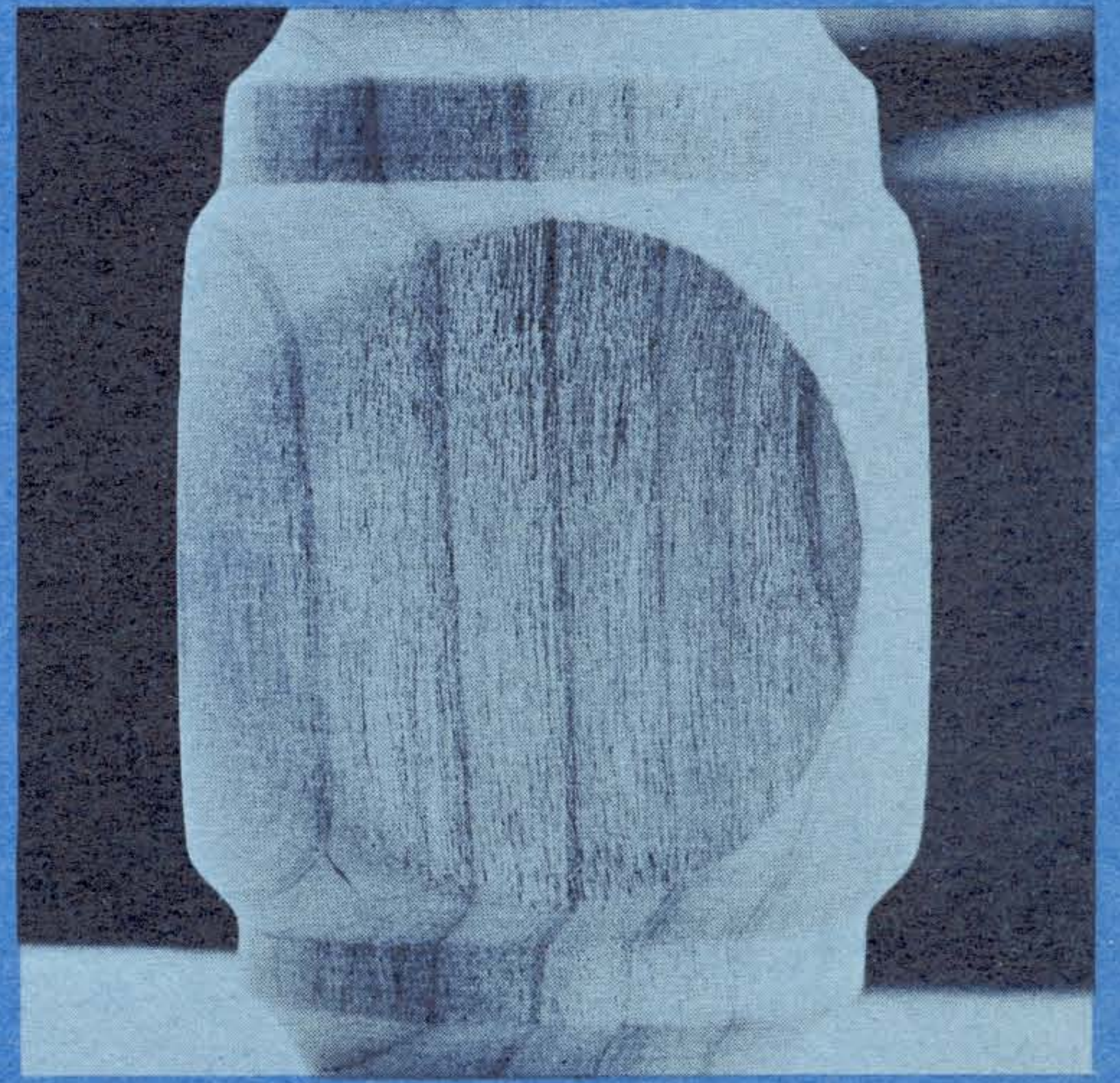
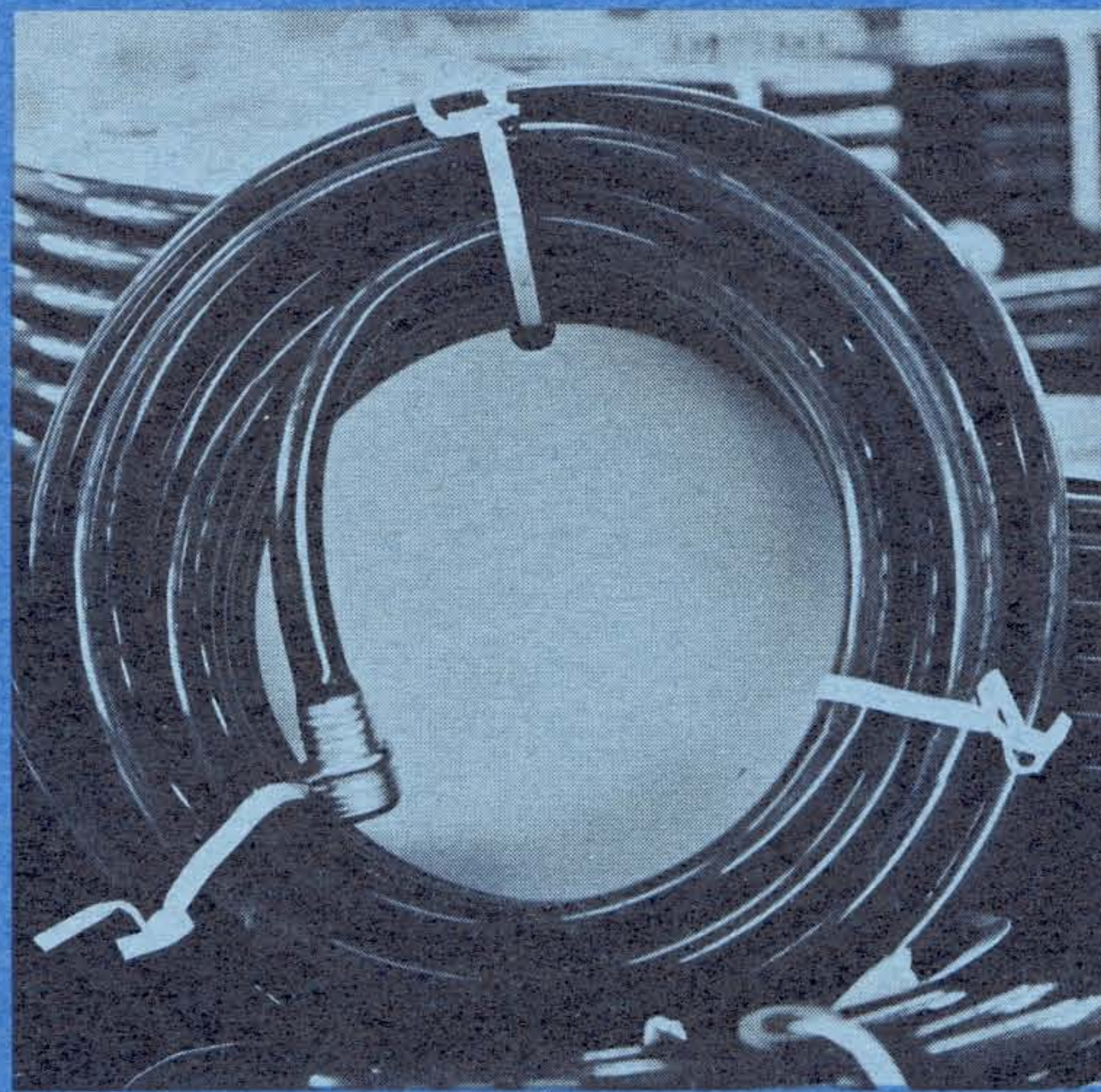
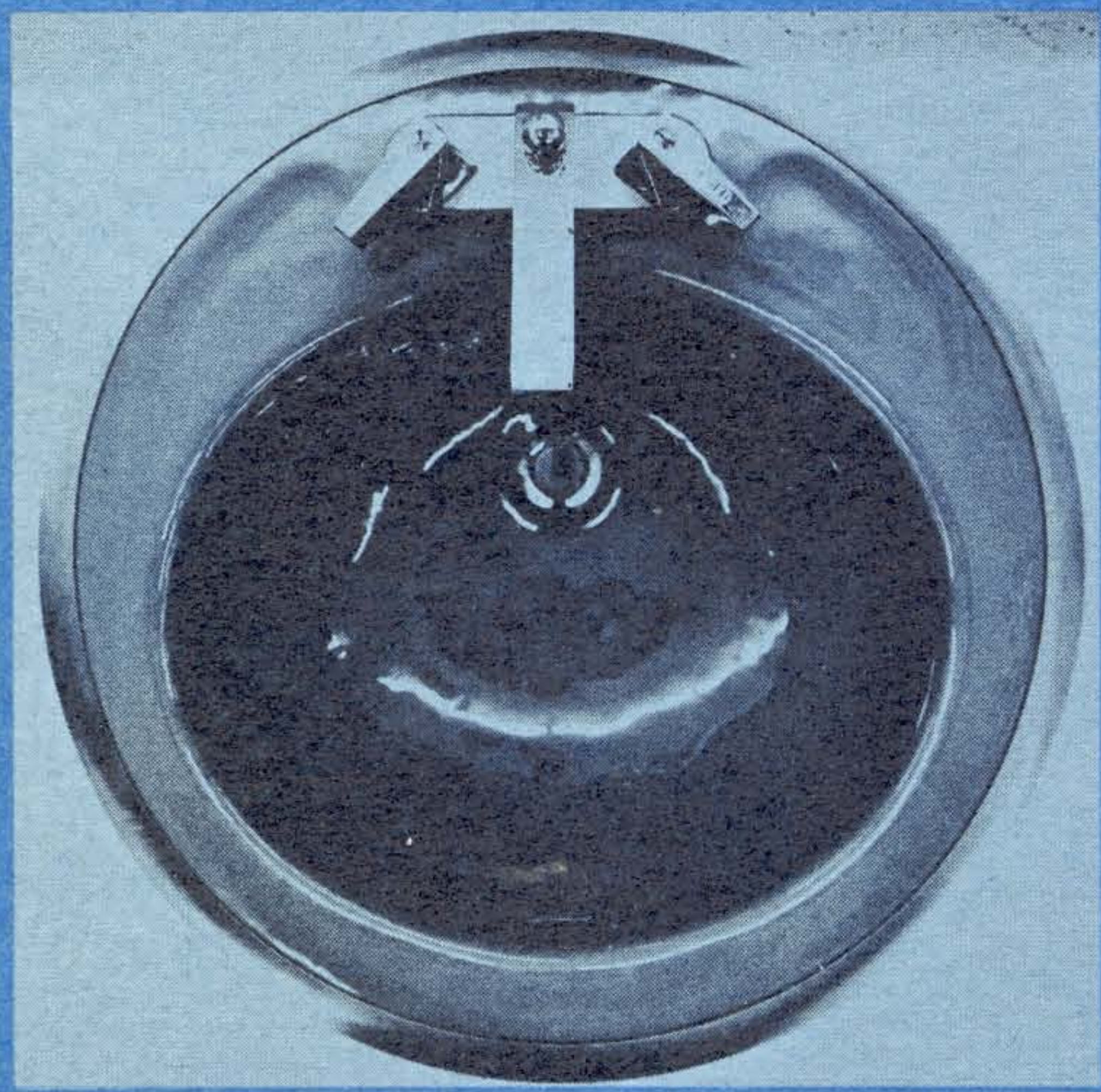
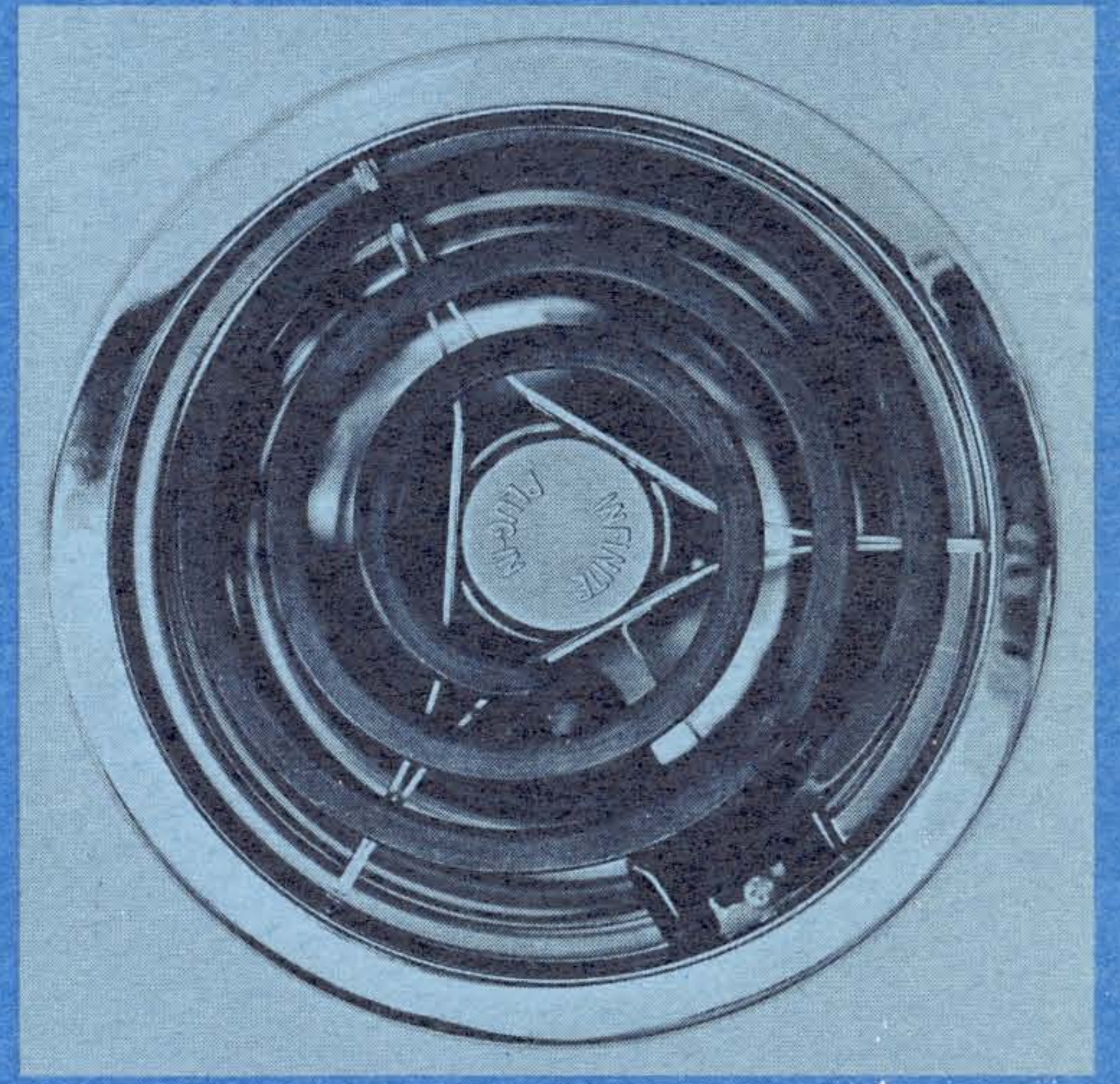
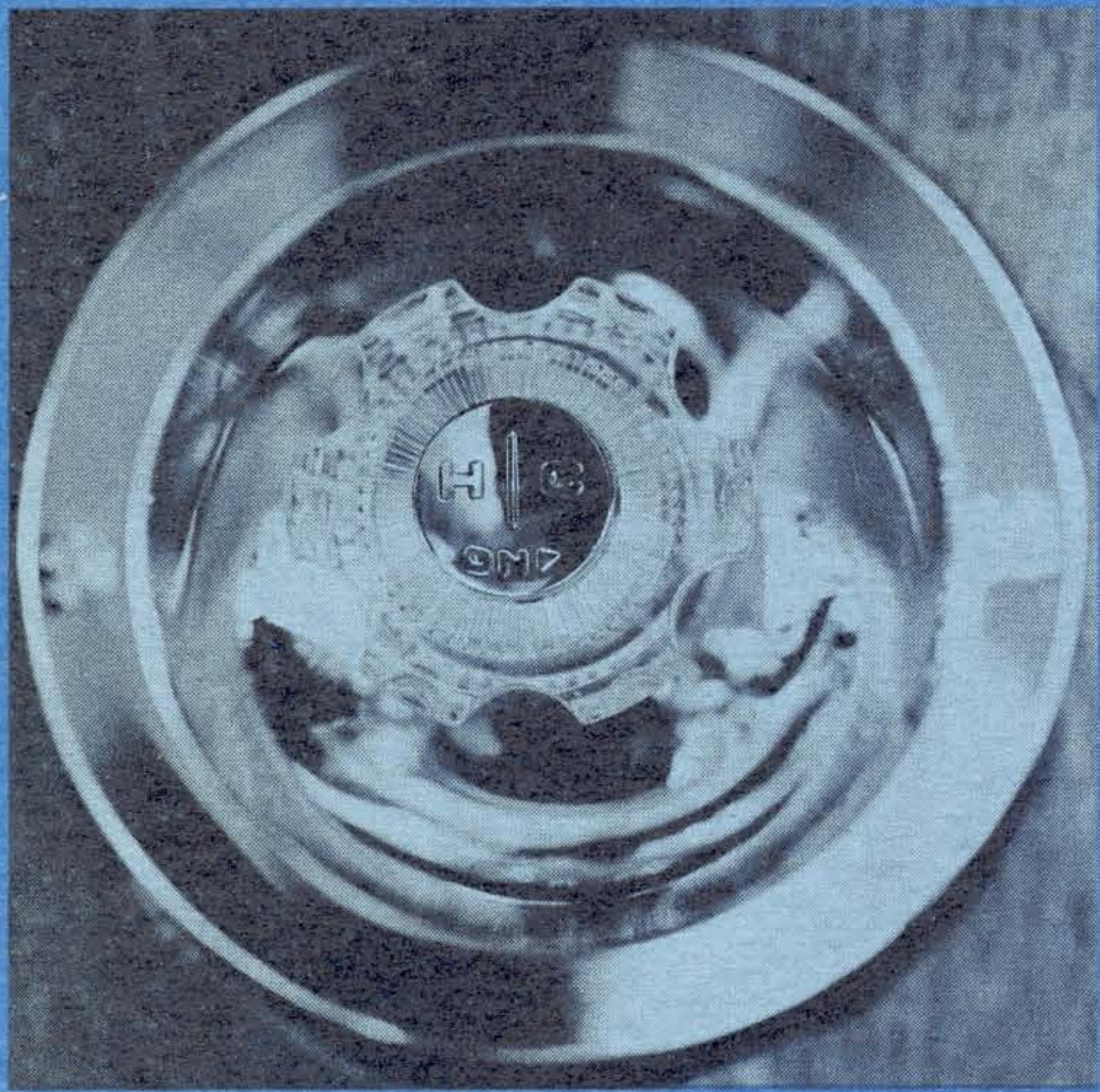
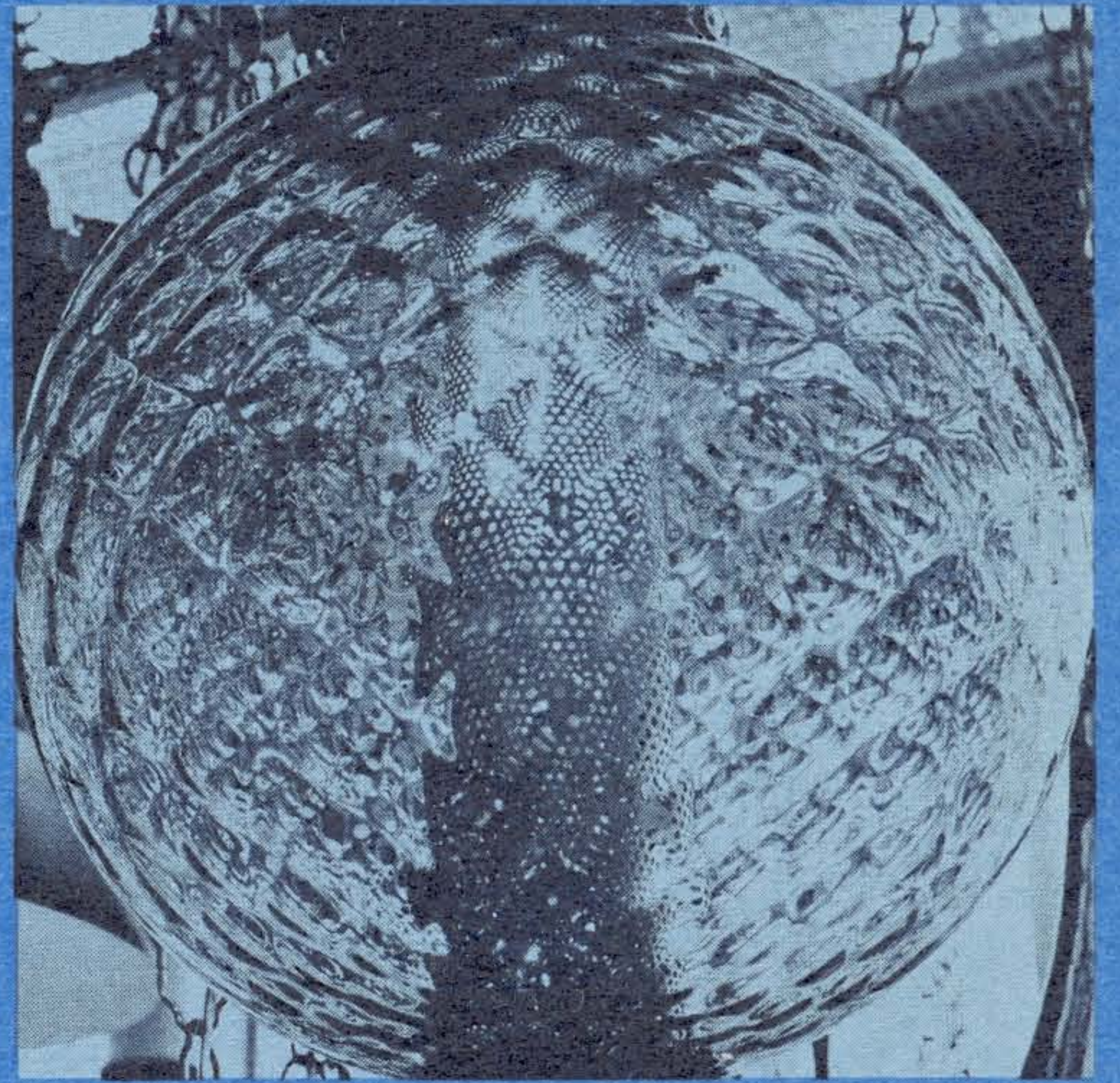
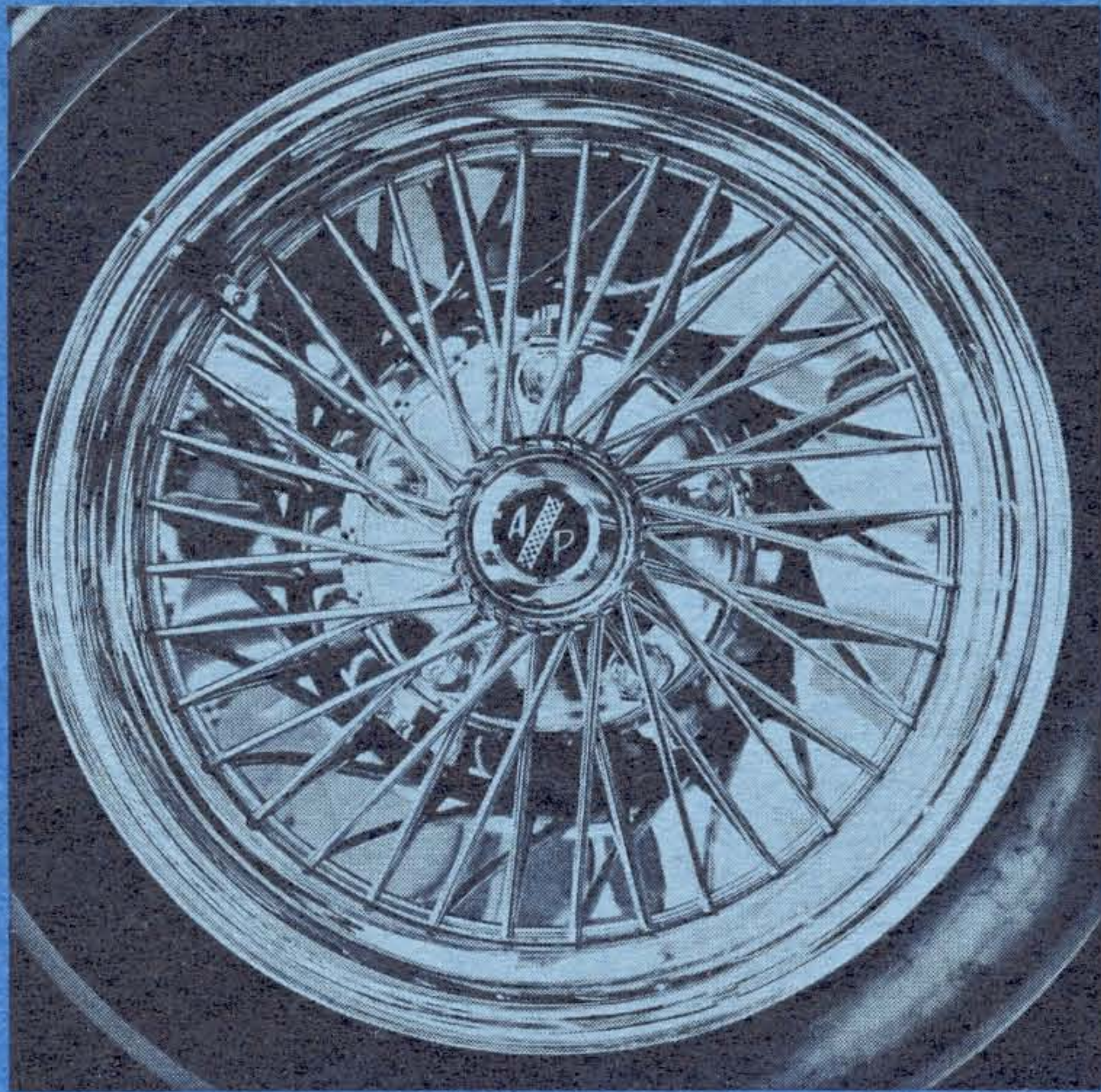
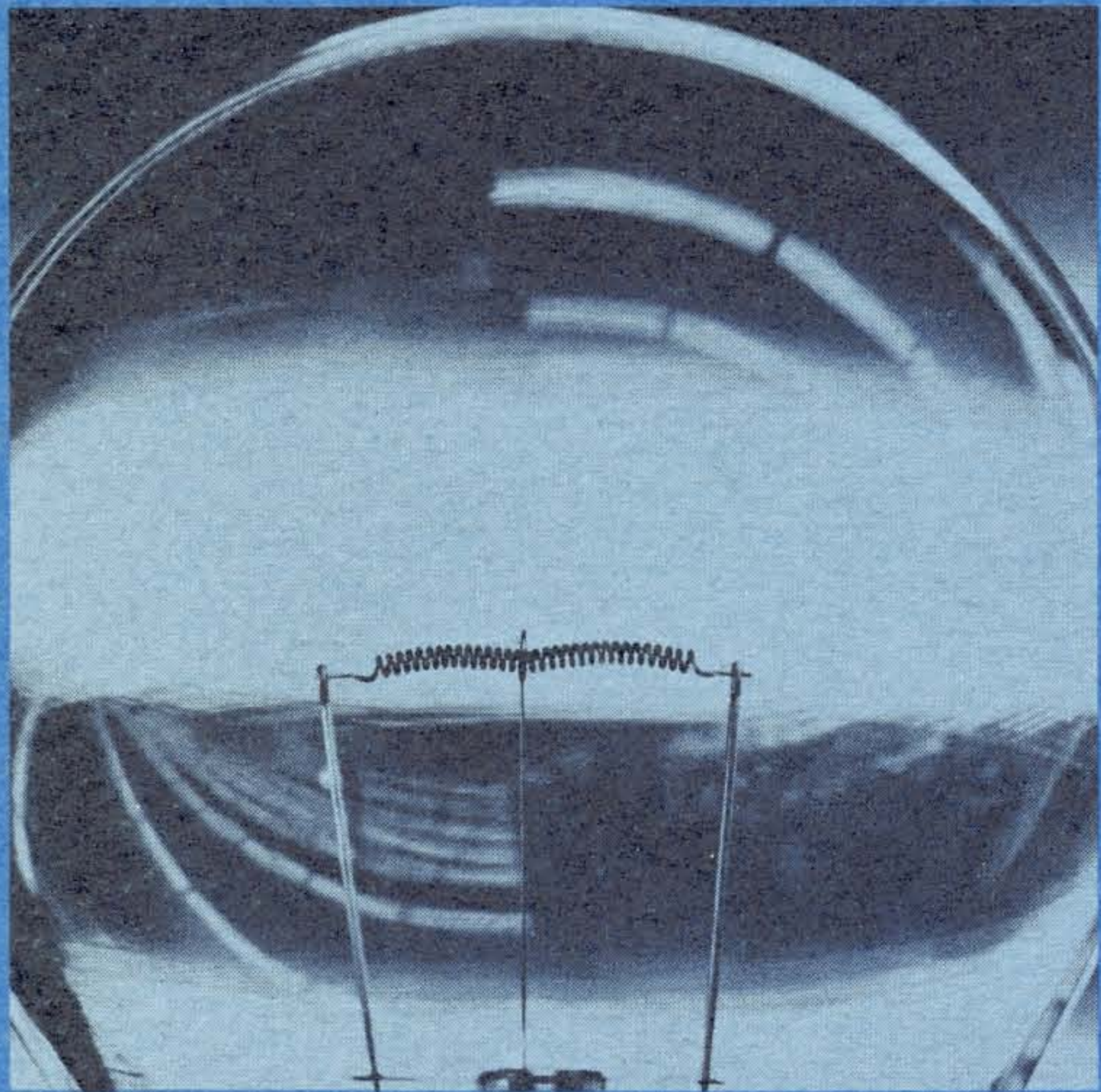
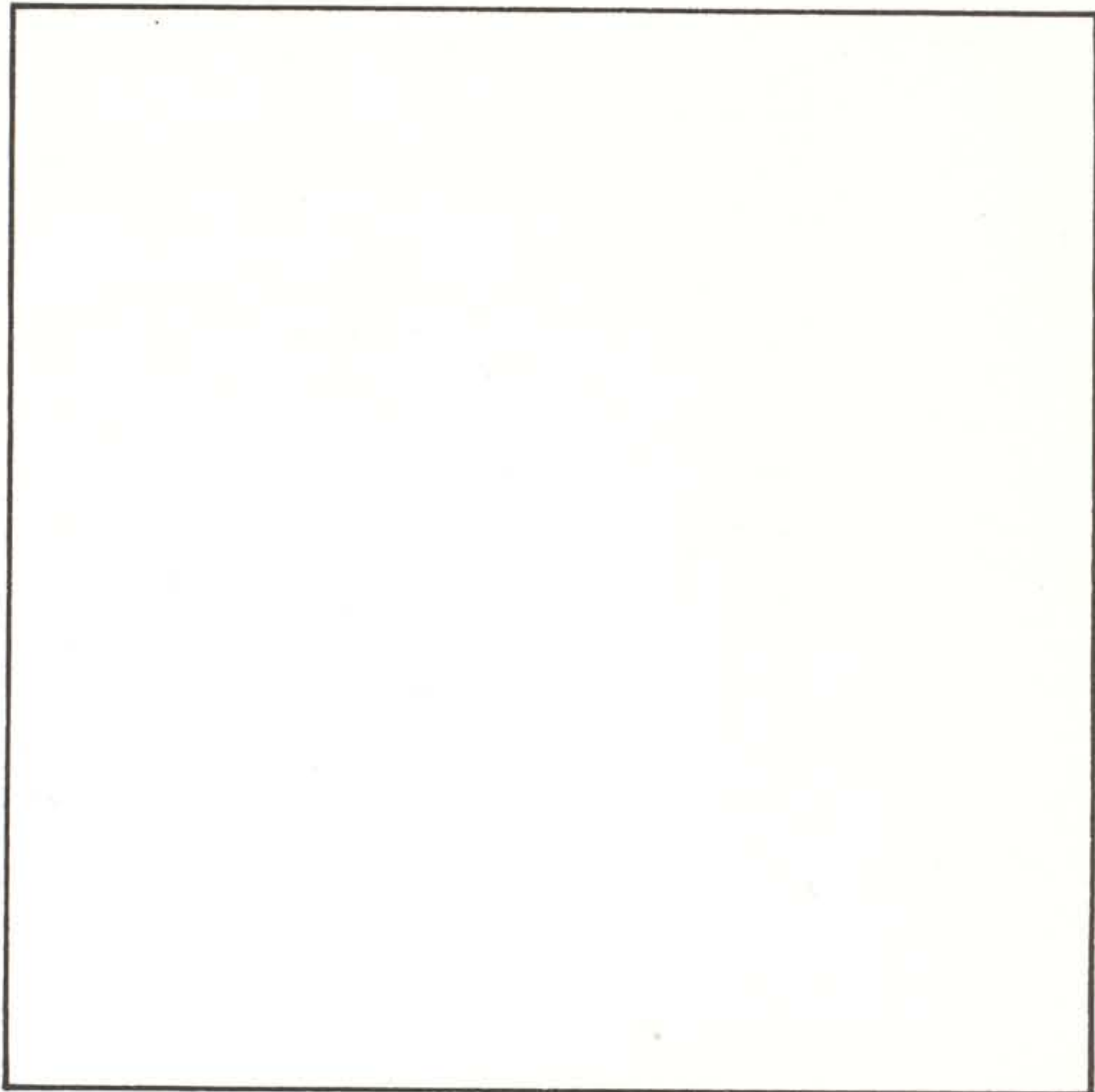
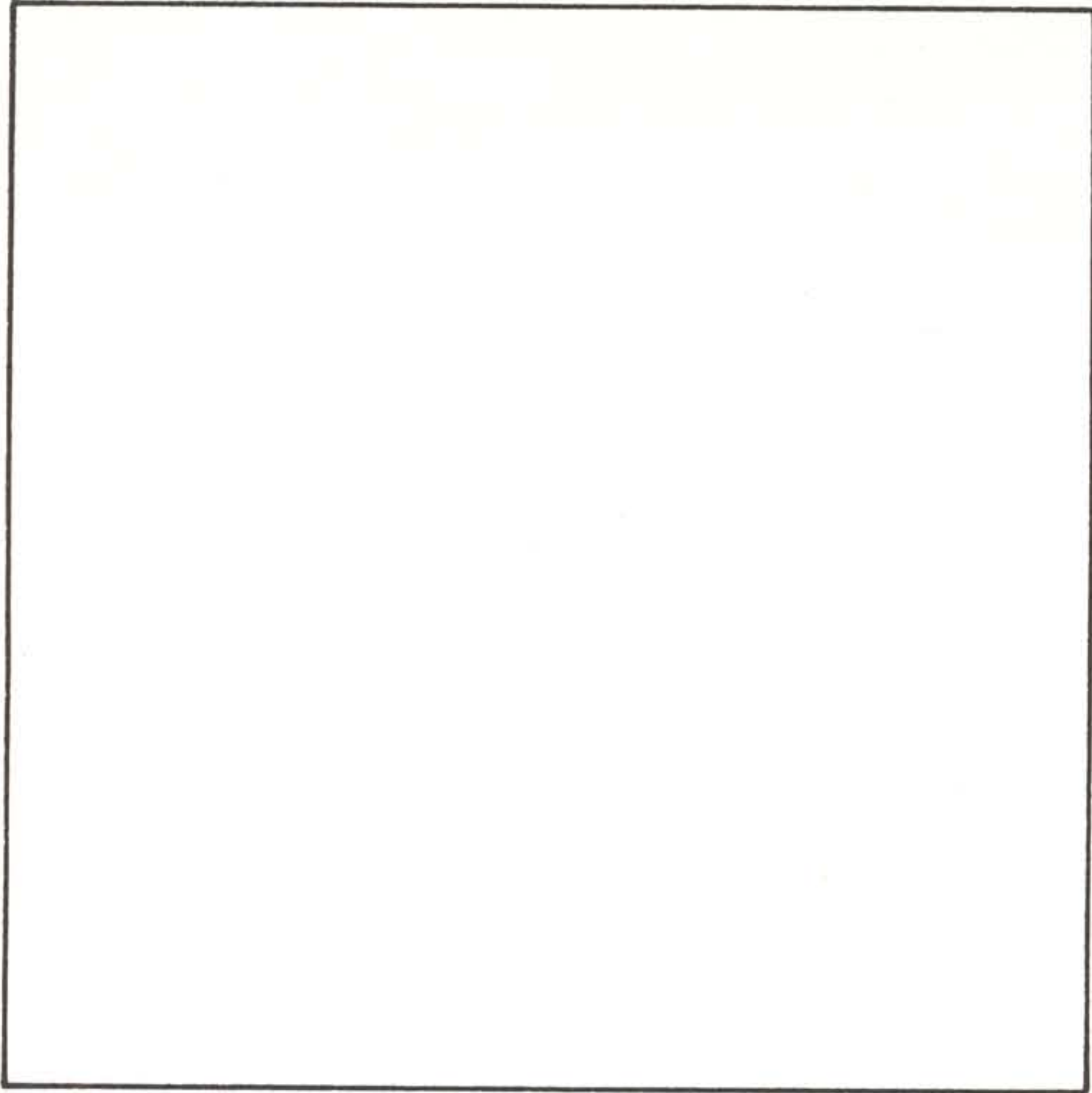
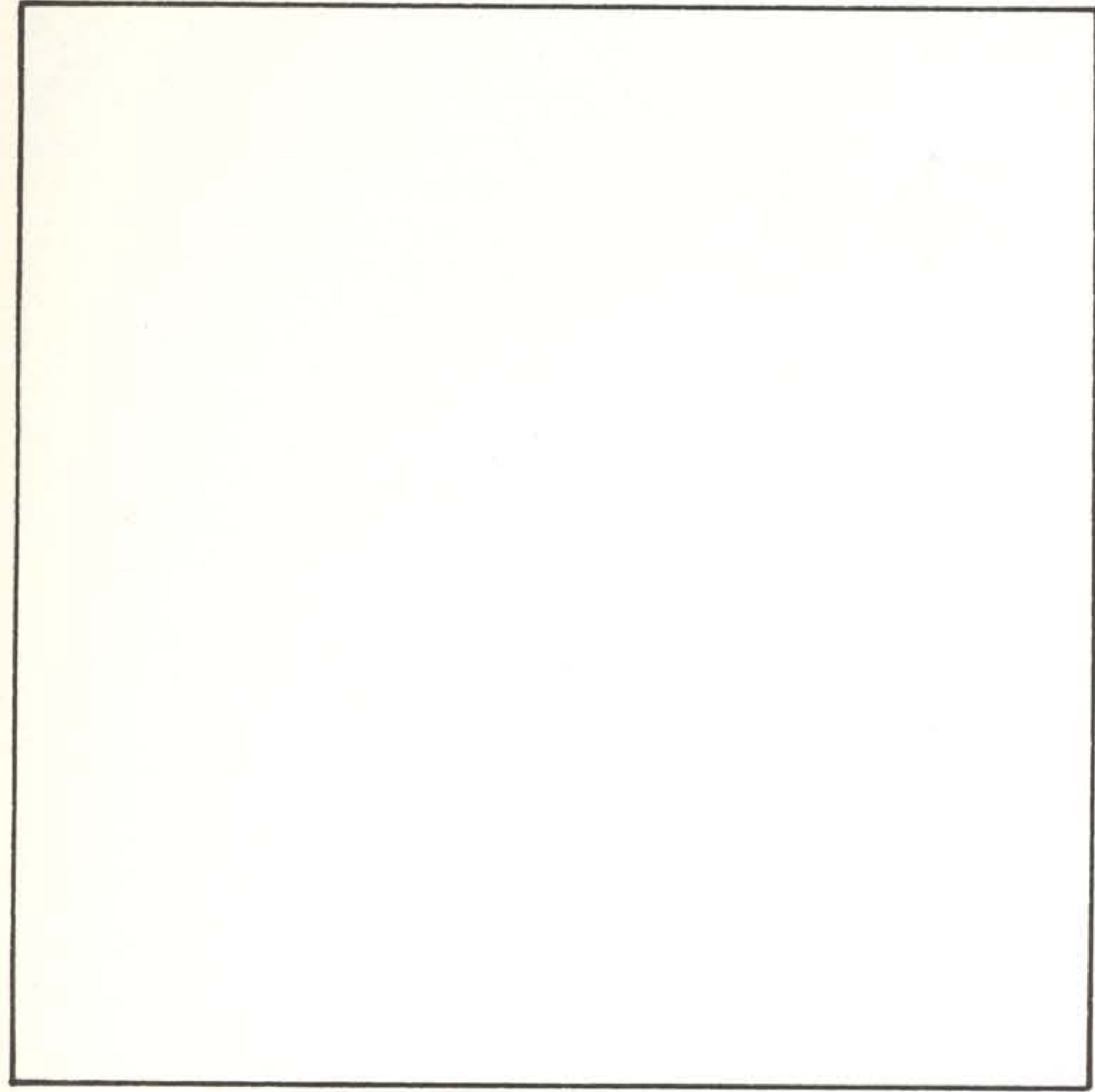


Pay'n Pak Stores, Inc. Annual Report 1970

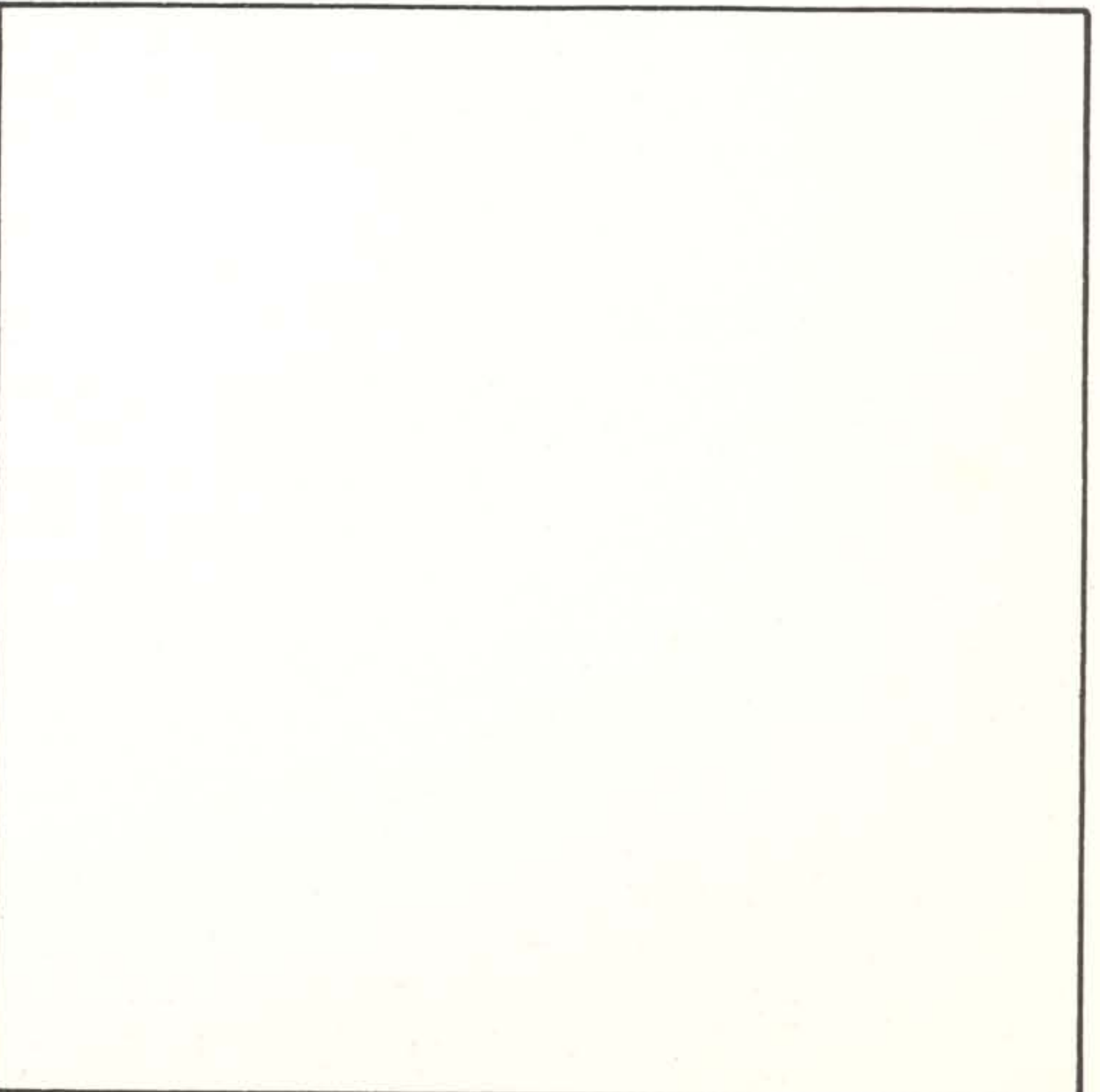
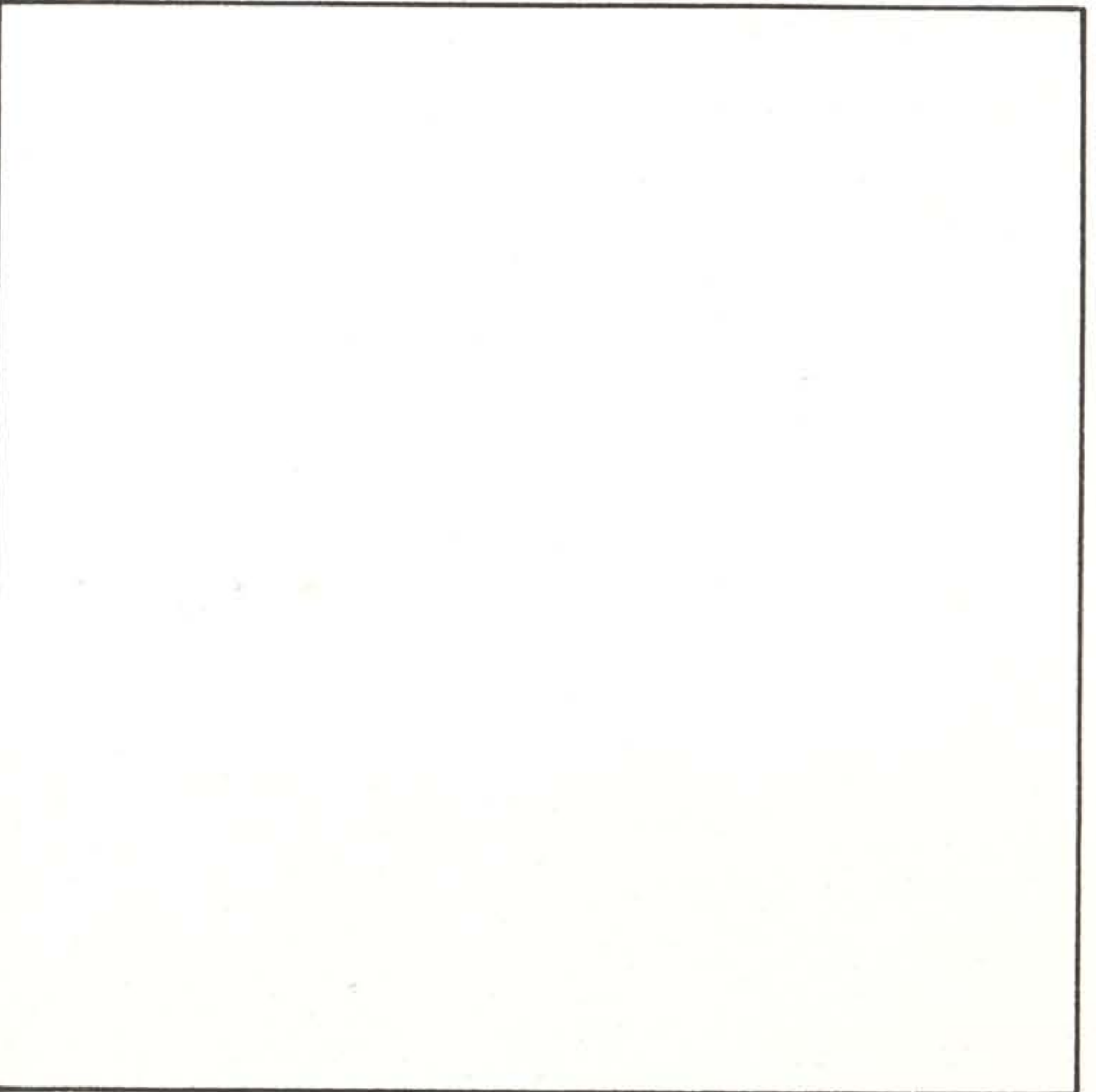
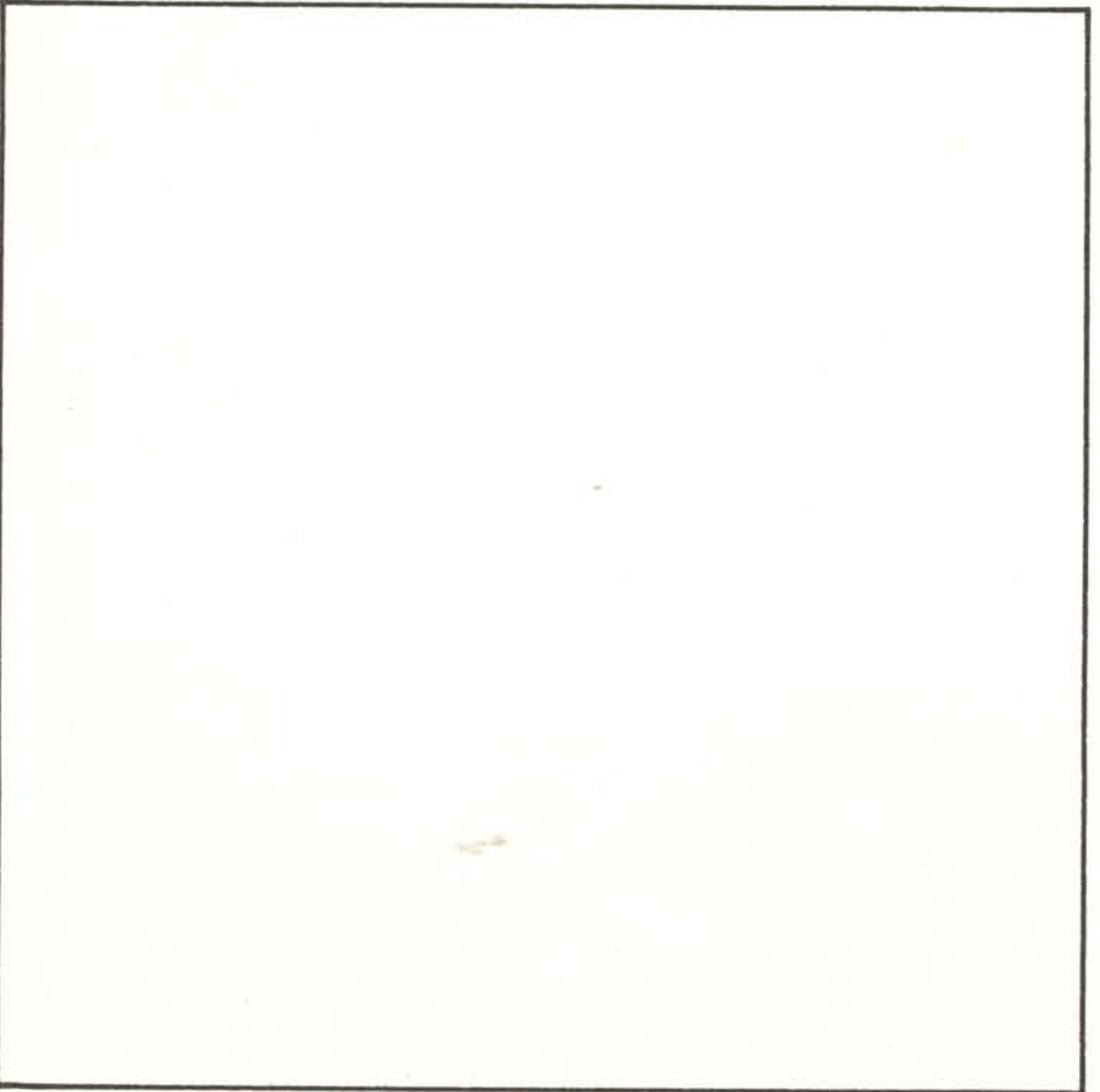




Financial Highlights

Year ended February 28	
Revenues	
Income before federal income tax . .	
Net income	
Per share:	
Net income	
Cash dividends paid	
At end of year:	
Stockholders' equity	
Shares of common stock outstanding	
Net asset amount per share . . .	
Number of stores open	

1970	1969
\$18,096,799	\$15,511,445
\$ 1,146,932	\$ 1,448,746
\$ 559,154	\$ 740,890
\$.50	\$.74
\$.15	\$.125
\$ 6,122,564	\$ 2,435,429
1,330,509	962,109
\$4.60	\$2.53
31	22





To Our Shareholders

Revenues rose to \$18,096,799 in the fiscal year ended Feb. 28, 1970, as compared with \$15,511,445 in the previous year. Net earnings declined from \$740,890 to \$559,154.

Earnings did not keep pace with rising sales. Costs resulting from the merger and the transfer of corporate headquarters to Kent (Seattle), Washington, were greater than anticipated. The company incurred expenses retraining certain managers and clerks, modernizing older stores, making adjustments in the franchise program, and changes in the merged administrative staff. Earnings were affected

From left:

Woodrow C. Button, Director; Halvor Knudtson, Jr., Director; Stanley M. Thurman, Director; Seated: John M. Headley, President and Chief Operating Officer; David J. Heerensperger, Chairman of the Board and Chief Executive Officer.

by slowing business conditions in the fourth quarter, particularly in the Seattle area, which has experienced a decline in the aerospace and forest product industries.

Our store patronage has continued to grow during this period of economic adjustment, but customers are purchasing fewer big ticket items. However, experience suggests that some of our customers tend to put more time and money into home improvements during slower economic periods. We expect earnings during the first quarter of fiscal 1971 to be sharply below the prior year, but comparative results for the balance of the year should be much better.

The Housing 601 Program (pre-built modules containing a kitchen, bathroom and laundry), which was started during a period of interest in pre-fabricated housing, has been changed to conform to current market possibilities. We are now receiving some orders for these modules, but it is still too early to determine its future business potential.

All of our stores now are inviting and attractive in appearance. Franchise problems have largely been overcome. Management changes have been accomplished to improve administrative practices in the merged company. Slower moving merchandise has been disposed of. Newly opened stores are taking the company into additional consumer markets.

The Company has a current ratio of 1.9 to 1.0 at the close of the fiscal year ended February 28, 1970. During the fiscal year stockholders' equity increased from \$2,435,429 to \$6,122,564, reflecting additional retained earnings of \$359,580 after payment of dividends in the amount

of \$199,574, and net proceeds of \$3,403,894 from the public sale of 368,000 shares of the Company's Common Stock in September, 1969, less expenses in connection with the pooling of interests.

A part of our increased capital has been utilized in the opening of new retail outlets, including the large new Portland store. The balance of the funds was added to working capital, which is strong at the present time.

The Company has always enjoyed one of the higher rates of return on invested capital in the merchandising industry. It will take some time to realize the maximum return on the increased capital obtained in our recent public offering, but the money is being carefully employed to this end. The proceeds have been put into several new stores and into working capital. The construction of a central distribution facility and new main office building has been deferred to give your company the financial strength to consider alternative economic opportunities in the light of current business conditions. The Company's financial position and its operating capabilities are strong.

David J. Heerensperger

David J. Heerensperger
Chairman of the Board

John M. Headley

John M. Headley
President

The Management



1

A business won't achieve lasting success without skilled people. It is the policy of Pay'n Pak management to offer personal growth opportunities that attract decision-makers at every level of the corporation. Management philosophies differ in merchandising as in other industries, and mergers tend to bring such issues into focus.

At the staff level, eleven men make up the management team. Three new positions — purchasing director, store development manager and store construction manager — were added during the year, and three new district managers were named.

Late in the fiscal year, the Board named David J. Heerensperger to succeed Stanley M. Thurman as Chairman of the Board and Chief Executive Officer. John M. Headley, formerly Executive Vice President, was named President and Chief Operating Officer.

Halvor M. Knudtson, Jr., C.P.A., was appointed Controller of the Company on September 2, 1969.



2



3

1. Harold Bacon, Advertising Director
2. Donald Tripp, Purchasing Director
3. Jay Titsworth, Training Director
4. Russell S. Morgan, District Manager, Western Washington
5. Curtis L. Rhodes, District Manager, Oregon-Southwestern Washington
6. Monte A. Leen, District Manager, California-Nevada
7. Peter W. Gallina, Store Development Manager
8. A. V. McIntire, Store Construction Manager
9. Robert B. Nieman, Director, Housing 601
10. John Mead, Automotive Director
11. Jerry Marlow, District Manager, Eastern Washington-Montana



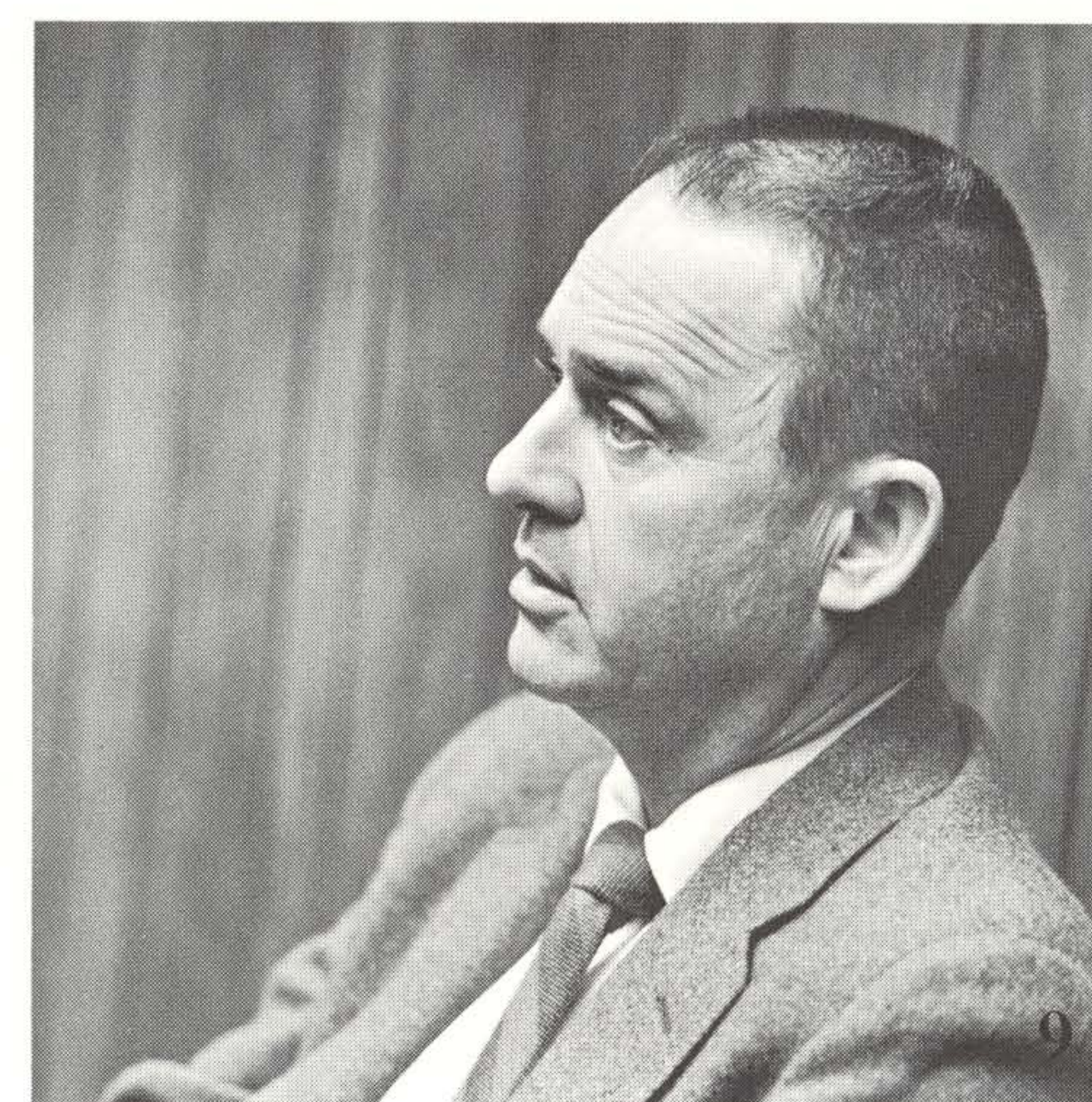
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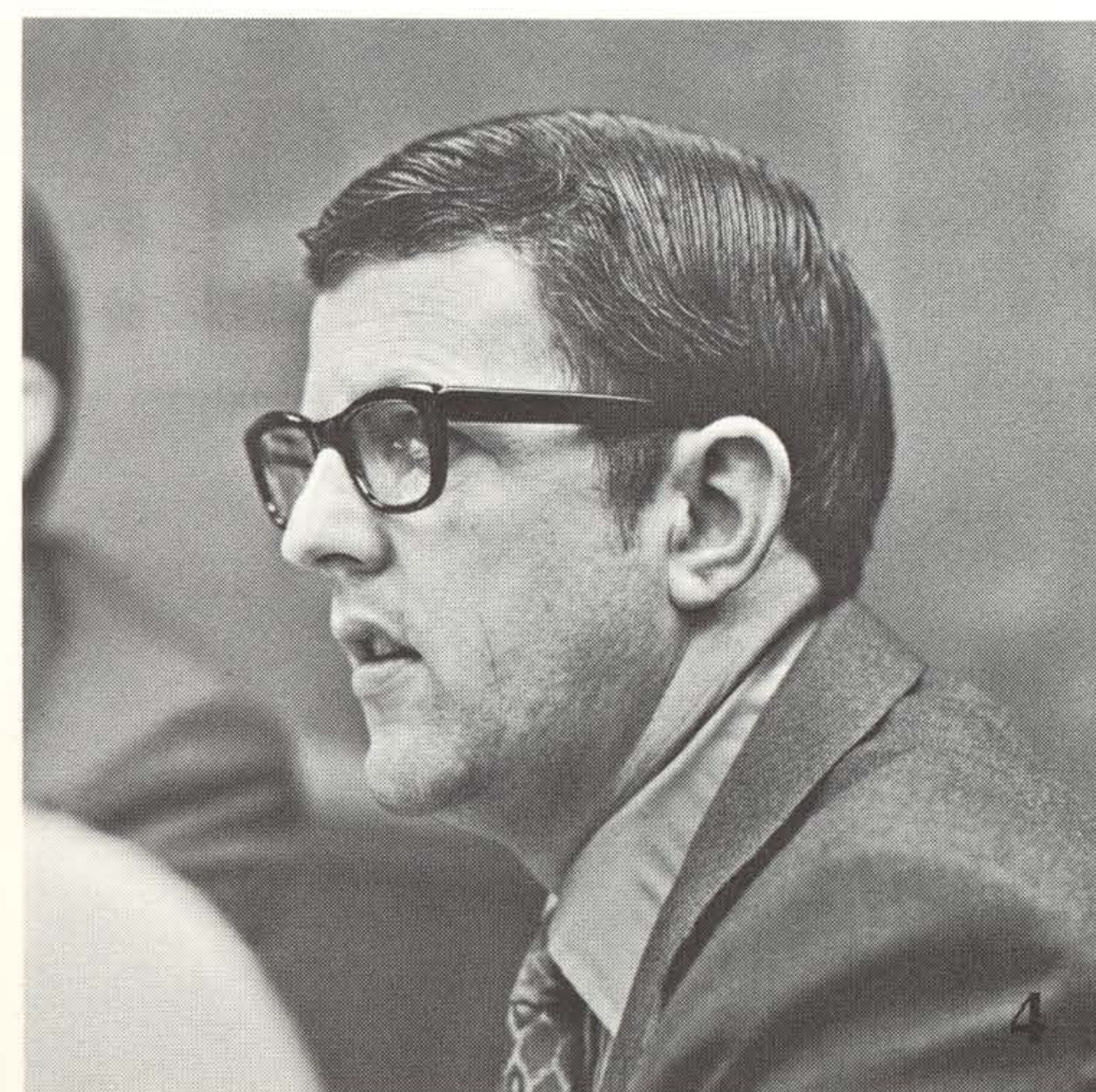
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11

The Stores

There were 20 Company-owned stores in Washington, two in Oregon, two in California, and two in Colorado. Six more stores, four in California and one each in Washington and Oregon, are franchised to share the benefits of centralized management, advertising, purchasing, and employee training programs.

Since the end of the fiscal year, Pay 'n Pak has opened four stores in Portland, Reno, Kennewick and Billings.

The stores stock and sell complete lines of plumbing and electrical supplies and lighting fixtures. Most stores also stock other building materials and carpeting. Four stores sell automotive parts and accessories.

Administrative Offices:

Kent, Washington (3)
Aurora, Colorado
Bellingham, Washington
Denver, Colorado

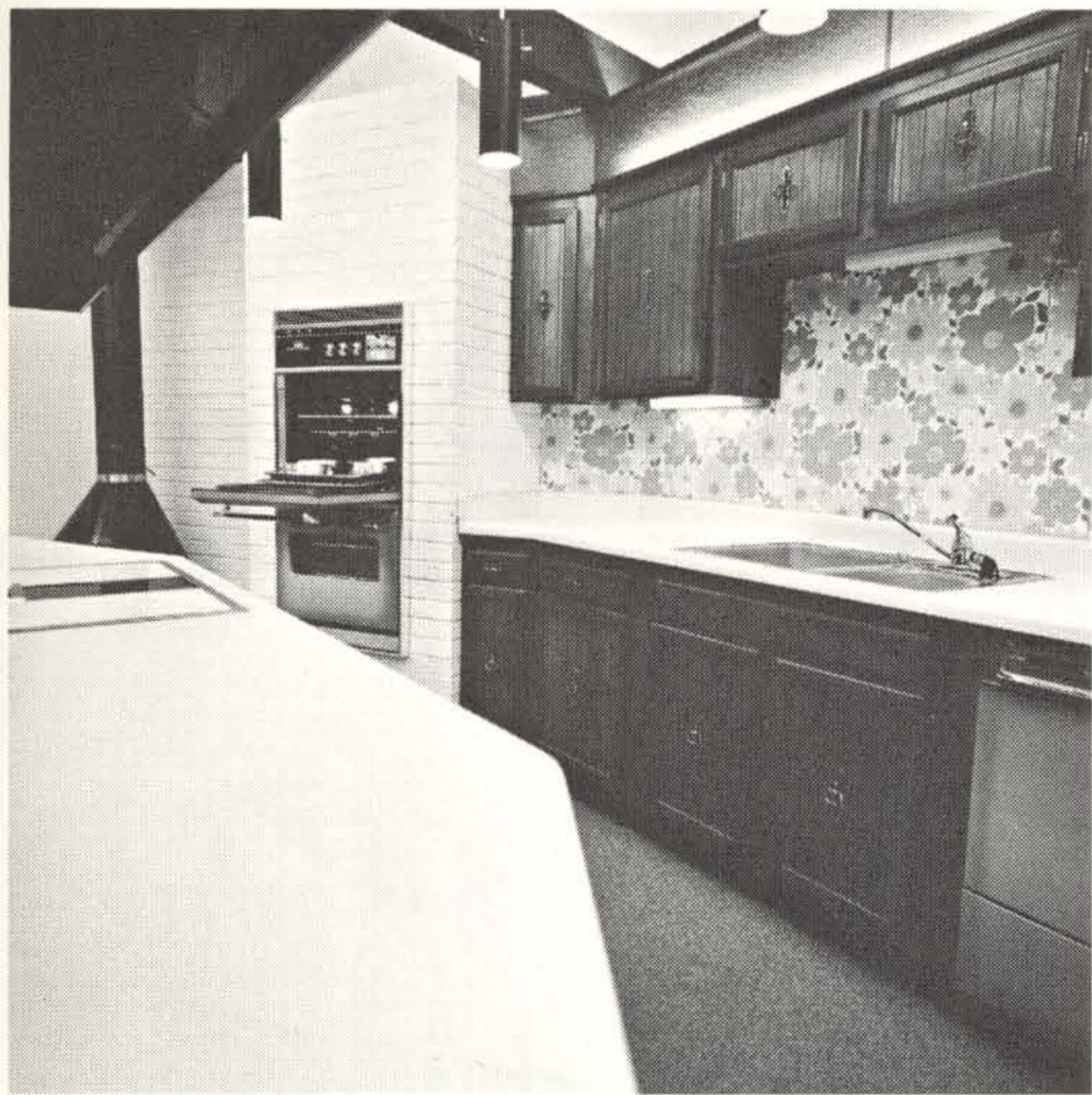


Eugene, Oregon
Everett, Washington
Longview, Washington
Moses Lake, Washington
Mount Vernon, Washington
Olympia, Washington
Redding, California
Redmond, Washington
Sacramento, California
Salem, Oregon
Seattle, Washington (4)

Spokane, Washington (2)
Tacoma, Washington (2)
Wenatchee, Washington
Yakima, Washington

Franchisees

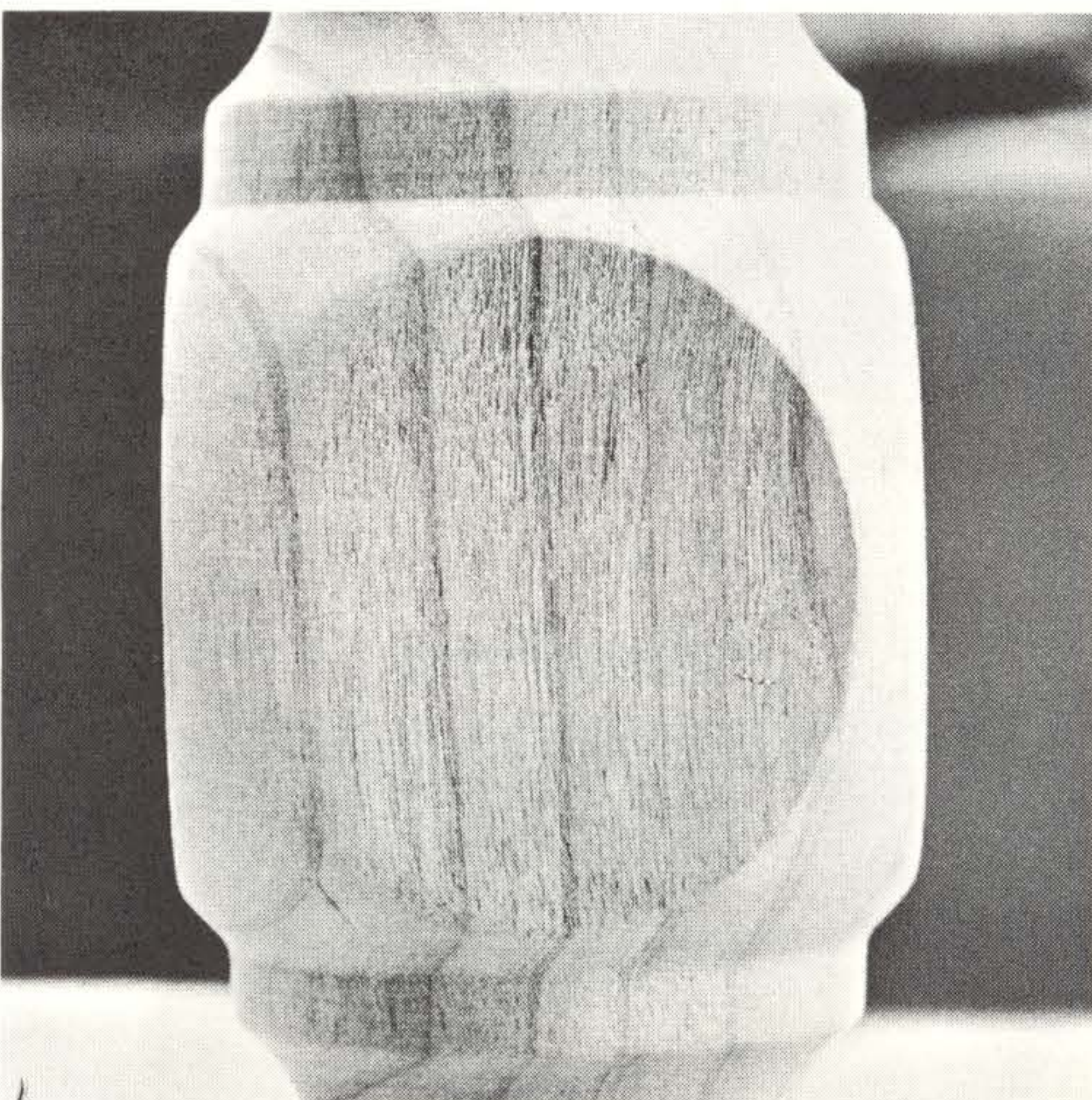
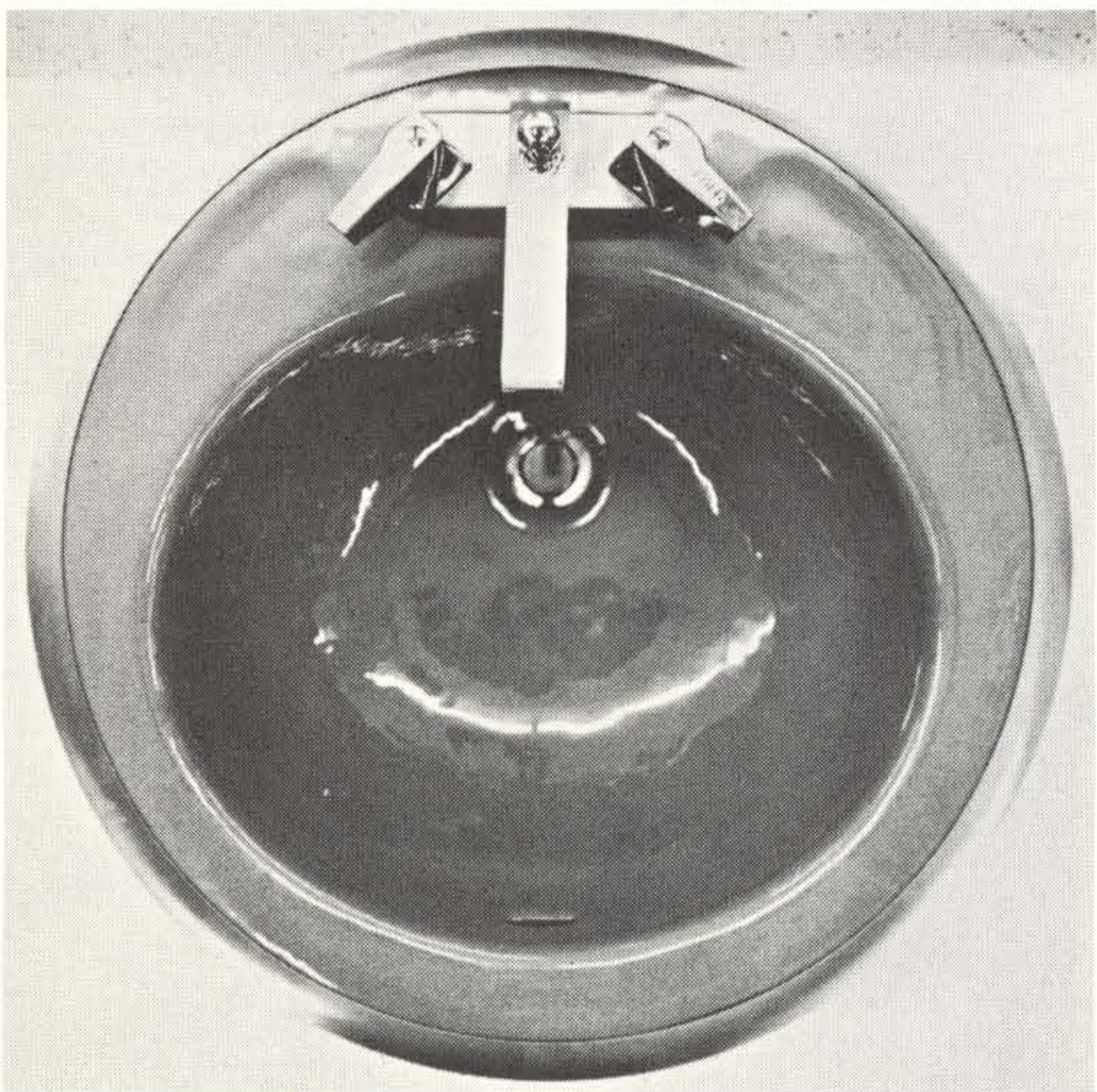
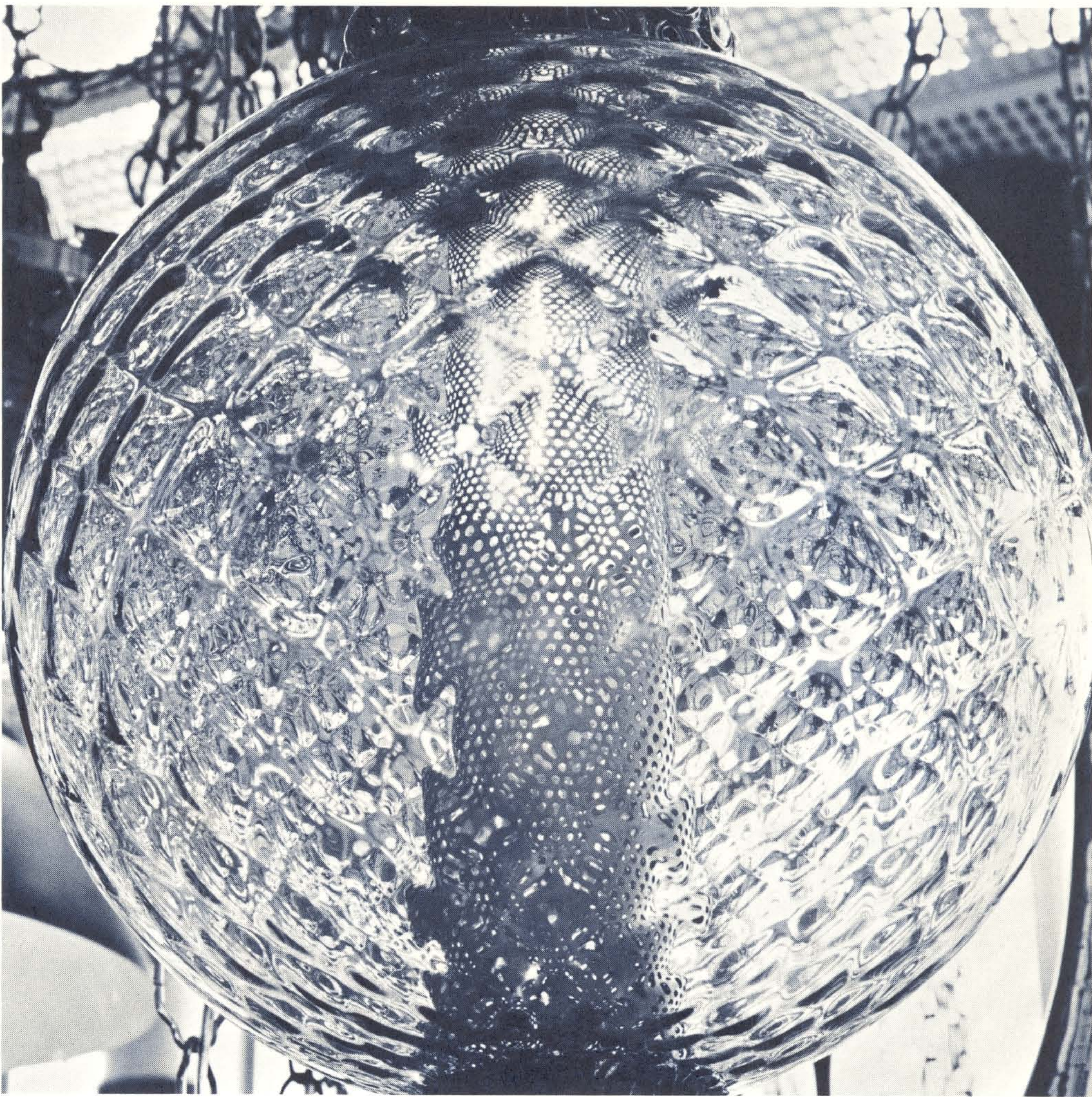
Albany, Oregon
Bremerton, Washington
Eureka, California
Napa, California
Pleasant Hill, California
Santa Rosa, California



The customer's need may be a two-cent electrical plug or a \$2,000 kitchen. Pay'n Pak has them both and about everything in between.

More important, every Pay'n Pak store is staffed by trained personnel who can explain how to use, install, or repair every bit of equipment, material, piece of tubing or pipe or wire in stock.

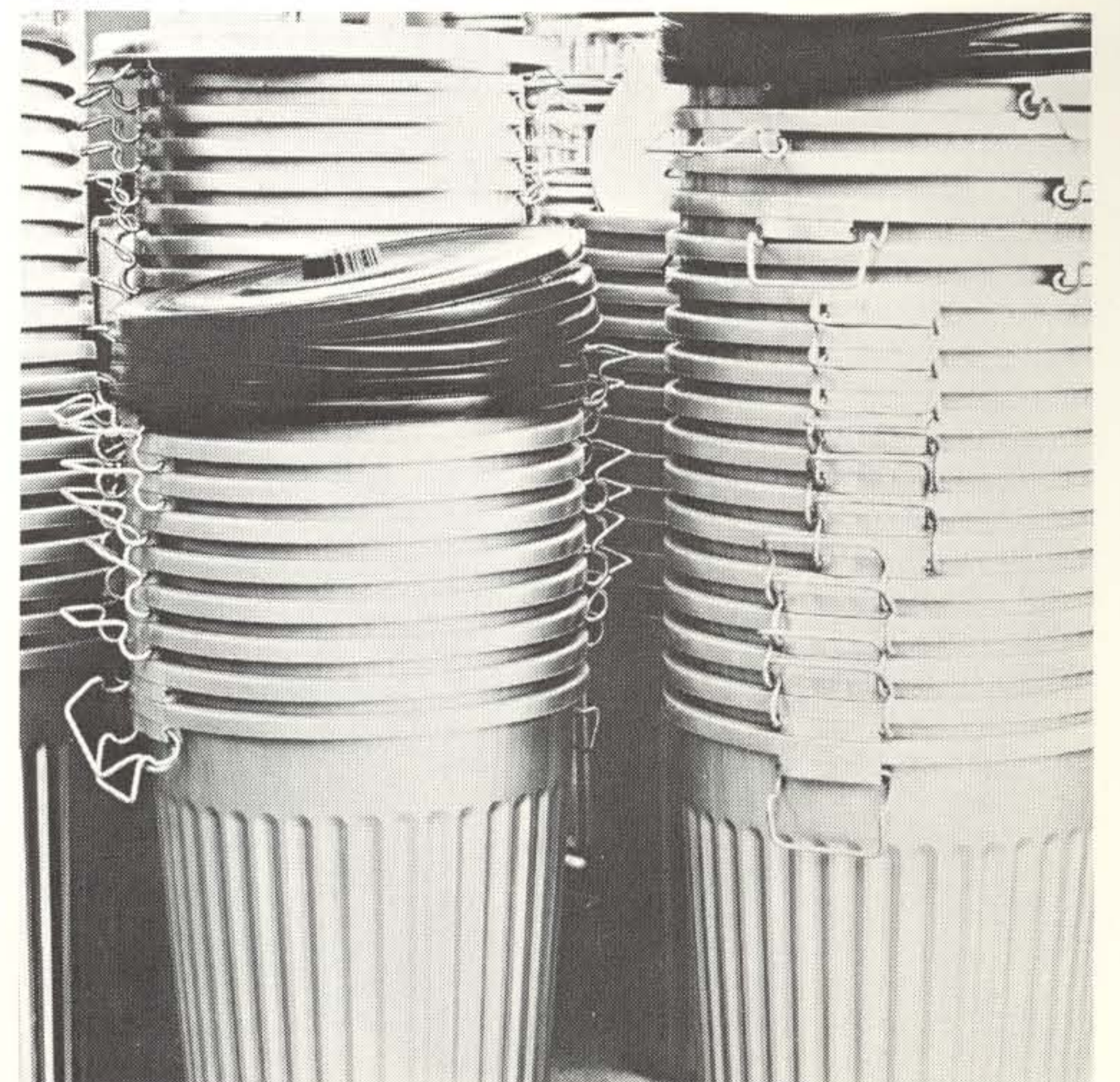
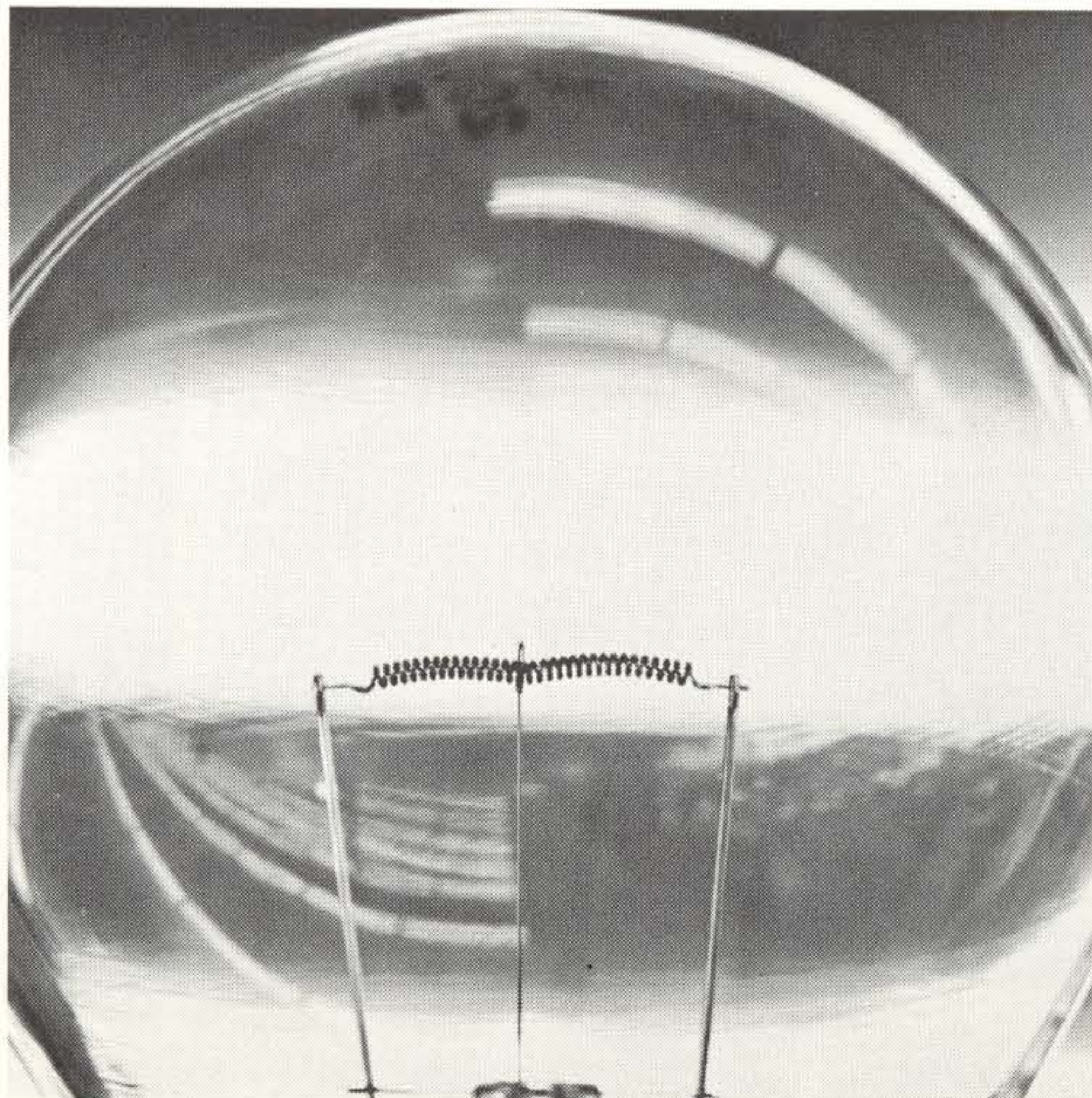
What we sell, we know how to use, or install, or repair. That knowledge and know-how are why people look to us for advice in maintaining and improving their homes.



Pay'n Pak Mall

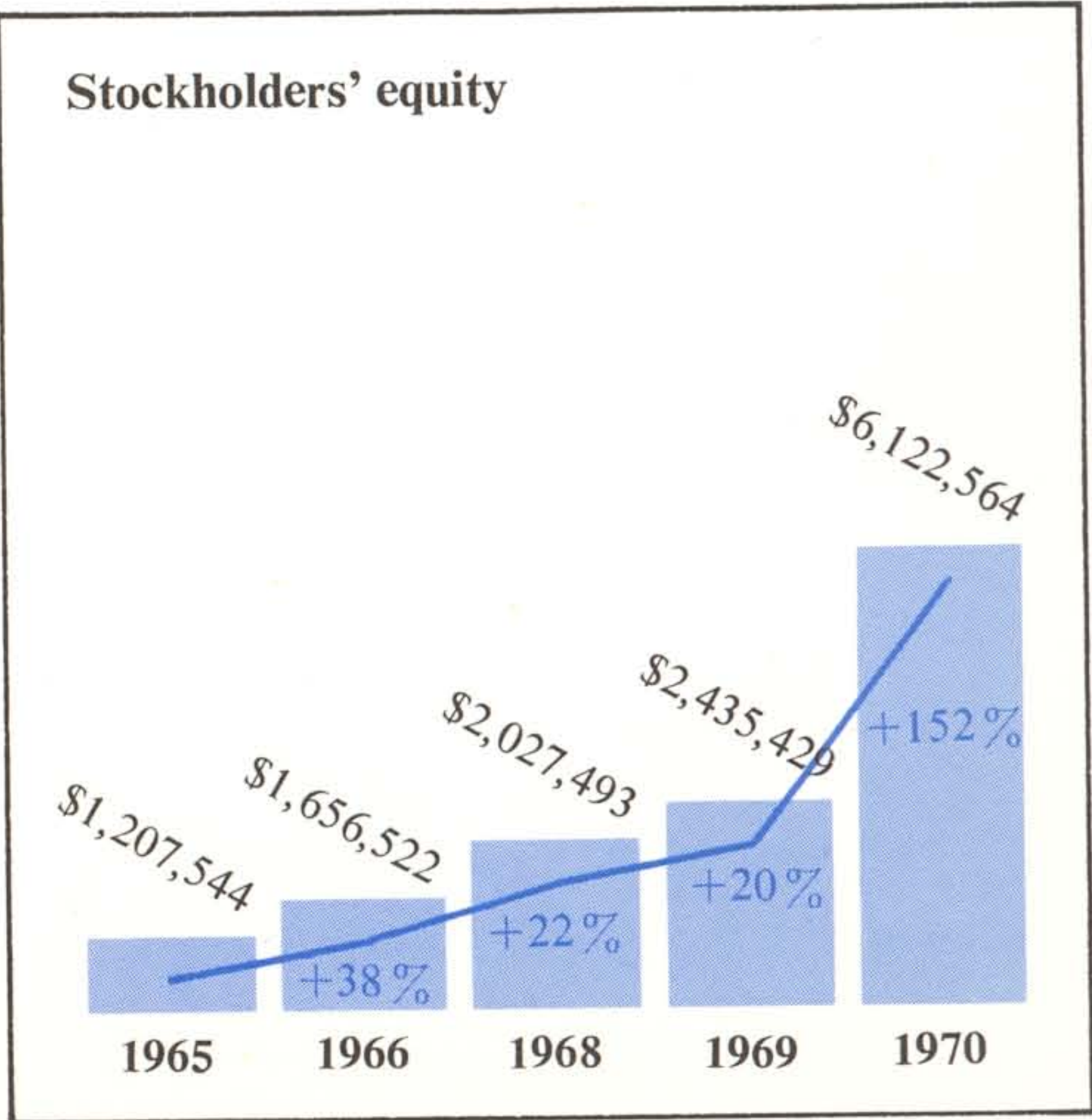
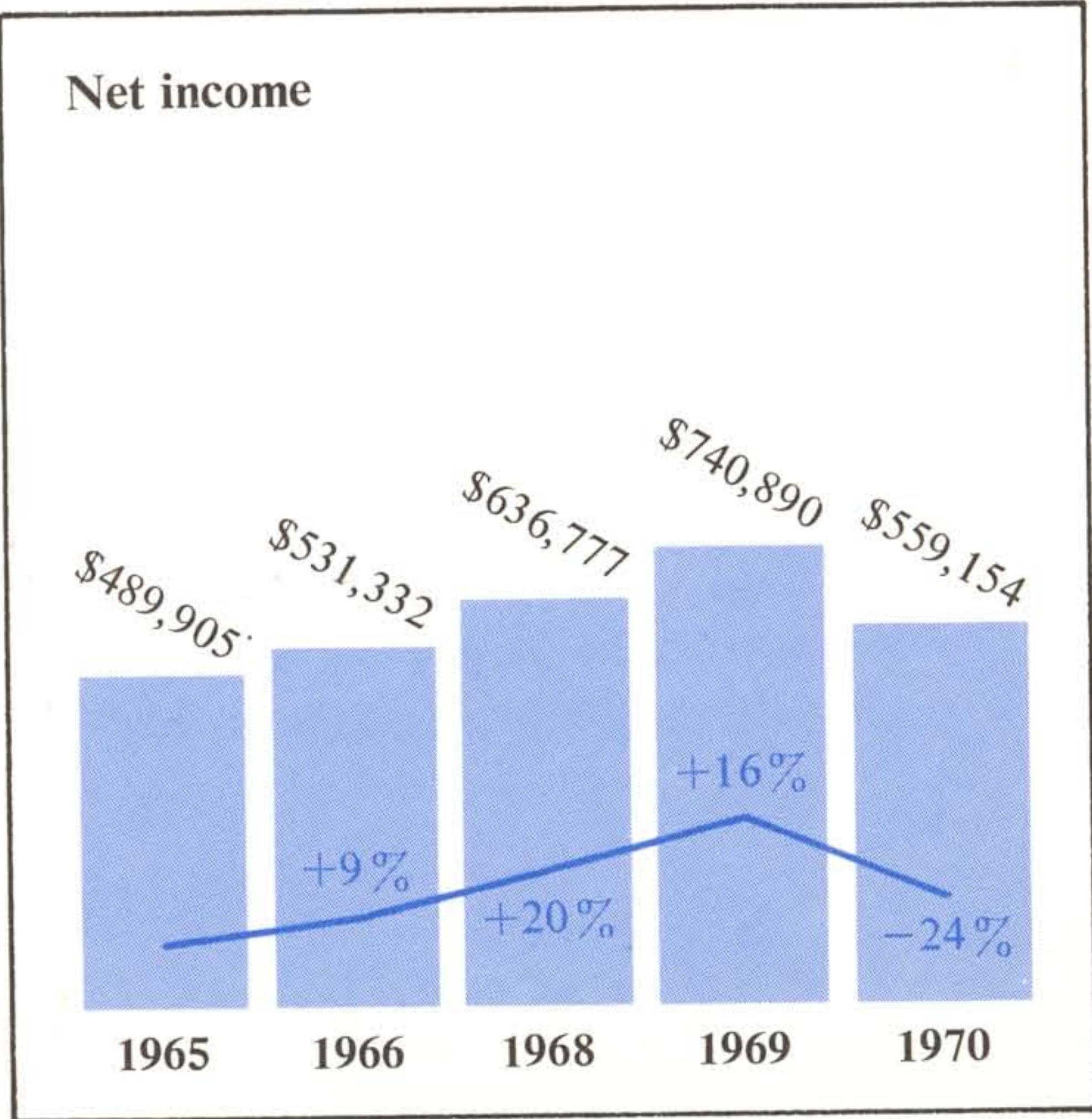
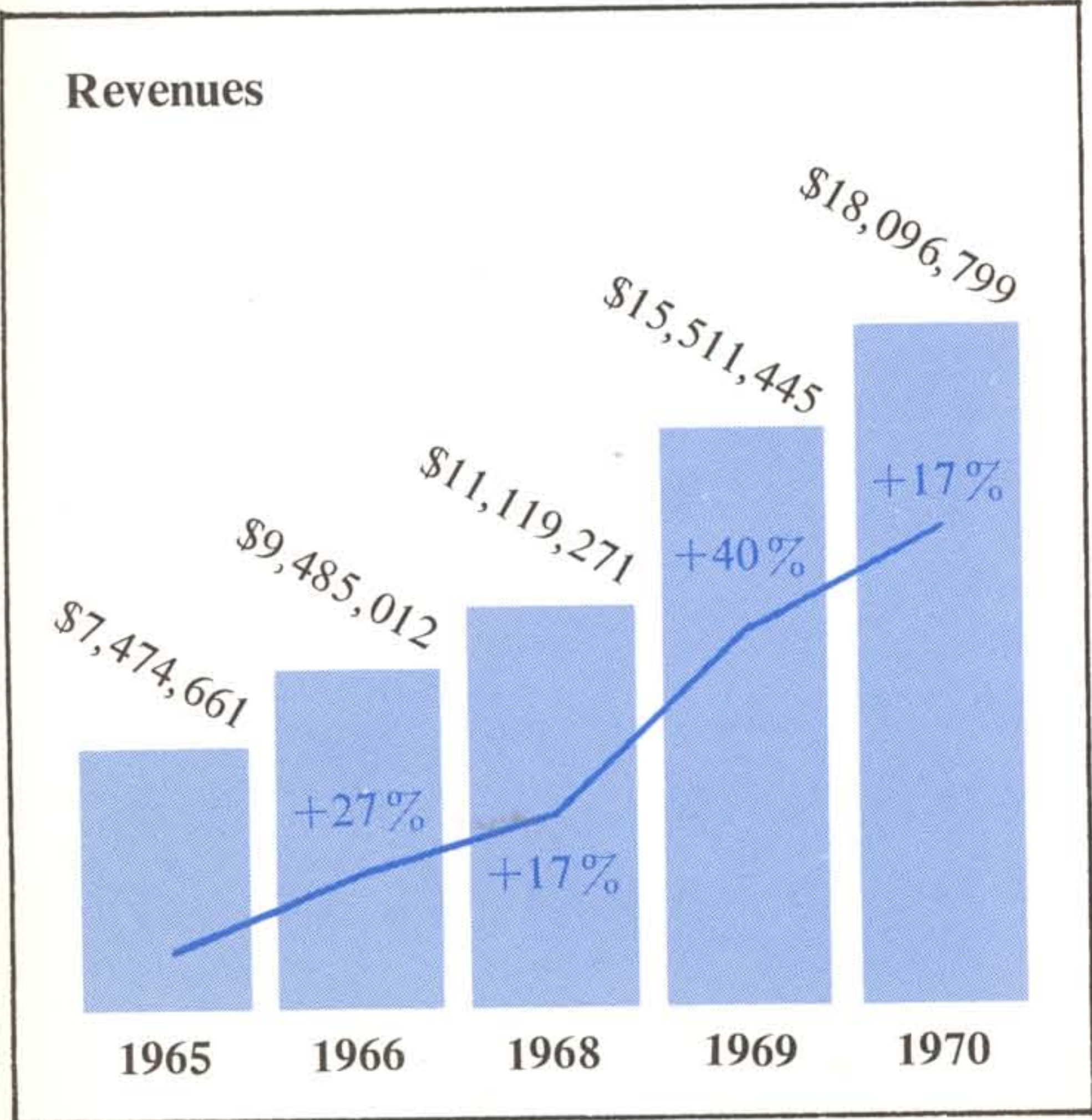
Largest of the Pay'n Pak operations is the Mall shopping center at Kent, Washington, with 62,000 square feet of shopping convenience, which had its grand opening in August, 1969. Record crowds were attracted by a careful merchandising program, including display of the company's racing unlimited hydroplane and competing hydroplanes of other national concerns. The company's dragster, which is used primarily to promote the sales of automotive parts, also was displayed at the grand opening. The Mall is a collection of separate stores designed to meet a homeowner's building materials shopping needs. It also includes a restaurant and barber shop.

During the year, the company began construction of a major store in Portland, Oregon (pictured above). It was opened in May, 1970. This 50,000 square foot facility carries a complete line of electric, plumbing and automotive supplies, building materials, lighting and heating fixtures and equipment, and carpeting.



Five-Year Historic Highlights

	Year ended				
	February 28 or 29			July 31,	
	1970	1969	1968	1966	1965
Revenues	\$18,096,799	\$15,511,445	\$11,119,271	\$9,485,012	\$7,474,661
Income before federal tax	\$ 1,146,932	\$ 1,448,746	\$ 1,153,771	\$ 937,881	\$ 857,626
Net income	\$ 559,154	\$ 740,890	\$ 636,777	\$ 531,332	\$ 489,905
Per share:					
Net income	\$.50	\$.74	\$.63	\$.53	\$.49
Cash dividends paid.	\$.15	\$.125	\$.125	—	—
At end of year:					
Stockholders' equity.	\$ 6,122,564	\$ 2,435,429	\$ 2,027,493	\$1,656,522	\$1,207,544
Shares of common stock outstanding	1,330,509	962,109	1,010,909	1,010,909	1,010,109
Net asset amount per share.	\$4.60	\$2.53	\$2.00	\$1.64	\$1.20
Number of stores open	31	22	19	17	15



Consolidated Statement of Income

For the two years ended February 28, 1970

Revenues:

Net sales	
Franchise fees and royalties (Note 7)	
Gain on sale of building	
Interest	
Rentals	

Costs and expenses:

Cost of sales	
Selling and administrative	
Rent	
Depreciation (Note 2)	
Interest	
Minority interest	

Income before federal income tax

Provision for federal income tax:

Current	
Deferred (Note 3).	

Net income

Net income per common and common equivalent share (Note 8).

1970	1969
\$17,923,835	\$15,333,777
72,647	137,128
	23,020
45,111	17,520
55,206	
<u>18,096,799</u>	<u>15,511,445</u>
11,649,486	9,876,968
4,633,371	3,642,306
324,806	258,816
175,773	151,521
152,839	127,130
13,592	5,958
<u>16,949,867</u>	<u>14,062,699</u>
1,146,932	1,448,746
519,731	704,373
68,047	3,483
<u>587,778</u>	<u>707,856</u>
\$ <u>559,154</u>	\$ <u>740,890</u>
<u>\$.50</u>	<u>\$.74</u>

See accompanying notes.

Consolidated Balance Sheet

Assets

Current assets:

	1970	1969
Cash	\$ 557,365	\$ 561,074
Treasury bills, at cost.	450,000	
Notes and accounts receivable, less allowance of \$85,050 (\$7,000 in 1969) for doubtful accounts	377,751	292,936
Merchandise inventories, at the lower of cost (first-in, first-out) or market	3,650,485	2,628,270
Prepaid expenses	178,257	96,306
Land and building, at cost less \$15,244 accumulated depreciation— sold in April, 1970 (Note 4)	694,918	
Total current assets	5,908,776	3,578,586

Investments and other assets:

Notes receivable due after one year	88,676	60,500
Investment in common stock of newly formed 50% owned company, at equity in net assets		10,000
Other	55,190	3,056
Total investments and other assets	143,866	73,556

Property, plant and equipment, at cost (Notes 2 and 4):

Land	123,234	523,234
Buildings	770,166	501,594
Leasehold improvements	389,503	279,594
Store equipment	789,896	428,154
Transportation equipment	182,893	187,518
Construction in progress	463,242	338,449
	2,718,934	2,258,543
Less accumulated depreciation	466,810	378,113
	2,252,124	1,880,430
Property held for development	1,605,061	768,728
Net property, plant and equipment.	3,857,185	2,649,158

Cost of investment in subsidiaries and acquired stores in excess of amounts

assigned to net assets at dates of acquisitions, less amortization (Note 1)	173,842	119,441
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Research and development costs, at cost (Note 3)	136,689	
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\$10,220,358	\$ 6,420,741
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See accompanying notes.

Liabilities and Stockholders' Equity

Current liabilities:

Notes payable to banks	\$ 377,807	\$ 617,969
Notes payable to others		95,250
Accounts payable	1,512,869	971,445
Federal income tax	282,713	445,631
Accrued liabilities.	294,809	176,514
6½ — 7% mortgage notes payable (Note 4)	569,929	
Long-term debt due within one year (Note 4).	138,957	258,967
Total current liabilities	3,177,084	2,565,776

Long-term debt (Note 4)	803,931	1,405,965
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Deferred federal income tax (Note 3)	72,192	3,483
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Deferred income	21,033	4,130
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Minority interest in subsidiaries	23,554	5,958
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Commitments (Note 5)

Stockholders' equity (Notes 1, 4 and 6):

Preferred stock, without par value, 1,000,000 shares authorized, none issued		
Common stock, \$.10 par value, 2,000,000 shares authorized, 1,330,509 shares issued (1,012,509 shares in 1969), including 50,400 shares in the treasury in 1969	133,051	101,251
Capital in excess of par value	3,371,773	265,018
Retained earnings.	2,617,740	2,258,160
	6,122,564	2,624,429
Less treasury stock, at cost		189,000
Total stockholders' equity	6,122,564	2,435,429

\$10,220,358	\$6,420,741
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See accompanying notes.

Notes to Consolidated Financial Statements

1. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, including six companies (subsequently merged into the Company) acquired in a pooling of interests on April 30, 1969, in exchange for 558,352 shares of common stock of the Company. Revenues and net income for the pooled companies of \$9,455,092 and \$477,054, respectively, have been included retroactively in the statement of income for the year ended February 28, 1969.

The Company's equity in net assets of its consolidated subsidiaries exceeded its investment therein by \$3,751 at February 28, 1970, which amount is included in the consolidated balance sheet as a credit to retained earnings for their undistributed net income since acquisition (\$28,118) and a charge to cost of investment in subsidiaries in excess of amounts assigned to net assets at dates of acquisition (\$24,367) net of accumulated amortization (\$633) using a twenty-five year life.

At February 28, 1970, the cost of investment in subsidiaries merged into the Company on June 1, 1969, which were purchased prior to 1964 and of stores subsequently acquired in excess of amounts assigned to net assets at dates of acquisitions was \$149,475 net of accumulated amortization of \$45,271 using a twenty-five year life.

2. Property, plant and equipment

Depreciation of new buildings is provided on the straight-line method and depreciation of other buildings and equipment is provided principally on a declining balance method. Estimated useful lives are as follows: buildings—40 years; leasehold improvements—life of the respective lease; store equipment—3-10 years; and transportation equipment—3-8 years.

3. Deferred federal income tax

Deferred federal income tax has been provided for the excess of accelerated over straight-line depreciation of new buildings and for research and development costs included in the accompanying consolidated balance sheet but written-off for income tax purposes.

In 1970, the Company began research and development of a finished modular kitchen and bathroom core unit for use in the housing industry, which costs will be amortized for financial statement purposes over the first five years after production begins.

4. Long-term debt

Long-term debt consisted of the following at February 28, 1970:

	Due within one year	Long- term
6¼% note payable to insurance company, due \$25,000 annually plus interest on September 1 to 1976 . . .	\$ 25,000	\$175,000
6½% — 7% real estate contracts, due \$4,240 monthly including interest to 1979 and \$3,890 monthly to 1983	19,541	411,235
7% mortgage note payable, due \$74,167 plus interest to 1971	74,167	74,166
7% real estate contract, due \$1,124 monthly including interest to 1989	3,600	138,542
Insurance contracts payable to 1972 . . .	16,649	4,988
	<u>\$138,957</u>	<u>\$803,931</u>

Land of \$40,229 and property held for development of \$1,072,512 is pledged as collateral for the above long-term debt.

The loan agreement with the insurance company was amended May 6, 1969, and September 10, 1969, (effective February 28, 1969) to provide additional 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. Retained earnings of \$235,918 at February 28, 1970, were not restricted. Other provisions require that working capital, as defined by the agreement, of \$900,000 must be maintained; current unsecured debt may not exceed \$2,000,000 and other investments, loans and advances may not exceed \$100,000.

In April, 1970, the Company sold for \$855,000 and leased back a store building and land having a cost of \$704,654 less accumulated depreciation of \$15,244. The resulting gain of approximately \$88,000 net of applicable selling expenses and federal income tax will be deferred and amortized over the 25 year life of the lease. The 6½ — 7% mortgage notes payable of \$569,929 applicable to the property sold were assumed by the purchaser and the Company is contingently liable for the notes.

5. Commitments

Minimum rent commitments, including the retail store and property sold and leased back in April, 1970, exclusive of insurance and property taxes, under non-cancellable leases for retail stores are payable as follows: 1971—\$430,000; 1972—\$370,000; 1973—\$360,000; 1974—\$350,000; 1975—\$330,000; and reduced amounts to 1995; an airplane is leased at \$71,000 per year to 1978. The Company has options to renew most leases for three to ten year periods at agreed amounts. In addition, the Company is contingently liable on leases of four franchisees' stores requiring payments of \$58,000 in 1971, \$42,000 in 1972 and in decreasing amounts to \$13,800 in 1978.

The Company is contingently liable at February 28, 1970, for a real estate mortgage note



of \$18,600 assumed by the purchaser of a building sold in 1964.

The Company has agreed to guarantee an aggregate of \$154,000 (\$127,000 was outstanding at February 28, 1970) plus interest of franchisees' debt to banks and certain accounts payable; approximately \$86,000 at February 28, 1970.

The Company will pay \$54,375 per year until May, 1976, as a result of termination of an employment agreement in April 1970.

6. Common stock

Change in capitalization:

On June 20, 1969, the stockholders approved an increase of the par value of the Company's common stock from \$.05 to \$.10 per share and an exchange of four shares of the new \$.10 par value common stock for five shares of the old \$.05 par value common stock. Retroactive effect has been given in the accompanying consolidated financial statements to this reverse stock split and increase in par value of the common stock.

Stock Options:

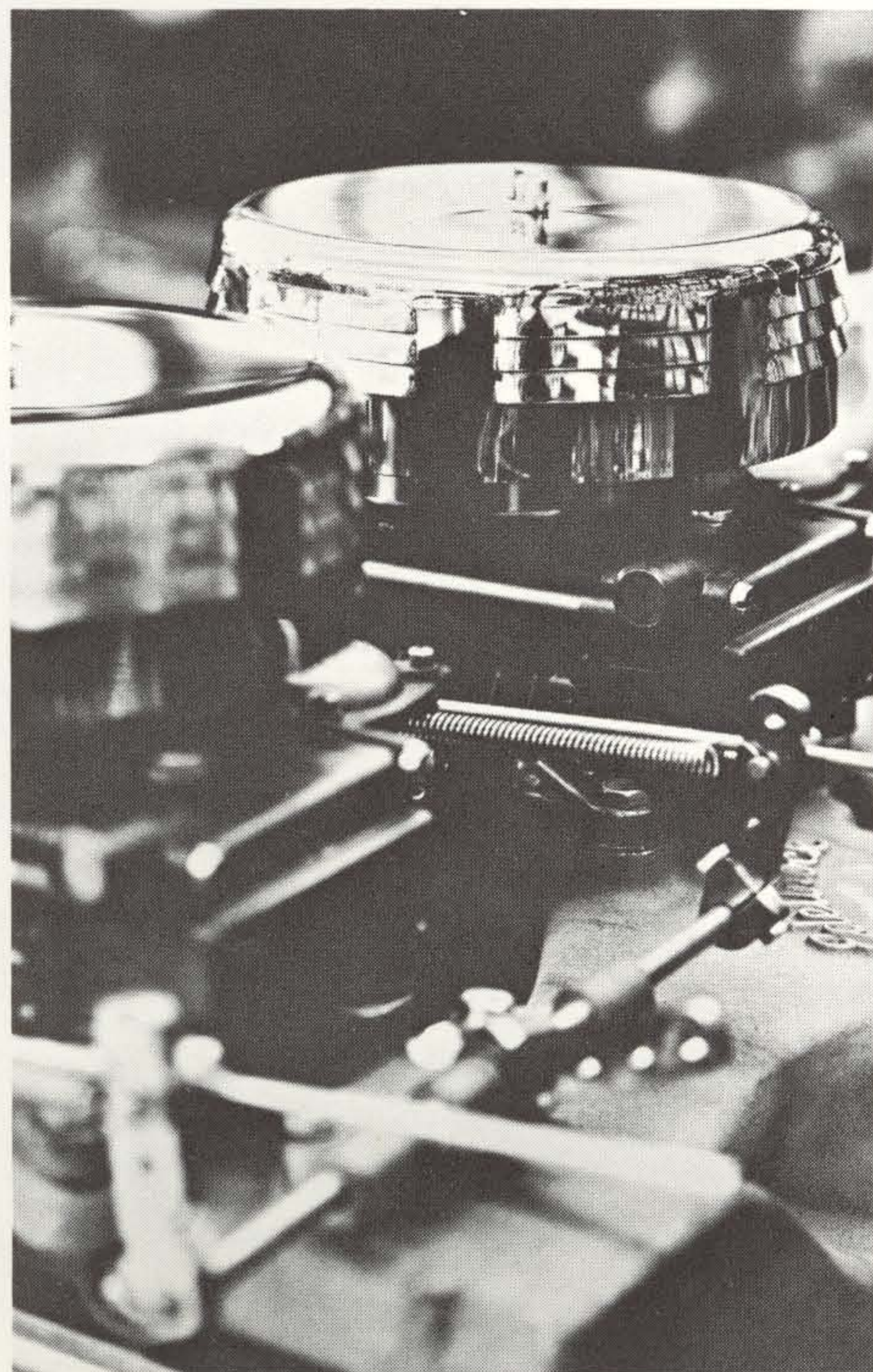
Options granted in November, 1967, to officers and/or Directors to purchase 24,000 shares of common stock at \$4.375 per share (aggregate price of \$105,000) were outstanding at February 28, 1970, under the 1967 executive stock option plan approved by

stockholders; the options were first exercisable in May, 1968, and expire in November, 1972.

During 1970, options to purchase 400 shares of common stock at \$8.75 per share (aggregate of \$3,500) were exercised and options as to 400 shares and 1,600 shares of common stock granted under the 1964 and 1968 qualified stock options plans, respectively, at option prices of \$3.75 and \$10.625 per share of common stock, respectively, were cancelled by reason of termination of employment.

At February 28, 1970, options to purchase 53,600 shares of common stock at the fair market value of the common stock at date of grant were available to be granted to officers and employees under the 1968 qualified stock option plan. Options become exercisable not less than six months after date of grant.

In connection with the public offering in September, 1969, the Company sold for \$300 a five year non-transferable option to pur-



chase 30,000 shares of common stock which is exercisable at \$11.24 (aggregate of \$337,200), \$11.97, \$12.71 and \$13.44 per share during the year ended September 25, 1971, 1972, 1973 and 1974, respectively.

The value of the common stock was determined by the Board of Directors at the dates the options were granted. There was no public market for the common stock at the dates the options were first exercisable or the date the option was exercised.

7. Franchise income

Income from the sales of franchises in 1969 (\$125,000, of which \$78,500 and \$26,500 was collected in 1969 and 1970, respectively) was taken into income upon the sale of the franchise and in 1970 the Company adopted the policy of recognizing in income sales of franchises as the cash therefrom is collected. During 1970, a franchise for \$25,000 was sold of which \$10,000 was collected and \$15,000 has been deferred until collection. A royalty on net sales over a period of ten years and \$500 a year thereafter is recognized in income as it is earned.

Franchise fees aggregating \$50,000 are contingently receivable by the Company, if franchisees' net sales for any consecutive twelve month period during the three years following the opening of their stores exceed approximately \$400,000 each.

8. Per share information

Per share information has been computed based on the weighted average number of common shares outstanding, retroactively adjusted to give effect to shares issued in April, 1969, in the pooling of interests and including stock options as common stock equivalents, except where they were anti-dilutive. For purposes of this calculation, it was assumed the proceeds upon exercise of the stock options would be used to purchase treasury stock at the highest price per share at which options were previously granted until October 1, 1969, there being no public market for the common stock prior to that date, and at the average market price thereafter.

Consolidated Statement of Stockholders' Equity

For the two years ended
February 28, 1970

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Total
Balance February 29, 1968—prior to pooling of interests	\$ 45,256	\$ 210,472	\$ 927,905	\$	\$1,183,633
Pooling of interests (Note 1)	55,835	(28,735)	816,760		843,860
Balance February 29, 1968 as adjusted.	101,091	181,737	1,744,665		2,027,493
Add (deduct):					
Net income for year ended February 28, 1969			740,890		740,890
Stock options exercised, 1,600 shares (at \$3.75 per share) . . .	160	5,840			6,000
Undistributed earnings of Subchapter S Corporations transferred		77,441	(77,441)		
Treasury stock acquired, 50,400 shares at \$3.75 per share . . .				(189,000)	(189,000)
Cash dividends paid by pooled company			(100,517)		(100,517)
Cash dividends paid (\$.125 per share)			(49,437)		(49,437)
Balance February 28, 1969	101,251	265,018	2,258,160	(189,000)	2,435,429
Add (deduct):					
Net income for year ended February 28, 1970			559,154		559,154
Stock options exercised, 400 shares at \$8.75 per share	40	3,460			3,500
Expenses in connection with pooling of interests		(76,339)			(76,339)
Sale of 368,000 shares of common stock (including 50,400 shares of treasury stock) at \$10.50 per share less expenses of \$463,906 .	31,760	3,179,334		189,000	3,400,094
Sale of 30,000 options to purchase one share each of common stock		300			300
Cash dividends paid (\$.15 per share)			(199,574)		(199,574)
Balance February 28, 1970 (Notes 1, 4 and 6)	\$133,051	\$3,371,773	\$2,617,740	\$ —	\$6,122,564

See accompanying notes.

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. and subsidiaries at February 28, 1970, and the related consolidated statements of income and stockholders' equity for the year 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., and subsidiaries at February 28, 1970 and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Young & Company

Seattle, Washington
May 21, 1970