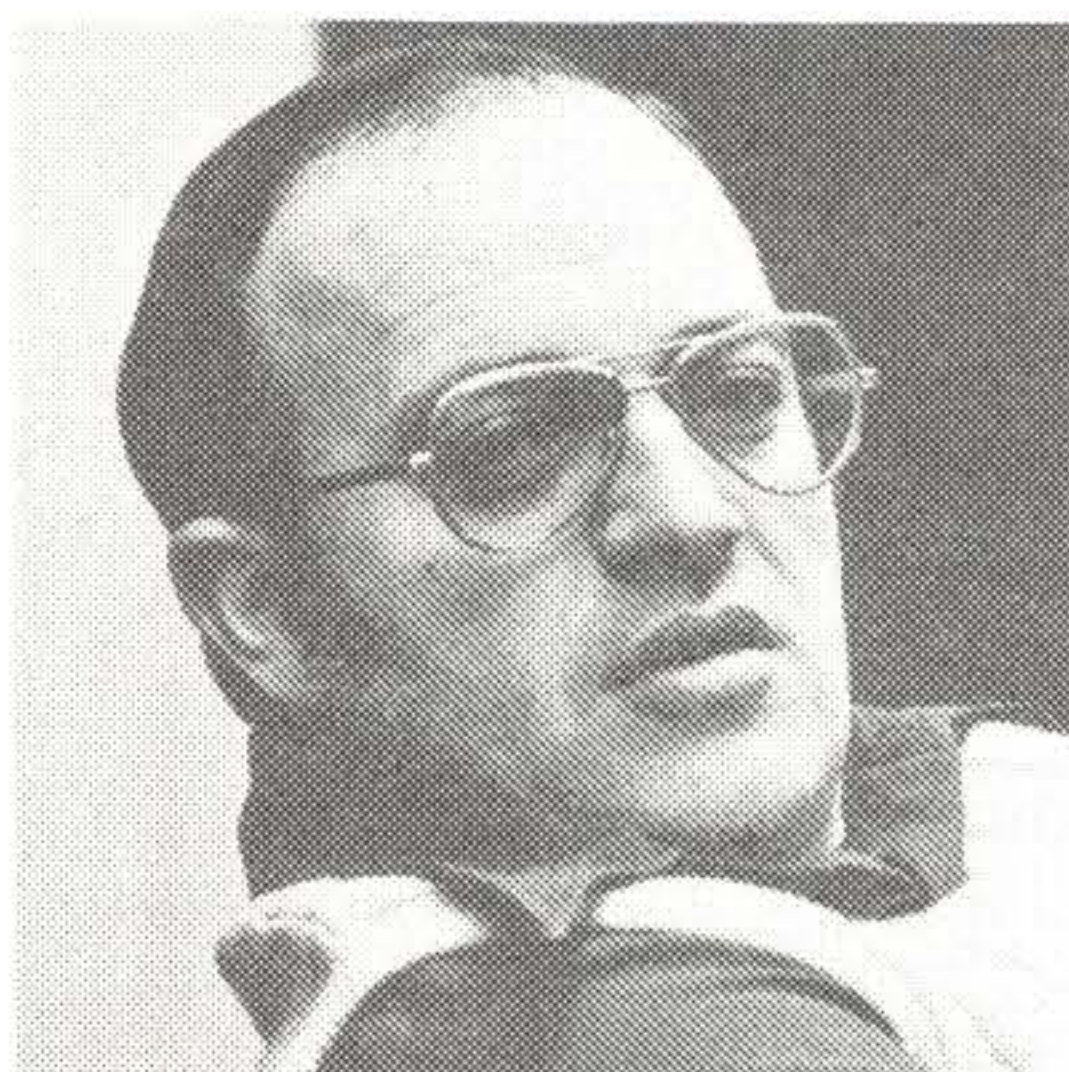
Terri Clevenger, *Personnel Director*



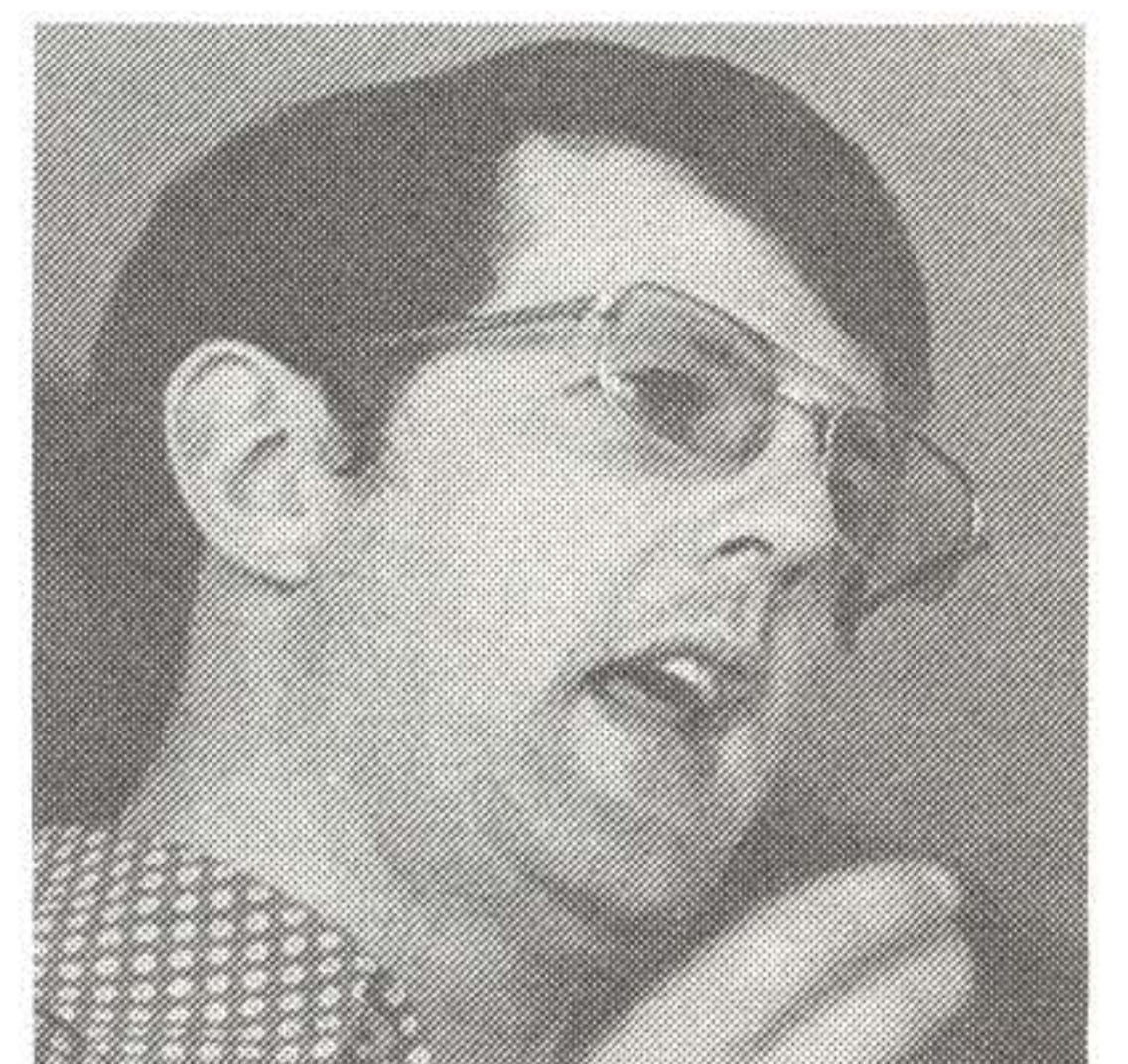
Jerry Marlow, *District Manager — Idaho, Eastern Washington, Montana*



John Mead, *District Manager — South Western Washington, Oregon, Alaska*



Peter W. Gallina, *Store Development and Real Estate Director*



Russell Morgan, *District Manager — North Western Washington*



George Smith, *Training Director*



Ray White, *District Manager — Colorado, Kansas, Oklahoma*



future management

Each store and each district is expected to produce people capable to move up as new job opportunities arise.

■ The personnel department conducts two or more Management Training Seminars each year. These are week-long accelerated training programs and a measure of their effectiveness is demonstrated by the fact that 80% of all store managers are graduates of these company schools.

The training programs are unique. The company utilizes a full time training director constantly updating product training knowledge.

The director of personnel is continually striving to make our people more effective in recruiting new people for Pay 'N Pak. All store managers are provided with a hiring and orientation guide.

When a new employee joins the company he is given an eighteen page "Welcome to a Great Team" brochure that explains company policy and benefits. It also provides him with a complete job description that clearly defines his responsibility. Each new employee, after a period of orientation, progresses to the company's continuing training programs.

training

■ The keystone of this continuing program is the Pay 'N Pak "DO-IT-YOURSELF" Training Theatre. Each store has its own Technicolor large screen, TV-like viewing theatre for one-on-one or group training. To date the company has produced over 30 color and sound movie films, averaging eight minutes per subject. After an employee views a film, he completes a prepared test which is forwarded to headquarters for evaluation of both the film and the employee. These films explain in detail installation and other vital information about the products which the company sells. Large master control boards updated weekly trace the progress of each employee as he goes through the program.

During the year the company also launched a Retail Selling Skills program, developed exclusively for Pay 'N Pak by a unit of Xerox Learning Systems. This is a 12 hour course with homework which utilizes tape recorded situations to teach all employees how to handle any sales problem. Each student has an opportunity to take a part in the selling experience through actual dramatization which is taped and then replayed for an objective review.

The company gives preference to the employment of aggressive, clean cut, young-thinking people whose quality of positive attitude will assure their growth and our growth as a company.

The advanced training programs stimulate initiative and speed merchandising maturity in our people.

controls

■ The centrally controlled accounting department with record keeping programs and management information systems must keep pace with the company expansion to assure an orderly growth.

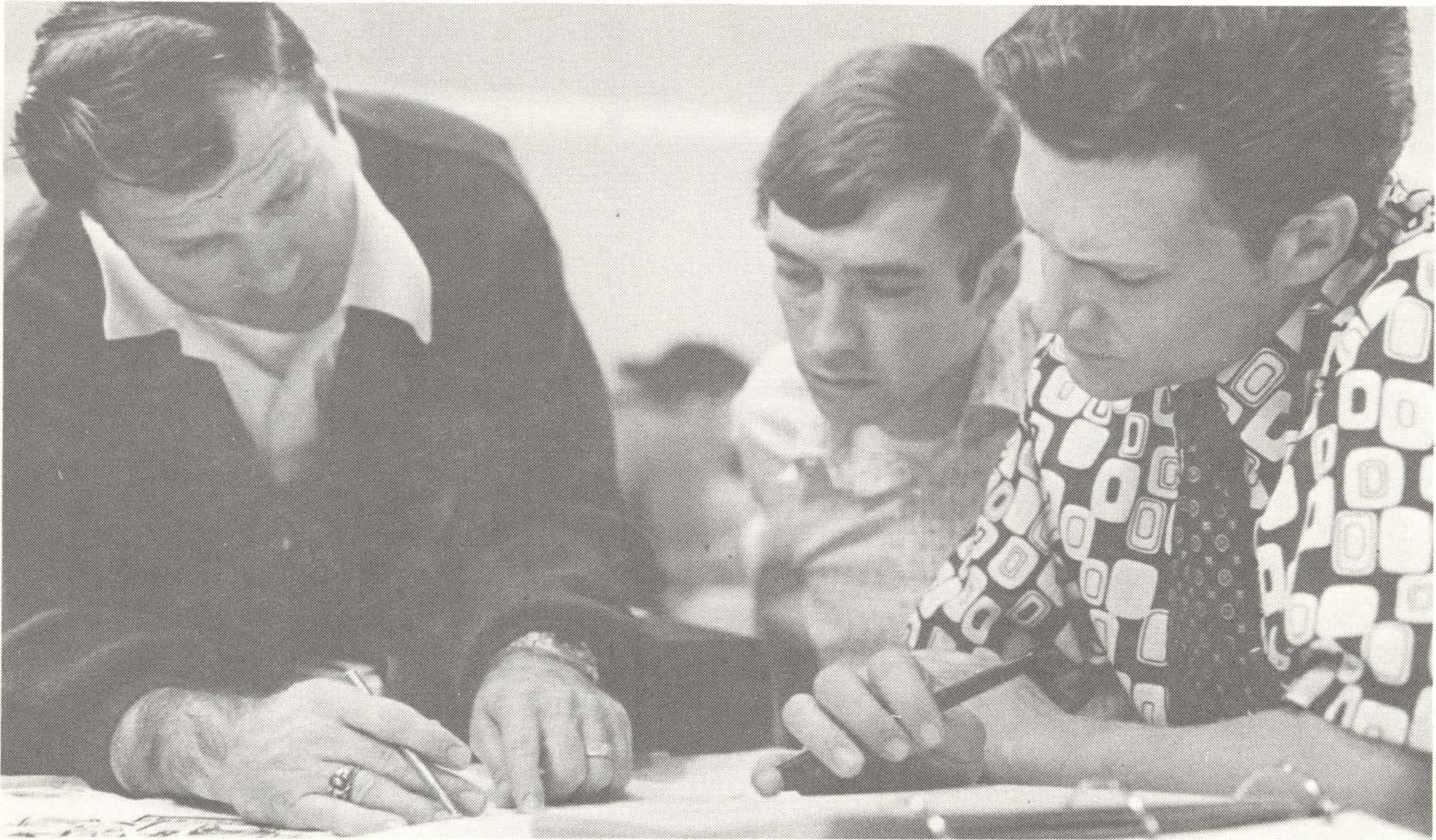
Use of computer services has furnished prompt and dependable information on sales, costs and other statistical data enabling management to effectively handle operations on the basis of a day by day control.

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

Inventory levels, purchases by category, inventory turns and open-to-buy information is furnished and used daily in controlling the operations of the company.

purchasing

■ The company's central purchasing agents, under the director of purchasing, are experts in their merchandise category. These agents attend national and regional trade shows and are continually analyzing new products for possible inclusion in, or extension of, the company's merchandise mix. Their expertise in their fields has contributed materially to the company's image. These agents administer a chain-wide pricing, control, and source system.



The concept of "home environment" store displays designed and administered by the store development team help bring home-improvement dreams to reality for the company's customers. The customer can study new-look bathrooms and kitchens and see them as they will actually look in the customer's home.

Pay 'N Pak utilizes good, better and best categories in merchandise so customers can obtain the best quality that their budgets will allow.

advertising

■ The positive strength of the company's innovative advertising team, under the direct supervision of the vice president, has succeeded in constantly increasing sales volume through aggressive advertising strategy.

The company utilizes promotional, hard hitting, weekly and twice weekly advertisements in 40 newspapers in 36 cities.

Three chainwide special sales events are conducted each year to complement and add to the regular advertising program. These events each utilize 3,700,000 multi-color, pre-printed tabloids in either 8 or 12 page size. These tabloids are distributed in 47 newspapers covering the company's entire marketing area.

The advertising task force operates a central supplies warehouse which through large volume purchasing saves money in bags, forms, signs, company shirts, smocks and office materials. They also each year publish a sign catalog, constantly updated so any store can easily order any sign needed for store displays.

Each store has a 110 page display book which shows how every floor display should be set up, both in a drawing and a detailed photograph. One store is set up as a pilot store, the display created there, and then photographed upon completion.

The guide is updated weekly with corrections and new displays whenever necessary.

profit share

■ The Company's Profit Sharing Plan gives each employee an individual sense of ownership, responsibility and participation. It is a strong incentive for continuing employment. A conservative tabulation of the accrued totals in the fund (interest and principal) for an average employee would show a vested interest after 25 years of employment of over \$70,000 and after 35 years of over \$165,000.

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

selling is serving

■ The unique "Selling is Serving" program rewards two outstanding employees each month with a plaque in their respective stores, a special bonus check and the distinctive "Selling is Serving" ring. The contribution leading to their award is featured in the company house organ.

The company's news publication, The Pipeyard Gazette, named after the store's plumbing pipe yard, is an excellent communications tool. Each store group hears from all other store groups and learns about happenings all over the company this way. The publication has grown to a 20 page format with well over 100 pictures per issue and is mailed to each employee's home. At least twice each year the publication is sent to stockholders.

Each store is on an incentive bonus plan, in which both the manager and crew share. There are, additionally, several individually rewarding sales contests each year.

sports and spirit

■ The company has always been strongly sports oriented and develops national image and identity from this orientation.

The Pride of Pay 'N Pak AA fuel dragster piloted by Jerry Ruth won the national championship in this exciting sport in 1973.

The Pay 'N Pak fastpitch softball team was not only host team for the National Tournament last year in Seattle, but won the Northwest Regional Championship the two previous consecutive years.

The young minded Pay 'N Pak employee can quickly identify with a champion, the company sports activities, and take great pride in every sports achievement.



Pay 'N Pak's "colors" have become a legend in the National unlimited hydroplane racing world. The company has received extensive, beneficial publicity in both national, regional and local media.

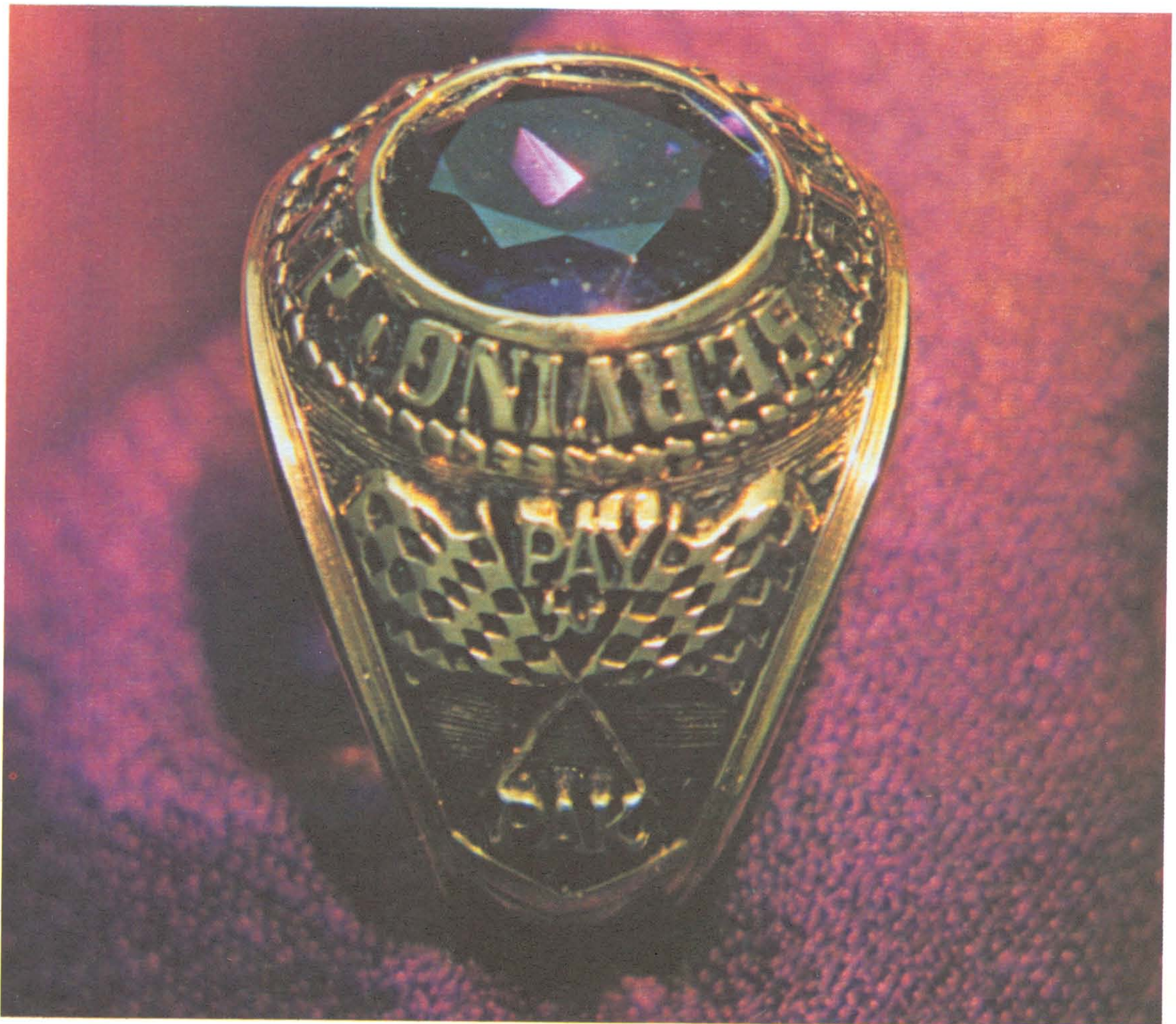
There has been filmed exposure on the Wide World of Sports TV show and for two consecutive years Sports Illustrated magazine has featured a double page spread in full color on the Pride of Pay 'N Pak.

**a national
champion**

**U-25 -- 1973
records**

■ In the 1973 campaign this Rolls Royce powered thunderboat, the U-25, set 26 records out of 29 possible during the year, and finished up as the National Champion. The same boat will campaign in 1974 as U-1, the number reserved for the champion after winning the coveted Martini and Rossi trophy.

■ The 1973 season was the most gratifying ever for the Pride of Pay 'N Pak unlimited hydroplane sponsorship. A few of the records set in that season by your company's thunderboat were the World records for 2½ mile courses, the 2½ mile qualifying record at 124.310 mph, the lap record of 119.619 in a race and the race heat record of 111.386. On the faster 3 mile courses the U-25 set a 126.613 mph qualifying record, a lap record of 124.424 and a total race record of over 117 mph.



Selling is serving ring



Reprinted with special permission from Sports Illustrated.

Sports Illustrated color photo and multi-page story "Thunder on the Bay" in the issue of May 28, 1973. Mickey Remund pilots the Pride of Pay 'N Pak to victory at Miami's Champion Regatta.

The magnificent National Championship Martini and Rossi trophy won by the Pride of Pay 'N Pak in 1973. The gold and silver trophy designed and sculpted by Renato Brozzi of Rome, Italy, is adorned with emeralds and rubies.

CONSOLIDATED STATEMENT OF INCOME

Years ended February 28, 1974 and 1973

	1974	1973
Net Sales.....	\$51,893,886	\$42,396,952
Costs and expenses:		
Cost of sales.....	33,588,811	27,475,369
Selling and administrative.....	11,883,917	9,973,103
Store rent.....	1,594,893	1,268,961
Depreciation.....	793,170	549,018
Interest.....	517,895	275,486
	48,378,686	39,541,937
Income before federal income tax.....	3,515,200	2,855,015
Provision for federal income tax (Note 1 (f)).....	1,644,432	1,380,915
	1,870,768	1,474,100
Minority interest.....	13,468	14,299
Net income	1,857,300	1,459,801
Retained earnings, beginning of year.....	5,258,486	4,011,245
Cash dividends paid (1974—\$.25 per share; 1973—\$.155 per share).....	(345,290)	(212,560)
Retained earnings, end of year (Note 2).....	\$ 6,770,496	\$ 5,258,486
Average number of common shares (Note 1 (g)).....	1,381,159	1,368,576
Net income per share of common stock.....	\$1.34	\$1.07

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended February 28, 1974 and 1973

Source:

	1974	1973
Operations:		
Net income.....	\$ 1,857,300	\$ 1,459,801
Charges against income not involving working capital:		
Depreciation and amortization.....	1,065,709	865,571
Deferred federal income tax (Note 1 (f)).....	1,749	1,749
Minority interest.....	13,468	14,299
Net asset amount of land and equipment sold or retired.....	51,956	44,495
Total provided by operations.....	2,990,182	2,385,915
Increase in long-term debt.....	5,166,000	22,000
Proceeds from sale; or sale and leaseback of properties.....	356,780	430,971
Exercise of stock options to purchase common stock (Note 4).....		149,887
	8,512,962	2,988,773
Application:		
Additions to property, plant and equipment.....	2,157,172	1,483,195
Cash dividends paid.....	345,290	212,560
Reduction of long-term debt.....	395,392	69,882
Pre-opening costs and other.....	173,490	275,281
Cost of investment in subsidiary and acquired stores in excess of amounts assigned to net assets.....		92,604
	3,071,344	2,133,522
Increase in working capital.....	\$ 5,441,618	\$ 855,251
The increase (decrease) in the elements of working capital are as follows:		
Cash.....	\$ (24,441)	\$ 161,374
Receivables.....	(172,537)	(331,822)
Merchandise inventories.....	1,347,963	4,364,139
Prepaid expenses.....	(52,273)	95,198
Notes payable.....	4,985,000	(1,600,000)
Accounts payable.....	(86,029)	(1,679,890)
Federal income tax.....	(46,723)	(3,951)
Accrued liabilities.....	(185,390)	(142,642)
Long-term debt due within one year.....	(323,952)	(7,155)
Increase in working capital.....	\$ 5,441,618	\$ 855,251

See accompanying notes.

CONSOLIDATED BALANCE SHEET

February 28, 1974 and 1973

ASSETS

Current assets:

Cash.....	\$ 571,380	\$ 595,821
Receivables:		
Trade accounts receivable, less allowance of \$36,943 (\$11,306 in 1973) for doubtful accounts.....	277,455	304,992
Sale of properties.....		145,000
Merchandise inventories, at the lower of cost (first-in, first-out) or market.....	15,273,351	13,925,388
Prepaid expenses.....	454,347	506,620
Total current assets.....	16,576,533	15,477,821

Other assets:

Deferred federal income tax (Note 1 (f)).....	37,319	39,068
Pre-opening costs and other (Note 1 (d)).....	126,790	217,390
Non-competition agreements, at cost less \$228,317 amortization (\$164,955 in 1973) (Note 1 (e)).....	72,763	136,125
Total other assets.....	236,872	392,583

Property, plant and equipment, at cost (Notes 1 (b) and 2):

Land.....	195,700	158,500
Buildings.....	233,634	195,277
Leasehold improvements.....	2,710,187	1,595,177
Store equipment.....	3,055,102	2,566,159
Transportation equipment.....	171,953	329,498
Construction in progress.....	1,696	314,051

	6,368,272	5,158,662
Less accumulated depreciation.....	1,627,805	1,259,284

	4,740,467	3,899,378
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Property held for development and/or investment.....	1,384,442	1,280,103
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Net property, plant and equipment.....	6,124,909	5,179,481
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Cost of investment in subsidiaries and acquired
stores in excess of amounts assigned to net assets
at dates of acquisition, less amortization (Note 1 (c))....

	339,758	357,459
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	\$23,278,072	\$21,407,344
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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Notes payable to banks (Note 2).....	\$ 665,000	\$ 5,650,000
Accounts payable.....	4,580,584	4,494,555
Federal income tax.....	396,872	350,149
Accrued liabilities.....	979,647	794,257
Long-term debt due within one year.....	393,817	69,865

Total current liabilities.....	7,015,920	11,358,826
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Long-term debt (Note 2).....	5,372,583	673,879
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Deferred income (Note 1 (b)).....	146,019	156,567
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Minority interest in subsidiary.....	46,221	32,753
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Commitments and contingency (Note 3)

Stockholders' equity (Notes 2 and 4):

Preferred stock, without par value,
1,000,000 shares authorized, none
issued

Common stock, \$.10 par value, 2,000,000 shares authorized, 1,381,159 shares issued.....	138,116	138,116
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Capital in excess of par value.....	3,788,717	3,788,717
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Retained earnings.....	6,770,496	5,258,486
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Total stockholders' equity.....	10,697,329	9,185,319
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	\$23,278,072	\$21,407,344
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See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

February 28, 1974 and 1973

1. Basis of presentation and significant accounting policies

(a) *Consolidation*—The consolidated financial statements include the accounts of the Company and its subsidiaries after elimination of intercompany transactions. The accounts of its former Canadian subsidiary sold June 10, 1973, are translated to United States dollars by using the balance sheet date rate of exchange for current assets and liabilities and historical cost for long-term items. Operating results are translated at the average rate of exchange for the period, except that depreciation and amortization of long-term assets are translated at historical cost rates.

(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, whichever is shorter; 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) *Investments in subsidiaries and acquired stores*—Cost of investment in subsidiaries and acquired stores in excess of amounts assigned to net assets at dates of acquisition is 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 agreements*—The cost of non-competition agreements is amortized on the straight-line basis over five to seven years, the life of the agreements.

(f) *Federal income taxes*—Deferred federal income tax has been provided

for the gain on the sale of properties sold and leased back and is being amortized (\$1,749 in 1974 and 1973) to income over the period of the leases. The provision for federal income tax has been reduced by \$54,000 in 1974 and \$41,000 in 1973 for investment tax credits which have been 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. The dilutive effect of stock options was not material.

2. Short-term and long-term debt

Short-term loans from a bank under a \$4,000,000 informal line-of-credit, expiring May 31, 1974, totaled \$650,000 at February 28, 1974, represented by unsecured 90-day 9¼% and 9½% notes. The interest rate is at ½% above prime. The maximum amount of month-end short-term bank borrowings during the fiscal year ended February 28, 1974 was \$6,700,000, the approximate average daily amount of such borrowings was \$2,800,000, and the weighted daily average interest rate was 7.8%.

Long-term debt outstanding at February 28, 1974 and 1973 is shown in the following summary.

	1974	1973
8½% note payable to insurance company, due \$300,000 annually to 1983 and \$400,000 annually to 1988, plus interest	\$5,000,000	\$
6¼% note payable to insurance company, due \$25,000 annually plus interest on September 1, and \$50,000 in 1976	100,000	125,000
6½%-8% real estate contracts, due annually including interest, \$93,324 to 1979, \$53,124 to 1984, and \$13,488 to 1989	551,752	490,590

6½% mortgage note payable, due \$15,732 annually including interest to 1982	97,048	106,154
Non-competition agreement, due \$4,400 annually to 1978	17,600	22,000
	<u>5,766,400</u>	<u>743,744</u>
Less long-term debt due within one year	393,817	69,865
	<u>\$5,372,583</u>	<u>\$ 673,879</u>

Property at a cost of \$1,004,195 is pledged as collateral for the real estate contracts and mortgage note payable.

The loan agreements covering the notes payable to the insurance company provide, 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 28, 1974, retained earnings of \$869,090 was not restricted. Other provisions require that working capital of \$7,500,000 must be maintained and that current unsecured debt may not exceed \$4,000,000.

Payments on the principal of long-term debt for the four years ending February 28, 1979 are required as follows: 1976 - \$399,000; 1977 - \$429,000; 1978 - \$384,000; 1979 - \$374,000.

3. Lease commitments and contingency

The Company leases substantially all retail store facilities. Rent expense during the years ended February 28, 1974 and 1973 were as follows:

	1974	1973
Leases, other than non-capitalized financing leases	\$ 733,840	\$ 704,875
Non-capitalized financing leases	<u>861,053</u>	<u>564,086</u>
	<u>\$1,594,893</u>	<u>\$1,268,961</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-cancellable leases for retail stores are payable as follows:

Year	Total Commitment (000's omitted)	Applicable to non-capitalized financing leases
1975	\$1,419	\$ 855
1976	\$1,421	\$ 870
1977	\$1,401	\$ 870
1978	\$1,311	\$ 870
1979	\$1,254	\$ 871
1980-1984	\$5,363	\$4,370
1985-1989	\$4,305	\$4,305
1990-1994	\$3,646	\$3,646
1995-1998	\$1,577	\$1,577

In addition, the Company leases an airplane at approximately \$100,000 per year to 1980; such rentals are subject to fluctuations in the annual prime interest rate.

Present values of minimum lease commitments for non-capitalized financing leases aggregate \$7,822,000 and \$7,529,000 at February 28, 1974 and 1973, 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 28, 1974 and 1973 would be as follows:

	1974	1973
Pro-forma adjustments:		
Reduction of rental expense	\$(720,000)	\$(460,000)

	1974	1973
Increase in amortization expense	306,000	189,000
Increase in interest expense	614,000	432,000
Income tax effects	(96,000)	(77,000)
Pro-forma decrease in net income	\$ 104,000	\$ 84,000

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 8.8% at February 28, 1974 and 1973.

The Company is contingently liable at February 28, 1974 on real estate mortgage notes of \$338,000 assumed by the purchasers of a store sold and leased back in 1971 and an office building sold in 1974.

4. Stockholders' equity

(a) Common stock and capital in excess of par value — The changes in common stock and capital in excess of par value during the two years ended February 28, 1974 were as follows:

	Common Stock	Capital in excess of par value
Balance, February 29, 1972	\$ 135,341	\$3,639,748
Add (deduct):		
Stock options exercised, 24,000 shares at \$4.375 and 3,750 shares at \$11.97	2,775	147,112
Expenses applicable to 1972 registration of shares issued for stock options		(5,643)
Purchase of minority interest in subsidiary		7,500
Balance, February 28, 1974 and 1973	\$ 138,116	\$3,788,717

(b) Stock options — a five-year non-transferable option to purchase 3,750 shares of common stock was outstanding at February 28, 1974, is exercisable at \$13.44 per share (aggregate \$50,400) and expires September 25, 1974.

During 1973 options to purchase 27,750 shares of common stock at \$4.375 per share and \$11.97 per share (aggregate \$149,887) were exercised (see (a) above); the market values on the dates exercised were \$21.63-\$29.25 per share (aggregate — \$705,188).

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

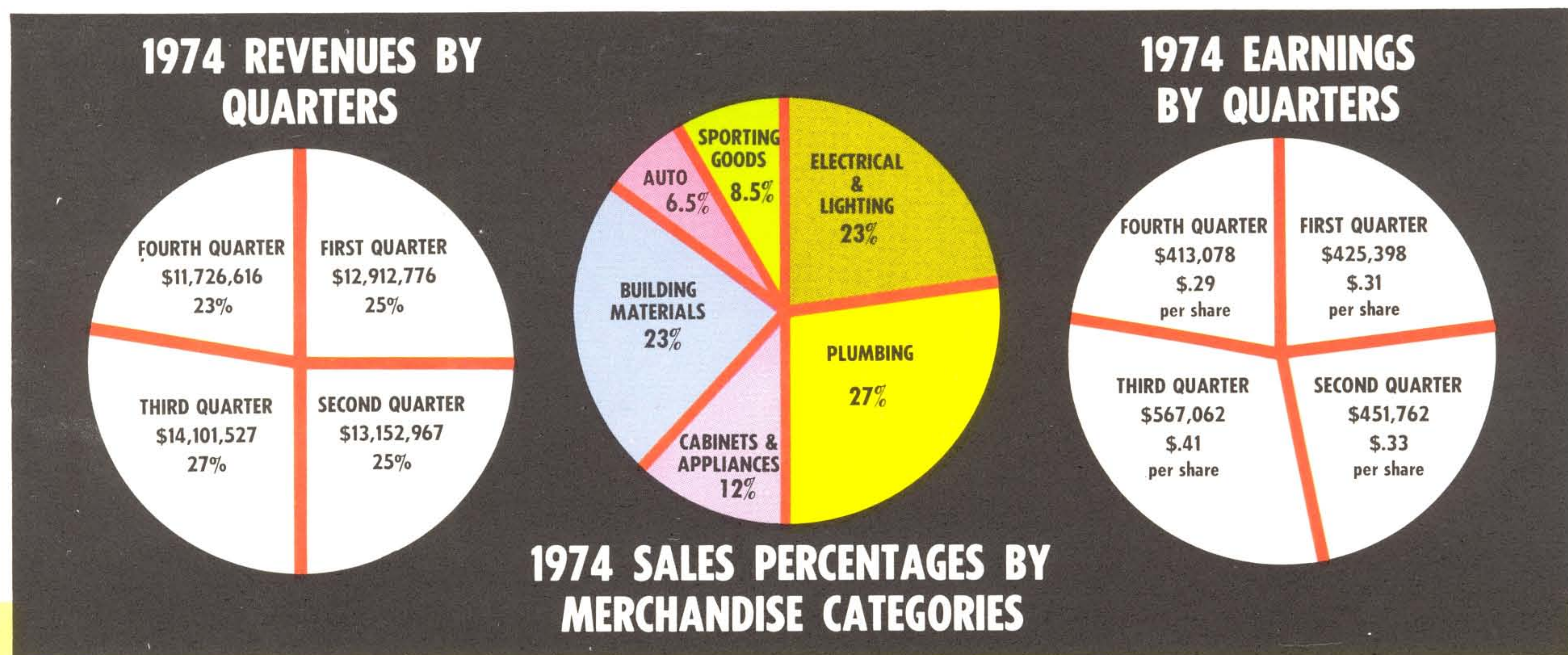
We have examined the accompanying consolidated balance sheet of Pay 'N Pak Stores, Inc. at February 28, 1974 and 1973 and the related consolidated statements of income and retained earnings, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position

of Pay 'N Pak Stores, Inc. at February 28, 1974 and 1973 and the consolidated results of operations and the consolidated changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Seattle, Washington
March 29, 1974



FIVE YEAR GROWTH HIGHLIGHTS

	YEARS ENDED FEBRUARY 28 OR 29				
	1974	1973	1972	1971	1970
Revenues	\$51,893,886	\$42,396,952	\$30,927,898	\$21,806,396	\$18,096,799
Income before federal tax	\$ 3,515,200	\$ 2,855,015	\$ 2,129,850	\$ 1,469,048	\$ 1,160,524
Income from continuing operations	\$ 1,857,300	\$ 1,459,801	\$ 1,132,312	\$ 762,532	\$ 559,154
(Loss) from discontinued operations				\$ (98,692)	
Net income	\$ 1,857,300	\$ 1,459,801	\$ 1,132,312	\$ 663,840	\$ 559,154
Average number of common shares	1,381,159	1,368,576	1,338,409	1,330,742	1,115,809
Per common share:					
Income from continuing operations	\$1.34	\$1.07	\$0.85	\$0.57	\$0.50
(Loss) from discontinued operations				(.07)	
Net income	\$1.34	\$1.07	\$0.85	\$0.50	\$0.50
Cash dividends paid	\$.25	\$0.155	\$0.15	\$0.15	\$0.15
Financial position at end of year:					
Total assets	\$23,278,072	\$21,407,344	\$16,640,230	\$11,169,578	\$10,220,358
Stockholders' equity	\$10,697,329	\$ 9,185,319	\$ 7,786,334	\$ 6,587,708	\$ 6,122,564
Shares of common stock outstanding	1,381,159	1,381,159	1,353,409	1,330,909	1,330,509
Net asset amount per share	\$7.75	\$6.65	\$5.75	\$4.95	\$4.60
Number of stores open	48	44	40	36	31
Number of customers served	3,251,000	2,849,000	NA	NA	NA
Average customer purchase	\$15.91	\$14.86	NA	NA	NA
Number of states in which we operated	11	11	8	6	6
Square footage of stores	890,529	783,588	584,380	465,180	358,680
Sales per square foot	\$58.27	\$54.11	\$52.92	\$46.88	\$50.45
Average square footage per store	18,553	17,808	14,609	12,921	11,570
NA—Not available					

