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ANNUAL REPORT PACIFIC

PAY'NPAK STORES, INC. ANNUAL REPORT 1973

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DEDICATED TO AMERICA'S 18,000,000 DO IT YOURSELFERS



New Tacoma, Washington Store

YOUR COMPANY TODAY

As of February 28th, 1973 Pay 'N Pak Stores, Inc. operated 43 stores in 10 states and one store in British Columbia, Canada.

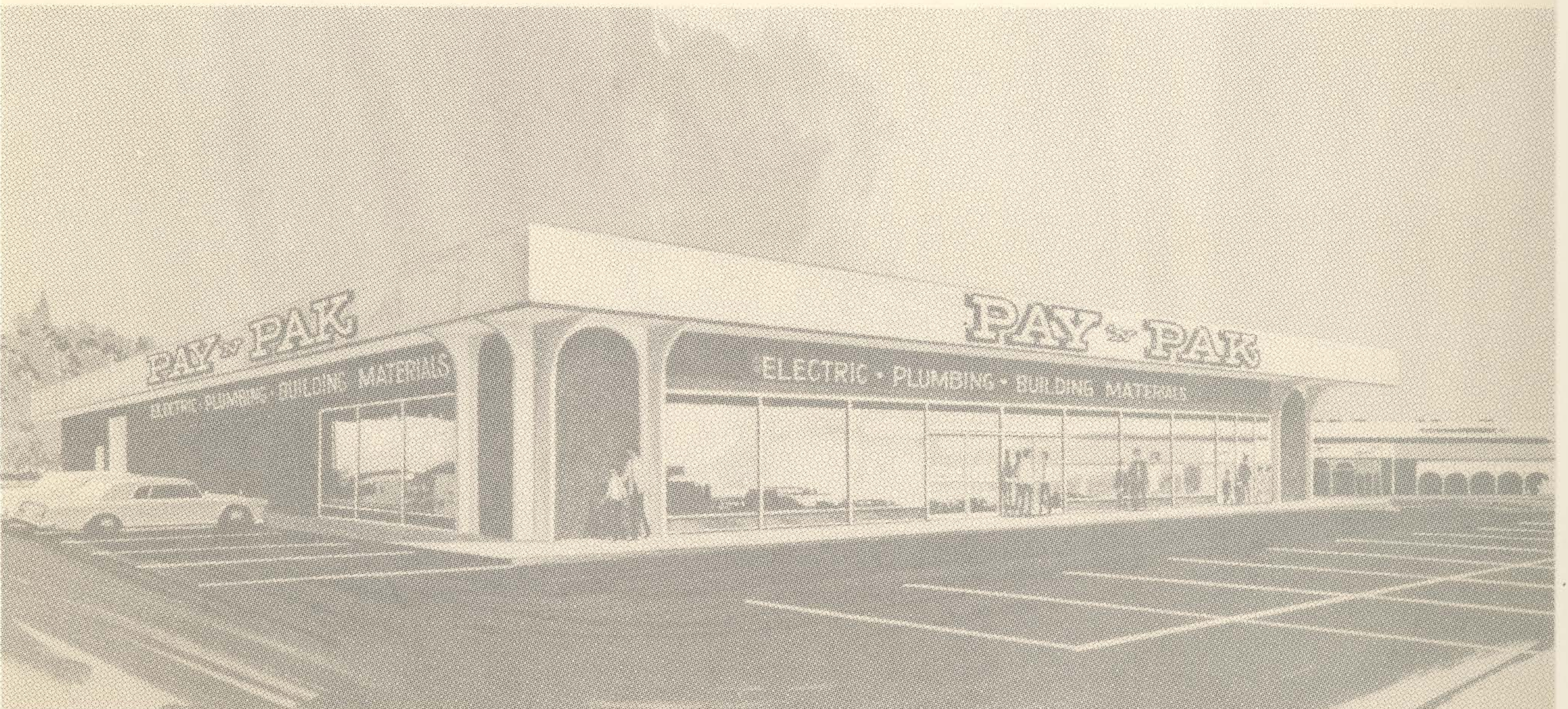
Sales are primarily to the do-it-yourself customer on a cash and carry basis. The stores feature complete lines of name brand home improvement products, including electrical, lighting and plumbing fixtures, cabinets, built-in appliances, building materials, hand tools and floor coverings. Nine stores carry complete lines of automotive parts and accessories and sporting goods.

Management is engaged in an aggressive and balanced expansion of stores.

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



New Olympia, Washington Store



New Oklahoma City, Oklahoma Store

FISCAL 1973 FINANCIAL HIGHLIGHTS

	YEAR ENDED — FEBRUARY 28, 1973	FEBRUARY 29, 1972
Net Sales.....	\$42,396,952	\$30,927,898
Income before federal income tax.....	\$ 2,855,015	\$ 2,129,850
Net income.....	\$ 1,459,801	\$ 1,132,312
Average number of common shares.....	1,368,576	1,338,409
Earnings per share.....	\$ 1.07	\$.85

TRANSFER AGENTS

Peoples National Bank of Washington
Seattle, Washington

The Chase Manhattan Bank (N. A.)
New York City, N. Y.

BANK

Peoples National Bank of Washington
Seattle, Washington

OFFICERS

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

John M. Headley
President, Chief Operating Officer

Halvor Knudtson, Jr.
Secretary-Treasurer, Controller

Harold F. Bacon
Vice President, Advertising Director

BOARD
OF
DIRECTORS



Halvor Knudtson, Jr.
Secretary-Treasurer, Controller



Curtis L. Rhodes
Director of Purchasing



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



Marshall J. Weigel
*Vice President, mergers and
acquisitions, Bank of America,
San Francisco, California*



Chairman of the Board, David J. Heerensperger

President, John M. Headley

REPORT TO THE SHAREHOLDERS

We are pleased to report that once again your company achieved record sales and earnings for the fiscal year ended February 28, 1973. Revenues totaled \$42,396,952 as compared with \$30,927,898 in fiscal 1972, an increase of 37 percent. Net income after taxes was \$1,459,801 as compared with \$1,132,312 (from continuing operations) the previous year, an increase of 29 percent. Per share income was \$1.07 on the weighted average number of common shares outstanding in fiscal 1973 of 1,368,576 compared with 85 cents per share on 1,338,409 shares outstanding in fiscal 1972.

Dividends totaling 15.5 cents per share were paid to shareholders in fiscal 1973. This was a small increase over the 15 cents paid in the previous year. The amount of the increase was limited by Phase II guidelines but it is your company's policy to increase dividends gradually for the benefit of shareholders as long as it is prudent to do so.

This year your company opened new stores in Tulsa, Oklahoma; Pueblo, Colorado; Milwaukie (Portland area), Oregon, and acquired Sweeney Supply Company in Lewiston, Idaho. The company simultaneously opened two new stores in Oklahoma City, Oklahoma.

In keeping with the policy of continually upgrading existing stores the company closed two small, outmoded outlets in Tacoma, Washington and replaced them with a new 33,000 square foot store. Additionally, the small Santa Rosa, California store was moved into a 19,600 square foot outlet, a 42,600 square foot store was opened in Burnaby (Vancouver area), British Columbia, Canada, a 33,000 square foot store in Yakima, Washington, and a 12,500 square foot store in Olympia, Washington replacing three smaller units in these cities.

With the opening of six new stores and the replacement of six older stores your company increased the square footage from 584,380 to 783,588 square feet, an increase of 34 percent.

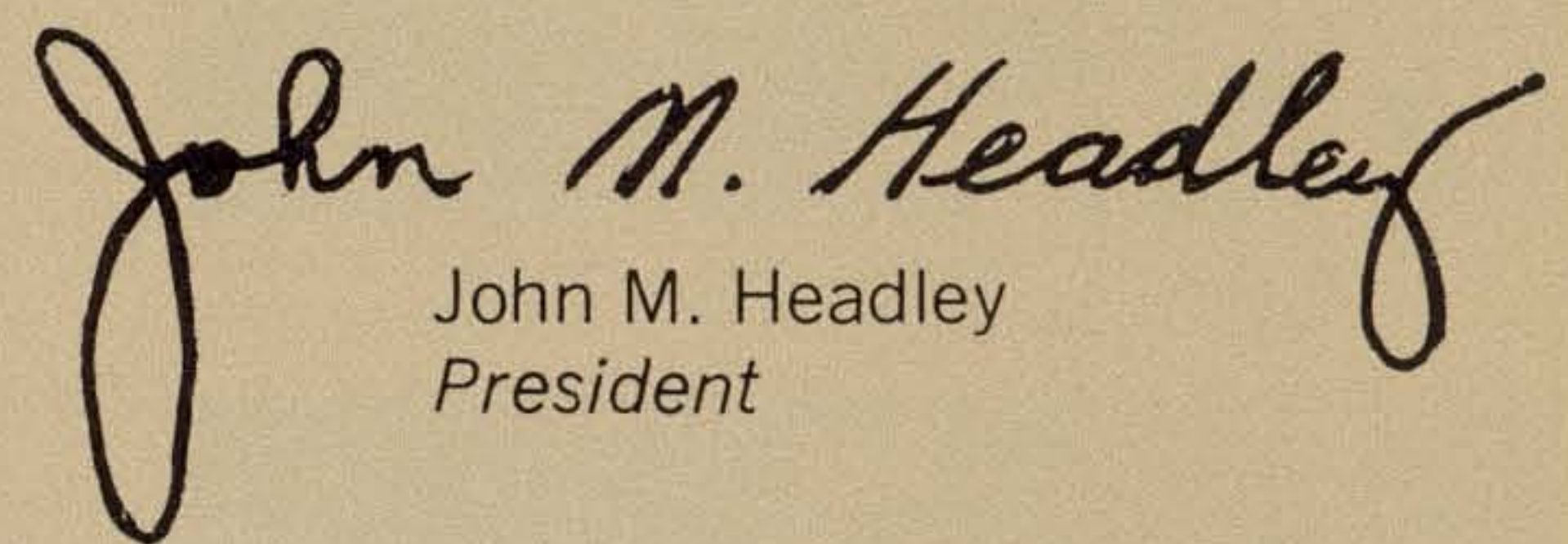
It is the company's objective to continue to expand its operations in the geographical areas in which it is currently operating and to search out new areas for future development of the business.

Your company places a great deal of emphasis on training its personnel so that they are completely qualified to explain to customers how to install and use all of the products that the company sells. During the past year the company embarked on a training program utilizing color and sound training films as part of the new Pay 'N Pak Do-It-Yourself Training Theatre. Every store will have Technicolor's Super 8 equipment and already 12 films have been completed. During the next fiscal year the library will be expanded to over 40 films. This is an important part of Pay 'N Pak's policy of dedicating itself to the do-it-yourself market.

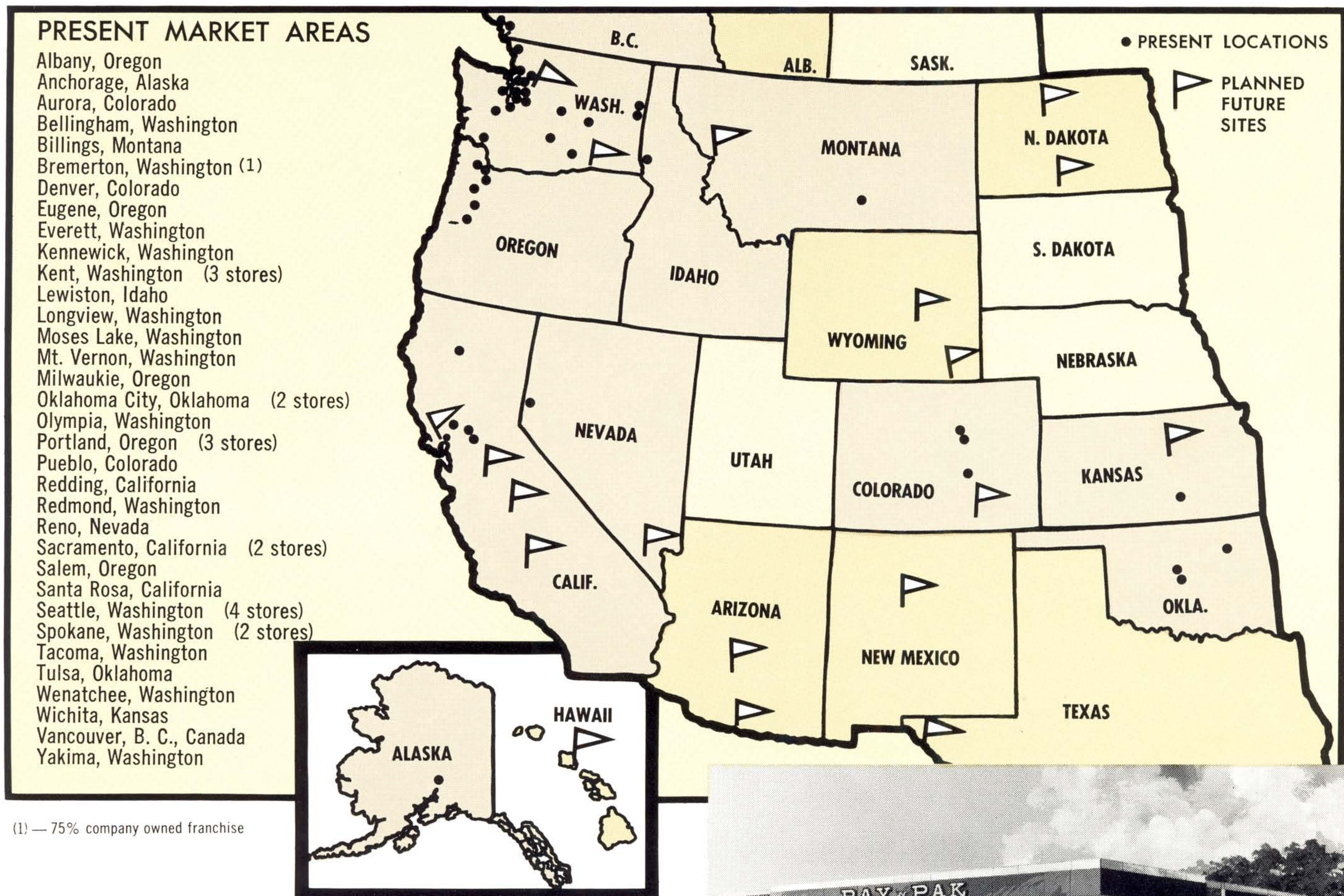
Your management team is proud to report that since it has been operating the company sales and earnings have increased for 12 consecutive quarters. We are proud of the spirit that our officers and employees have in Pay 'N Pak and we believe that our shareholders should be pleased with the performance of the company.



David J. Heerensperger
Chairman of the Board



John M. Headley
President



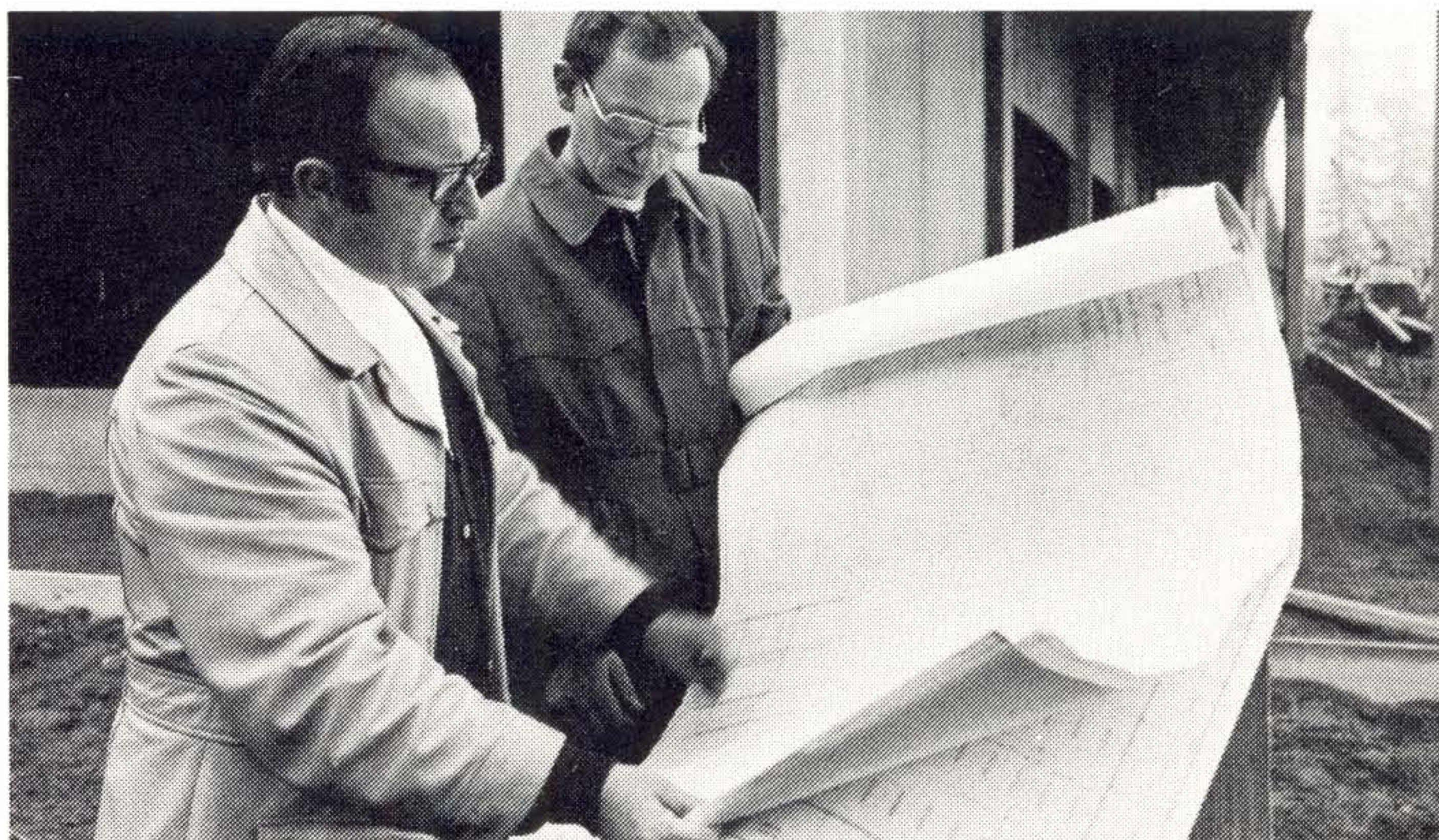
CONTINUING GROWTH WITH A FUTURE

At the end of fiscal 1973 Pay 'N Pak was operating 44 stores at 40 locations in ten western states and British Columbia. The company divides its operations into districts headed by district managers. Each of these district managers is responsible for the profit within his area of operations and each works closely with headquarters management in suggesting new locations to aid company growth.

The western Washington district was strengthened with two new replacement stores. The eastern Washington/Alaska/Montana district gained



New Yakima, Washington store.



New store development team on location at Bellevue, Wash. site.

one new replacement store and the Lewiston, Idaho store. The California/Oregon/Nevada district gained a third store in the Portland area and a new replacement unit in Santa Rosa, California. The mid-west district added three new stores in Oklahoma and the new store in Pueblo, Colorado.

The company has on its staff career people with special expertise in the field of real estate and store development who are continually analyzing prospective locations.

Currently new stores are scheduled to be opened in Tucson, Arizona; Vallejo, California; Walla Walla, Washington and Bellevue, Washington. In addition the company is negotiating on several other locations.

TRAINING WITH A FUTURE

Training programs within the company are many faceted. In order to cope with the expansion rate that the company has set for itself, it is necessary that a substantial number of management people be developed. The company holds three management training seminars each year and over 80 percent of all store managers are graduates of these in-company schools. The company employs a training director on a full-time basis who works very closely with the director of personnel. This year management has given top priority to the new film in the store training program mentioned earlier in this report. We are receiving co-operation and assistance from suppliers and manufacturers because they know that it will generate greater sales and interest in their products.

The director of personnel is continually striving to be more effective in hiring new people for Pay 'N Pak. All store managers are provided with a hiring and orientation guide and once a new employee comes aboard he is given an eighteen page "Welcome To A Great Team" brochure that explains company policy, benefits and provides him with a complete job description that clearly defines responsibility. Each new employee is taken through a six week training period which emphasizes product knowledge and salesmanship.

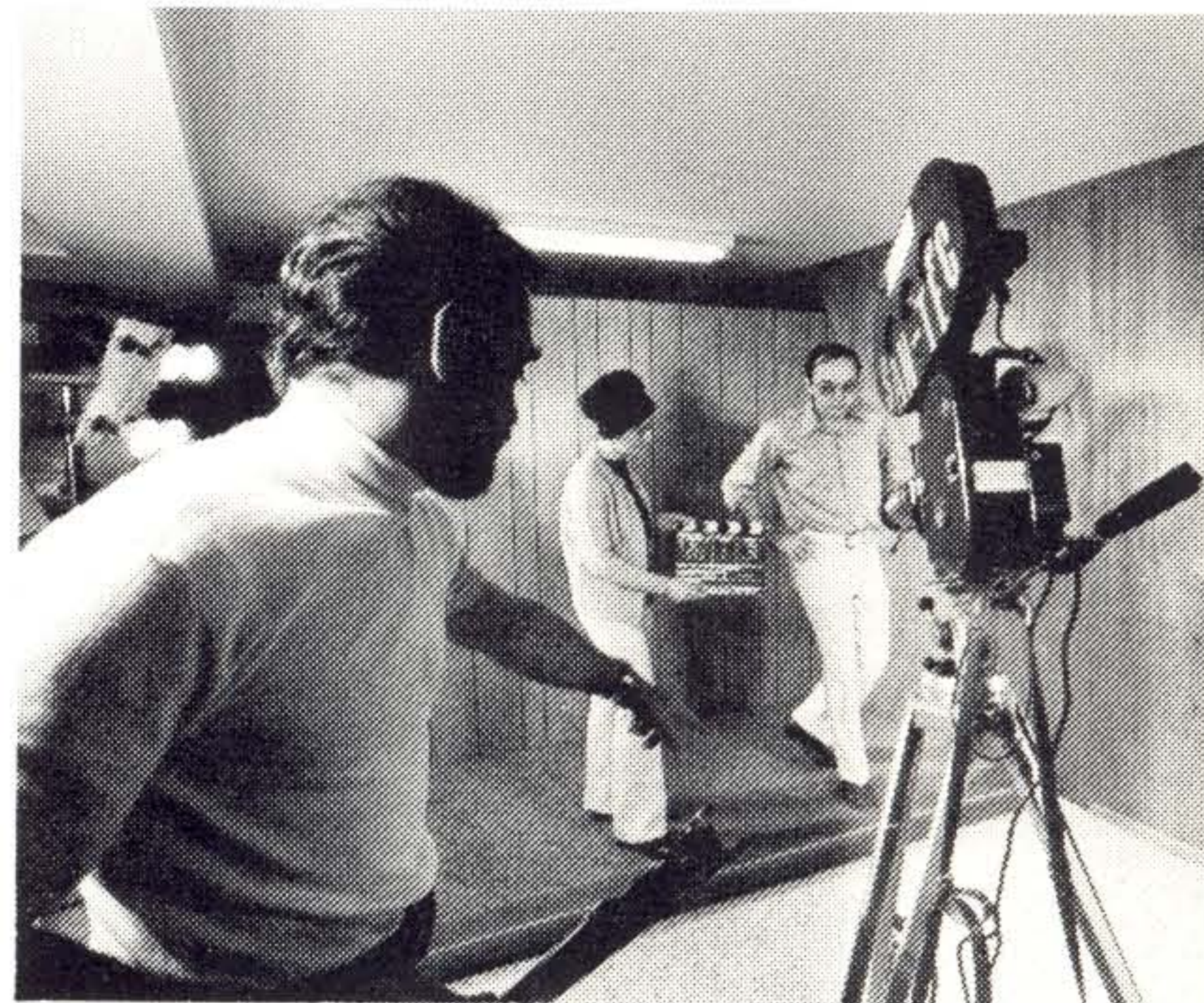
Pay 'N Pak's policy is to promote from within and its training programs are aimed at developing managers as



Management training seminars are 5 day, full day work sessions.



Small classes allow personal instruction at the training seminars.



The intricacies of installation are best reviewed in training films.



Personalized one-on-one or group training on the insta-theatre.

rapidly as possible. It is not unusual for an eager, conscientious employee to become a store manager within three years.

HOME IMPROVEMENT FUTURE

Sunset Magazine recently published a survey that pointed out that 1,600,000 families would undertake major home remodeling in the western states in 1973. It also pointed out that over 4,000,000 home owners spent over \$1000.00 each on home improvements in the United States in 1972. This is the market at which your company aims. Its concept of "home environment" store displays helps bring home improvement dreams to reality for its customers because they can look at bathrooms and kitchens and see them as they would actually look in their own homes. Pay 'N Pak merchandise is carried in many price categories so that customers can obtain the best quality that their budgets will allow.

The company's purchasing agents are experts in the fields that they cover and are in constant touch with their sources. They attend national and regional trade shows and are continually analyzing new products for possible inclusion in the company's product mix. The key to it all, however, is the salesman in the store because he has been trained to instruct any customer on how to install any product that the company sells.

INCENTIVES FOR THE FUTURE

The company gives preference to the employment of aggressive, clean cut, young thinking people whose quality of enthusiasm and positive attitude will assist in their growth in the organization and in our growth as a company. Our people know they will be helped to grow and will not be overlooked as new job opportunities arise.



Home environmental displays show Merchandise as it will look in your home.



Well displayed electrical items are already half sold.



The well trained Pay 'N Pak salesperson can explain installation on plumbing items.



Building materials sales account for 24% of our sales.



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

A STAFF FOR THE FUTURE



John M. Headley, Chief Operations Officer, President



Halvor Knudtson, Jr., Secretary-Treasurer and Controller



Harold F. Bacon, Vice President and Advertising Director



Curtis L. Rhodes, Purchasing Director



Monte Leen, District Manager — California, Nevada, Oregon, S. W. Wash.



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



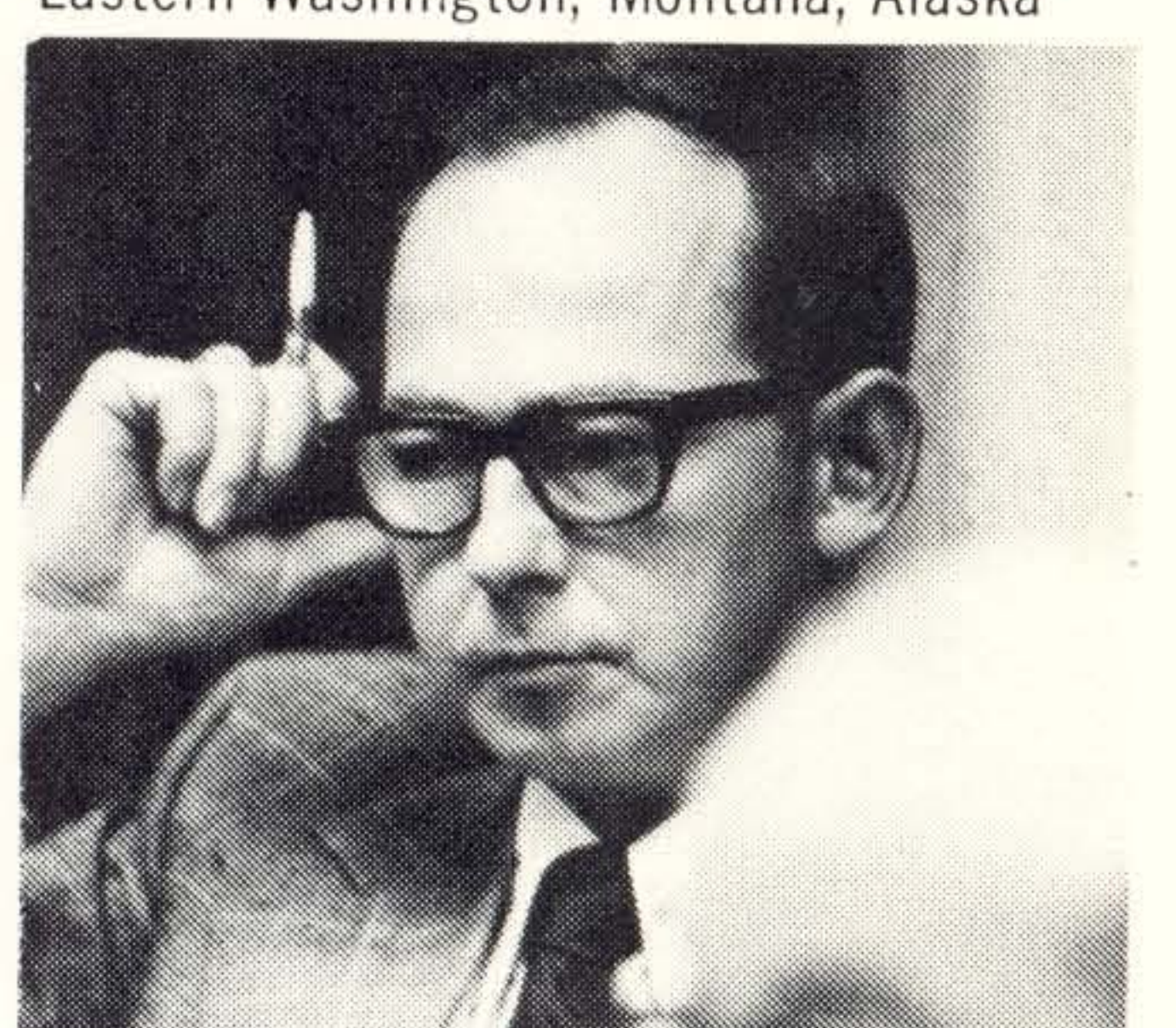
John Mead, District Manager Automotive and Sporting Goods



Russell S. Morgan, District Manager Western Washington



Gerald Newenhof, District Manager Canada



Ray White, District Manager Colorado, Kansas, Oklahoma

Ralph Beniasch, Purchasing Agent

Glenn Giesey, 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 New Store Development

Gerald Wishman, Security and Procedures Assistant



Terri Clevenger, Personnel Director



Peter W. Gallina, Store Development and Real Estate Director



George Smith, Training Director

The company's Profit-Sharing Plan gives each employee an individual sense of ownership, responsibility and participation in the advantages of continuing employment.

The unique "Selling is Serving" program rewards two employees from the total store group each month with a plaque in their respective stores, a bonus check and the distinctive "Selling is Serving" ring.

The Pipeyard Gazette, the company's news publication, is an excellent communications tool. Each store group hears from each other store group every two months this way. The publication has grown to a 16 page newspaper with over 100 photographs per issue and is mailed to each employee's home. At least twice each year the publication is sent to the stockholders.

Each store is on an incentive bonus plan in which both the manager and the crew shares. Additionally there are several individually rewarding sales contests each year.

CONTROLS A FOUNDATION FOR FUTURE

Extensive use of the computer has furnished prompt information on sales, costs and other statistical information that enables management to effectively handle operations on the basis of a day by day control.

The centrally controlled accounting department with its record keeping programs and management information systems must keep pace to ensure an orderly growth. This ability has been thoroughly demonstrated with this fiscal year's growth.

The store managers as well as 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. Additionally these up to the minute reports compare the current operations with the budget projections and make year to date comparisons with the prior year.

Sales information is broken down into categories of merchandise sold in the comparable periods. It is also fur-



Properly trained personnel are appreciated by our customers.



Career specialists in all divisions maintain a good rapport with customers.



Controls are the solid foundation so necessary to growth.



Today's technology gives faster access to vital accounting information.

nished in dollar amounts and easily analyzed graph form allowing instant assimilation of the comparisons.

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

MARKET MOTIVATION TODAY & TOMORROW

A good example of the positive attitude of Pay 'N Pak is found in the innovative advertising team under the direct supervision of the vice president. This dedicated group of professionals has succeeded in increasing volume through aggressive advertising strategy which includes both direct advertising and publicity.

The company utilizes promotional, hard hitting weekly ads in 37 newspapers in 30 cities. These ads are in 5 column full, 8 column full (full page) or double page sizes.

One week out of each month the company substitutes a 7 column full ad for the normal 8 column full ad, maintaining dominance and continuity yet resulting in considerable savings.

In addition, three chainwide special sales events are conducted each year to complement and stimulate the regular advertising program. These events each use well over three million, multicolor pre-printed tabloids of 8 to 12 page size. The tabloids are distributed in 37 newspapers covering Pay 'N Pak's entire market area. Again in fiscal 1973 these events have increased sales volume very significantly.

The company as a whole is strongly sports oriented and utilizes this means quite effectively to achieve name exposure and identity. Pay 'N Pak, for instance, sponsors numerous fast pitch softball teams, one of which for the last two years won the Northwest Regional Championship. The Company also sponsors a championship hockey team, little league ball clubs, the Western Division Champion 1971 and 1972 Pride of Pay 'N Pak AA/Fuel dragster and



Advertising planning is a vital part of the team effort.



The highly innovative advertising production team members are true professionals.



New line art techniques are symbolic of Pay 'N Pak's advertising.



Over 3,500,000 preprints roll off the presses three times a year.

funny car and owns and campaigns the Pride of Pay 'N Pak unlimited hydroplane, U-25.

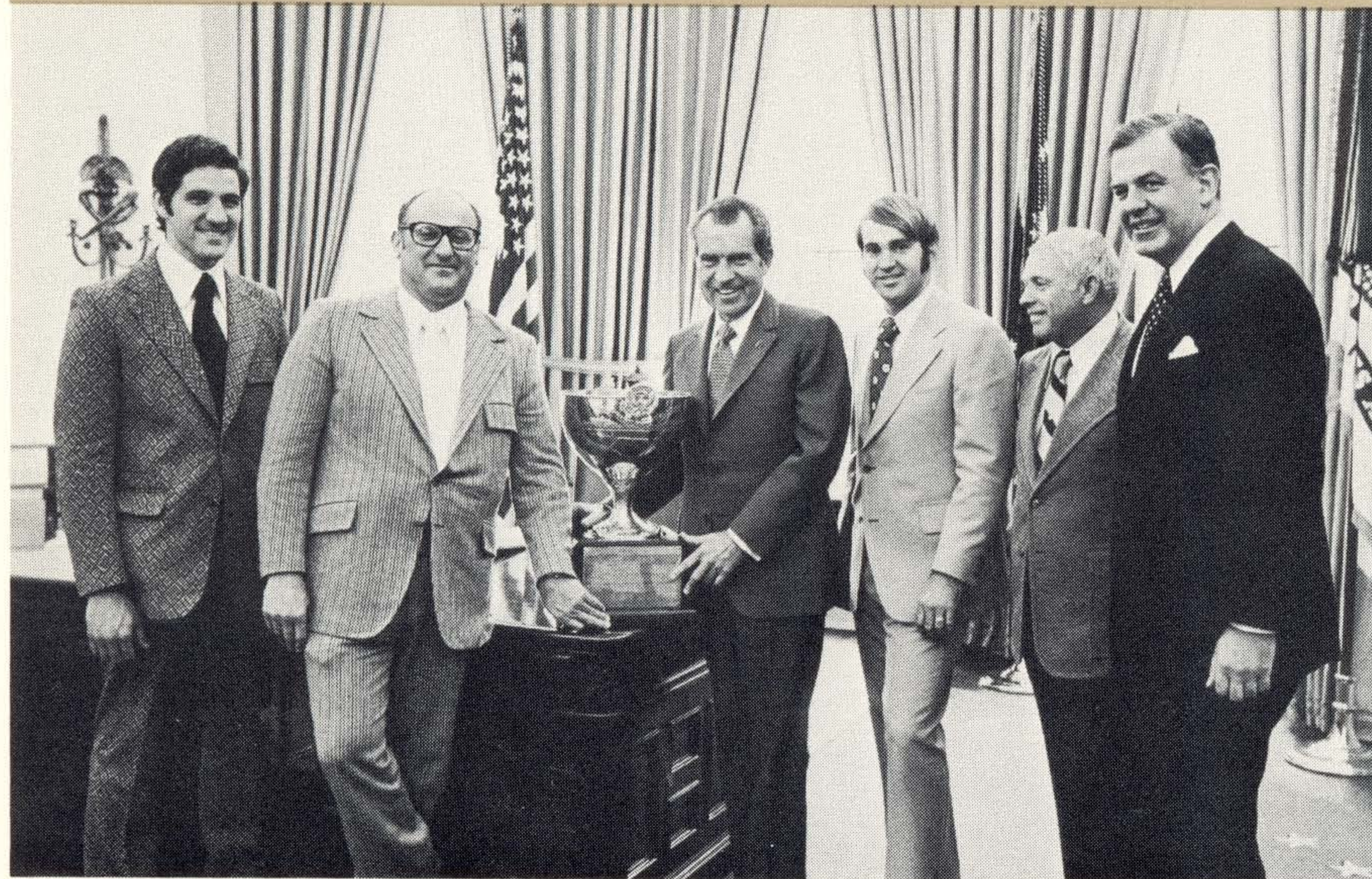
All this sports activity has resulted in tremendous publicity and keeps the Pay 'N Pak name constantly before the public.

The Pride of Pay 'N Pak won the President's Cup unlimited hydroplane race on the Potomac last year. The U-25 set world speed records for both 3 mile lap courses and 2½ mile lap courses at Seafair and the Atomic Cup races and finished second in national points standing.

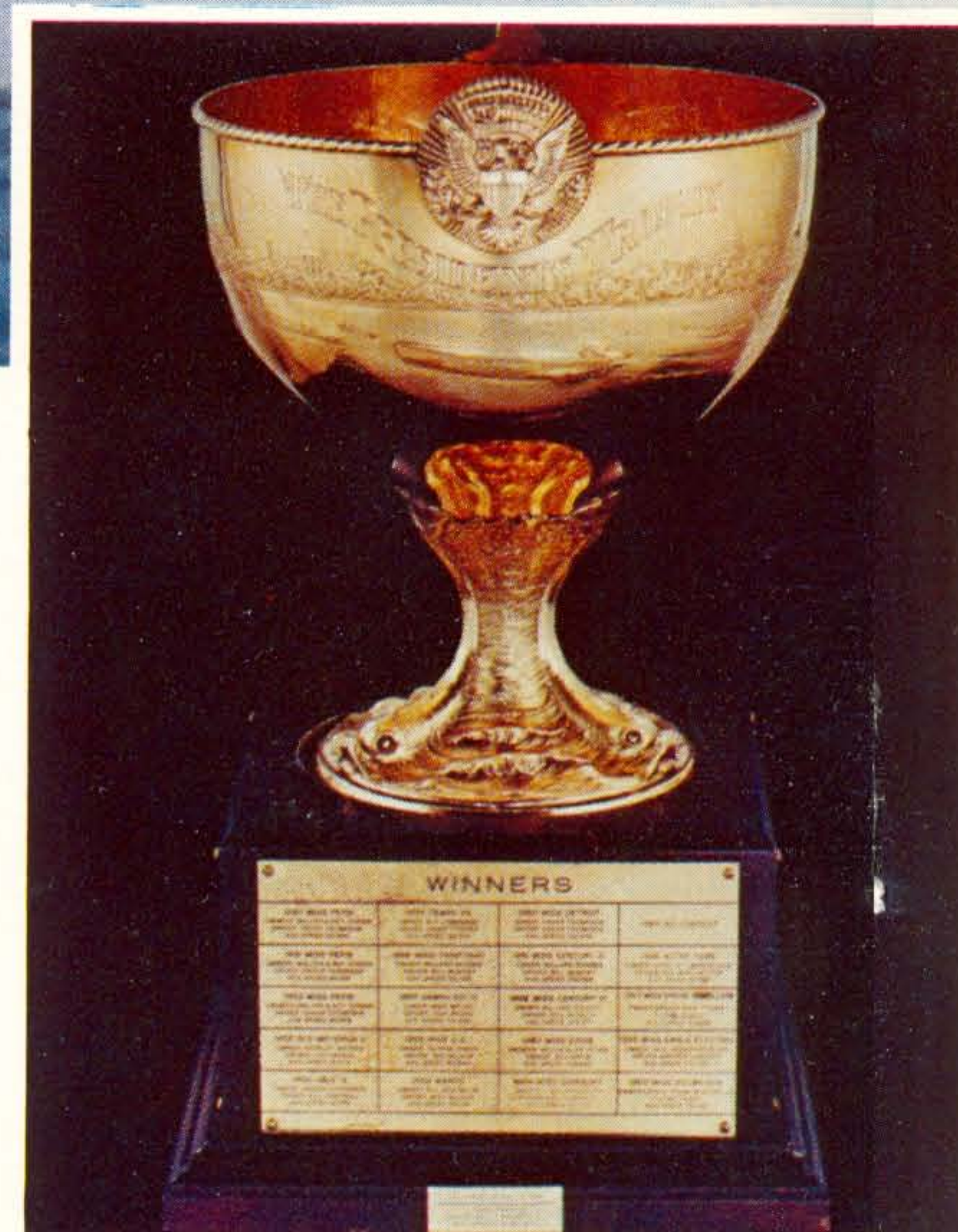
The center spread full color feature article in the July 17th, 1972 issue of Sports Illustrated entitled "AND THE BOMBERS HIT THE RIVER" chronicled the race of the century in unlimiteds and how the Pride of Pay 'N Pak with Billy Sterett, Jr., driving won all the laurels.

Less spectacular but more important to the company perhaps are the endless columns of pictures and publicity received during the Atomic Cup Race and the Seafair Race right in the heart of its marketing area.

Most importantly the young employees of Pay' N Pak can identify with the company's sports activity and take great pride in the performance.



The President of the United States, Richard M. Nixon awards the President's cup to David J. Heerensperger at the White House. In attendance were left to right: Jim Lucero, crew chief, David Heerensperger, President Nixon, Billy Sterett, Jr., the driver, Bill Sterett, Sr., crew member and 5th District Congressman from Washington Thomas A. Foley.



Sports Illustrated Color photo and story captioned "winner Billy Sterett Jr. bounces a few decibels off the Capitol on the way to Victory".

Reprinted with special permission from Sports Illustrated

The President's Cup won by the Pride of Pay 'N Pak, July 9th, 1972 at Washington, D. C.

CONSOLIDATED STATEMENT OF INCOME

Years ended February 28, 1973 and February 29, 1972

	1973	1972
Net Sales.....	\$42,396,952	\$30,927,898
Costs and expenses:		
Cost of sales.....	27,475,369	20,048,868
Selling and administrative.....	9,973,103	7,425,162
Store rent.....	1,268,961	806,276
Depreciation.....	549,018	400,794
Interest.....	275,486	116,948
	39,541,937	28,798,048
Income before federal income tax.....	2,855,015	2,129,850
Provision for federal income tax (Note 1 (f)).....	1,380,915	985,054
	1,474,100	1,144,796
Minority interest.....	14,299	12,484
Net income.....	\$ 1,459,801	\$ 1,132,312
Average number of common shares (Note 1 (g)).....	1,368,576	1,338,409
Net income per share of common stock.....	\$1.07	\$.85

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended February 28, 1973 and February 29, 1972

Source:

Operations:

Net income.....

Charges against income not involving
working capital:

Depreciation and amortization.....

Deferred federal income tax (Note 1 (f)).....

Minority interest.....

Net asset amount of land and
equipment sold or retired.....

Total provided by operations.....

Proceeds from sale and leaseback
of properties.....

Exercise of stock options to purchase
common stock (Note 4).....

Increase in long-term debt.....

Application:

Additions to property, plant and equipment.....

Cash dividends paid.....

Reduction of long-term debt.....

Cost of investment in subsidiary and
acquired stores in excess of amounts
assigned to net assets.....

Pre-opening and other.....

Increase in working capital.....

The increase (decrease) in the elements of
working capital are as follows:

Cash.....

Receivables.....

Merchandise inventories.....

Prepaid expenses.....

Notes payable.....

Accounts payable.....

Federal income tax.....

Accrued liabilities.....

Long-term debt due within one year.....

Increase in working capital.....

1973

1972

\$ 1,459,801

\$ 1,132,312

611,195

473,140

1,749

(3,204)

14,299

12,484

44,495

48,979

2,131,539

1,663,711

430,971

2,311,588

149,887

269,325

22,000

115,375

2,734,397

4,359,999

1,483,195

3,214,930

212,560

203,011

69,882

292,772

92,604

22,450

20,905

152,921

1,879,146

3,886,084

\$ 855,251

\$ 473,915

\$ 161,374

\$ (213,032)

(331,822)

534,476

4,364,139

4,496,584

95,198

136,896

(1,600,000)

(3,425,000)

(1,679,890)

(1,066,763)

(3,951)

3,543

(142,642)

(128,069)

(7,155)

135,280

\$ 855,251

\$ 473,915

See accompanying notes.

CONSOLIDATED BALANCE SHEET

ASSETS

Current assets:

Cash.....

Receivables:

Notes and trade accounts receivable, less
allowance of \$11,306 (\$26,286 in 1972)
for doubtful accounts.....

Sale of properties.....

Merchandise inventories, at the lower of
cost (first-in, first-out) or market.....

Prepaid expenses.....

Total current assets.....

Other assets:

Deferred federal income tax (Note 1 (f)).....

Pre-opening costs and other (Note 1 (d)).....

Non-competition agreements, at cost less \$164,955
amortization (\$110,379 in 1972) (Note 1 (e)).....

Total other assets.....

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

Land.....

Buildings.....

Leasehold improvements.....

Store equipment.....

Transportation equipment.....

Construction in progress.....

Less accumulated depreciation.....

Property held for development and/or
investment.....

Net property, plant and equipment.....

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))..

1973

1972

\$ 595,821

\$ 434,447

304,992

200,496

145,000

581,318

13,925,388

9,561,249

506,620

411,422

15,477,821

11,188,932

39,068

40,817

217,390

239,997

136,125

168,701

392,583

449,515

158,500

158,500

195,277

195,277

1,595,177

1,065,304

2,566,159

2,005,603

329,498

361,816

314,051

131,390

5,158,662

3,917,890

1,259,284

911,187

3,899,378

3,006,703

1,280,103

1,714,067

5,179,481

4,720,770

357,459

281,013

\$21,407,344

\$16,640,230

See accompanying notes.

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

	1973	1972
Notes payable to bank.....	\$ 5,650,000	\$ 4,050,000
Accounts payable.....	4,494,555	2,814,665
Federal income tax.....	350,149	346,198
Accrued liabilities.....	794,257	651,615
Long-term debt due within one year.....	69,865	62,710
Total current liabilities.....	11,358,826	7,925,188
Long-term debt (Note 2).....	673,879	721,761
Deferred income (Note 1 (b)).....	156,567	173,963
Minority interest in subsidiary.....	32,753	32,984
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 (1,353,409 in 1972).....	138,116	135,341
Capital in excess of par value.....	3,788,717	3,639,748
Retained earnings.....	5,258,486	4,011,245
Total stockholders' equity.....	9,185,319	7,786,334
	\$21,407,344	\$16,640,230

See accompanying notes.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

Years ended February 28, 1973 and February 29, 1972

	Common Stock	Capital in excess of par value	Retained earnings	Total
Balance, February 28, 1971 — as previously reported.....	\$ 133,091	\$3,372,673	\$3,104,684	\$6,610,448
Prior period adjustment (Note 5).....			(22,740)	(22,740)
Balance, February 28, 1971 — as adjusted.....	133,091	3,372,673	3,081,944	6,587,708
Add (deduct):				
Net income for year ended February 29, 1972.....			1,132,312	1,132,312
Cash dividends paid (\$.15 per share).....			(203,011)	(203,011)
Stock options exercised, 22,500 shares at \$11.97 per share (Note 4).....	2,250	267,075		269,325
Balance, February 29, 1972.....	135,341	3,639,748	4,011,245	7,786,334
Add (deduct):				
Net income for year ended February 28, 1973.....			1,459,801	1,459,801
Cash dividends paid (\$.155 per share).....			(212,560)	(212,560)
Stock options exercised, 24,000 shares at \$4.375 and 3,750 shares at \$11.97 (Note 4).....	2,775	147,112		149,887
Expenses applicable to 1972 registration of shares issued for stock options.....		(5,643)		(5,643)
Purchase of minority interest in subsidiary.....		7,500		7,500
Balance, February 28, 1973 (Notes 2 and 4).....	\$ 138,116	\$3,788,717	\$5,258,486	\$9,185,319

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

February 28, 1973 and February 29, 1972

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 Canadian subsidiary 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 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 agreements* — The cost of non-competition agreements are amortized on the straight-line basis over 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 to income over the period of the leases. The provision for federal income tax has been reduced by \$41,000 in 1973 and \$45,000 in 1972 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. Long-term debt

Long-term debt outstanding at February 28, 1973 and February 29, 1972 is shown in the following summary.

	1973	1972
6¼% note payable to insurance company, due \$25,000 annually plus interest on September 1 to 1976	\$125,000	\$150,000
6½%-7% real estate contracts, due annually including interest, \$64,368 to 1979, \$60,168 to 1983, and \$13,488 to 1989	490,590	519,783
6½% mortgage note payable, due \$15,732 per year including interest to 1982	106,154	114,688
Non-competition agreement, due \$4,400 annually to 1978	22,000	
	743,744	784,471
Less long-term debt due within one year	69,865	62,710
	<u>\$673,879</u>	<u>\$721,761</u>

Property of \$928,316 is pledged as collateral for the above long-term debt.

The loan agreement with the insurance company provides, among other things, restrictions on the payment of cash dividends, redemption or reacquisition of the Company's stock, payment of certain stockholder-employee compensation and advances to and investment in a consolidated real estate subsidiary. At February 28, 1973, retained earnings of \$1,574,283 was not restricted.

Payments on the principal of long-term debt for the four years ending February 28, 1978 are required as follows: 1975—\$73,100; 1976—\$76,500; 1977—\$105,200; 1978—\$59,500.

3. Commitments and contingency

Minimum rent commitments, exclusive of insurance and property taxes, under non-cancellable leases for retail stores are payable as follows: 1974—\$1,398,000; 1975—\$1,382,000; 1976—\$1,371,000; 1977—\$1,352,000; and 1978—\$1,215,000; and reduced amounts to 1998. The Company

has options to renew most leases for three to ten year periods at agreed amounts. An airplane is leased at \$95,948 per year to 1980.

The Company is contingently liable at February 28, 1973 on real estate mortgage notes of \$447,705 assumed by the purchasers of a store sold and leased back in 1971.

4. Stock options

A five-year non-transferable option to purchase 3,750 shares of common stock which is exercisable at \$12.71 (aggregate \$47,663) and \$13.44 per share during the years ended September 25, 1973 and 1974, respectively, is outstanding at February 28, 1973.

At February 28, 1973, options to purchase 53,600 shares of common stock were available to be granted to officers and employees under the 1968 qualified stock option plan which terminates September 15, 1973. Options become exercisable not less than six months after date of grant.

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; the market values on the dates exercised were \$21.63—\$29.25 per share (aggregate—\$705,188). During 1972 options to purchase 22,500 shares of common stock at \$11.97 per share (aggregate \$269,325) were exercised, the market value on the date exercised being \$14.50 per share (aggregate—\$326,250).

5. Prior period adjustment

As a result of a suit filed in June 1972 by the United States Department of Labor and settled in July 1972, the Company agreed to pay certain employees additional overtime compensation for fiscal years ended February 28, 1971 and February 29, 1972. Therefore, net income for the year ended February 29, 1972 has been reduced retroactively by \$15,160 (\$.01 per share) and retained earnings at February 28, 1971 has been charged \$22,740 for the adjustment applicable to the year ended February 28, 1971.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

We have examined the accompanying consolidated balance sheet of Pay 'N Pak Stores, Inc. at February 28, 1973 and February 29, 1972 and the related consolidated statements of income, stockholders' equity, 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.

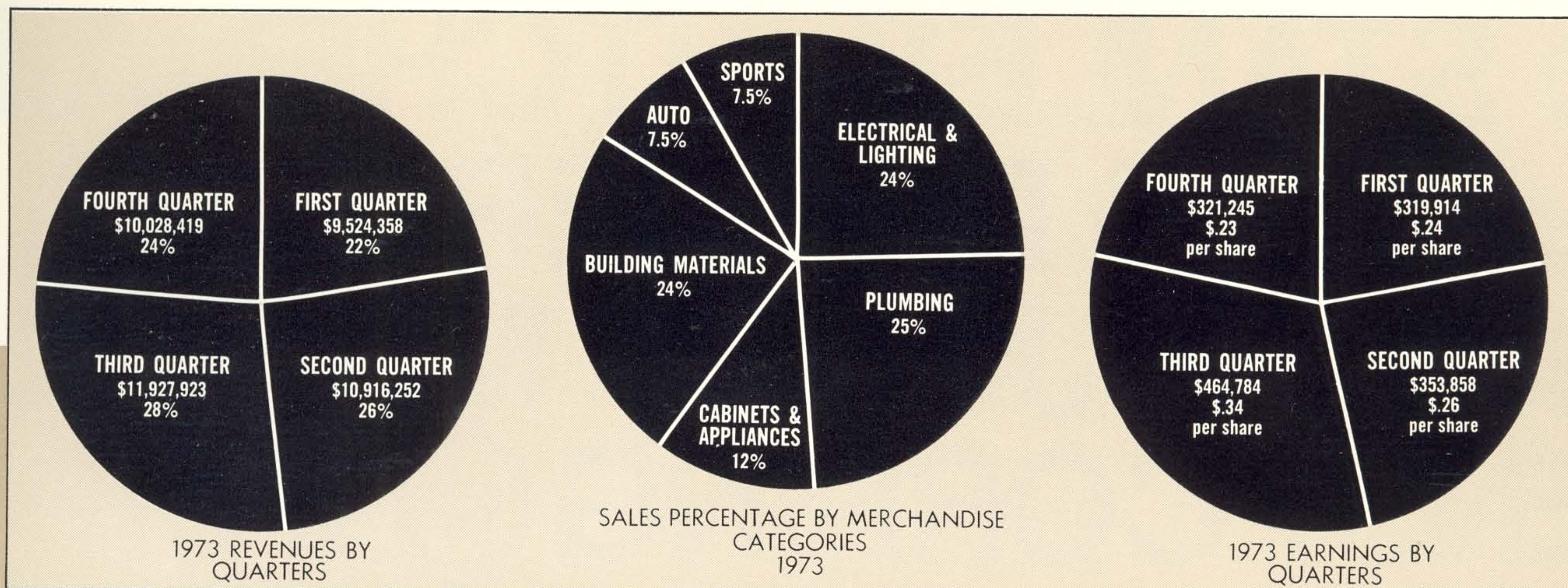
In our opinion, the statements mentioned above present fairly the consolidated financial position of Pay 'N Pak

Stores, Inc. at February 28, 1973 and February 29, 1972 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

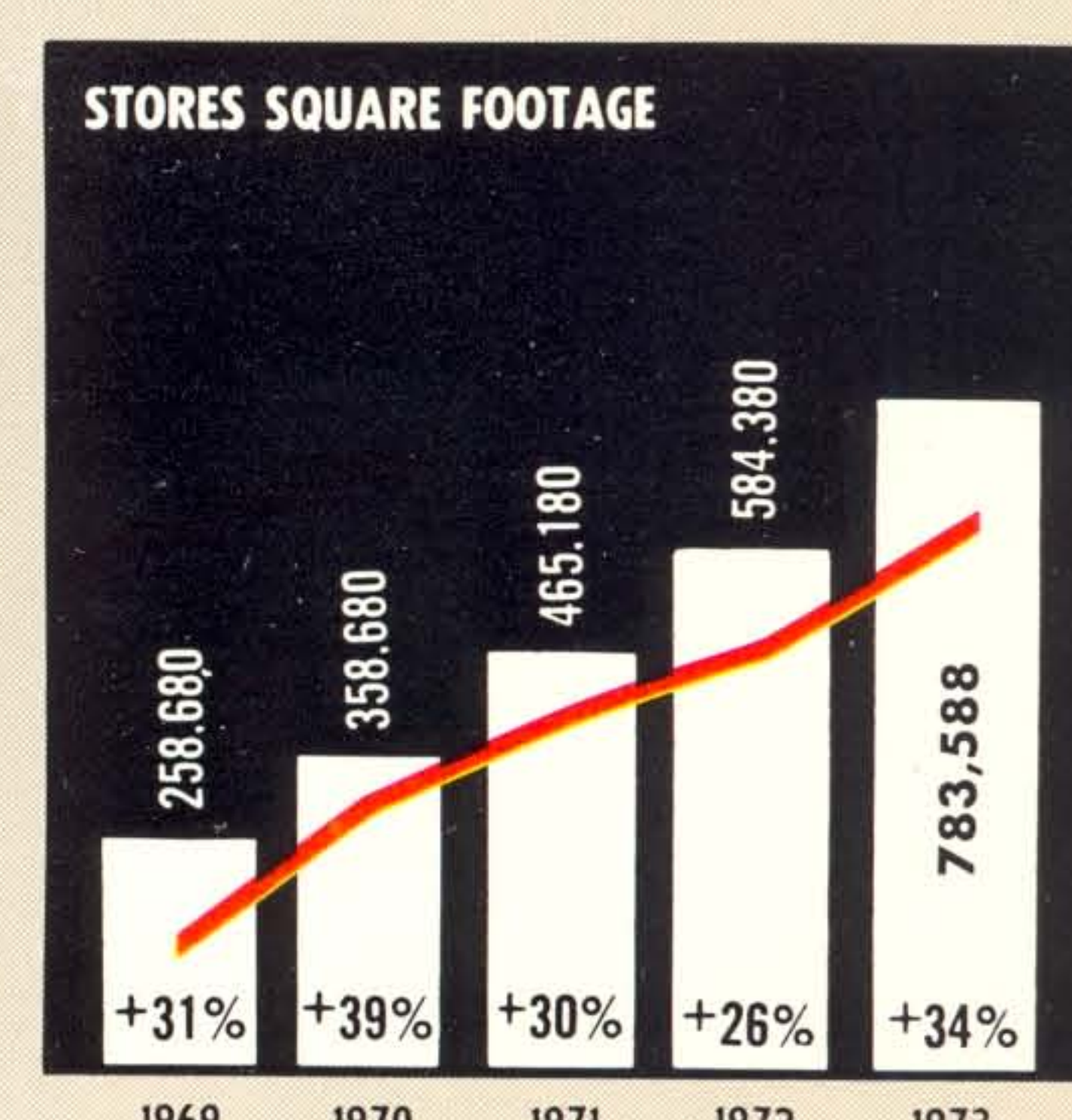
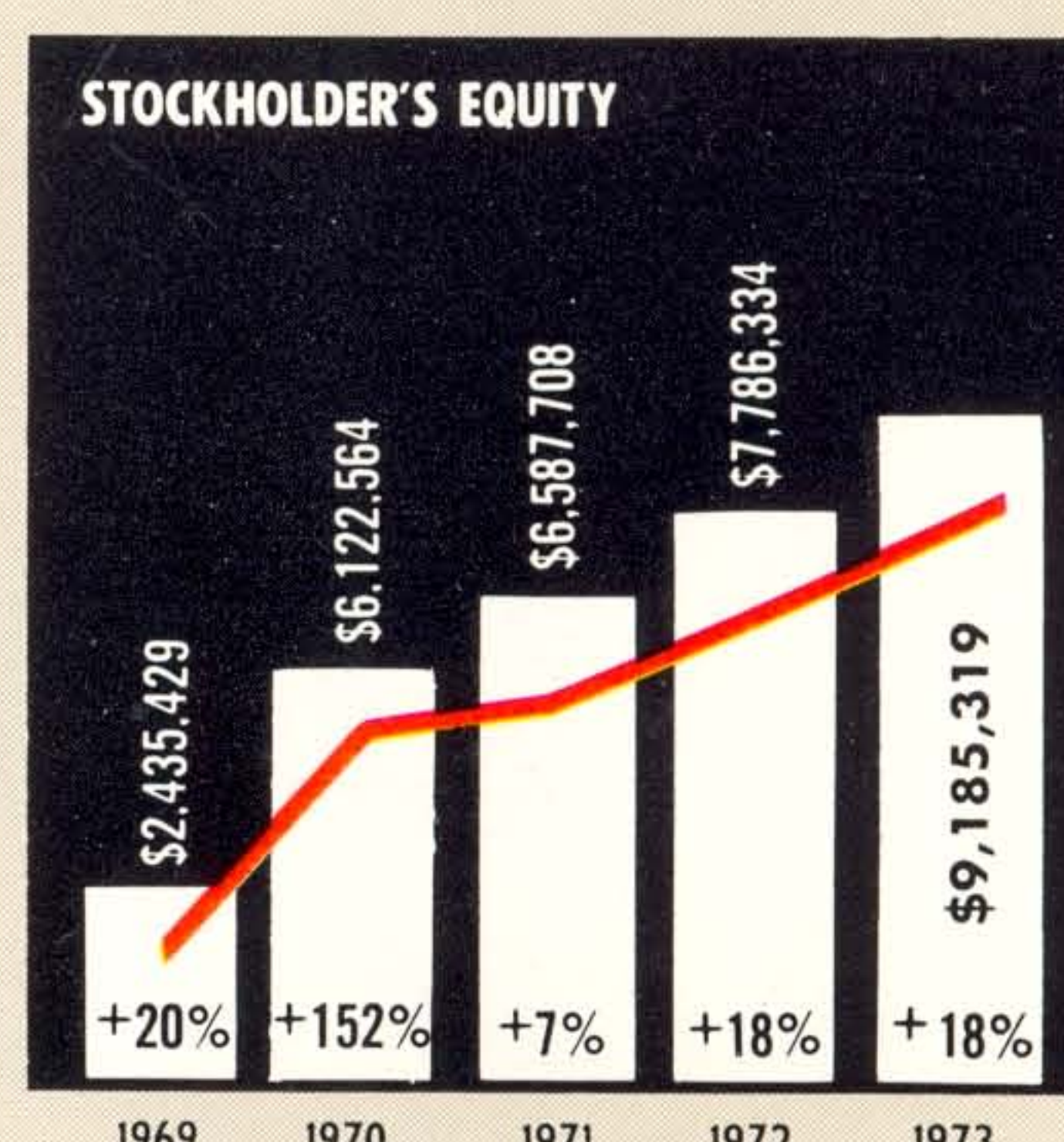
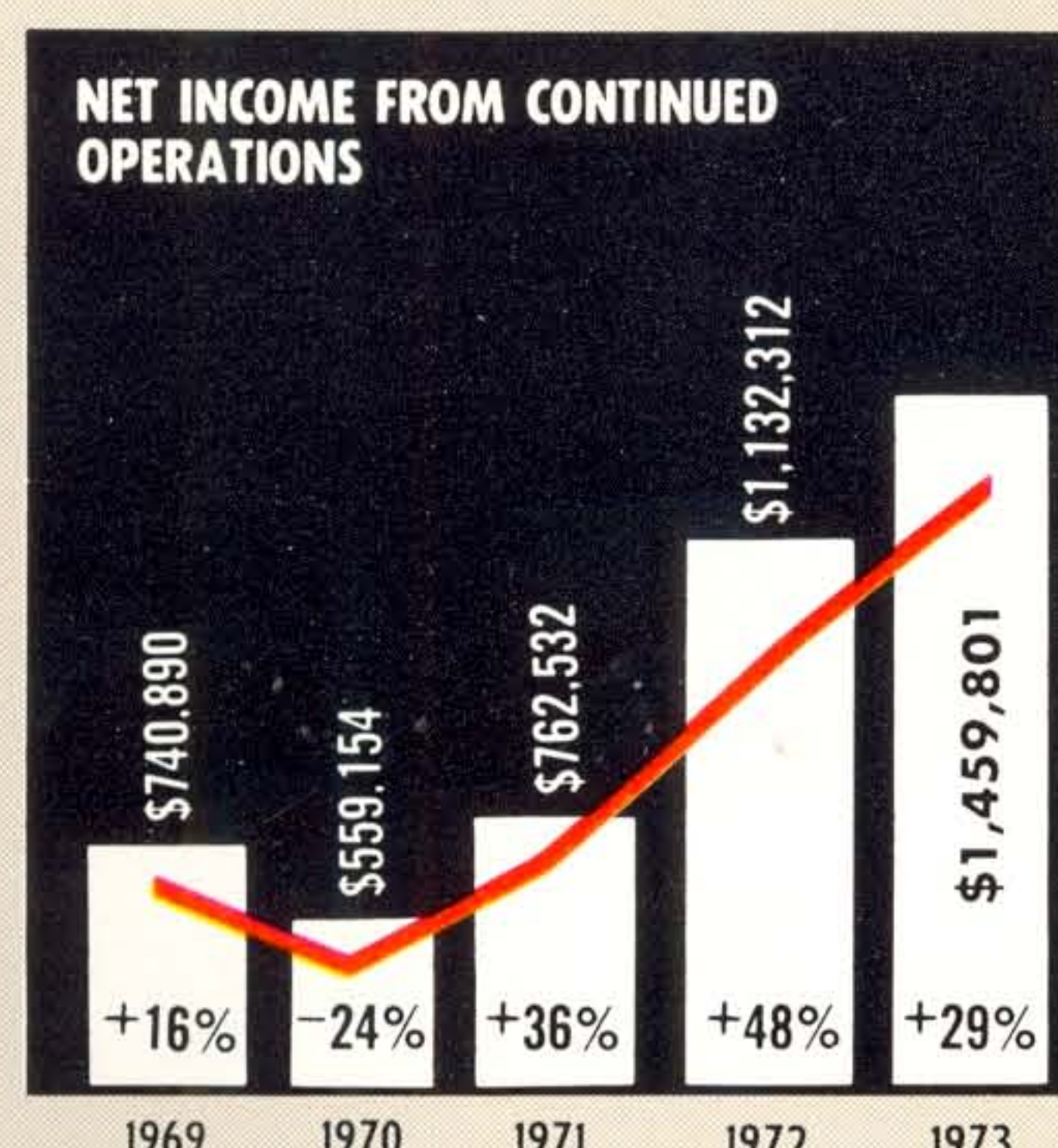
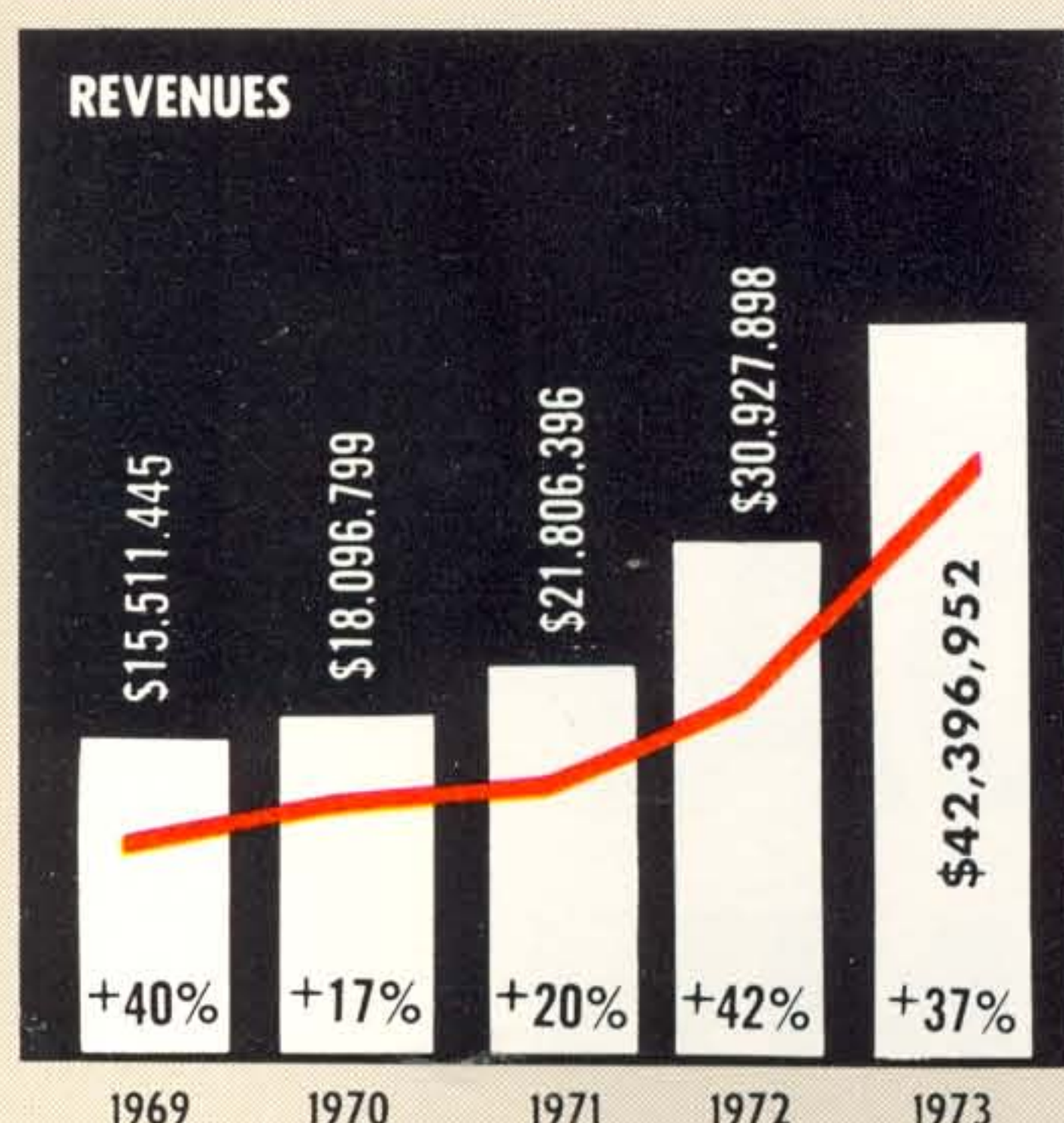
April 3, 1973

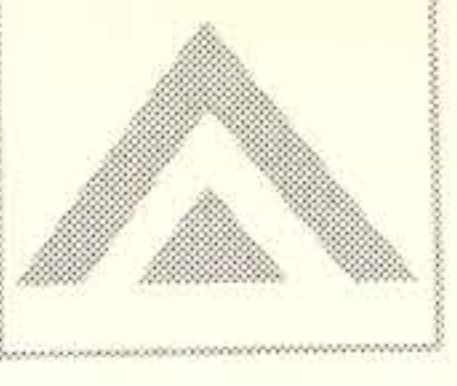
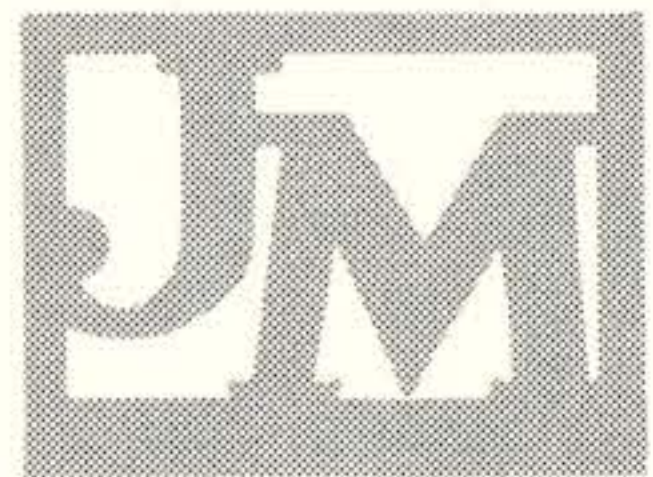


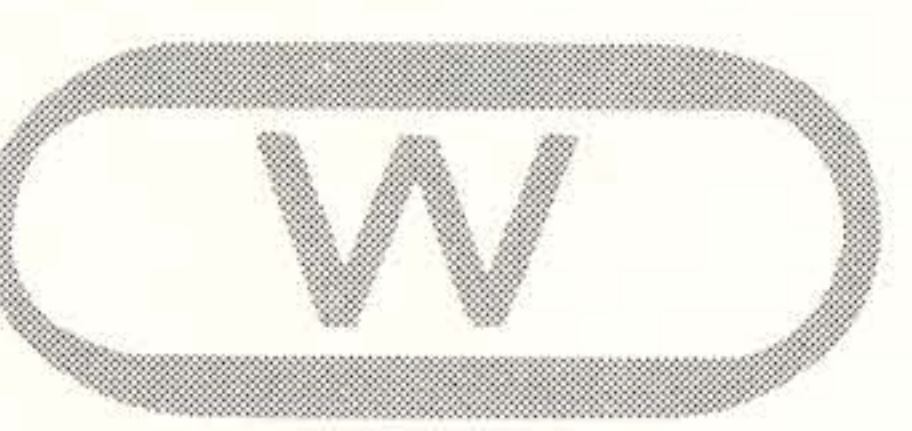


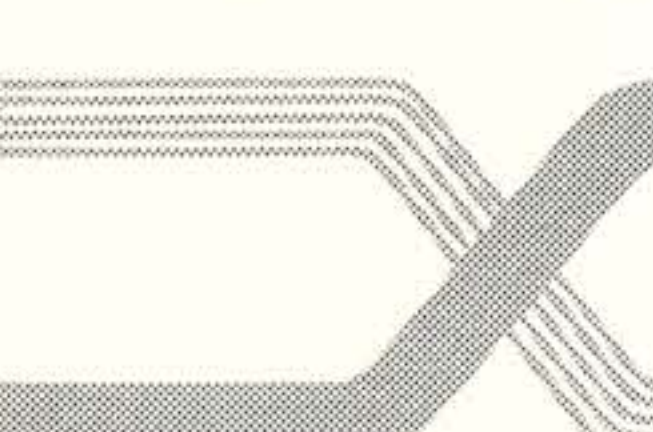


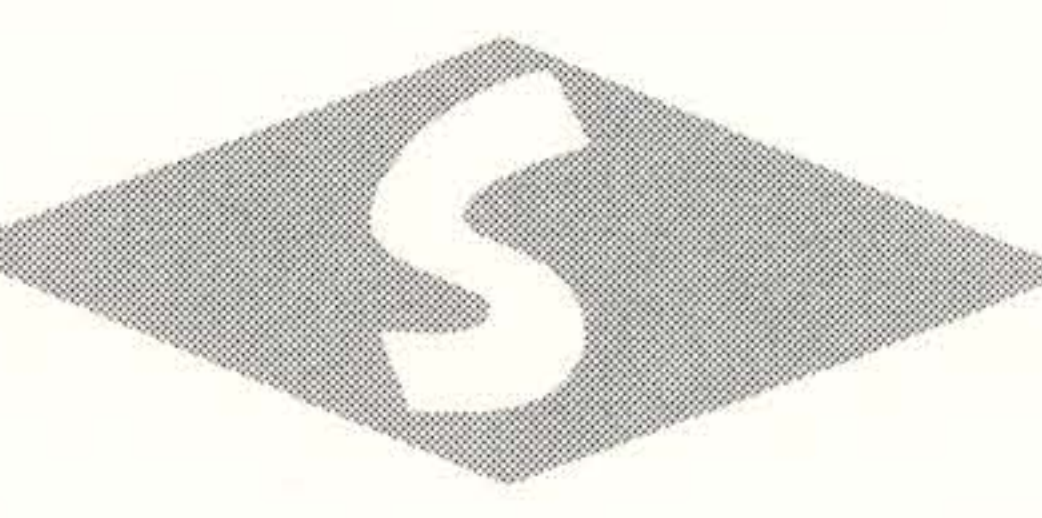
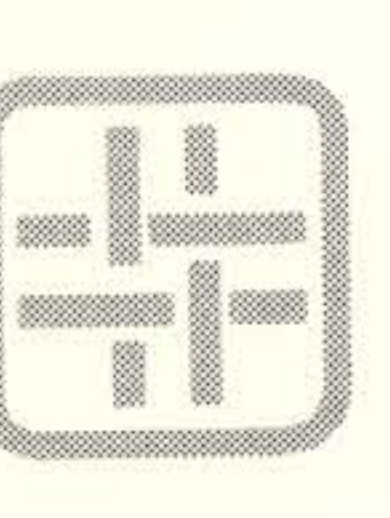
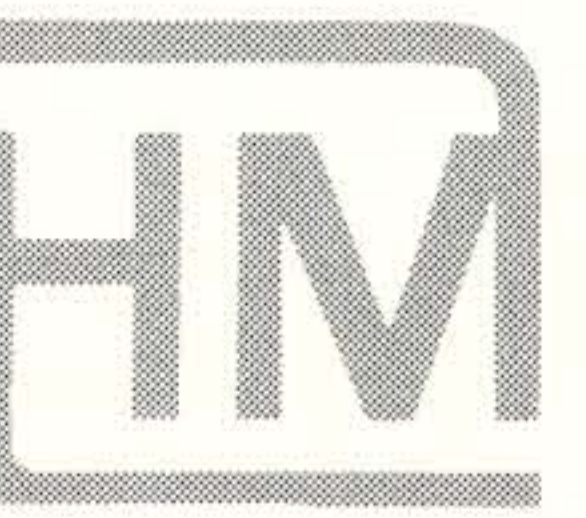

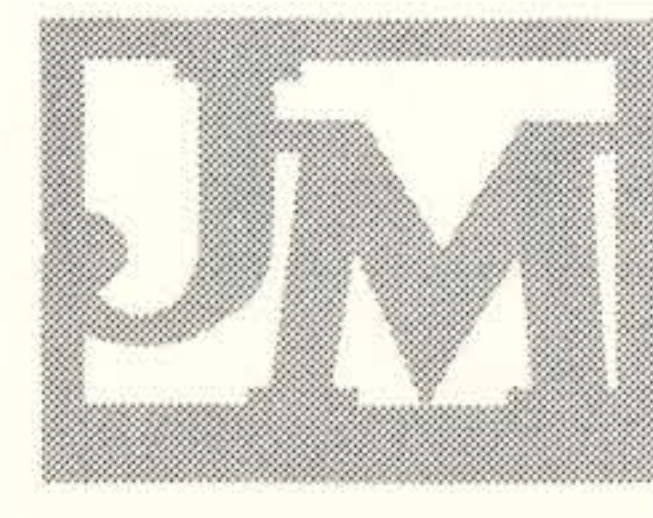



FIVE YEAR GROWTH HIGHLIGHTS

YEARS ENDED FEBRUARY 28 OR 29

	1973	1972	1971	1970	1969
Revenues	\$42,396,952	\$30,927,898	\$21,806,396	\$18,096,799	\$15,511,445
Income before federal tax	\$ 2,855,015	\$ 2,129,850	\$ 1,469,048	\$ 1,160,524	\$ 1,454,704
Income from continuing operations	\$ 1,459,801	\$ 1,132,312	\$ 762,532	\$ 559,154	\$ 740,890
(Loss) from discontinued operations			\$ (98,692)		
Net income	\$ 1,459,801	\$ 1,132,312	\$ 663,840	\$ 559,154	\$ 740,890
Average number of common shares	1,368,576	1,338,409	1,330,742	1,115,809	997,123
Per common share:					
Income from continuing operations	\$1.07	\$0.85	\$0.57	\$0.50	\$0.74
(Loss) from discontinued operations			(.07)		
Net income	\$1.07	\$0.85	\$0.50	\$0.50	\$0.74
Cash dividends paid	\$0.155	\$0.15	\$0.15	\$0.15	\$0.125
Financial position at end of year:					
Total assets	\$21,407,344	\$16,640,230	\$11,169,578	\$10,220,358	\$ 6,420,741
Stockholders' equity	\$ 9,185,319	\$ 7,786,334	\$ 6,587,708	\$ 6,122,564	\$ 2,435,429
Shares of common stock outstanding	1,381,159	1,353,409	1,330,909	1,330,509	962,109
Net asset amount per share	\$6.65	\$5.75	\$4.95	\$4.60	\$2.53
Number of stores open	44	40	36	31	22
Number of states in which we operated	11	8	6	6	4
Square footage of stores	783,588	584,380	465,180	358,680	258,680



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BLACK & DECKER DAP
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CARDINAL  WESLOCK 
GEORGIA-PACIFIC  AMTICO
KING  WARNER
red  GLADSTONE HONEYWELL
ALL MACK  MODERN MAI
WESLOCK  SIMPSON
N  BURLINGTON  HALL M
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**FAMOUS BRANDS THE
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AND TRUSTS...**

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