



PACIFIC

PAY 'N PAK STORES, INC. ANNUAL REPORT 1971

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ANNUAL REPORT NOV 16 1973

cover picture:

A Pay 'N Pak salesman assists a customer in the electrical department.

Pay 'N Pak Stores, Inc. Annual Report 1971

Financial Highlights

Year ended February 28	1971	1970
Revenues	\$21,806,396.	\$18,096,799.
Income before federal income tax	\$ 1,512,788.	\$ 1,160,524.
Income from continuing operations	\$ 785,272.	\$ 559,154.
(Loss) from discontinued operations	\$ (98,692)	
Net income	\$ 686,580.	\$ 559,154.
Average number of common shares ..	1,330,742	1,115,809
Per common share:		
Income from continuing operations	\$.59	\$.50
(Loss) from discontinued operations	(.07)	—
Net income per share	\$.52	\$.50

Officers

David J. Heerensperger
Chairman of the Board

John M. Headley
President

Directors

David J. Heerensperger
Chairman of the Board

John M. Headley
President, Pay 'N Pak Stores, Inc.

Woodrow C. Button
President, Bank of Cowlitz County

Halvor Knudtson Jr.
Controller, Pay 'N Pak Stores, Inc.

Curtis L. Rhodes
District Manager, Pay 'N Pak Stores, Inc.

Marshall J. Weigel
*Vice President in charge of
mergers and acquisitions,
Bank of America*

Transfer agents:

Peoples National Bank of Washington
Seattle, Washington

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

Bank:

Peoples National Bank of Washington
Seattle, Washington

Auditors:

Arthur Young & Company
Seattle, Washington



John M. Headley, *President*

David J. Heerensperger, *Chairman of the Board*

We are pleased to report that Pay 'N Pak Stores, Inc. achieved record sales for the fiscal year ending February 28, 1971, and a substantial increase in net earnings over the previous fiscal year.

Sales totaled \$21,646,673 as compared with \$17,923,835 in fiscal year 1970, an increase of over 20 percent.

Net income after taxes was \$686,580 as compared with \$559,154 the previous year, an increase of over 22 percent. Per share income was 52 cents on the weighted average number of common shares outstanding in fiscal year 1971 of 1,330,742 compared with 50 cents per share on 1,115,809 shares in fiscal year 1970. Net income after taxes from continuing operations actually rose to \$785,272 in fiscal year 1971, the equivalent of 59 cents per share, but a nonrecurring loss of 7 cents per share was absorbed in the discontinuance and sale of the Housing 601 Modular Housing Division.

A dividend of 15 cents per share was paid to shareholders in fiscal year 1971.

Fiscal year 1971 was a year of expansion and progress highlighted by the opening of four new stores and the major remodeling of two existing stores.

In the spring of 1970, four new electric, plumbing and building materials stores were opened in Reno, Nevada; Billings, Montana; Kennewick, Washington; and a 50,000-square-foot store in Portland, Oregon. These new stores added an additional 25 percent of square feet of Pay 'N Pak selling area.

After the opening of these four stores, the complete remodeling of the existing Bellingham store was completed. The complete remodeling of the Spokane store was undertaken to create a more appealing consumer atmosphere.

In addition to new stores, the new Pay 'N Pak Sports Center was successfully opened in the Kent Mall. Public interest in leisure time and recreational opportunities made sporting goods a logical extension of Pay 'N Pak's merchandising package. This first venture into sporting goods was designed to become a pilot store and

to function as a training ground for personnel for additional sports centers. Three other sporting goods departments will be opened later this year in Spokane, Portland and Seattle.

By the end of the fiscal year, the company had purchased and was operating a building supply company in the Vancouver, British Columbia area and intends to construct a new store and warehouse before the end of this year. The store will be operated as a wholly owned Canadian subsidiary under the name of Handyman Electric and Plumbing Supply, Ltd.

The company has tentative plans to open a new store in Anchorage, Alaska and additional stores in Sacramento and Portland. The Salem, Oregon store will soon occupy considerably larger premises.

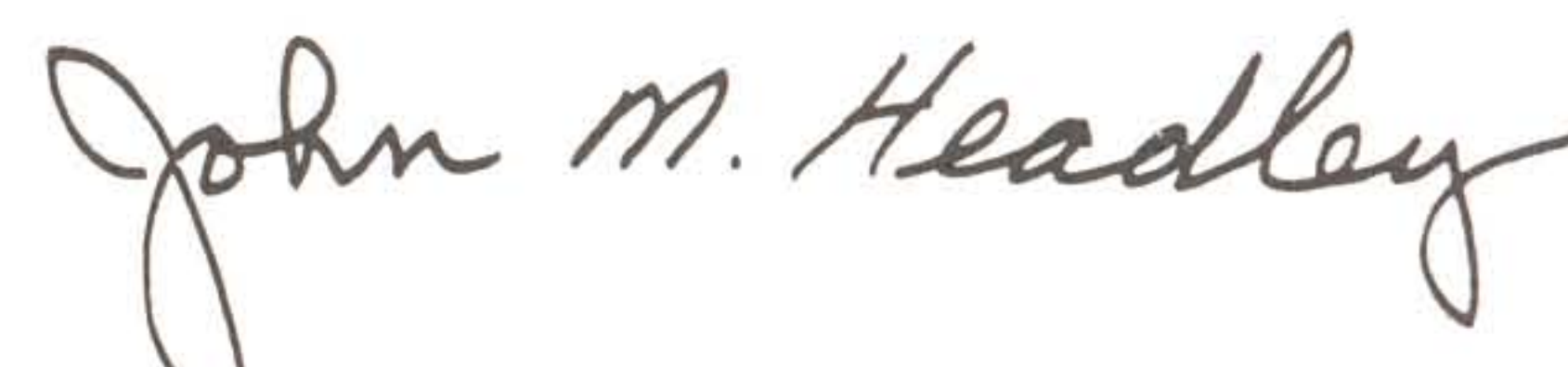
The year also saw many improvements in merchandise displays and presentation.

The company's growth during the past year is noteworthy in view of the Seattle area's economic problems. A material factor in the improved picture at Pay 'N Pak is the reduction in degree of dependence upon the aerospace-supported Seattle economy. In fiscal year 1970, 42.5 percent of Pay 'N Pak's sales were obtained in the immediate Seattle area; in 1971 that percentage was reduced by expansion into other market areas to 33.3 percent.

1971 progress report to the share holders:



DAVID J. HEERENSBERGER
Chairman of the Board



JOHN M. HEADLEY
President



PRESENT STORES

Albany, Oregon
 Aurora, Colorado
 Bellingham, Washington
 Billings, Montana
 Bremerton, Washington (F)
 Denver, Colorado
 Eugene, Oregon
 Eureka, California (F)
 Everett, Washington
 Kennewick, Washington
 Kent, Washington (3)
 Longview, Washington
 Moses Lake, Washington
 Mount Vernon, Washington
 Napa, California (F)
 Portland, Oregon
 Olympia, Washington
 Redding, California
 Redmond, California
 Reno, Nevada
 Sacramento, California
 Salem, Oregon
 Santa Rosa, California
 Seattle, Washington (4)
 Spokane, Washington (2)
 Tacoma, Washington (2)
 Wenatchee, Washington
 Vancouver, B. C., Canada
 Yakima, Washington
 (F) Franchise

GROWTH PATTERNS IN THE COMING DECADE BY AREA

MOUNTAIN

Montana, Idaho, Wyoming,
 Colorado, New Mexico,
 Arizona, Utah, Nevada

NOW

1980

GAIN

8,282,000

10,000,000

21%

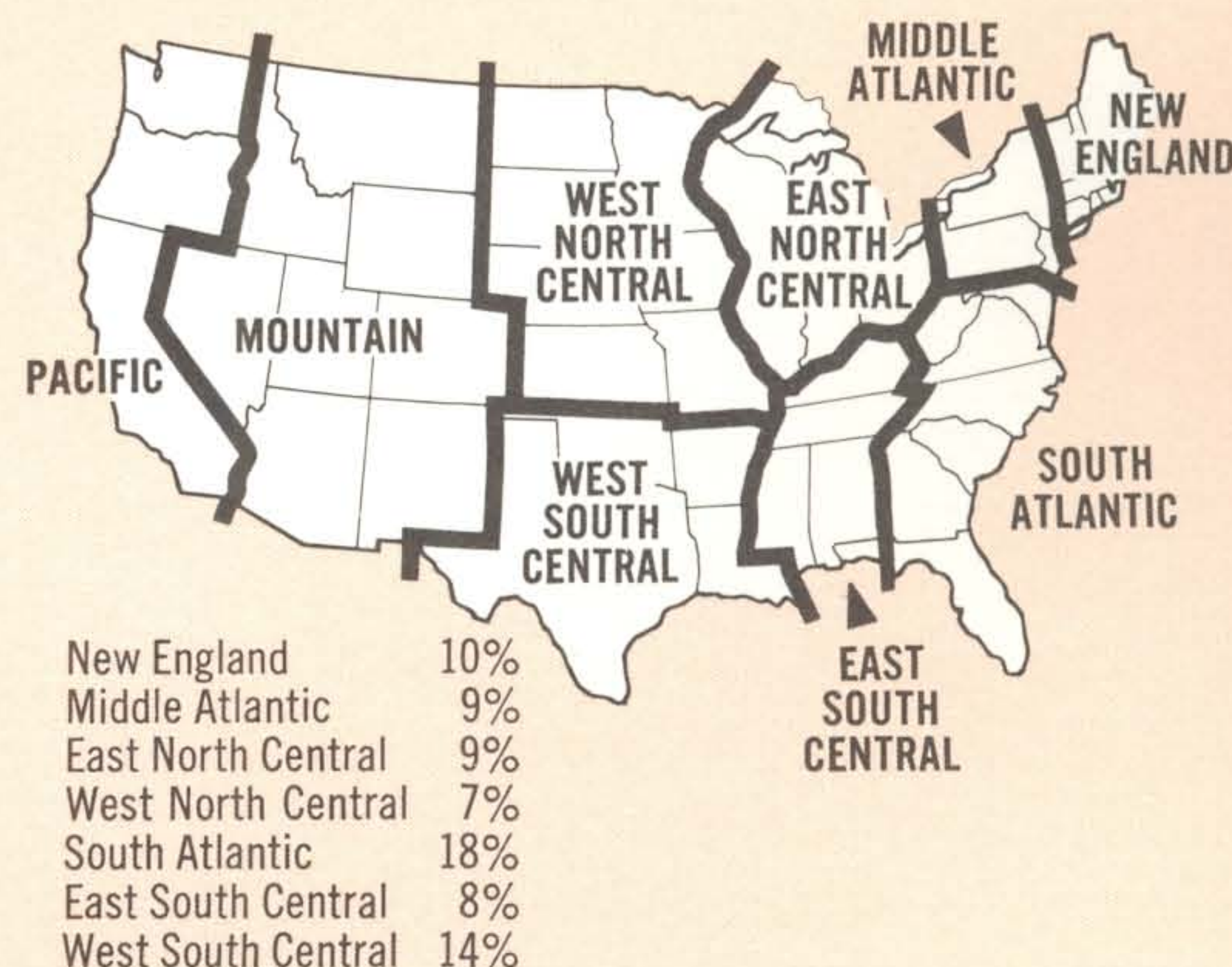
PACIFIC

Washington, Oregon,
 California, Alaska, Hawaii

26,525,000

33,100,000

25%





Pay 'N Pak North Seattle store at 135th and Aurora Ave., North, Seattle, Washington.

an expanding corporation in an expanding area:

Pay 'N Pak Stores, Inc. has developed into a vigorous "do-it-yourself" retail chain of electric, plumbing and building material stores, augmented by automotive and sporting goods stores operating in six western states and British Columbia, Canada.

These western states: California, Washington, Oregon, Montana, Nevada and Colorado, are predicted for the largest population growth in the next decade by the United States Census Bureau. The Census Bureau estimates a 25 percent growth in Washington, Oregon, California, Hawaii and Alaska. The other states in the present Pay 'N Pak marketing area share the second largest growth prediction of 21 percent compared to the United States average of 13.4 percent.

Tentative plans for corporate expansion in the same areas should materially strengthen the market penetration in the mountain and Pacific rim states.

At the end of fiscal 1971, the company had 36 retail outlets in Washington, Oregon, California, Colorado, Montana, B. C., Canada and Nevada, all sharing the benefits of centralized management, advertising, purchasing and employee training programs.

products to enrich the homes and lives of Americans

Pay 'N Pak sells complete lines of plumbing, electrical supplies and lighting fixtures. Most stores also stock building materials and home improvement products generally required by do-it-yourself customers. During the past fiscal year the company explored and added new product categories compatible with existing merchandising. Notable among these was the addition of a complete carpet program. Four stores sell automotive parts and



Proper displays show the do-it-yourselfer how the product will look in his home when finished.

accessories; and as previously noted, one is already operating in sporting goods and three more are planning sporting goods additions immediately.

The increase of do-it-yourself activity in today's economy creates an even greater market for most of the company's products every year.

Incorporating new merchandising display techniques is a continual process. New store development manager Pete Gallina works with top management at the planning level.



A vigorous emphasis on sales training programs has resulted in a knowledgeable sales staff. Training Director Terri Clevenger works with John Headley at a store session.



Staff meetings are working sessions with the emphasis on contribution to the stores effectiveness.



our prime resource is people:

Pay 'N Pak is essentially a collection of skills—the varied expertise of our employees. Whatever success we have enjoyed has been the result of the talents and dedication of our people. They all contribute to the corporation in which the sum of all efforts is greater than the parts.

We believe an informed salesman is a better salesman. A vigorous emphasis on sales training programs has resulted in a highly trained and knowledgeable sales staff and, consequently, an effective one. These thoroughly trained personnel can explain how to use, install or repair every bit of equipment, material, pipe or wire in stock.

What we sell we know how to use, install or repair. This knowledge is constantly being enhanced through product information meetings often led by knowledgeable supplier representatives.

the people behind the people who make it happen:

A business can only be built upon the capability and expertise of skilled people. It is the policy of management to offer personal growth opportunities that attract decision makers at every level of the corporation. At the staff level, 16 key people make up the management team. The staff executes administration, strategy and policy set into motion by the Chief Executive and Chief Operating Officer under the guidance and direction of the Board of Directors. This approach provides closer rapport and liaison between all operating departments and headquarters and the District Managers who in turn complete the communication and motivation to personnel in the stores. This constant communication generates valuable ideas at all levels, fosters maximum initiative and continues to maintain the close control over operations which rapid corporate expansion often dilutes.

The staff's function is to further coordinate the merchandising and buying practices, to motivate the public with aggressive, distinctive advertising and motivate the personnel with training

and direction. The staff furnishes the tools and expertise to back up the people who make it happen—the sales people who daily meet the consumer.

policies of personal opportunity:

The corporation gives preference to the employment of aggressive young people whose qualities of enthusiasm and attitude will assist in the growth and expansion of the company. The policy is, wherever possible, to promote from within and our people know they have the opportunity to grow professionally and financially and will not be overlooked as Pay 'N Pak's growth creates new job opportunities.

The Pay 'N Pak Profit Sharing Plan significantly gives each employee an individual sense of ownership, responsibility and participation in the long-term advantages of continuing employment. Every employee with three years service is eligible for the firm's Profit Sharing Plan.

The Pipeyard Gazette, a bi-monthly newspaper, is mailed to all employees' homes and acquaints the employee with wide-ranging company activities and progress.

motivating the market:

Our multi-media approach to the market still finds aggressive newspaper as our most effective media. The ads for all thirty-six stores, which run weekly or twice a week, are produced in the advertising department at the corporation's general headquarters in Kent, Washington.

Newspaper advertising is constantly being revised and cleaner formats developed. Great emphasis this year was placed on a new crisp line drawing technique improving product illustration reproduction, accomplished in the main by the company's own art department.

Three or four major promotions each year necessitate additional advertising effort, usually in the form of multi-page color tabloids inserted in 29 major newspapers. Early in this fiscal year the advertising department created a new maximum production

the staff:

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

John M. Headley, Chief Operating Officer
President

John Mead, Automotive and Sporting Goods Director

Russell S. Morgan, District Manager
Western Washington

Jerry Marlow, District Manager
Eastern Washington — Montana

Curtis L. Rhodes, District Manager
Oregon — Southwestern Washington

Monte A. Leen, District Manager
California — Nevada

Ray White, District Manager
Colorado

Halvor Knudtson, Controller

Harold F. Bacon, Advertising Director

Terri Clevenger, Training Director

Peter W. Gallina, Store Development Manager

John B. Regan, Real Estate Director

PURCHASING

Ralph Beniasch

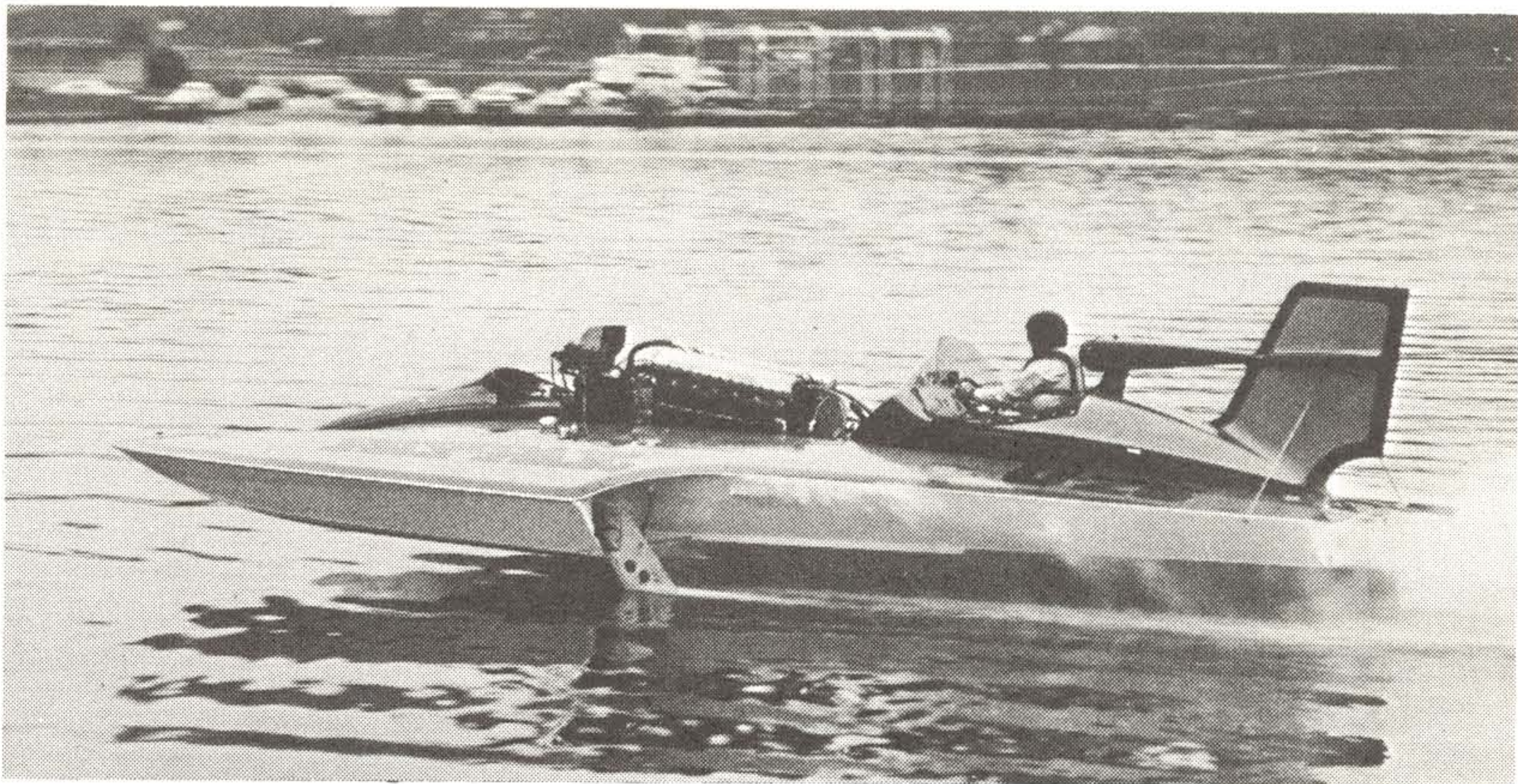
Bud Larsen

Rod Shutt

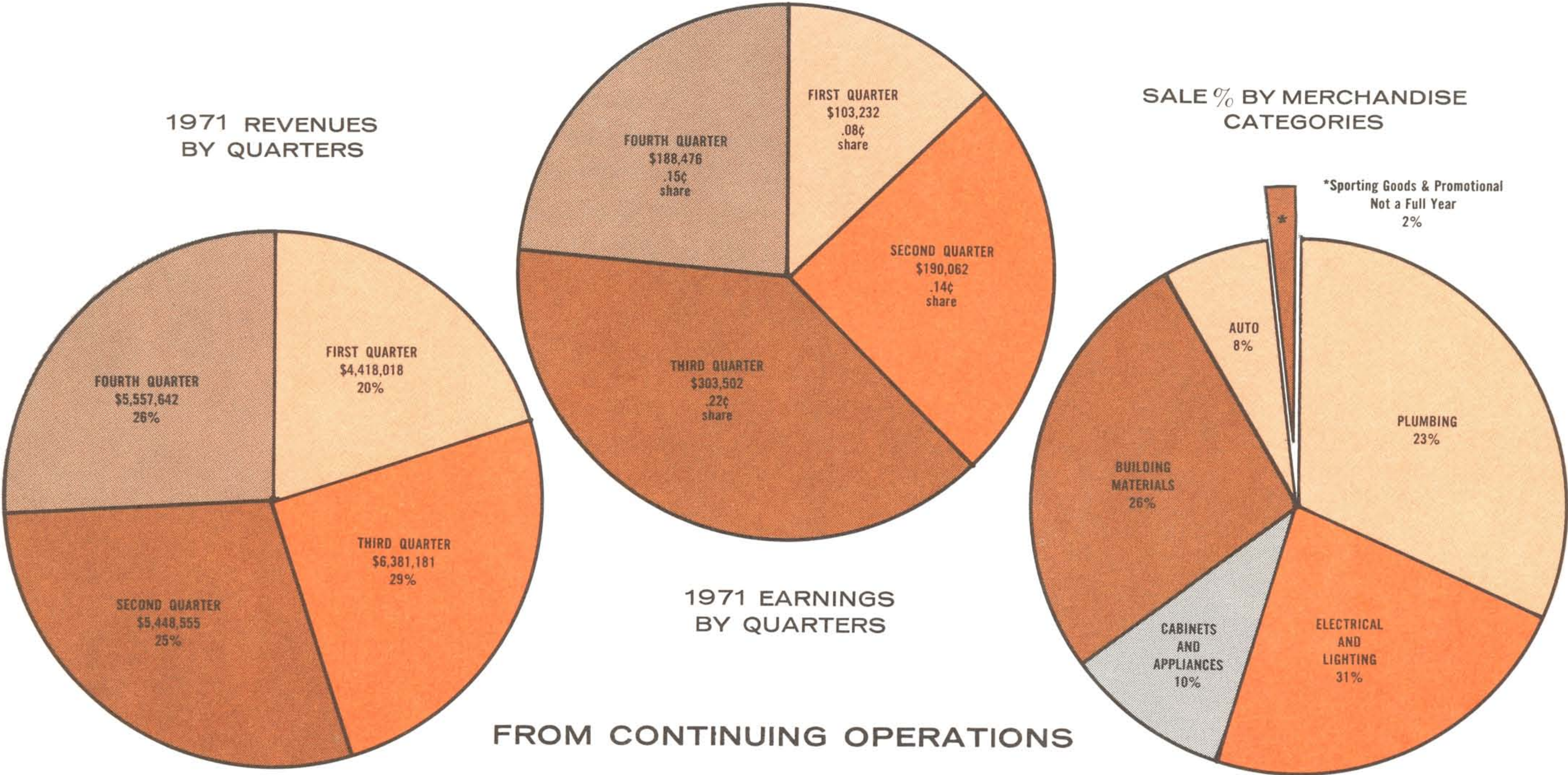
Glenn Giesey

Rod Cosgriff

The unlimited hydroplane race circuit offers unlimited publicity opportunities for name exposure.



During major sales events sales increases as high as 60% have been achieved in one month with aggressive advertising presentation.



with seven such tabloids created simultaneously. By mid-year a new record of seventeen simultaneous tabloids were produced and during February of 1971 the department produced a complete chain-wide (every store) tabloid in a multi-color pre-print section of over 2 million copies.

In-store signs reflecting a new corporate look have been installed in all stores, and displays have been upgraded.

Three extensive chain-wide special sales are conducted each year to complement and stimulate our regular advertising program. Big grand opening promotions are held at each new store opening. Advertising media used for special promotions and openings include newspaper, radio, television and personal appearances and demonstrations.

sports promotions can be real image makers:

The company continues to be identified with big time sports activities and their promotional value. The Pay 'N Pak name campaigned on the Dragster and Funny Car racing circuit throughout the marketing area with Jerry Ruth's "Pride of Pay 'N Pak" providing excellent exposure.

Another sports interest of the company is little league ball teams, a championship hockey team and major league fastpitch softball teams which it sponsors; and our customers find it easy to identify with these sports activities.

The pinnacle of our sporting support activity is reached in the big leagues of racing—the unlimited hydroplane circuit. The big thunderboats get above 3 billion newspaper impressions during one season with complete radio and television saturation in race cities.

During 1970 Pay 'N Pak campaigned two of the giant hydroplanes. The "Pride of Pay 'N Pak," a new cab-over twin Chrysler powered boat, began the season alone but was soon joined by Pay 'N Pak's "Lil Buzzard." The "Lil Buzzard" won the Atomic Cup at Tri-Cities, Washington.

expansion capability is on a solid footing:

Fiscal 1971 brought growth in sales, net earnings and net worth. The public stock offering in September 1969 provided working capital which when combined with current earnings was sufficient to meet all our anticipated expansion needs through fiscal 1971.

Long term debt amounted to only 6.61 percent of total assets. Although this is not necessarily a goal to be achieved in itself, it does indicate that the company is in good position to finance future expansion via short term borrowing and still maintain a good balance between equity and long term debt.

Consolidated Balance Sheet

Assets	1971	1970
Current assets:		
Cash.....	\$ 647,479	\$ 557,365
Treasury bills, at cost.....		450,000
Notes and accounts receivable, less allowances of \$17,816 (\$85,050 in 1970) for doubtful accounts.....	247,338	377,751
Merchandise inventories, at the lower of cost (first-in, first-out) or market.....	5,064,665	3,650,485
Prepaid expenses.....	274,526	178,257
Land and building, at cost less \$15,244 accumulated depreciation — sold in April 1970.....		694,918
Total current assets.....	6,234,008	5,908,776
Other assets:		
Prepaid federal income tax (Note 8).....	37,613	
Pre opening costs and other.....	92,822	89,331
Notes receivable.....		88,676
Total other assets.....	130,435	178,007
Property, plant and equipment, at cost (Note 3):		
Land.....	697,140	123,234
Buildings.....	582,362	770,166
Leasehold improvements.....	646,476	389,503
Store equipment.....	1,323,350	789,896
Transportation equipment.....	384,402	182,893
Construction in progress.....	7,823	463,242
	3,641,553	2,718,934
Less accumulated depreciation (Note 2).....	710,698	466,810
	2,930,855	2,252,124
Property held for development.....	1,320,214	1,605,061
Net property, plant and equipment.....	4,251,069	3,857,185
Cost of investment in subsidiaries and acquired stores in excess of amounts assigned to net assets at dates of acquisitions, less amortization (Note 1).....	273,129	173,842
Research and development costs, at cost (Note 7).....		102,548
	\$10,888,641	\$10,220,358

See accompanying notes.

Liabilities and Stockholders' Equity

	1971	1970
Current liabilities:		
Notes payable to banks.....	\$ 625,000	\$ 377,807
Accounts payable.....	1,747,902	1,512,869
Federal income tax.....	370,731	282,713
Accrued liabilities.....	479,816	294,809
Mortgage notes payable on property sold in April 1970.....		569,929
Long-term debt due within one year.....	143,615	138,957
Total current liabilities.....	3,367,064	3,177,084
Long-term debt (Note 3).....	719,766	803,931
Deferred federal income tax (Note 8).....		72,192
Deferred income (Note 8).....	167,593	21,033
Minority interest in subsidiary.....	23,770	23,554
Commitments and contingency (Note 4)		
Stockholders' equity (Notes 3 and 5):		
Preferred stock, without par value, 1,000,000 shares authorized, none issued		
Common stock, \$.10 par value, 2,000,000 shares authorized, 1,330,909 shares issued (1,330,509 in 1970).....	133,091	133,051
Capital in excess of par value.....	3,372,673	3,371,773
Retained earnings.....	3,104,684	2,617,740
Total stockholders' equity.....	6,610,448	6,122,564
	\$10,888,641	\$10,220,358

See accompanying notes.

Consolidated Source and Application of Funds:

Years ended February 28, 1971 and 1970

Source of funds:

Operations:

Net income.....

\$ 686,580 \$ 559,154

Charges against income not involving
working capital:

Depreciation and amortization.....

281,207 182,560

Deferred federal income tax.....

(54,660) 68,047

Minority interest.....

8,988 13,592

Net asset amount of equipment retired.....

24,394 33,678

Write-off of unamortized research
and development costs.....

95,638

Total provided by operations.....

1,042,147 857,031

Sale of common stock.....

3,400,094

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

977,331 689,410

Exercise of stock options to purchase
common stock.....

1,500 3,500

Decrease in non-current notes receivable.....

88,676

Increase in long-term debt.....

61,081

2,170,735

4,950,035

Application of funds:

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

1,504,769 2,106,888

Cash dividends paid.....

199,636 199,574

Reduction of long-term debt.....

145,246 602,034

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

110,949 62,000

Prepaid and deferred federal income tax.....

54,645

Deferred research and development costs.....

102,548

Expenses in connection with pooling
of interests.....

76,339

Other.....

20,238

81,770

2,035,483

3,231,153

Increase in working capital (Note 10).....

\$ 135,252

\$ 1,718,882

See accompanying notes.

Consolidated Statement of Income

Years ended February 28, 1971 and 1970

Revenues:

Net sales.....	
Franchise fees and royalties (Note 6).....	
Interest.....	
Rentals.....	

Cost and expenses:

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

Income before federal income tax.....

Provision for federal income tax:

Current.....	
Deferred (Note 8).....	

Minority interest.....

Income from continuing operations.....

(Loss) from discontinued operations
(Note 7).....

Net income.....

Average number of common shares
(Note 9).....

Per share of common stock:

Income from continuing operations.....	
(Loss) from discontinued operations.....	
Net income.....	

1971	1970
\$21,646,673	\$17,923,835
57,626	72,647
22,615	45,111
79,482	55,206
<u>21,806,396</u>	<u>18,096,799</u>
13,896,941	11,649,486
5,409,172	4,633,371
630,696	324,806
275,849	175,773
80,960	152,839
<u>20,293,618</u>	<u>16,936,275</u>
1,512,778	1,160,524
718,518	519,731
	68,047
<u>718,518</u>	<u>587,778</u>
794,260	572,746
8,988	13,592
785,272	559,154
(98,692)	
<u>\$ 686,580</u>	<u>\$ 559,154</u>
<u>1,330,742</u>	<u>1,115,809</u>
\$.59	\$.50
(.07)	
<u>\$.52</u>	<u>\$.50</u>

See accompanying notes.

Consolidated Statement of Stockholders' Equity

Years ended February 28, 1971 and 1970

	Common stock	Capital in excess of par value	Retained earnings	Treasury stock	Total
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
Cash dividends paid (\$.15 per share).....			(199,574)		(199,574)
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
Stock options exercised, 400 shares at \$8.75 per share.....	40	3,460			3,500
Sale of 30,000 options to purchase one share each of common stock.....		300			300
Expenses in connection with pooling of interests.....		(76,339)			(76,339)
Balance February 28, 1970	133,051	3,371,773	2,617,740	—	6,122,564
Add (deduct):					
Net income for year ended February 28, 1970.....			686,580		686,580
Cash dividends paid (\$.15 per share).....			(199,636)		(199,636)
Stock options exercised, 400 shares at \$3.75 per share.....	40	1,460			1,500
Expenses of sale of common stock.....		(560)			(560)
Balance February 28, 1971 (Notes 3 and 5).....	<u>\$ 133,091</u>	<u>\$3,372,673</u>	<u>\$3,104,684</u>	<u>\$ —</u>	<u>\$6,610,448</u>

See accompanying notes.

Notes to Consolidated Financial Statements

1. Basis of financial statements and investments in consolidated subsidiaries.

The consolidated financial statements include the accounts of the Company and its subsidiaries, including six companies acquired in a pooling of interests and merged into the Company on April 30, 1969 in exchange for 558,352 shares of common stock of the Company.

The Company's equity in net assets of its consolidated subsidiaries is \$30,601 greater than its investment therein at February 28, 1971 (\$3,751 at February 28, 1970) and is included in the consolidated balance sheet as follows:

	1971	1970
Credit to retained earnings — undistributed net income since acquisition	\$98,604	\$28,118
Less charge to cost of investment in subsidiaries in excess of amounts assigned to net assets at dates of acquisition, net of amortization (\$2,554 in 1971, \$633 in 1970) over a twenty-five year life	68,003	24,367
	<u>\$30,601</u>	<u>\$ 3,751</u>

The cost of stores purchased in excess of amounts assigned to net assets at dates of acquisitions was \$205,126 at February 28, 1971 (\$149,475 at February 28, 1970) net of accumulated amortization of \$54,512 at February 28, 1971 (\$45,271 at February 28, 1970) using a twenty-five year life.

2. Property, plant and equipment

Depreciation of buildings, leasehold improvements and equipment is provided principally on the straight-line method.

3. Long-term debt

Long-term debt outstanding at February 28, 1971 and 1970 is shown in the following summary:

	1971	1970
6¼% note payable to insurance company, due \$25,000 annually plus interest on September 1 to 1976.....	\$150,000	\$175,000
6½%-7% real estate contracts, due \$50,880 per year including interest to 1979 and \$46,680 per year to 1983	385,267	411,235
7% real estate contract, due \$13,488 per year including interest to 1989.....	134,566	138,542
9½% note payable due \$17,952 per year including interest to 1975.....	48,581	
7% mortgage note payable, due in 1971		74,166
Insurance contracts payable to 1972.....	1,352	4,988
	<u>\$719,766</u>	<u>\$803,931</u>

Property held for development of \$1,112,741 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. Retained earnings of \$448,230 at February 28, 1971 was not restricted.

4. Commitments and contingency

Minimum rent commitments, exclusive of insurance and property taxes, under non-cancellable leases for retail stores are payable as follows: 1972 — \$630,000; 1973 — \$580,000; 1974 — \$560,000; 1975 and 1976 — \$530,000; 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.

The Company is contingently liable at February 28, 1971 on real estate mortgage notes of \$546,126 assumed by the purchasers of a store sold in 1964 and a store sold and leased back in 1971.

The Company has agreed to guarantee an aggregate of \$19,000 (\$37,000 was outstanding at February 28, 1971) plus interest of a franchisee's debt to a bank and certain accounts payable; approximately \$40,000 at February 28, 1971.

A competing hydroplane owner has filed a suit against the Company and certain of its directors seeking substantial damages allegedly resulting from the Company having hired his driver and mechanic. Counsel for the Company is of the opinion that there are

meritorious defenses against the claim; and that a judgment, if any, would not be material to the financial statements.

5. Stock options

Options granted in November 1967 to then officers and/or Directors (one is presently a Director) to purchase 24,000 shares of common stock at \$4.375 per share (aggregate price of \$105,000) were outstanding at February 28, 1971 under the 1967 executive stock option plan approved by stockholders; the options were first exercisable in May 1968 and expire in November 1972.

A five year non-transferable option to purchase 30,000 shares of common stock which is exercisable at \$11.97 (aggregate of \$359,100), \$12.71 and \$13.44 per share during the year ended September 25, 1972, 1973 and 1974, respectively, is outstanding at February 28, 1971.

At February 28, 1971 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.

During 1970, an option as to 1,600 shares of common stock granted under the 1968 qualified stock option plan at an option price of \$10.625 per share of common stock, was cancelled by reason of termination of employment.

6. Franchise income

Beginning in 1970 the Company adopted the policy of recognizing income from sales of franchises as the cash therefrom is collected. During 1970, a franchise for \$25,000 was sold of which \$10,000 was collected in 1970, and \$15,000 is being deferred until collection. A royalty on net sales over a period of ten years and \$500 thereafter is being recognized in income as it is earned. There were two franchise stores at February 28, 1971.

7. Discontinued operations

Included in the loss on discontinued operations are the 1971 net sales applicable to the 601 Modular Housing Division (operations began in 1971) of \$73,915 which resulted in a loss on operations of \$152,675 plus a loss of \$40,017 (\$102,881 net selling price) from the sale of the division's assets and the write-off of \$95,638 unamortized research and development costs less applicable deferred (\$56,418) and current (\$37,582) federal income tax benefit.

8. Federal income tax

Deferred federal income tax was provided for the excess of accelerated over straight-line depreciation of new buildings and research and development costs deferred in 1970 for financial statement purposes and written-off for income tax purposes. All unamortized research and development costs were written-off for financial statement purposes in 1971 (Note 7) and the above buildings were sold and leased back in 1971. Included in deferred income is the deferred

gain on the sale of the buildings above of \$155,081; the applicable prepaid federal income tax is \$38,871; which amounts are being amortized over the life of the twenty-five year leases.

9. Per share information

Common share amounts were determined on the weighted average of such shares outstanding. Common equivalent shares applic-

able to dilutive stock options were not material.

10. Working capital

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

	February 28,	
	1971	1970
Cash and cash equivalents	\$ (359,886)	\$446,291
Notes and accounts receivable.....	(130,413)	84,815
Merchandise inventories	1,414,180	1,022,215
Prepaid expenses	96,269	81,951
Land and building—sold in April 1970.....	(694,918)	694,918
Notes payable	(247,193)	335,412
Accounts payable	(235,033)	(541,424)
Federal income tax.....	(88,018)	162,918
Accrued liabilities	(185,007)	(118,295)
Mortgage notes payable.....	569,929	(569,929)
Long-term debt due within one year.....	(4,658)	120,010
Increase in working capital.....	<u>\$ 135,252</u>	<u>\$1,718,882</u>

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, 1971 and the related consolidated statements of income, stockholders' equity, and source and application of funds 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. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Pay 'N Pak Stores, Inc. at February 28, 1971 and 1970 and the consolidated results of its operations and the source and application of its consolidated funds 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 15, 1971

Five Year Historic Highlights

	February 28 or 29				July 31
	1971	1970	1969	1968	1966
Revenues	\$21,806,396	\$18,096,799	\$15,511,445	\$11,119,271	\$ 9,485,012
Income before federal tax	1,512,778	1,160,524	1,454,704	1,153,771	937,881
Income from continuing operations	785,272	559,154	740,890	636,777	531,332
(Loss) from discontinued operation	(98,692)				
Net income	686,580	559,154	740,890	636,777	531,332
Per share:					
Net income from continuing operations	\$.59	\$.50	\$.74	\$.63	\$.53
(Loss) from discontinued operation	(.07)				
Net income	\$.52	\$.50	\$.74	\$.63	\$.53
Cash dividends paid	\$.15	\$.15	\$.125	\$.125	
At end of year:					
Stockholder's equity	\$ 6,610,448	\$ 6,122,564	\$ 2,435,429	\$ 2,027,493	\$ 1,656,522
Shares of common stock outstanding	1,330,909	1,330,509	962,109	1,010,909	1,010,109
Net asset amount per share	\$4.97	\$4.60	\$2.53	\$2.00	\$1.64
Number of stores open	36	31	22	19	17

