

# PAY'N PAK STORES, INC. ANNUAL REPORT

fiscal 1977

ANNUAL REPORTS  
PAY'N PAK Stores, Inc. 1977  
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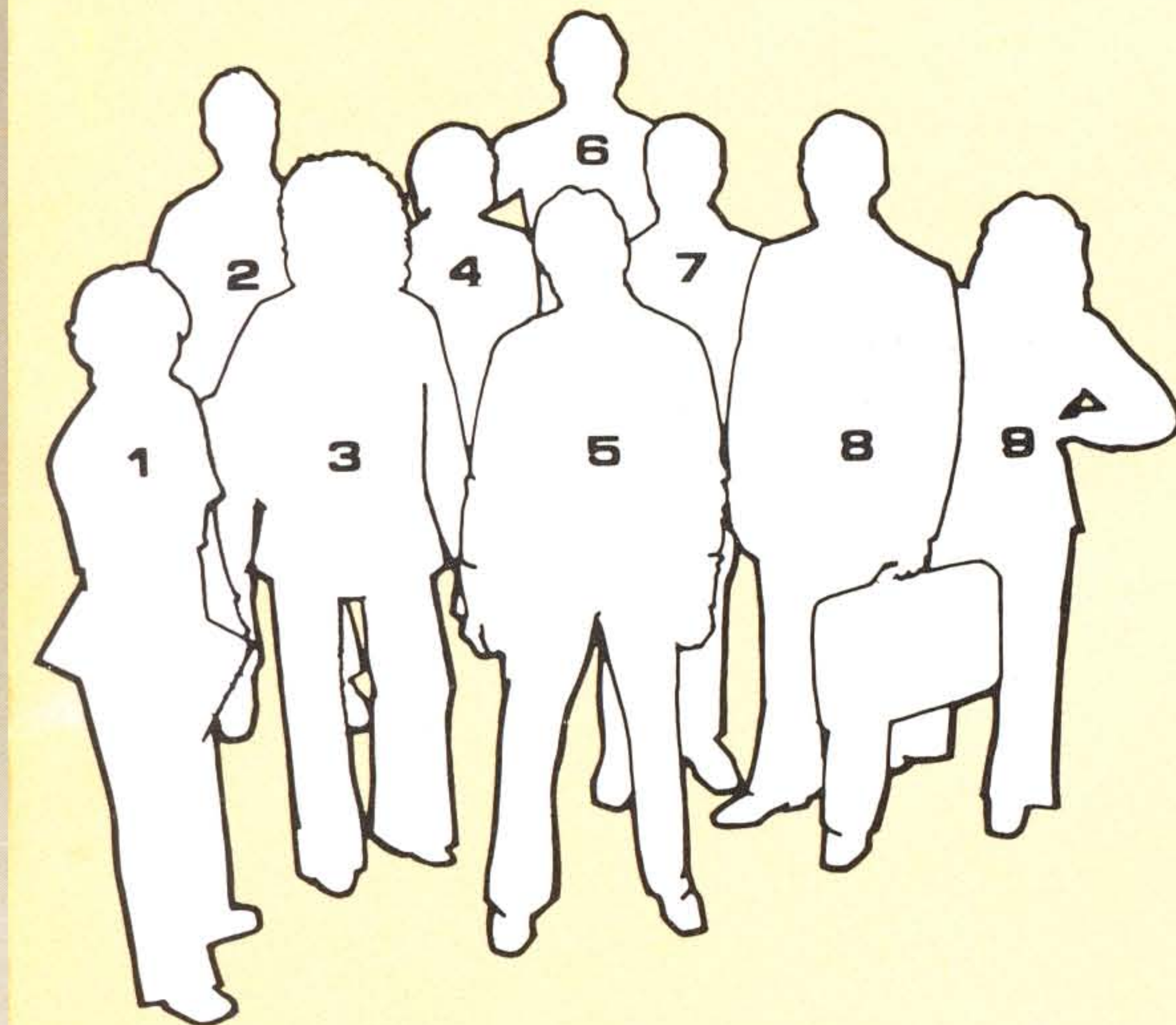
ANNUAL REPORT



# PAY'N PAK

BUSINESS ADMINISTRATION  
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## THE COVER STORY



## THE TEAM

A representative store team. Each person is from a different store and each represents a specific responsibility which is typical for any Pay 'N Pak store.

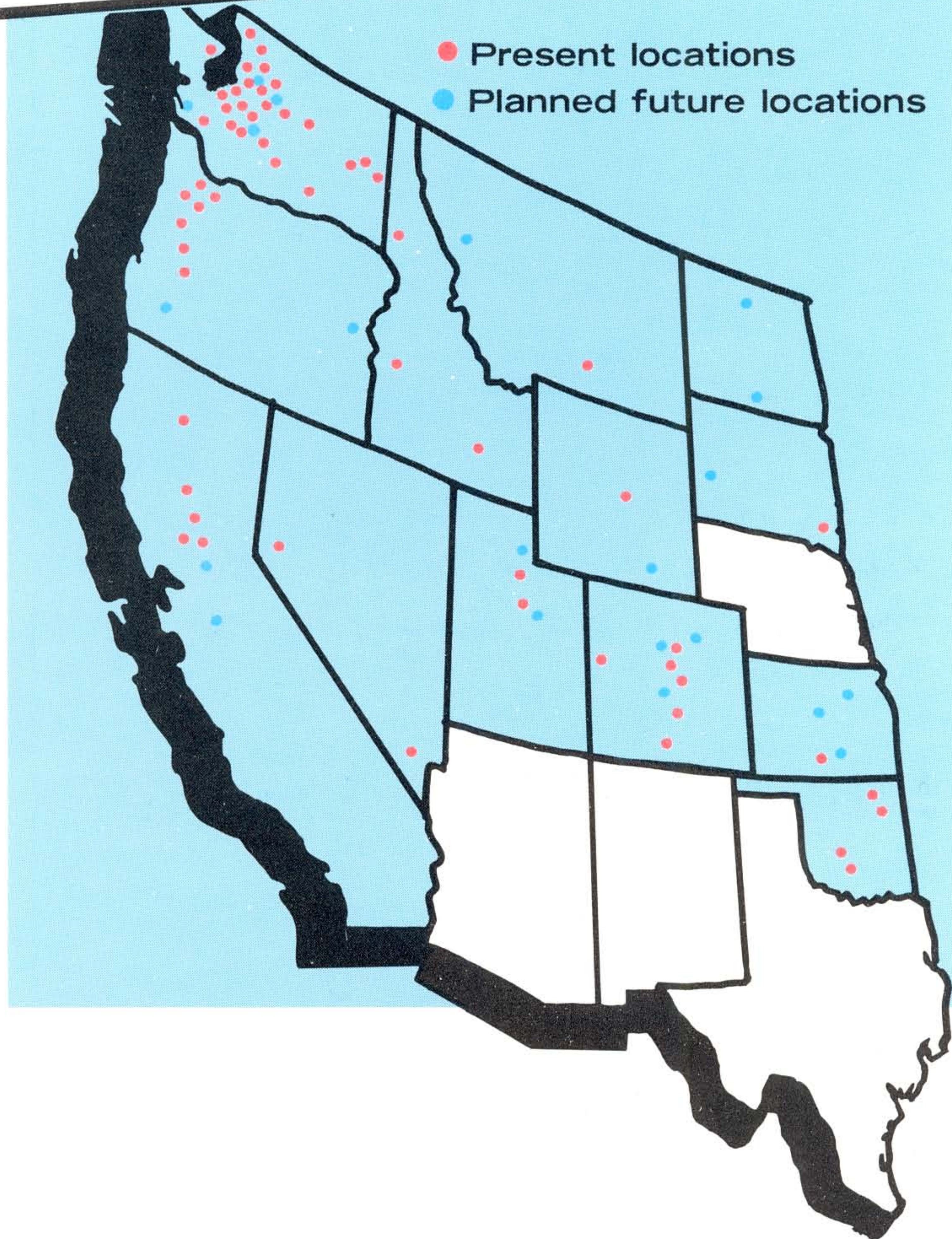
1. Judith Myhre—Assistant Manager
2. Minor Wells—Warehouse Person
3. Debbie Wallace—Salesperson
4. Janice Alonzo—Cashier
5. Jess Salazar—Manager
6. William Balyeat—Salesperson
7. Arthur Mafle—Purchasing Agent
8. Russell Morgan—District Manager
9. Margaret Johnson—Third Person





ALASKA

## PAY 'N PAK COUNTRY



● Present locations

● Planned future locations

## PAY 'N PAK COUNTRY

### ALASKA

- Anchorage
- Fairbanks

### CALIFORNIA

- Redding
- Roseville
- Sacramento
- Sacramento
- Yuba City
- Hayward
- Modesto

### COLORADO

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

### IDAHO

- Lewiston
- Pocatello
- Boise

### KANSAS

- Wichita
- Wichita
- Topeka
- Salina

### MONTANA

- Billings
- Missoula

### NORTH DAKOTA

- Bismarck
- Grand Forks

### NEVADA

- Las Vegas
- Reno

### OKLAHOMA

- Oklahoma City
- Oklahoma City
- Tulsa
- Tulsa

### OREGON

- Albany
- Eugene
- Milwaukie
- Portland
- Portland
- Portland
- Salem
- Medford
- Ontario

### SOUTH DAKOTA

- Sioux Falls
- Rapid City

### UTAH

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

### WASHINGTON

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

### WYOMING

- Casper
- Cheyenne



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

Pay 'N Pak Stores, Inc. is a retail company dedicated to the needs of the do-it-yourself market. On February 28, 1977 the company operated 64 stores in 47 cities in 13 Western states.

The company is engaged in the retail sale of electrical, lighting, plumbing and building materials on a cash and carry basis. Eleven of the 64 stores feature complete lines of automotive parts, accessories and sporting goods.

During the past fiscal year the company continued its aggressive expansion program with the addition of 5 new stores and 2 new replacement stores.

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

## **FISCAL 1977 FINANCIAL HIGHLIGHTS**

*(compared to fiscal 1976)*

	YEARS ENDED — FEBRUARY 28, 1977	FEBRUARY 29, 1976
Revenues .....	\$80,642,749	\$73,279,952
Income before income tax .....	5,767,129	4,878,524
Net income .....	3,030,823	2,574,624
Average number of common shares .....	1,609,309	1,660,887
Net income per share .....	\$ 1.88	\$ 1.55
Cash dividends paid per share .....	\$ .54	\$ .418

### **BANK**

Peoples National Bank of Washington  
Seattle, Washington

### **TRANSFER AGENTS**

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

Peoples National Bank of Washington  
Seattle, Washington

### **OFFICERS**

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

Harold F. Bacon  
*Vice President—Merchandising*

Jerry Marlow  
*Vice President—Operations*

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



## BOARD OF DIRECTORS



Marshall J. Weigel—*Corporate Finance Specialist*, David J. Heerensperger—*Chairman of the Board and President*, Woodrow C. Button—*Vice Chairman, Old National Bank*, Halvor Knudtson, Jr.—*Secretary-Treasurer/Controller*, Curtis L. Rhodes—*Purchasing Co-ordinator*.

## TO OUR SHAREHOLDERS

Revenues and earnings of your company reached new highs again in the fiscal year ended February 28, 1977 marking the seventh consecutive year with increases in both sales and earnings. Revenues were \$80,642,749 for fiscal 1977, an increase of 10 percent over fiscal 1976. Net income was \$3,030,823 for fiscal 1977, an increase of 18 percent over the prior year. The company's compounded growth rate over the last nine years (since going public) has been 24 percent in sales and 20 percent in earnings.

Sales during the first and second quarters were not up to our expectations. This was due in part to management changes made in November 1975. At that time our former president John Headley left the company and took with him a vice president and a district man-

ager. We also sold him our Vallejo and Santa Rosa, California stores in exchange for 56,267 shares of his stock which was retired. The loss of these two stores, which had sales of about \$2 million on an annual basis, the disruption caused replacing the two people Mr. Headley took with him, and our decision to eliminate plywood and sheetrock from our product mix (two low profit commodity items) adversely affected our sales during the first two quarters, and to a degree in the third quarter. However, after the end of the third quarter we were not confronted with those comparative figures any longer and both sales and earnings were back more in line with our historical increases. Most importantly, our gross margins were up more than 2% over last year and this was the result of the disciplines put into operation by the new management team.



With the increase in earnings, your company again increased its dividend in line with our policy to increase dividends as earnings warrant. On an annualized basis dividends are currently equal to \$.60 per share as compared to \$.48 paid in fiscal 1976. We believe that dividends are important to our shareholders and yet we also recognize the need to retain earnings to support our growth. Thus far we have been able to satisfy our objectives in both regards.

On January 14, 1977, as shareholders, you approved an amendment to the company's Articles of Incorporation to increase the number of authorized common shares from 2,000,000 to 5,000,000. In April, 1977 your company declared a 50% stock dividend while maintaining the quarterly cash dividend rate of \$.15 per share. The stock dividend and a regular quarterly cash dividend will be payable on July 29 to shareholders of record on July 8, 1977. Following this stock dividend, equal to three shares for each two shares held, the company will have 2,413,964 common shares outstanding. Although no immediate use is planned for the additional unissued shares, the company may, from time to time, utilize them for stock dividends, acquisitions, or raising additional capital.

During this fiscal year your company continued its expansion by opening five new stores and replacing two outmoded stores with larger modern facilities. New stores were opened in Tacoma, Washington; Portland, Oregon; Boise, Idaho; and marking our entry into two new states, in Casper, Wyoming and Sioux Falls, South Dakota. The new replacement units were in Albany, Oregon and Sacramento, California.

These new and replacement facilities increased the company's square footage by 115,922 square feet, an increase of 10 percent.

In the first quarter of fiscal 1978 we have opened our fourth store in the Denver area, and we have additional openings planned in Marysville and Puyallup, Washington, Topeka, Kansas, and Ontario, Oregon, for the first half. In the second half we hope to open one or two more stores for a total of five or six additional locations for fiscal year 1978.

Adequate financing is essential for a continuing expansion program. The company has a \$4 million bank line of

credit. This credit line, plus what we have available in cash, bank certificates of deposit and cash flow, should enable us to support our expansion plans for the next two or three years.

Although our stores are often compared with home centers we are really much more of a specialty retailer. Over 56 percent of our sales are in electrical and plumbing supplies as compared to the typical home center type of operation which has about 15 percent of its sales in these lines.

We are very bullish for the future of our company. Catering to the do-it-yourselfer is the key to our business. With skilled tradesmen's rates constantly escalating there is more and more of an inducement for homeowners to tackle even the toughest jobs themselves. Recently, Building Supply News, a leading publication in the shelter field stated: "Soaring home prices send a message to consumers: stay put and remodel." Their survey pointed out that "home modernization was a \$30 billion market almost matching the \$31 billion spent for new residential construction this last year. Consumers are saying, any home improvement will cost more later. Do it now and gain equity. Add to the value of your home. A car depreciates, a house doesn't."

Having built our business on a solid base by appealing to the do-it-yourself trend, we believe the company is in an excellent position for the future.

We are in a vital industry, we are in good financial shape, we have good people and we have desire — we strive for perfection in all the things that we are doing to build Pay 'N Pak.

*David J. Neerensperger*





## CORPORATE PROFILE:

The company emphasizes strong central administrative control with as much decentralized operating responsibility as possible. The stores are divided into eight operating districts under the supervision of eight district managers. Additionally, one district manager services our eleven automotive and sporting goods operations. The district managers, as well as store managers, are responsible for overall store operations. Each district manager works closely with his store managers in developing people with management potential.

The company holds one managers' meeting each year and at least three additional times a year holds meetings at central locations within each district with store managers, district managers, and the vice president of operations in attendance. These meetings are a vital part of the communications process.

Top management holds at least six staff meetings per year. Purchasing and merchandising executives visit stores on a regularly scheduled basis to evaluate performance. This provides the necessary liaison among all administrative and operating units and leads to the dissemination of valuable ideas at all levels.

The belief that a properly trained salesperson is a better salesperson means the company must continue its vigorous training program. The training director administers the company's many product training meetings as well as its highly sophisticated training theatre and retail selling skills programs.

Our customers want to be do-it-yourselfers but often aren't sure how to do the project that confronts them. They need information and assurance from our personnel; and only properly trained personnel can provide that assurance. With our training theatre film program, if a customer is unsure how to lay floor tile, for example, he or she can be shown our film outlining step-by-step the proper way to install floor tile. The customer now brimming with confidence takes on the project. This facet of merchandising has proved to be an important element in the growth of our business.

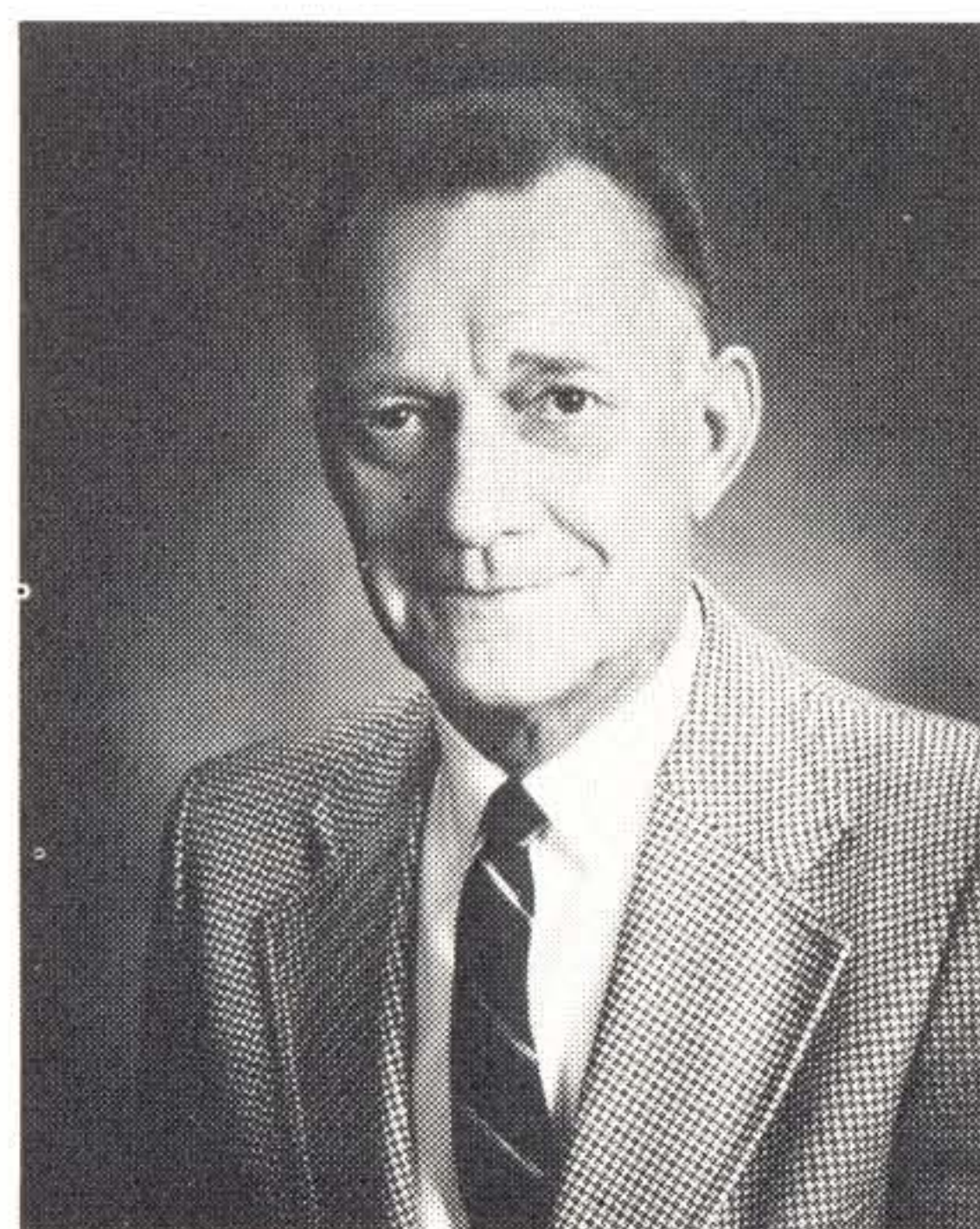
We put a lot of effort into training and it pays off.

Company stores, which average 19,700 square feet, offer a full selection of electrical, lighting, heating and plumbing supplies, and most of those essential things in building materials that a do-it-yourselfer needs. The company carries a broad range of famous national brand merchandise as well as private label

*Pay 'N Pak's most prestigious award winners.*



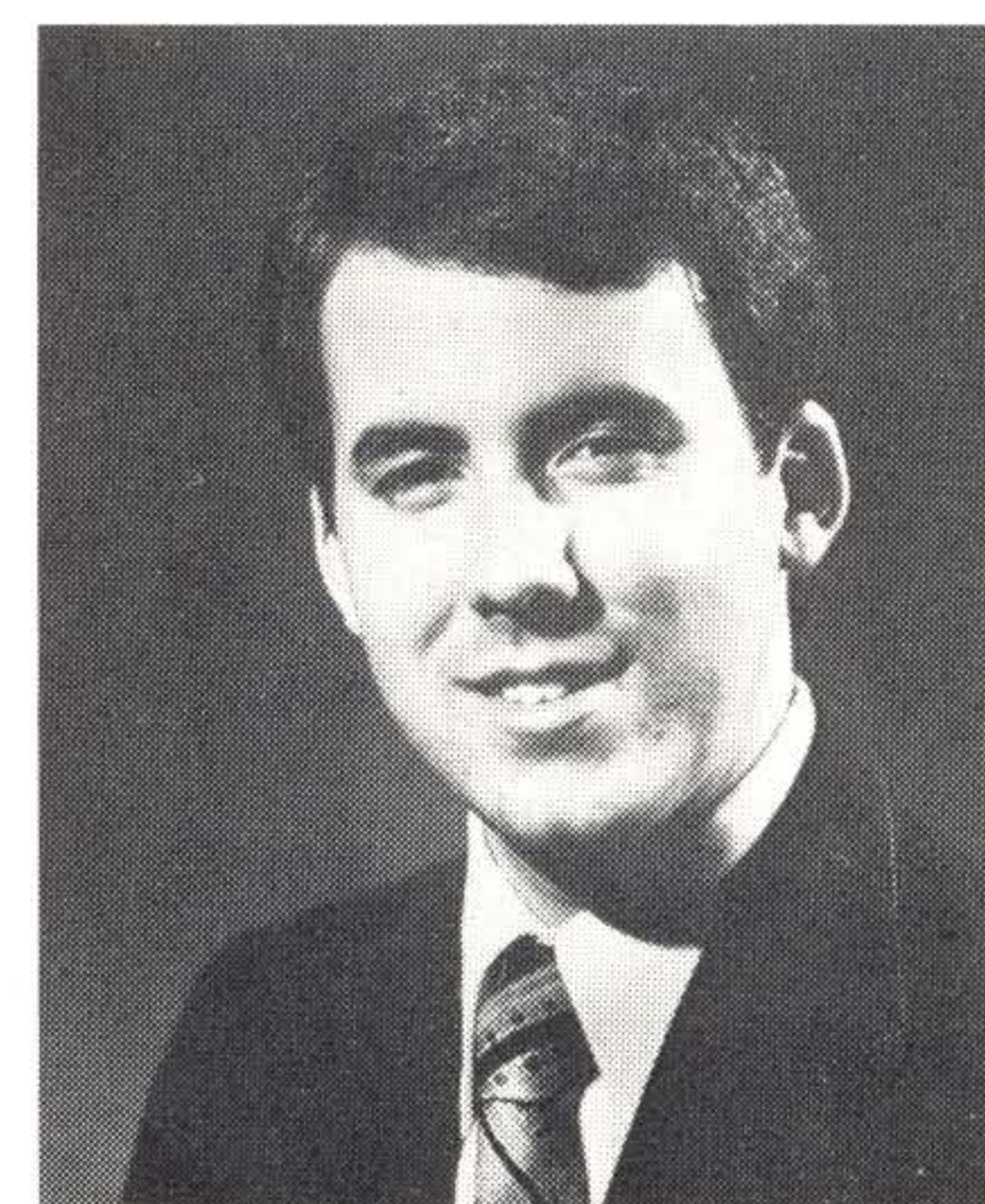
MANAGER OF THE YEAR  
1973  
Larry Marlow



MANAGER OF THE YEAR  
1974  
Mel Kelley



MANAGER OF THE YEAR  
1975  
Randy Hunsaker



MANAGER OF THE YEAR  
1976  
Rick Noegel



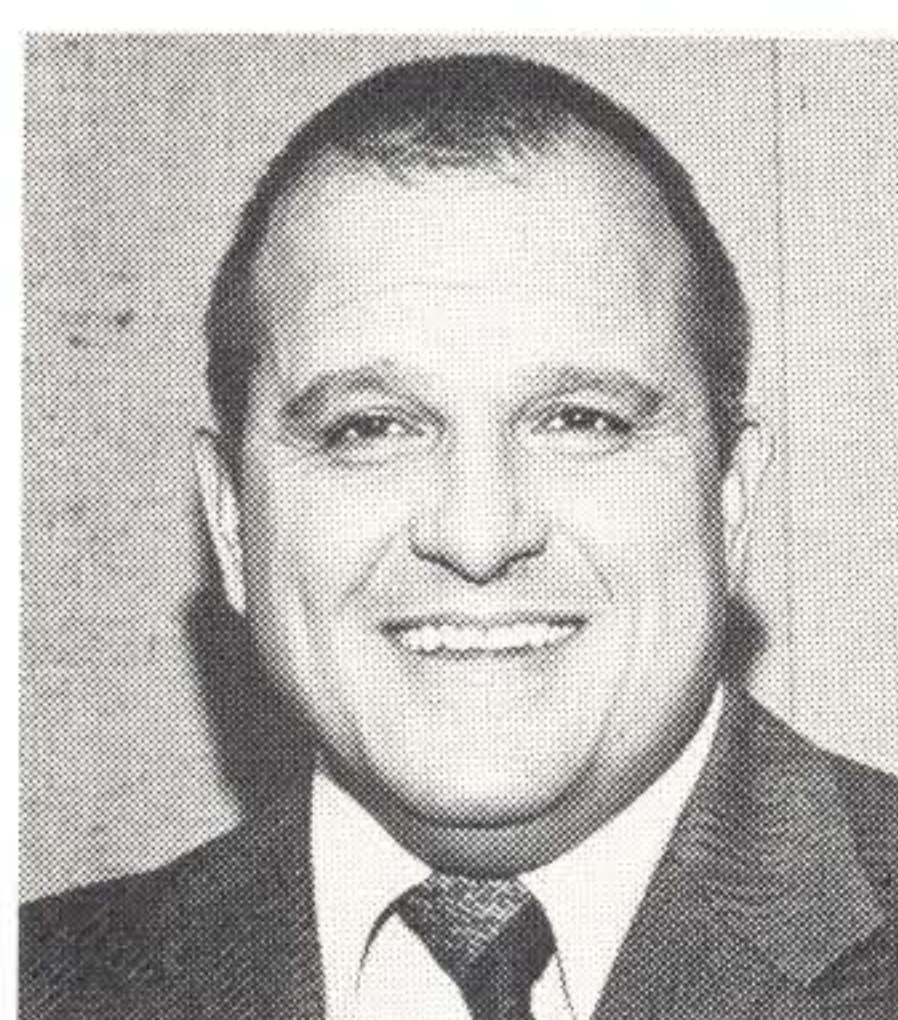
# STAFF AND ASSISTANTS:



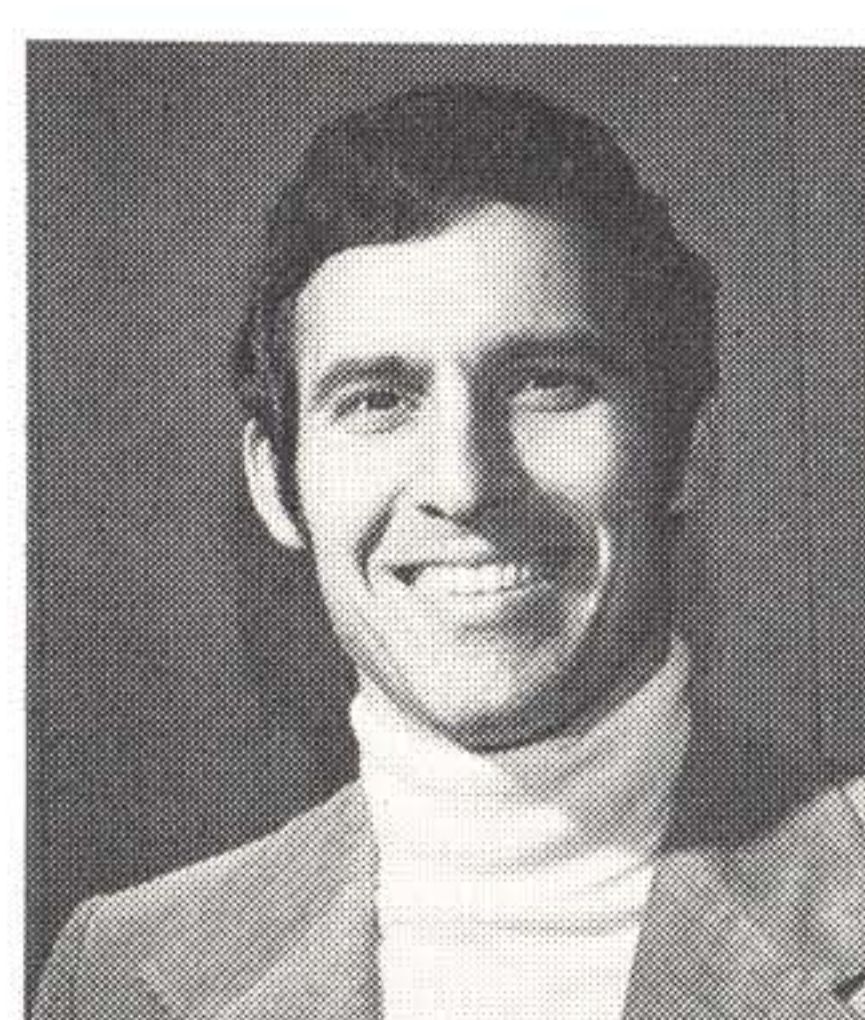
Harold F. Bacon,  
*Vice President  
Merchandising*



Jerry Marlow,  
*Vice President  
Operations*



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



Bob Moutrie,  
*Merchandising  
Director*



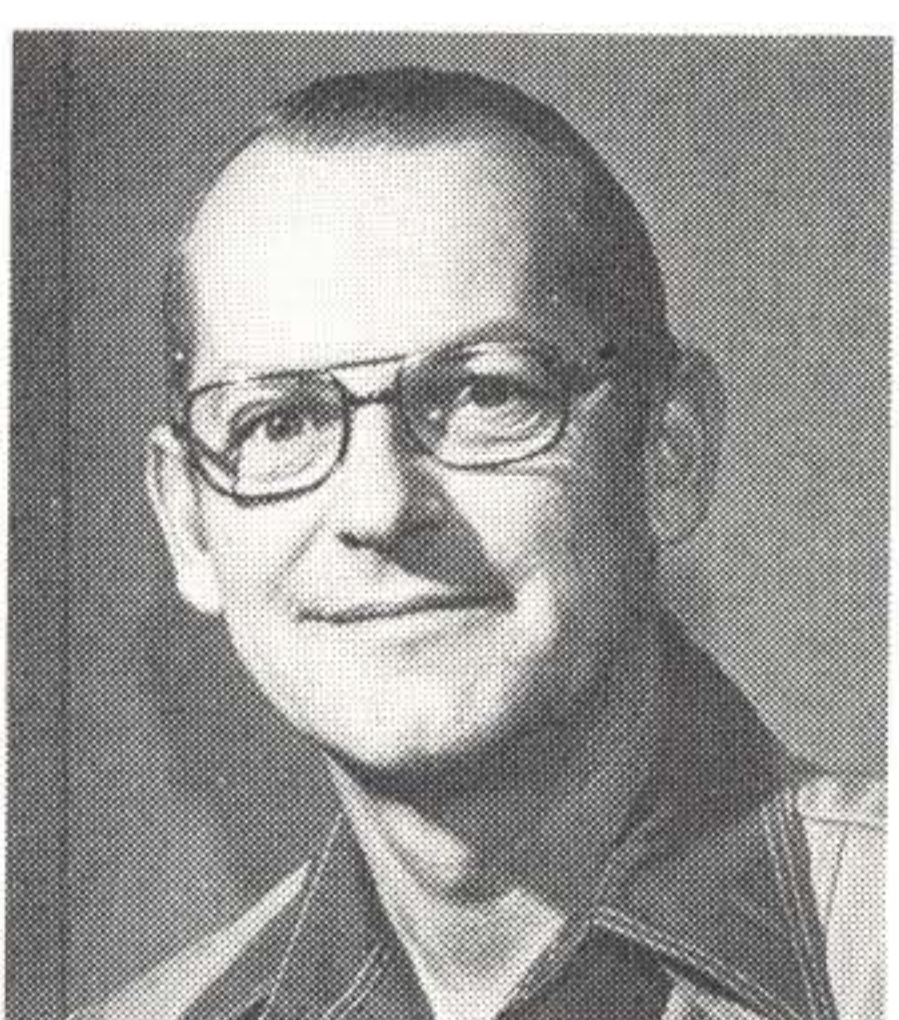
Randy Hunsaker,  
*District Manager  
Colorado, Kansas,  
and Oklahoma*



Warren Jones,  
*District Manager  
Northwestern  
Washington*



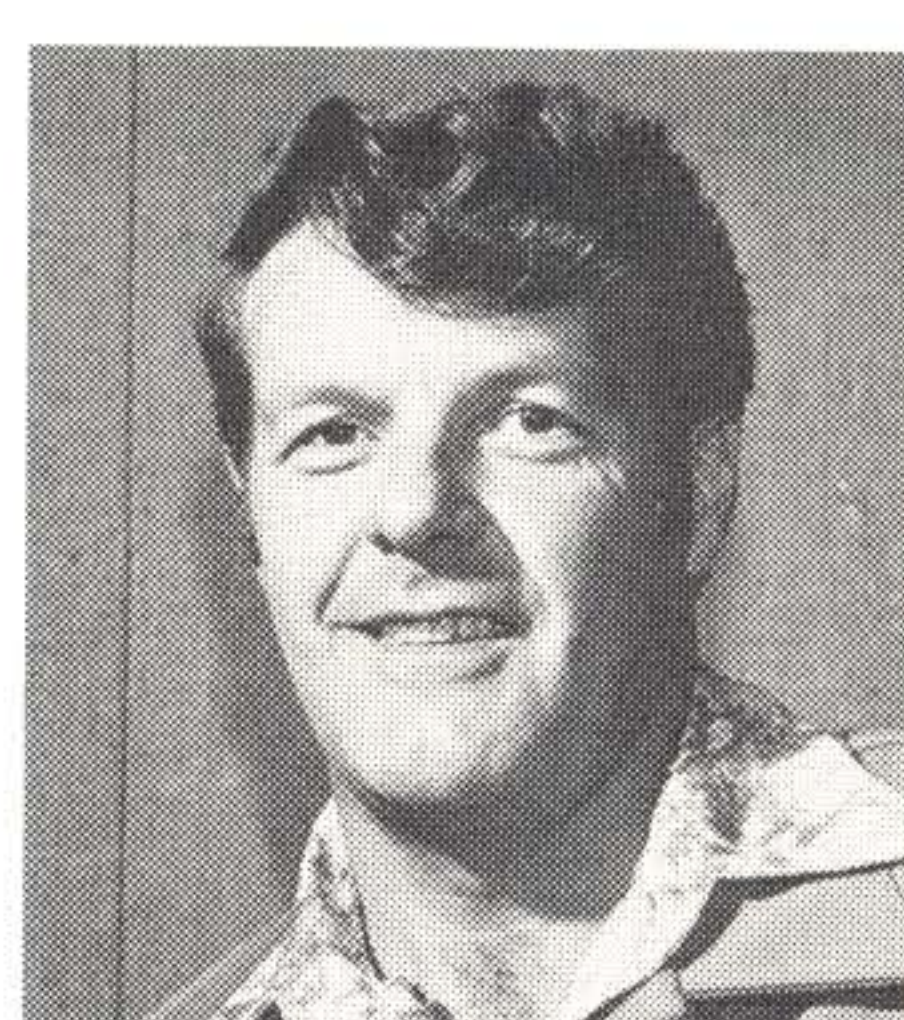
Mel Kelley,  
*District Manager  
Oregon, S.W.  
Washington and Alaska*



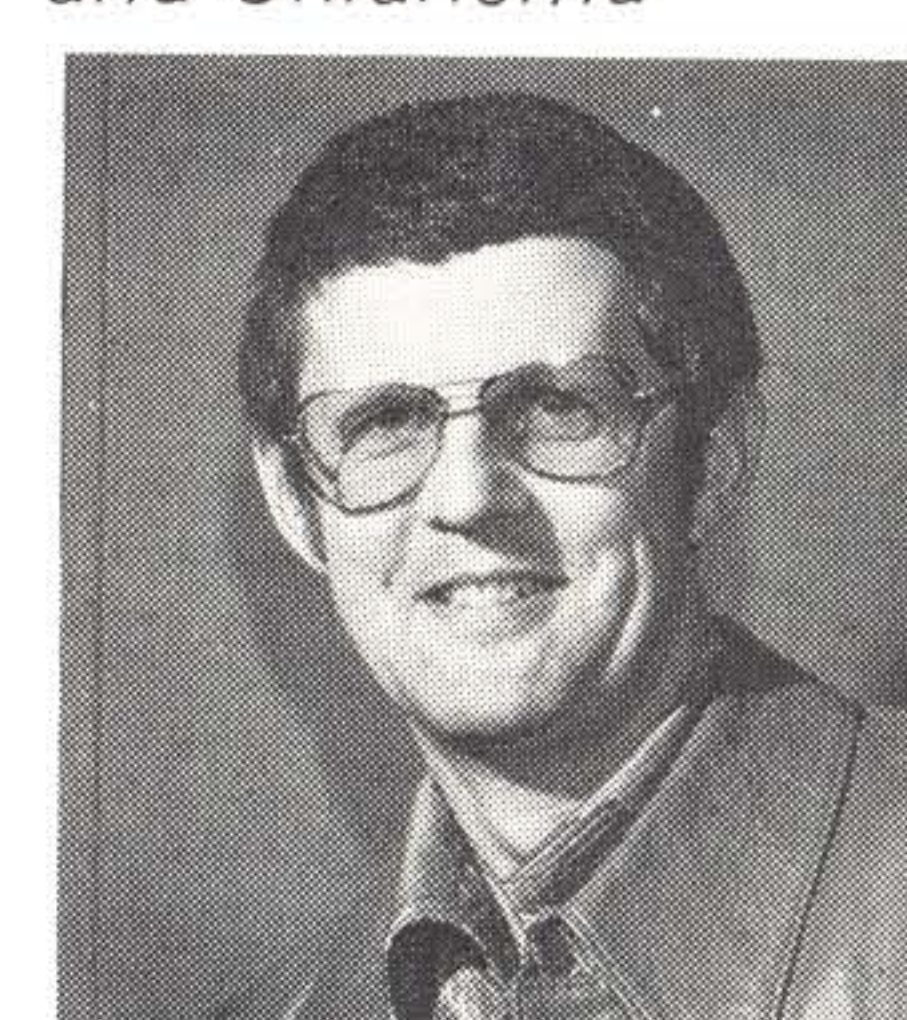
Ted Lewis,  
*District Manager  
California and Nevada*



Mike Mandick,  
*District Manager  
Automotive and  
Sports Stores*



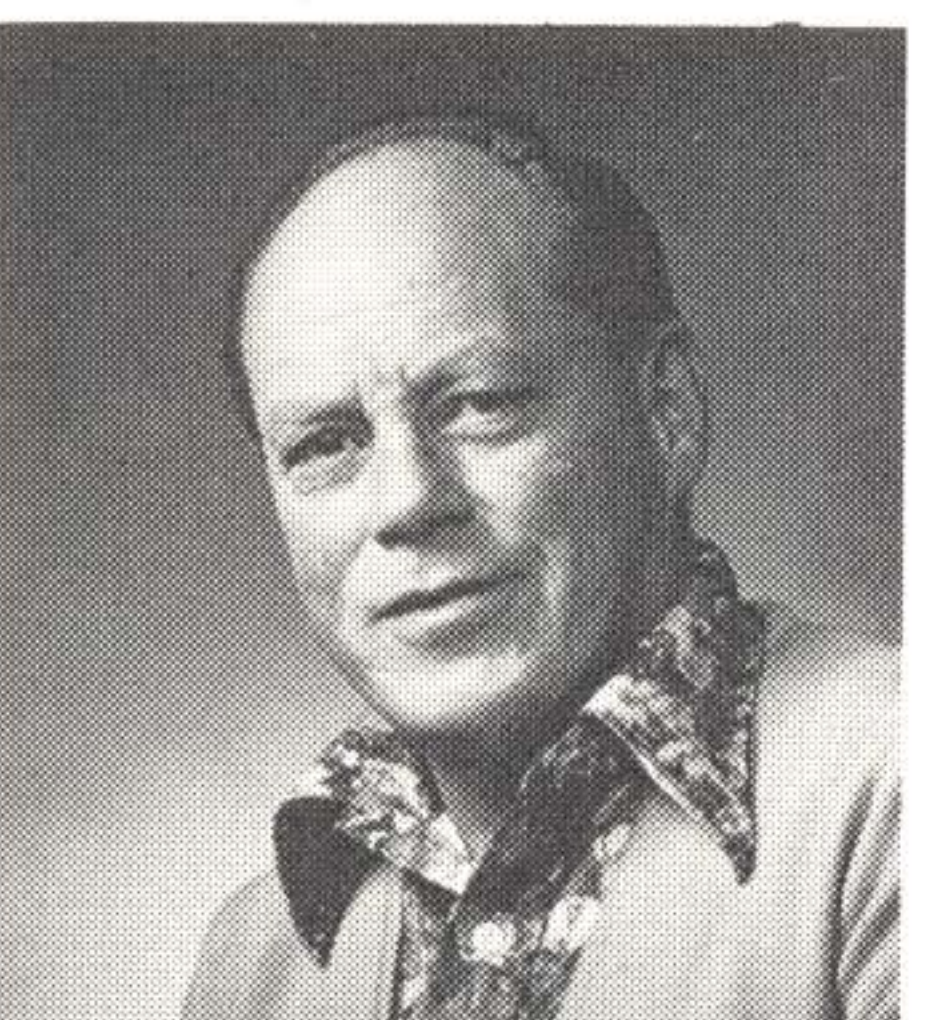
Larry Marlow,  
*District Manager  
Eastern Washington  
and North Idaho*



Russell Morgan,  
*District Manager  
Northwestern  
Washington*



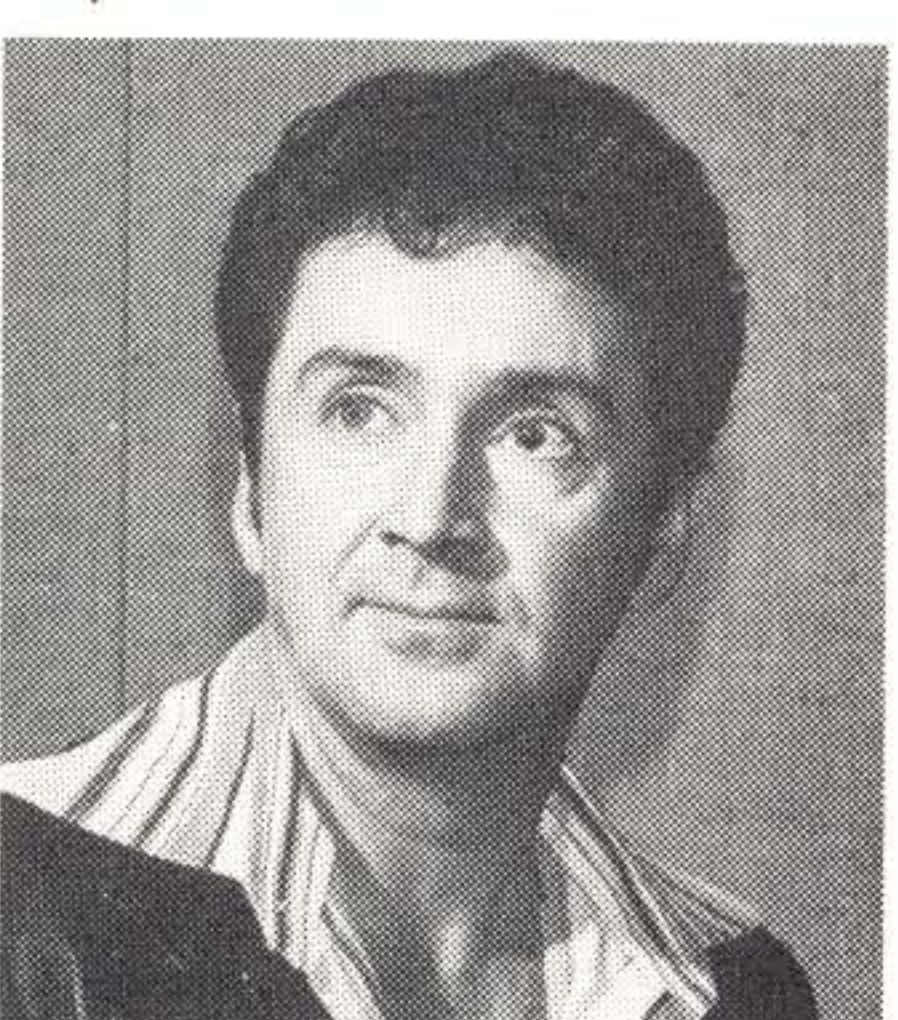
Wally Tesch,  
*District Manager  
Utah, Idaho, Wyoming,  
Montana, South Dakota*



Ralph Beniasch,  
*Purchasing Agent  
Building Materials  
and Promotional*



Rod Cosgriff,  
*Purchasing Agent  
Automotive*



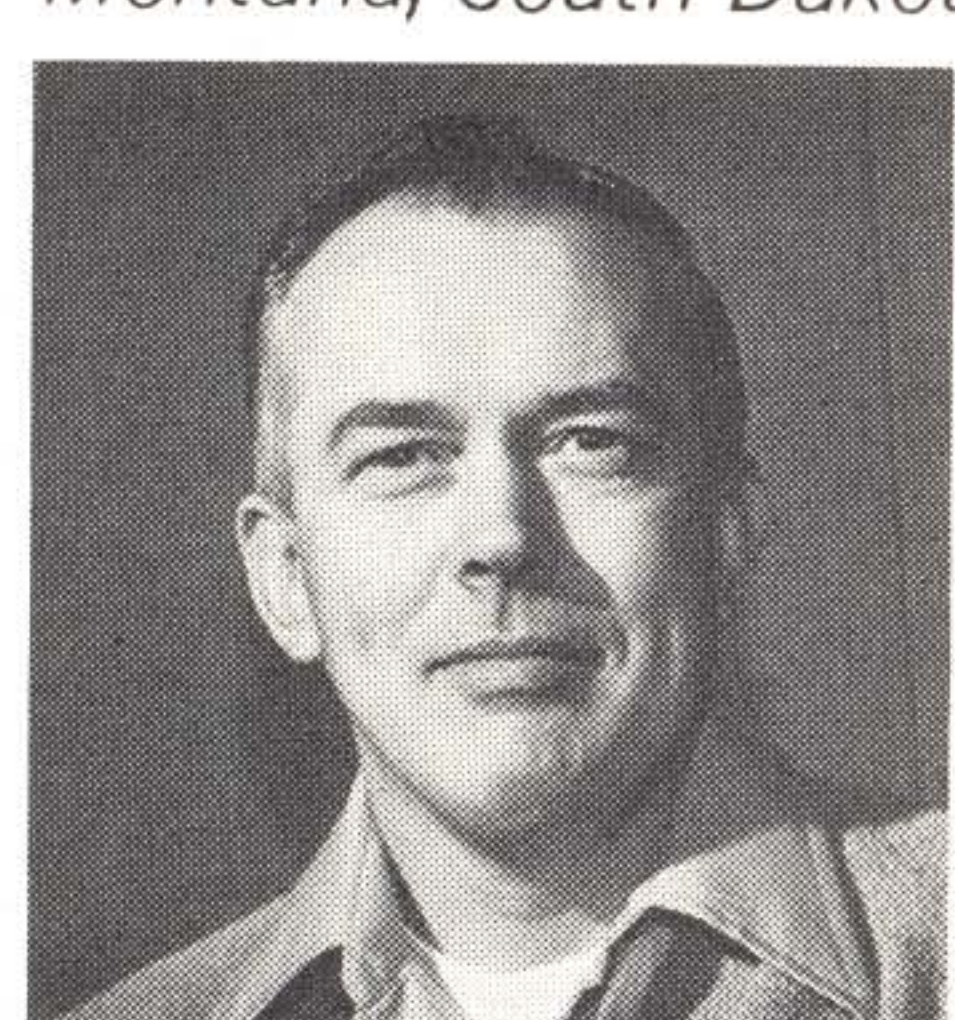
Bill Crosswhite,  
*Purchasing Agent  
Electrical*



Larry Elliott,  
*Purchasing Agent  
Sporting Goods*



Pete Gallina,  
*Store Development  
and Real Estate  
Director*



Bud Larsen,  
*Purchasing Agent  
Plumbing-Cabinets*



Terri Lucero,  
*Personnel Director*



Curtis L. Rhodes,  
*Purchasing  
Co-ordinator*



George Smith,  
*Training Director*



Ken Johnston,  
*Advertising Director*



Tom McCloskey,  
*Assistant Controller*



William Gottbreht,  
*Office Manager*



Don Eliingson,  
*Store Development*



Clemens Erlander,  
*Advertising Manager*



Jerry Wishman  
*Freight Assistant*





lines in many merchandise categories. Because of the large volume of electrical and plumbing materials we sell, we are able to buy more than 80 percent of these items direct from the manufacturer. Additionally, the company has become a major importer, and staff buyers are regularly traveling to the Orient to acquire merchandise. These factors mean that even with better prices to our customers, we are still able to maintain high gross margins.

The company's central purchasing department is augmented in each store with its own

purchasing agent. The central purchasing agents administer a chainwide pricing, stock control and source system. They also co-ordinate merchandising and buying practices and supply product knowledge for both training and advertising departments.

A consistent aggressive advertising program must keep Pay 'N Pak before the consumer at all times and the program developed gives direction to the merchandising thrust of the company. The advertising-merchandising team further develops a "good, better, best concept"



in product mix assuring the company maximum gross margins without compromising its competitive edge in the market place.

The company holds 4 big special sales each year featuring pre-print tabloids with over 4 million copies of multicolor 12 and 16-page promotions appearing in 60 newspapers covering the company's entire marketing area. Between these events there is a continuing large space weekly advertising program in all markets.

The total promotional package with each of these events has been carefully orchestrated to assure maximum effectiveness. For example, a complete signing program for every item in each tabloid, as well as each step-up item is produced by the advertising team in Kent. These signs and giant window banners identify with the theme of each event. The company maintains a complete central signing program with a sign for every product it stocks.

New emphasis has been placed on the company's display book program which shows photographs and diagrams of a pilot store display to show exactly how every merchandise presentation should look in every store.

With our growth and our use of more sophisticated programs, the need for a high degree of controls is necessary. The central accounting department, directly under the control of the secretary-treasurer, has the computerized facilities to cope with this growth. Record keeping programs, management information systems, and use of the company's computer guarantee a prompt and dependable flow of information on sales, costs and other statistical data that management needs on a daily basis.

Our continuing expansion and dedication to growth requires that the company have knowledgeable career people in the store location, real estate and store design fields. New locations are continually analyzed by our experts while our store development design team completely plans and directs the construction and modification of new and remodeled stores. They create the store atmosphere, the color co-ordination and the distinctive Pay 'N Pak graphic look.

In speaking of growth, it is appropriate that we review the key element which makes this possible. That's the people of Pay 'N Pak. Developing people to meet the challenges of expansion is more important than the physical development of new stores. In our company we have 788 people growing in their jobs. Things like age, sex and color don't matter; but ability, enthusiasm and commitment really do. No matter how efficient a corporate body we become the most important contributions will always be made by people. We make an extra effort to select good people, to train them, and to help them grow as individuals. Ninety percent of our store managers are graduates of the company's management development program.

To keep pace with our personnel needs, it is necessary to have incentives to help attract and hold well qualified individuals anxious to progress in the company. Each store is on an incentive bonus plan, in which both the store manager and his entire crew share. The administrative staff and district managers also have an incentive bonus based on pre-tax profit.

The company's Employee Stock Ownership Plan (ESOP) provides employees with an individual sense of ownership, responsibility and participation. They are very strong incentives for people to stay with the company. All employees receive a report each year indicating the number of shares of Pay 'N Pak stock held in their name together with the value of same.

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

The company personnel director conducts Management Training Seminars each year covering all phases of the management of Pay 'N Pak stores. These seminars are week long management symposiums featuring workshop experiences and role play situations. The participants learn not only by hearing but also by doing. All subjects are taught by the management or staff person with particular expertise in the subject. A measure of the value of these seminars is that over 90 managers or as-

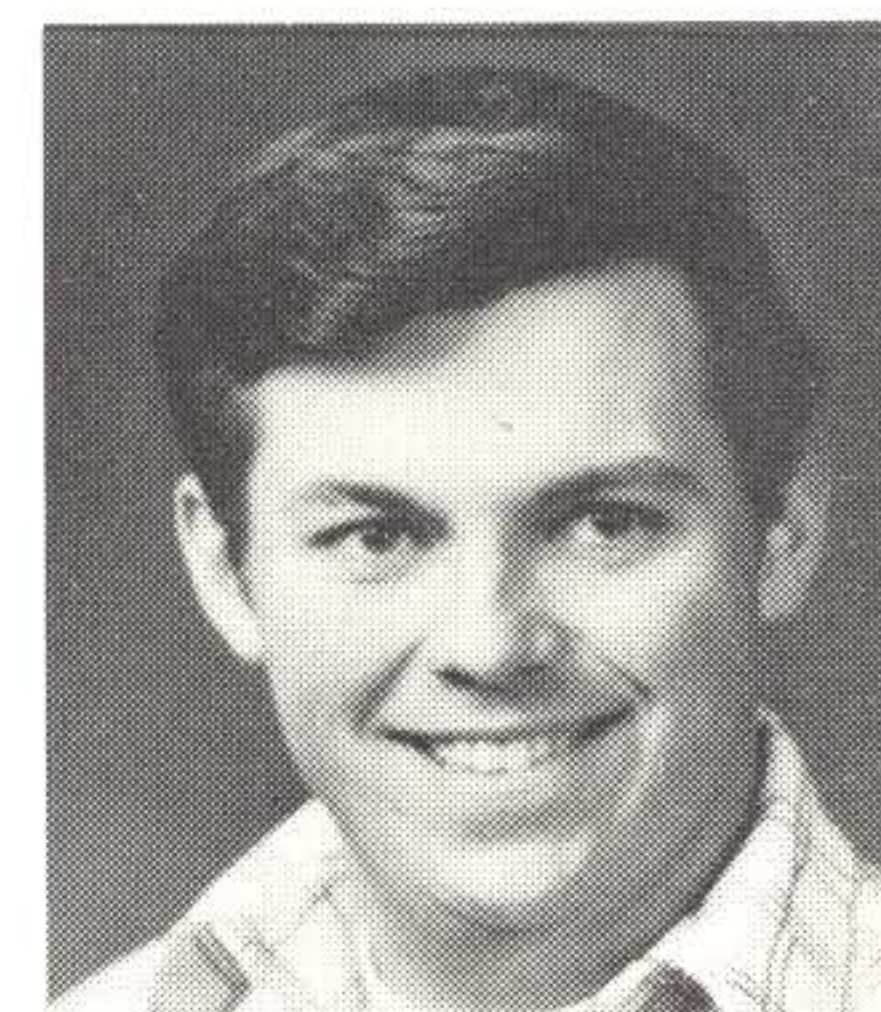


# THE STORE MANAGERS

The people in the field who are Pay 'N Pak in their respective cities. Each operates his particular store as a profit center. These are the people who are today developing the personnel to enable our continuing corporate growth.



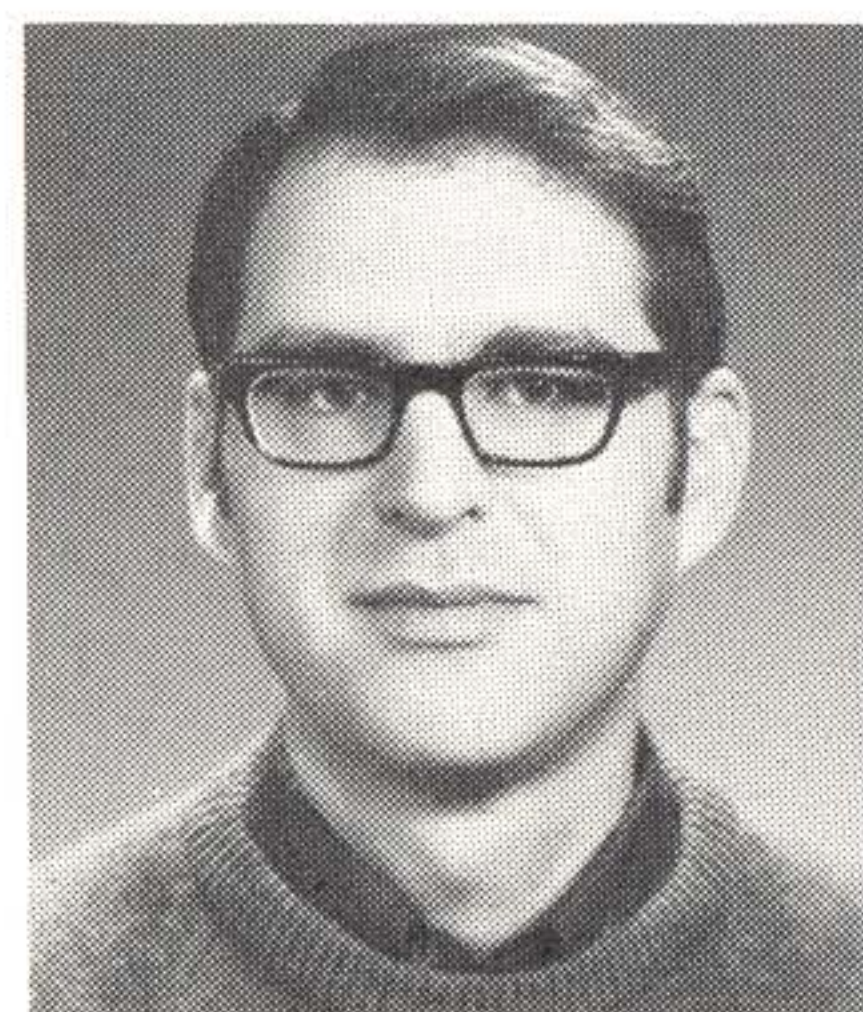
Carl Karbowski  
Kent Warehouse  
M. T. S. '75



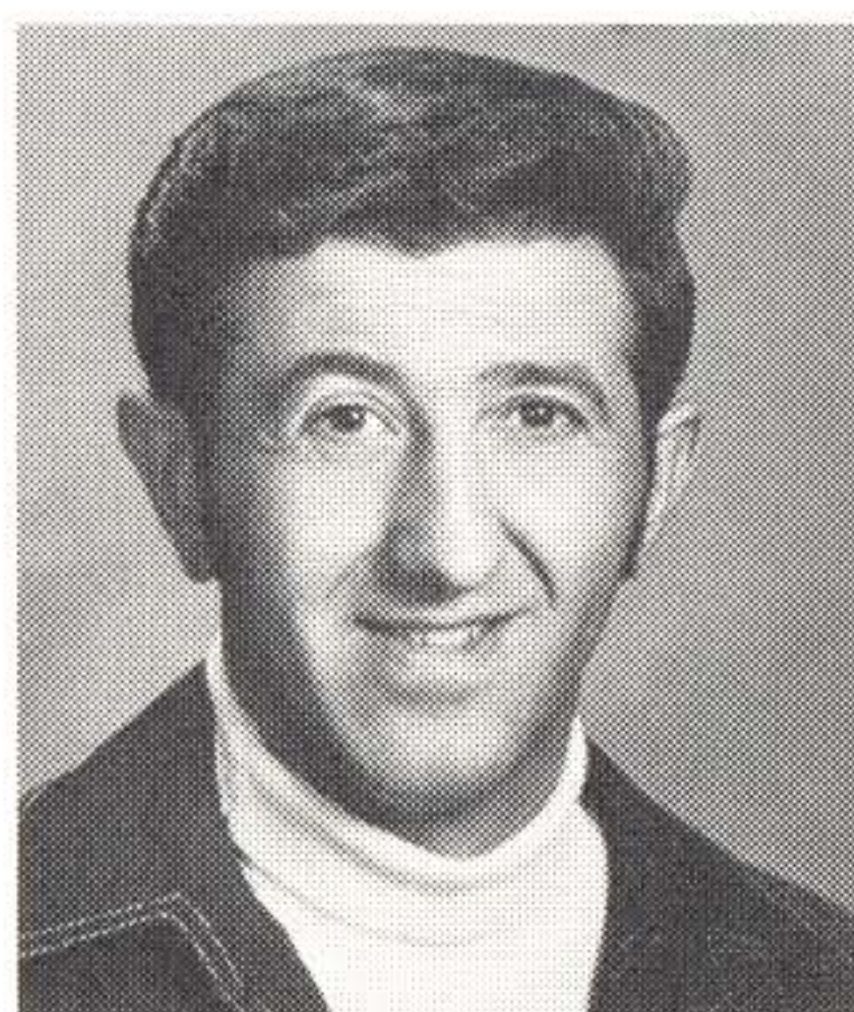
Fred Playle  
Longview, Wa.  
M. T. S. '73



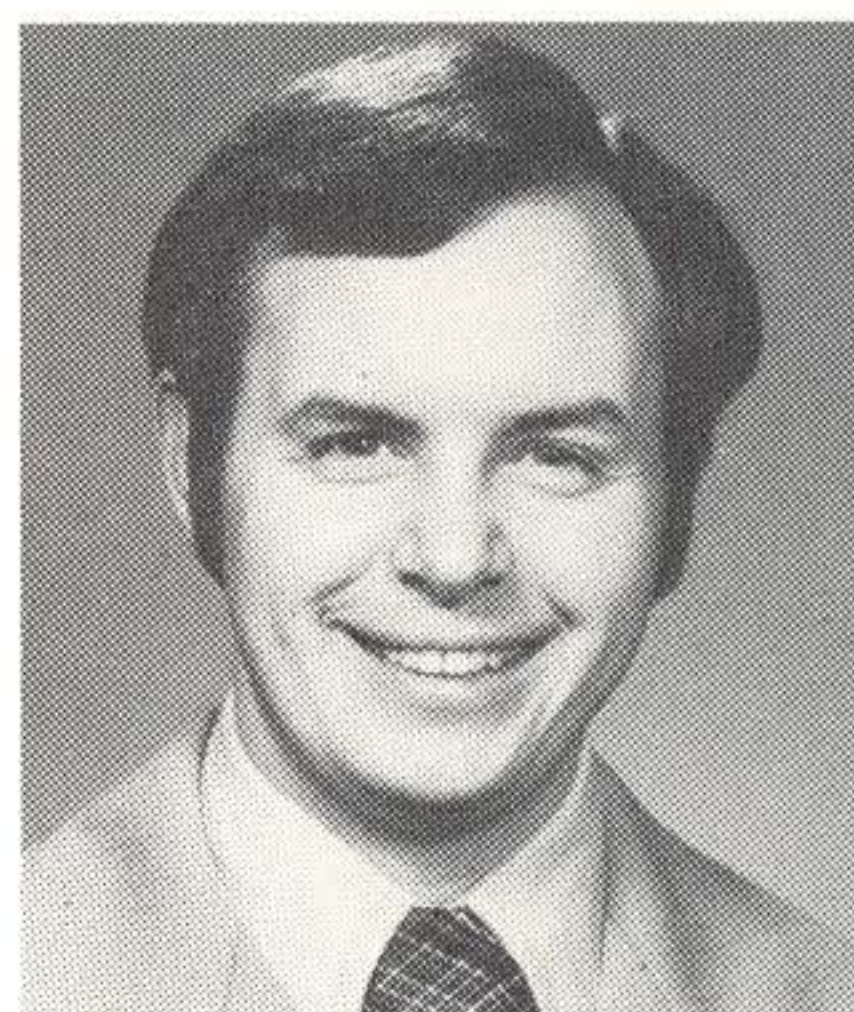
Jim Robison  
Tacoma, Wa.  
M. T. S. '72



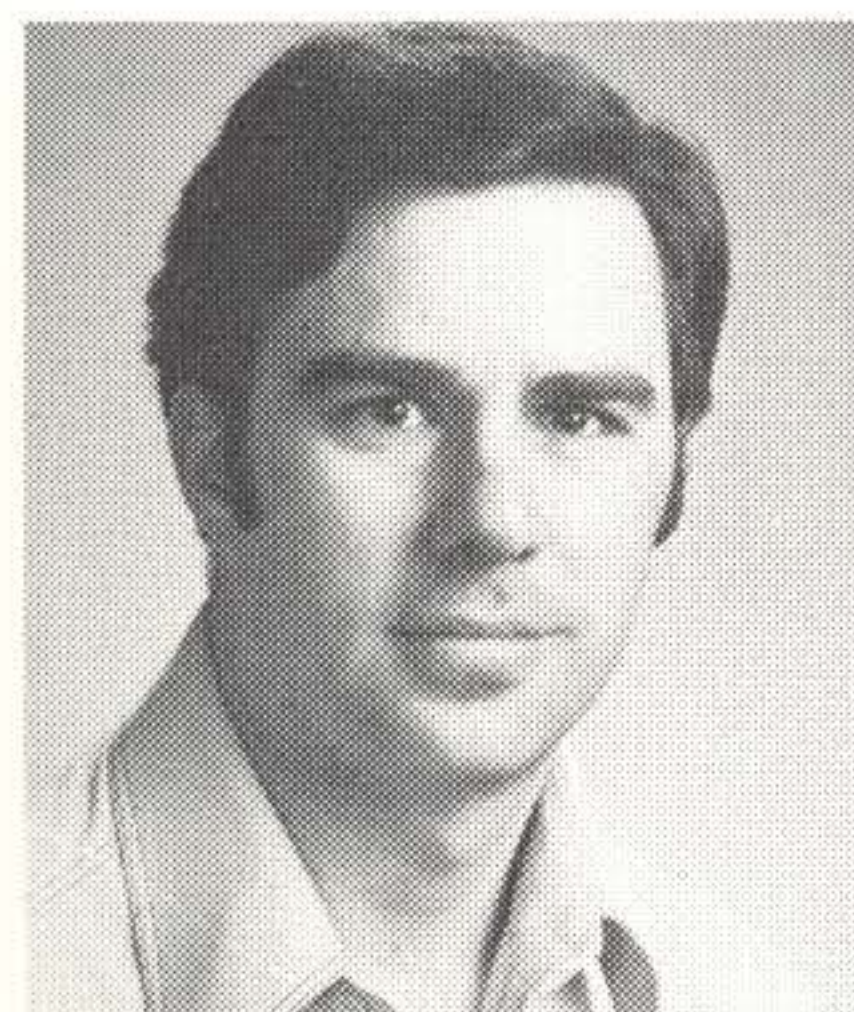
John Burnard  
Seattle, Wa.  
M. T. S. '75



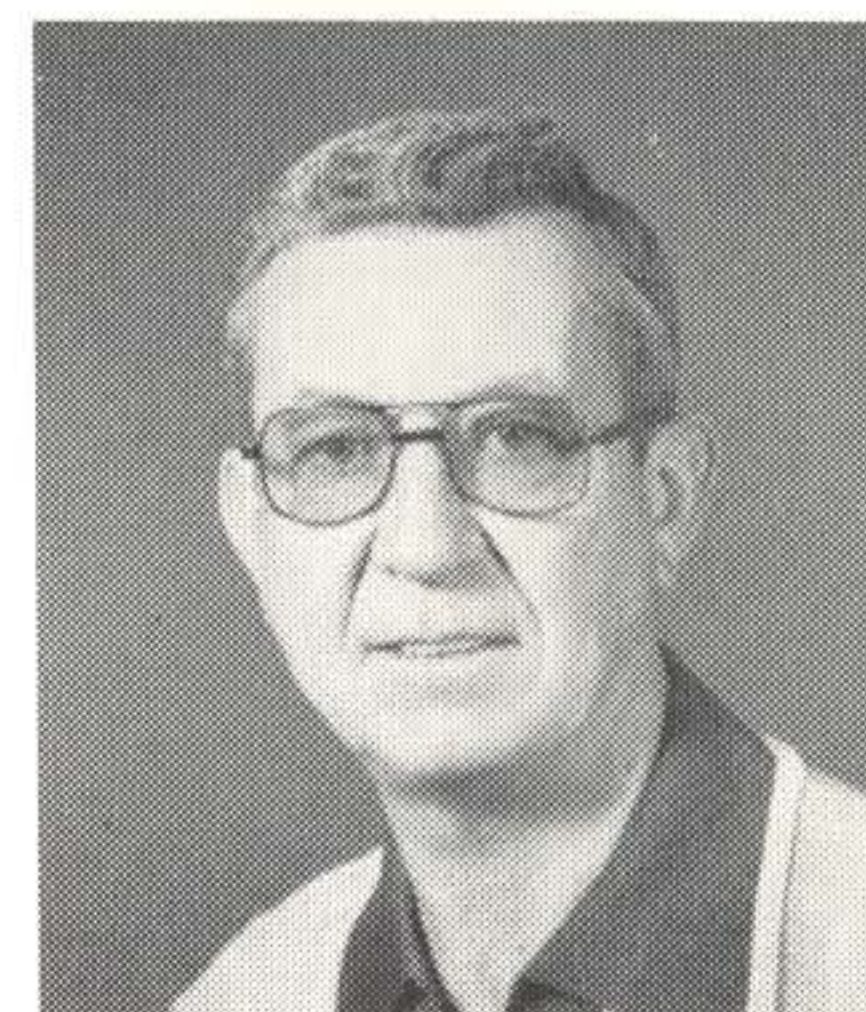
Sam Arrigo  
Spokane, Wa.  
M. T. S. '75



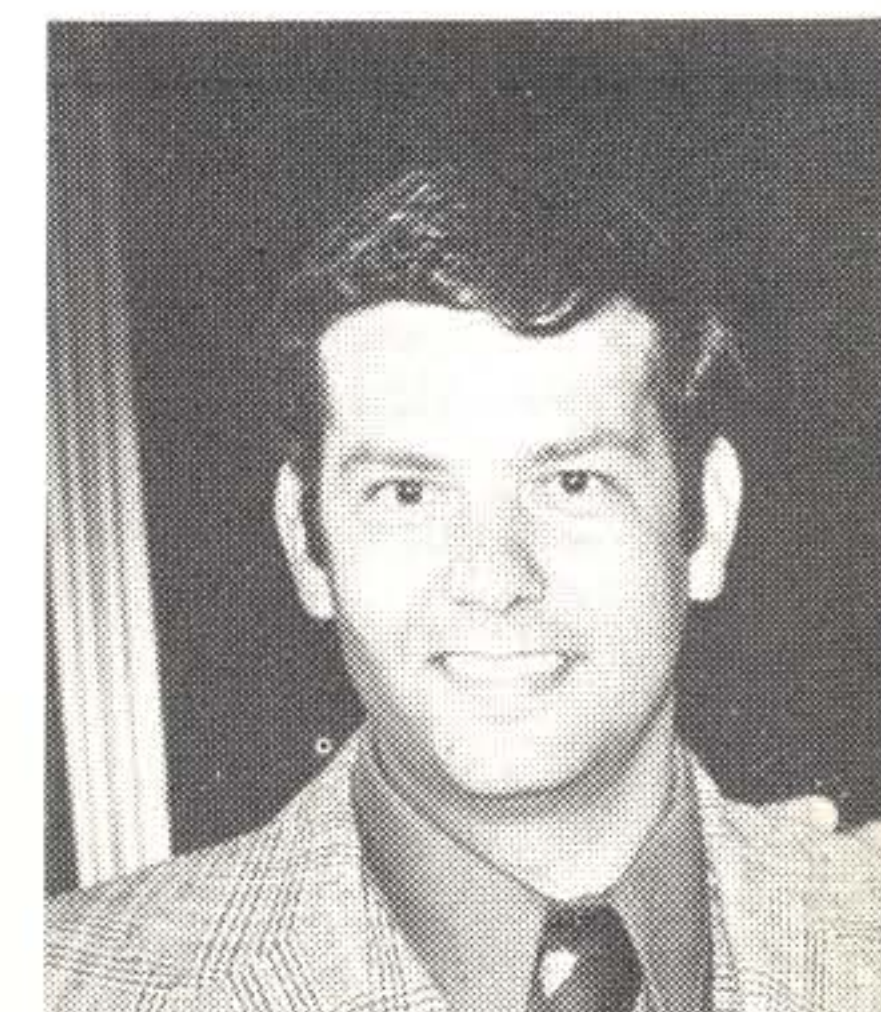
Jim Dunlap  
Olympia, Wa.  
M. T. S. '74



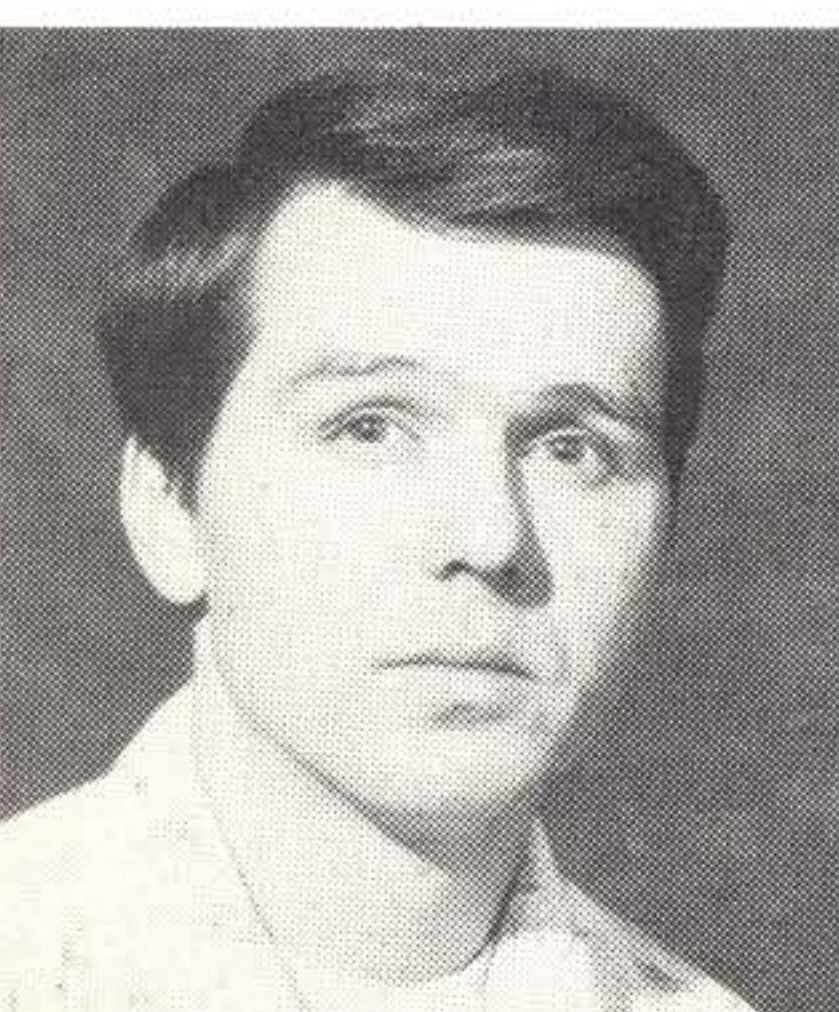
Marv Taylor  
Wenatchee, Wa.  
M. T. S. '73



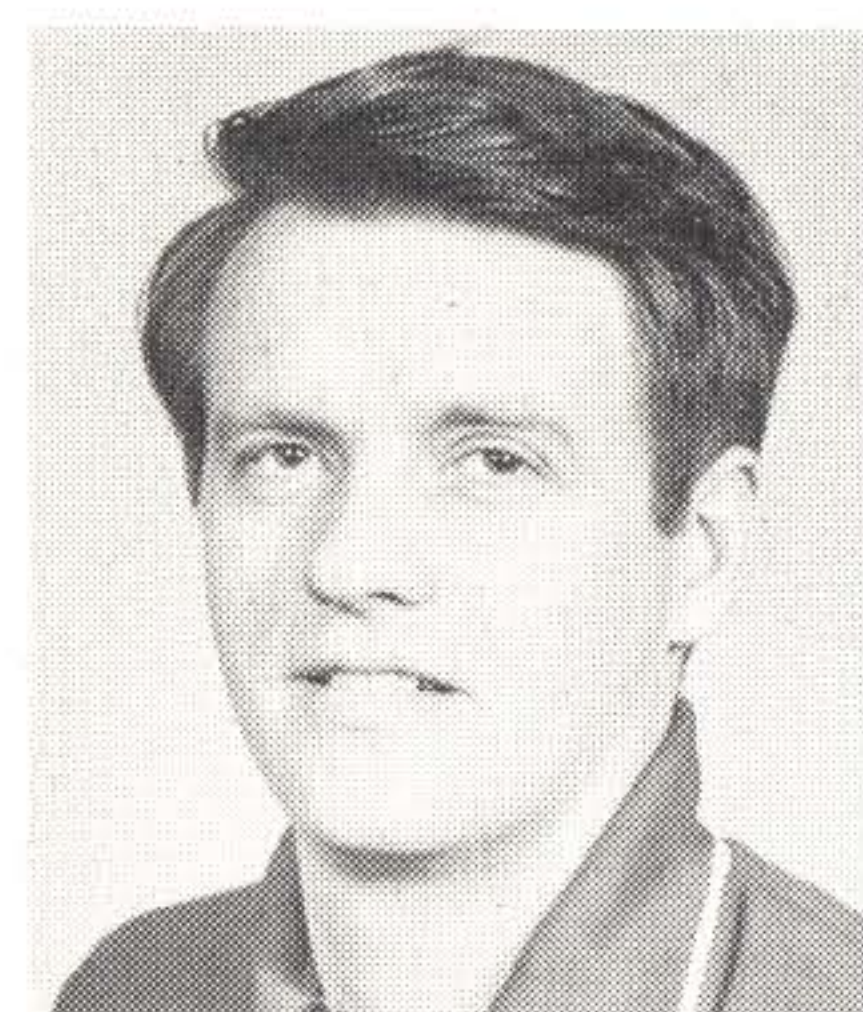
Herb Arnold  
Bellingham, Wa.  
M. T. S. '73



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



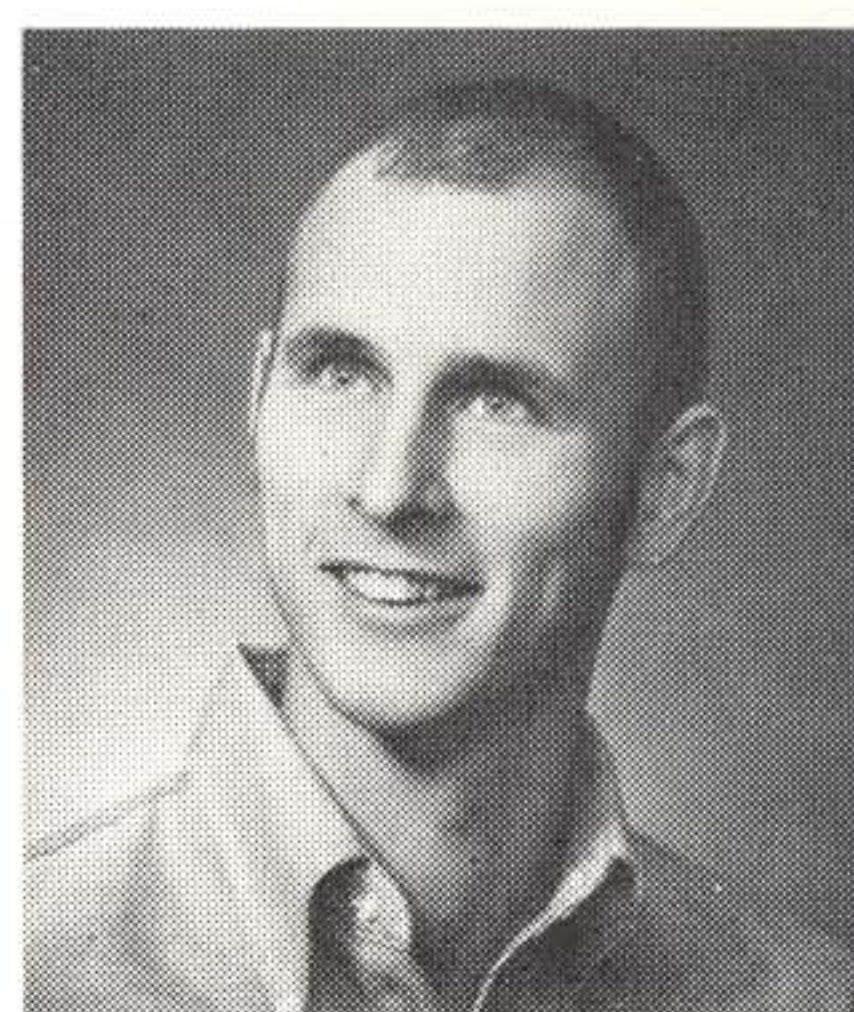
John Schweitzer  
Mt. Vernon, Wa.  
M. T. S. '75



Mick Stark  
Spokane, Wa.



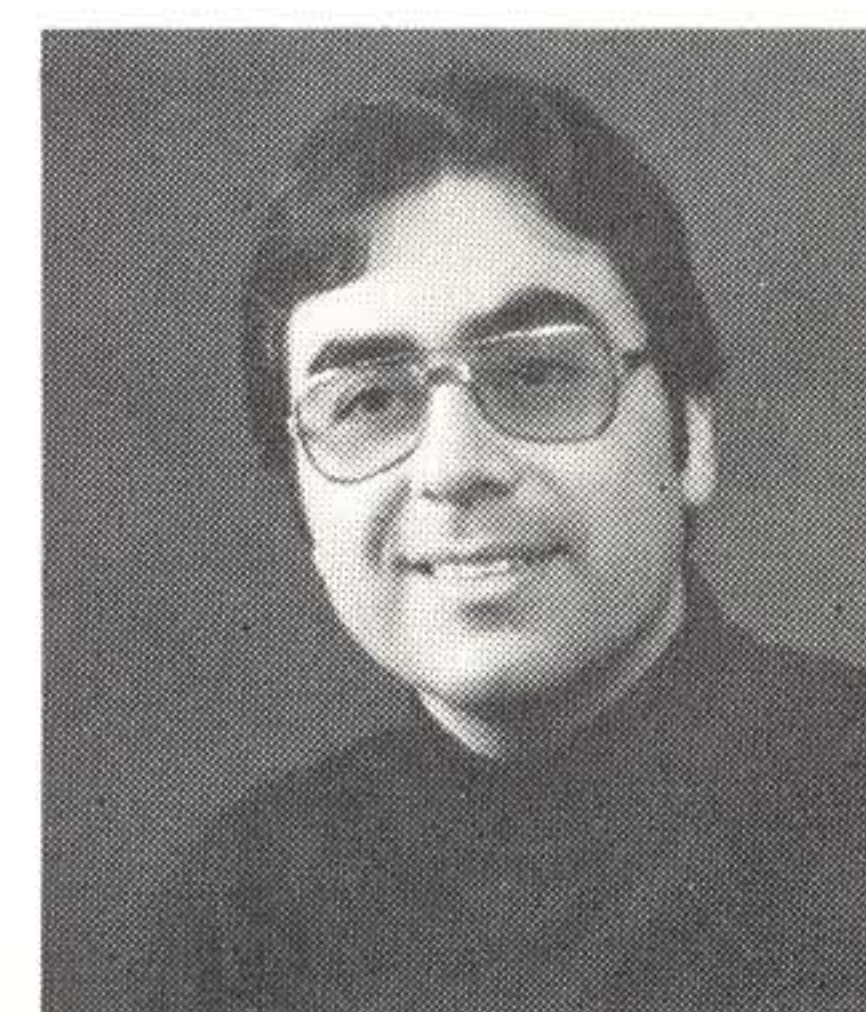
Charles Hogue  
Moses Lake, Wa.



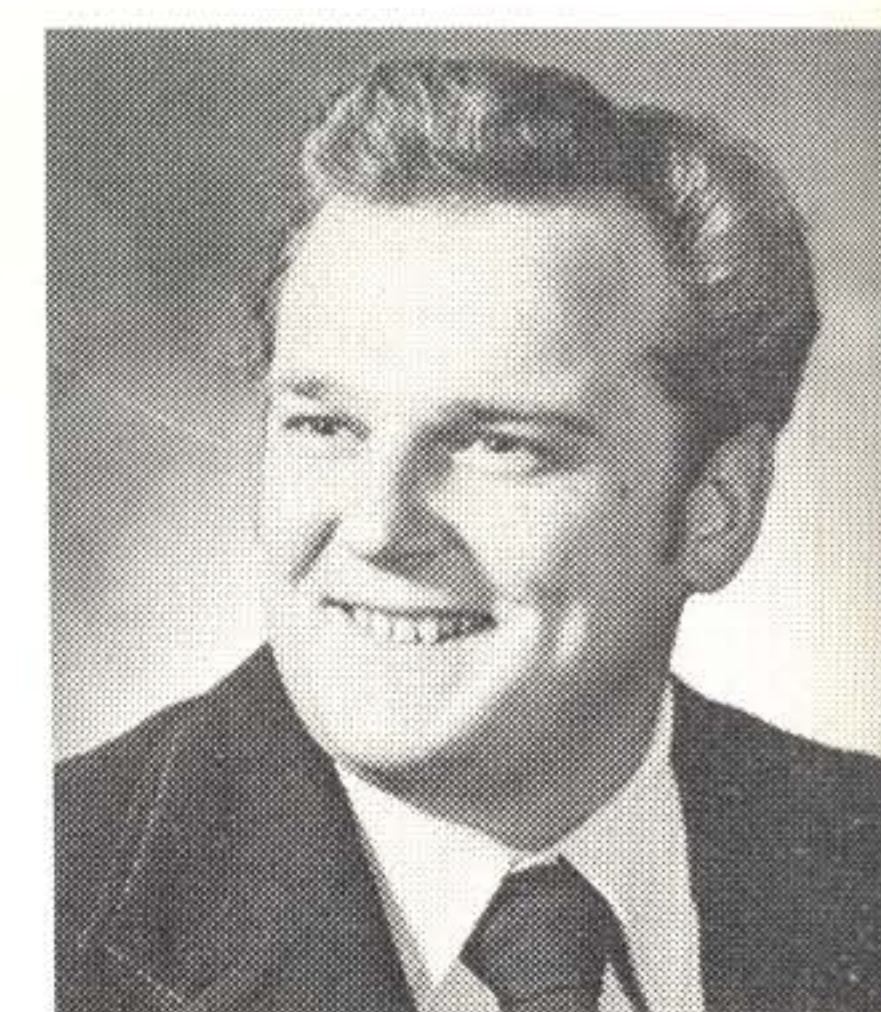
Mark Kranz  
Yakima, Wa.  
M. T. S. '72



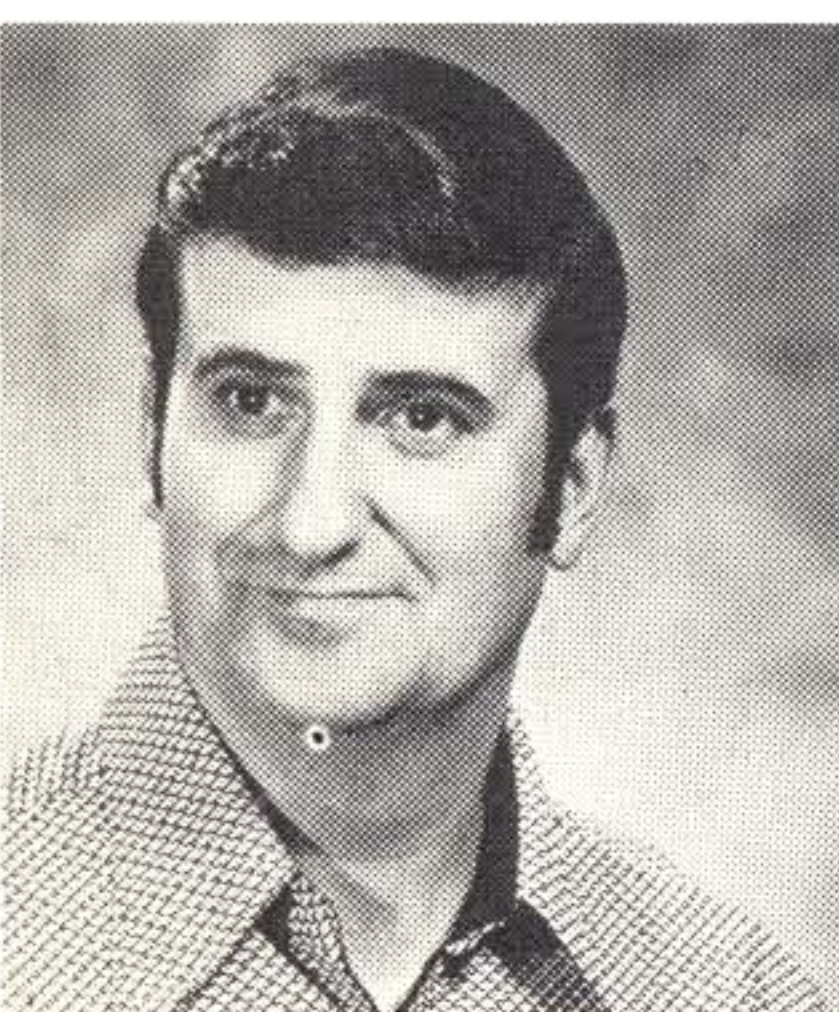
Jack O'Keefe  
Seattle, Wa.  
M. T. S. '72



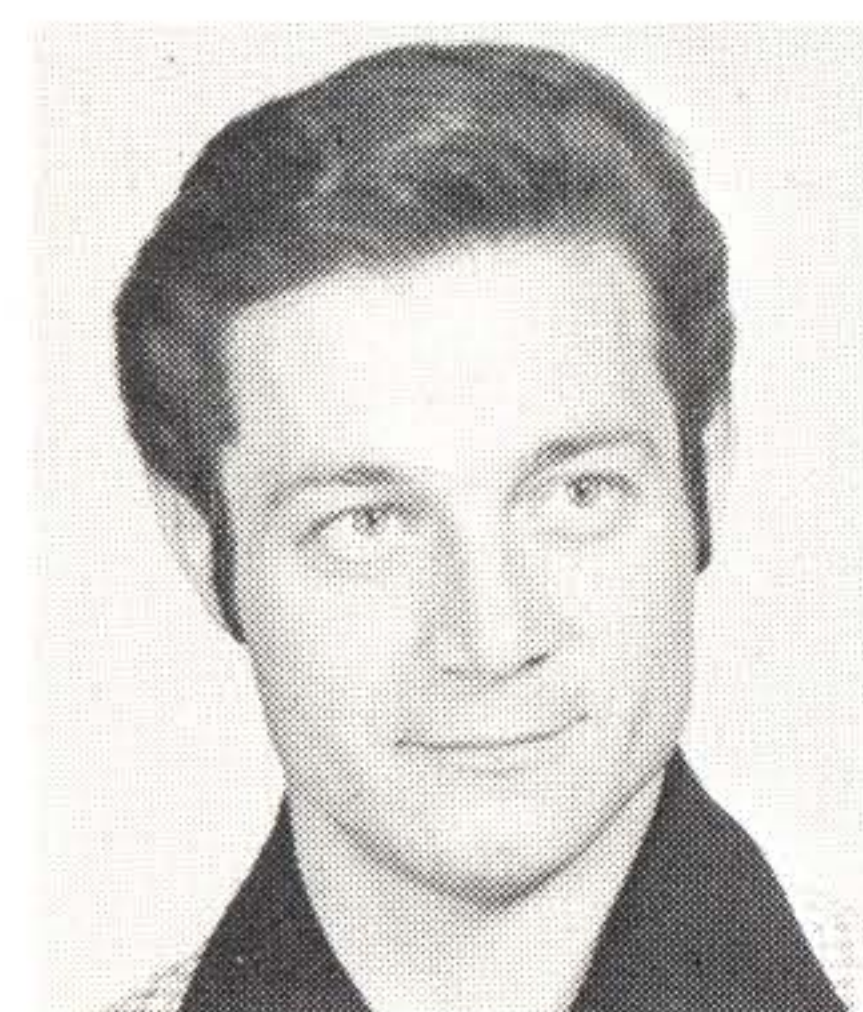
Jess Salazar  
Seattle, Wa.  
M. T. S. '70



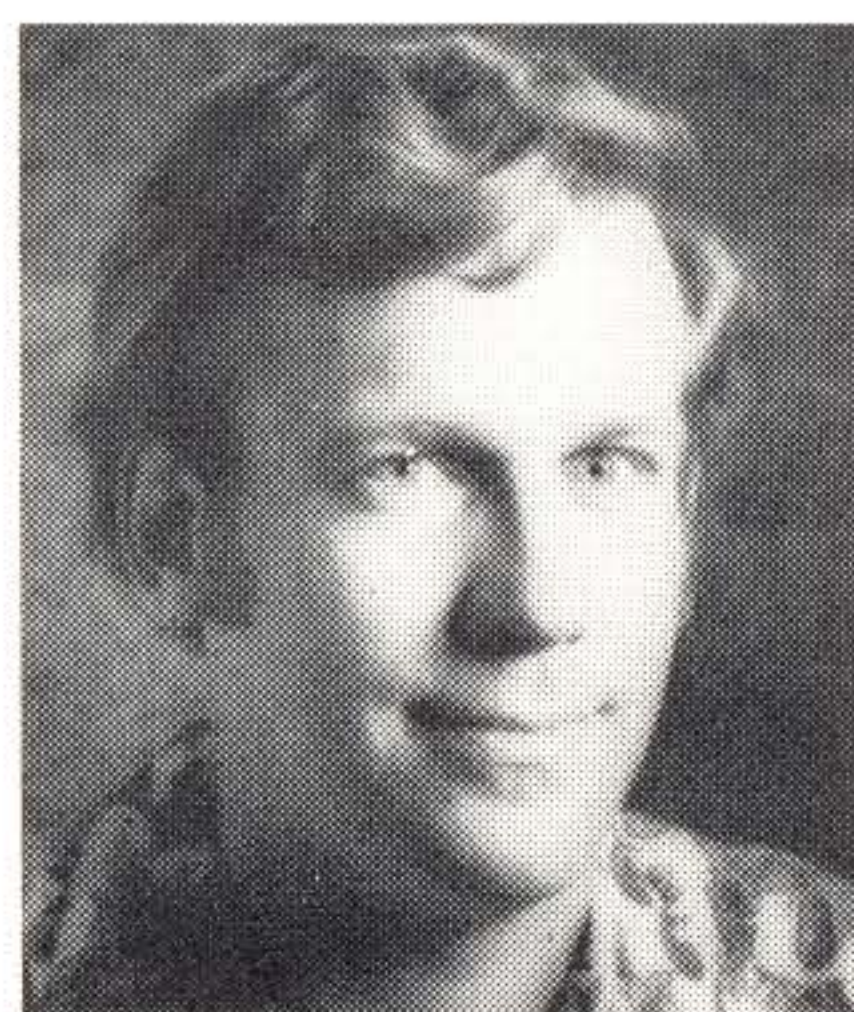
Jim Verhey  
Denver, Co.  
M. T. S. '73



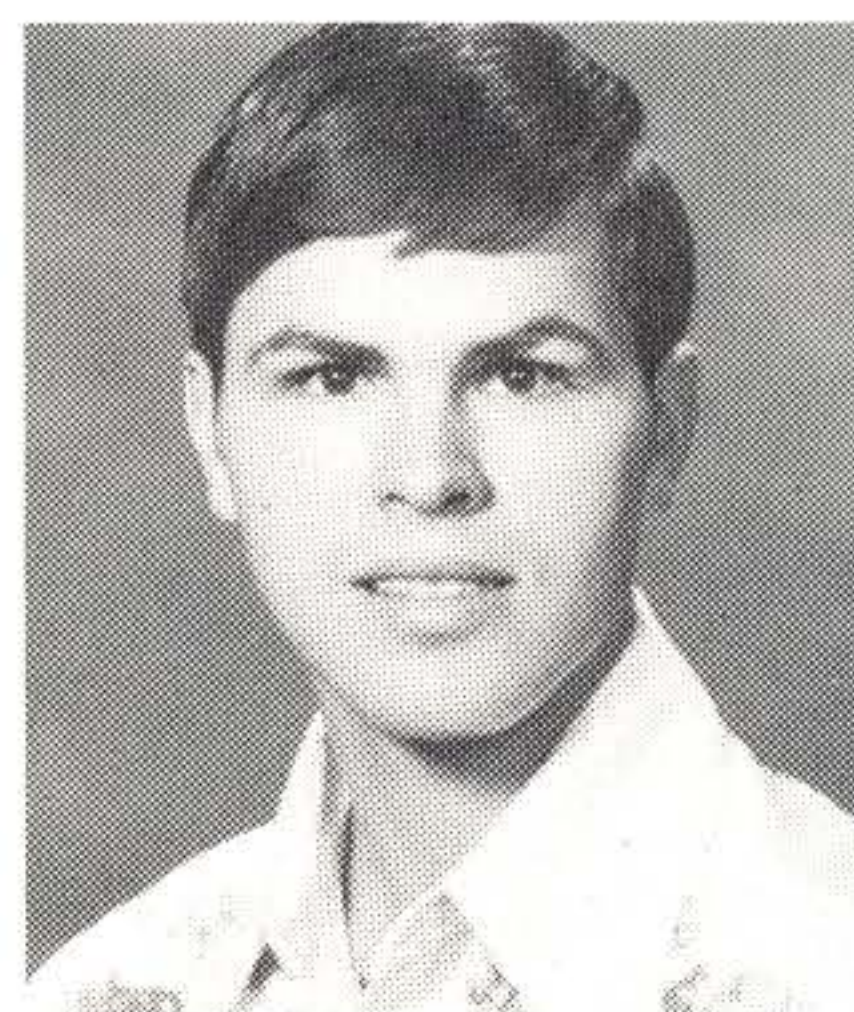
Jack Regan  
Everett, Wa.  
M. T. S. '72



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



Bob Hall  
Spokane, Wa.  
M. T. S. '73



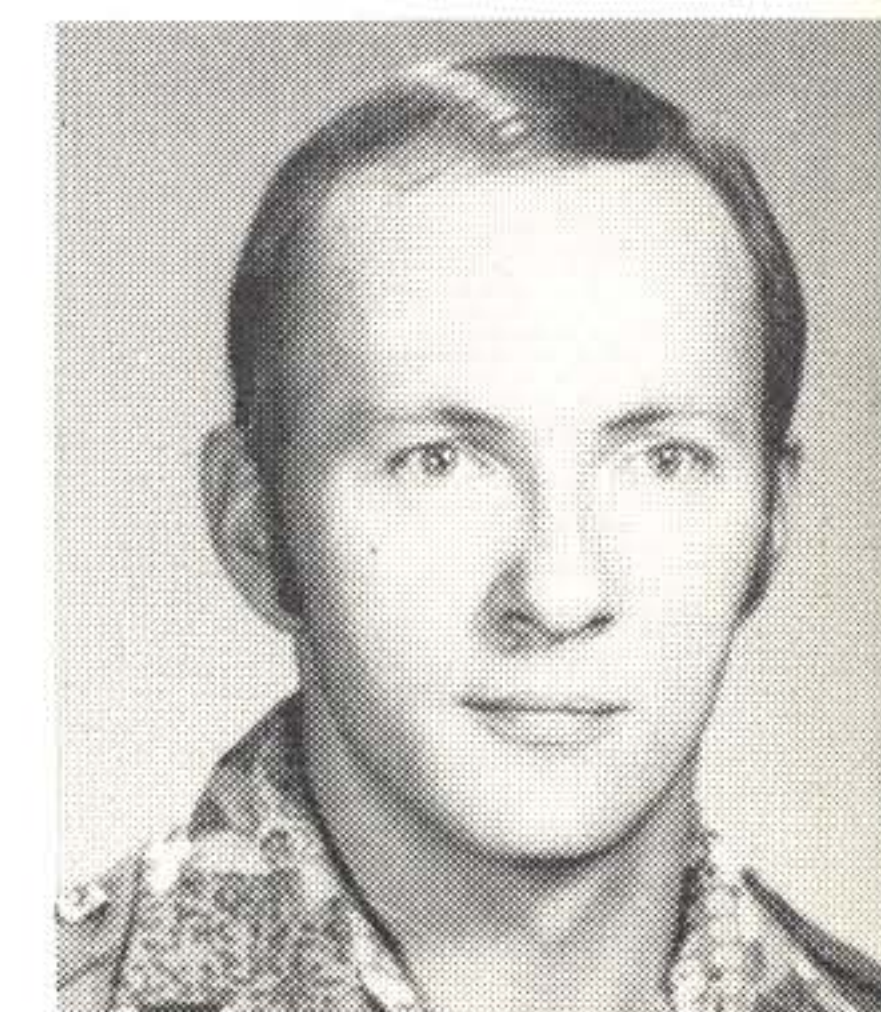
J. T. Hummel  
Yuba City, Ca.  
M. T. S. '75



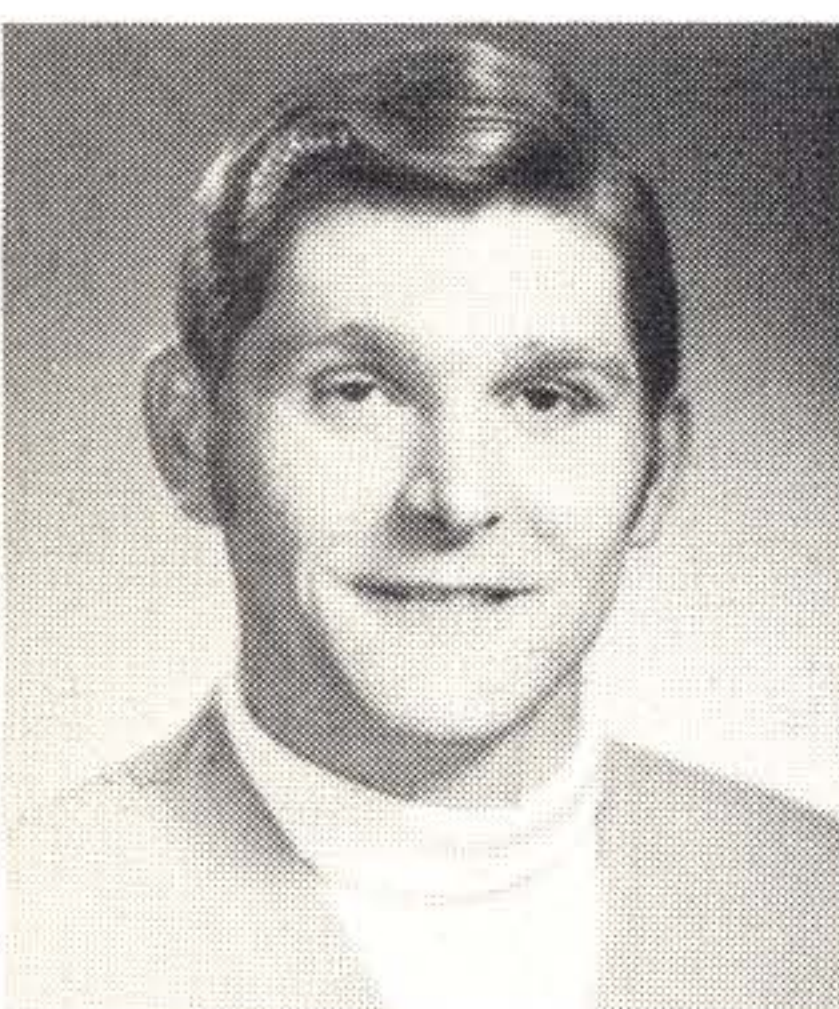
Dale Craker  
Kent, Wa.  
M. T. S. '73



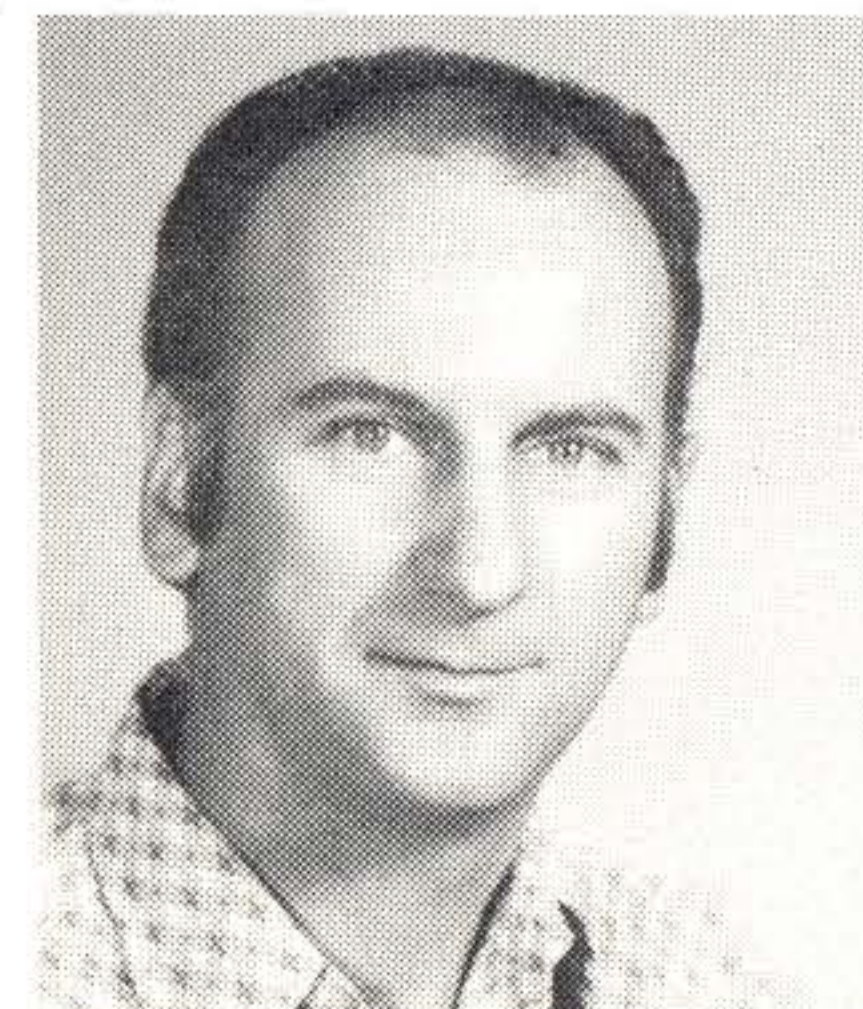
Joe King  
Kent, Wa.  
M. T. S. '73



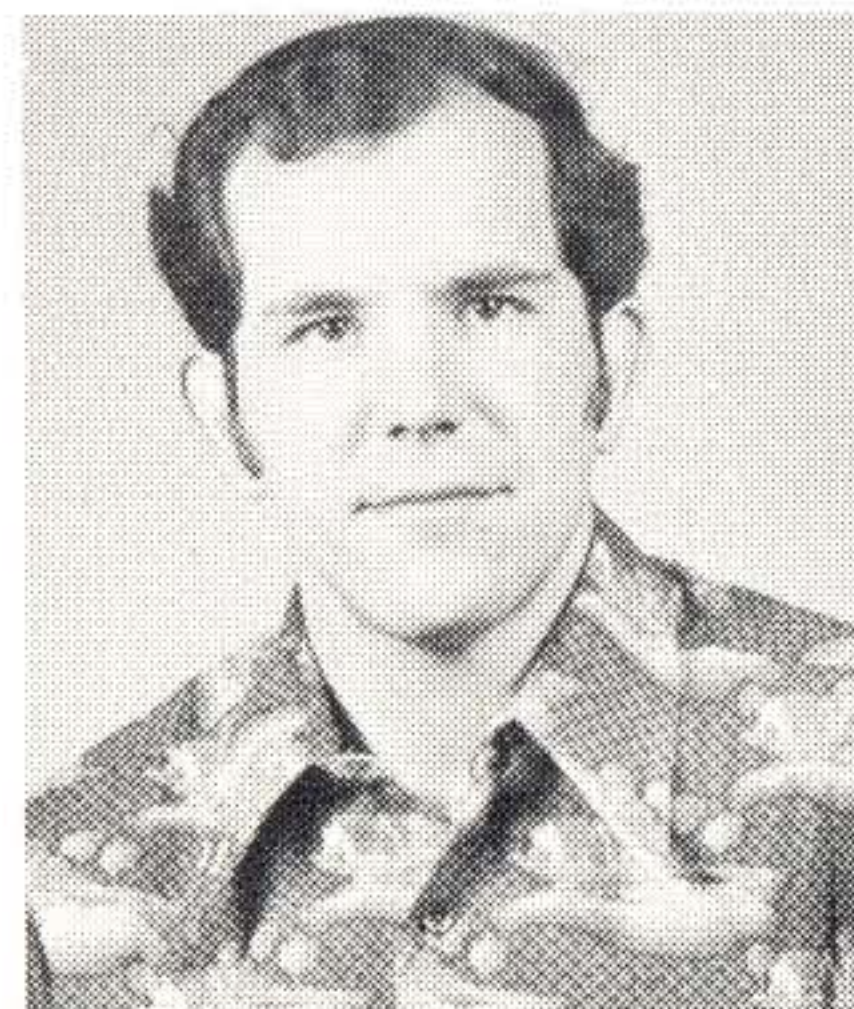
Lynn Gettis  
Salem, Or.  
M. T. S. '72



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



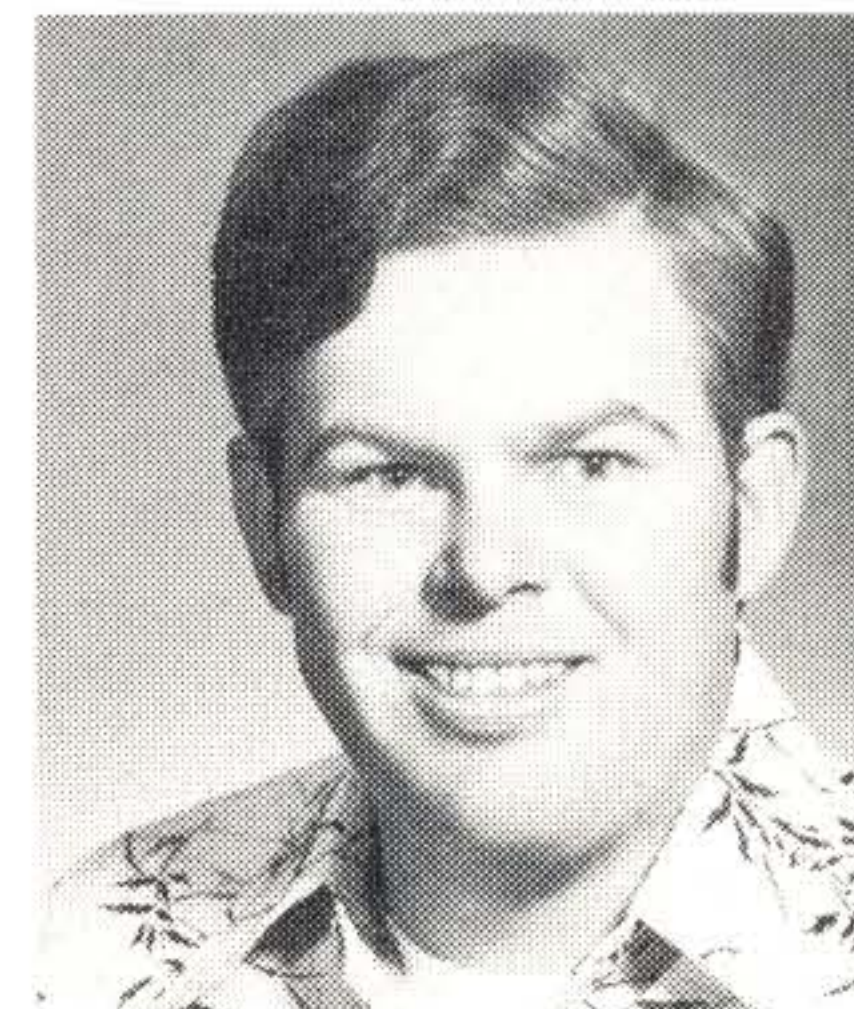
Bud Brown  
Portland, Or.



Greg Perry  
Aurora, Co.  
M. T. S. '73



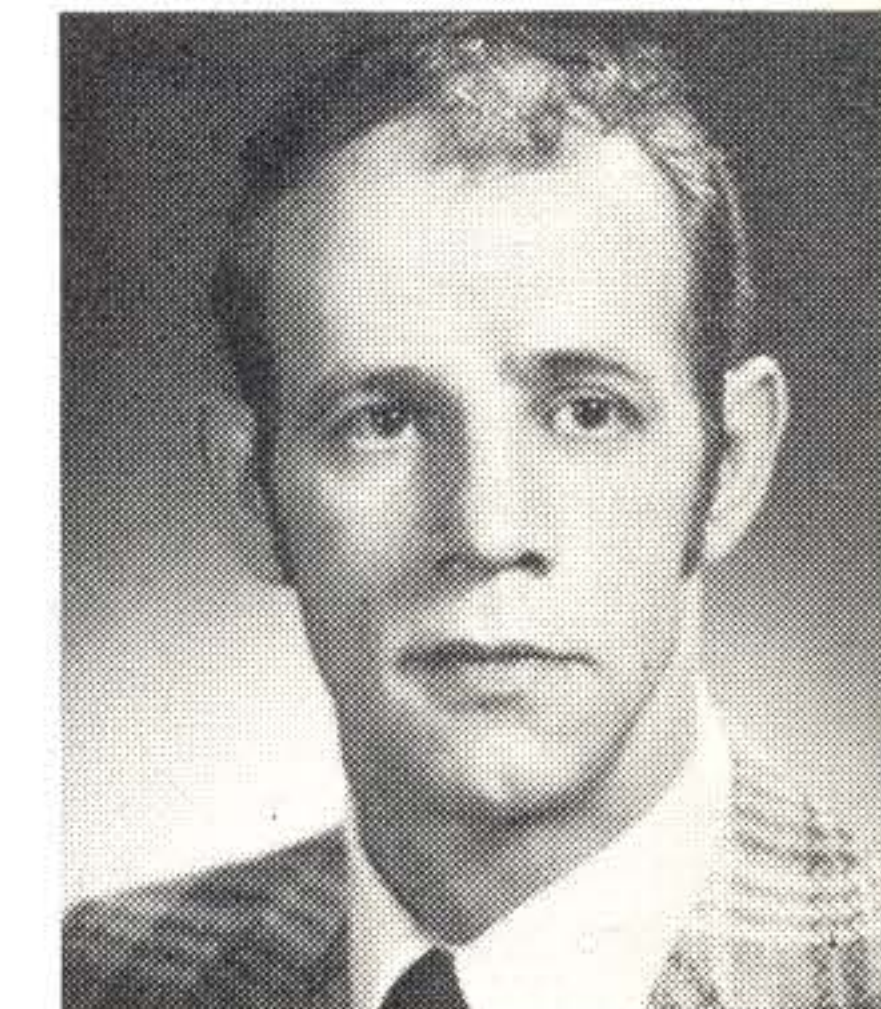
Hans Woodcock  
Renton, Wa.



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



Jim Miracle  
Salt Lake City, Ut.  
M. T. S. '75



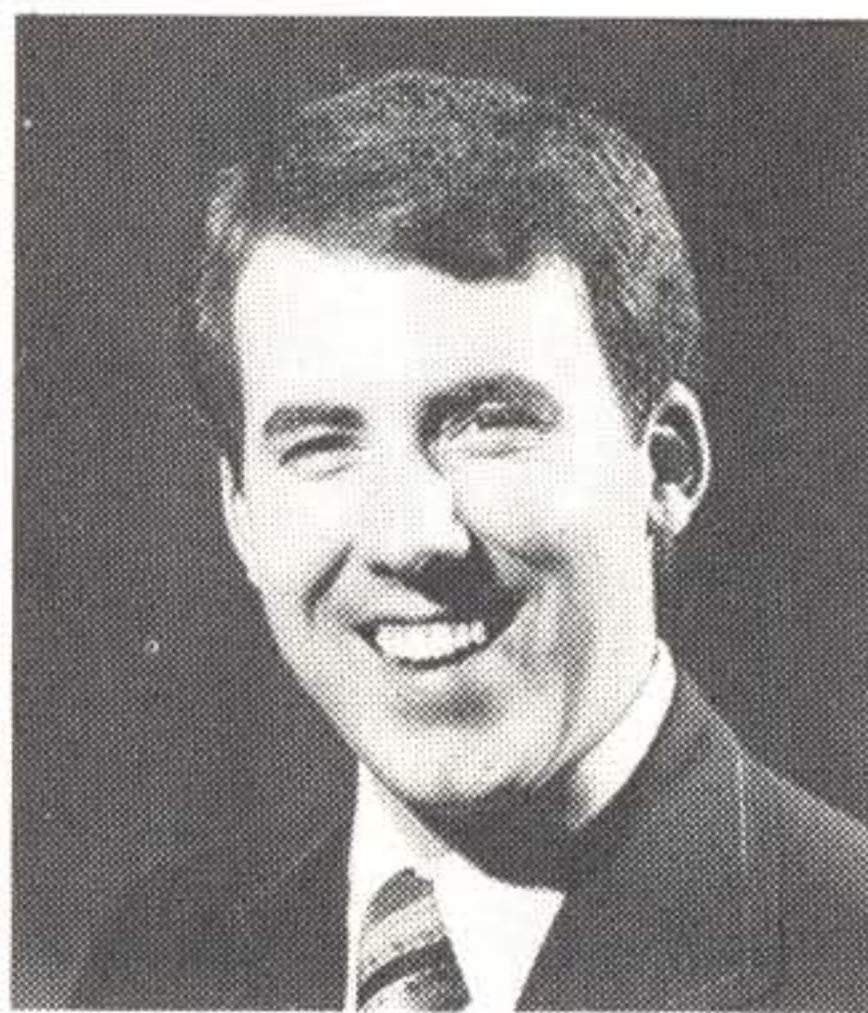
Dale Dellinger  
Fairbanks, Alaska  
M. T. S. '72

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





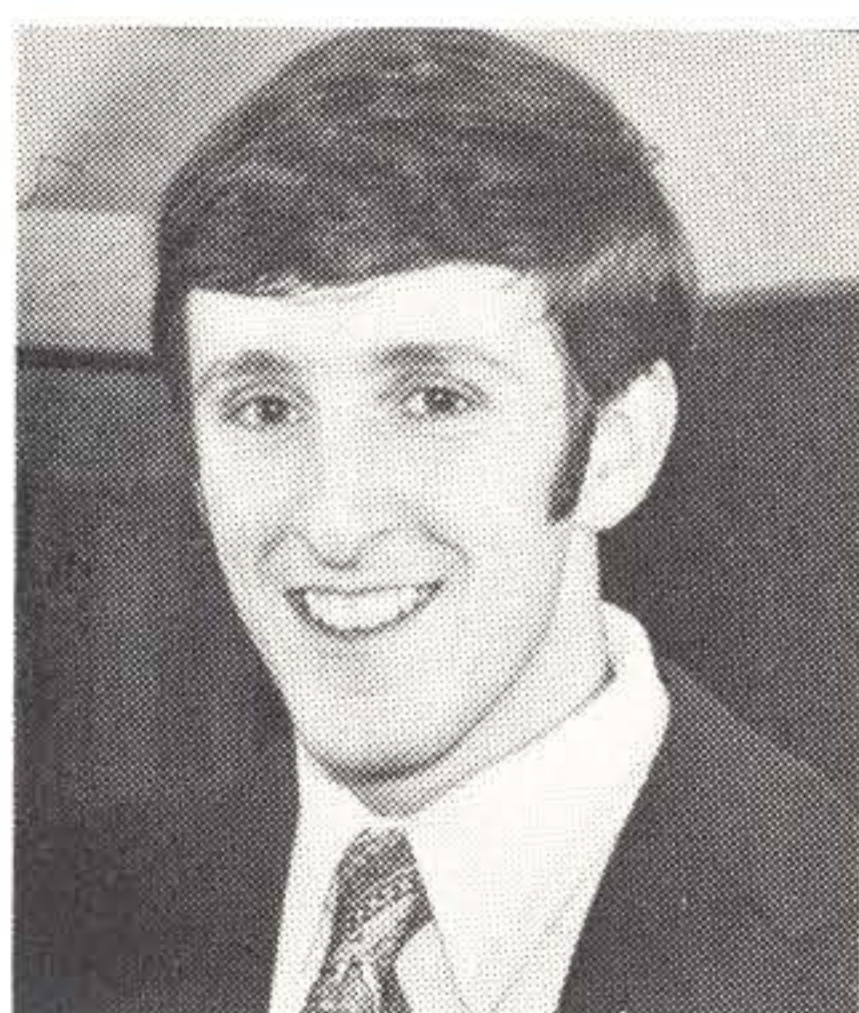
Carl Fritts  
Kennewick, Wa.  
M. T. S. '70



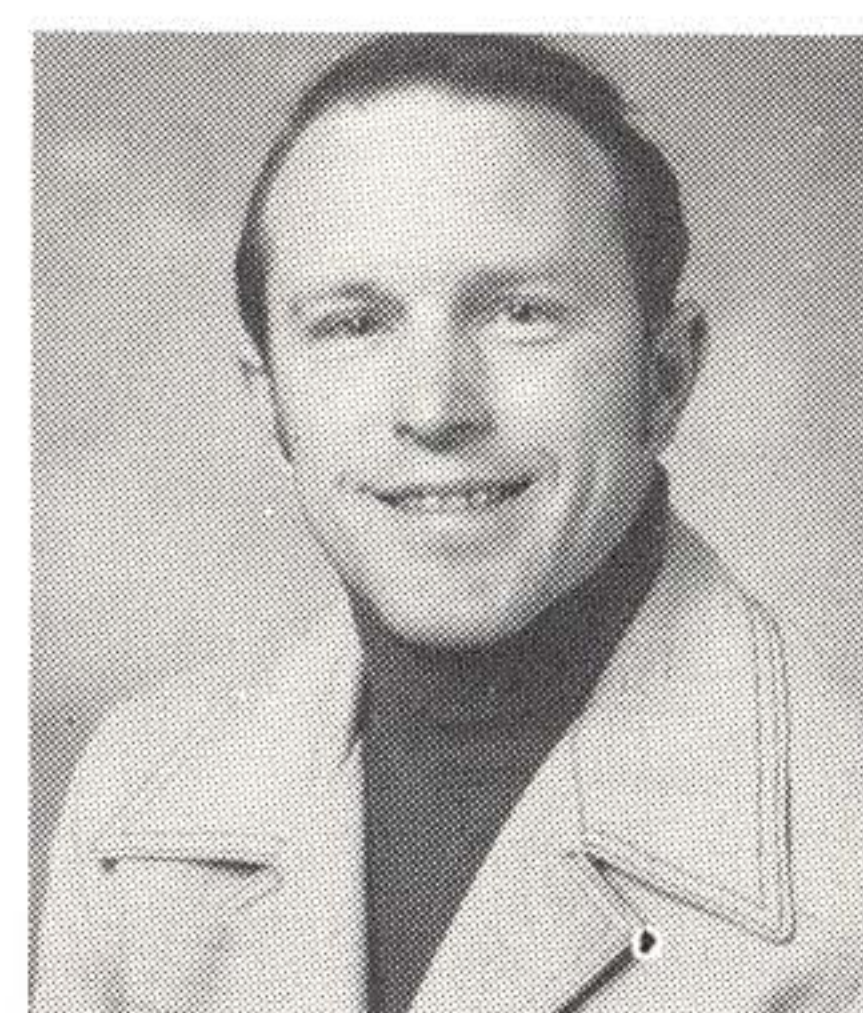
Rick Noegel  
Anchorage, Ak.  
M. T. S. '73



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



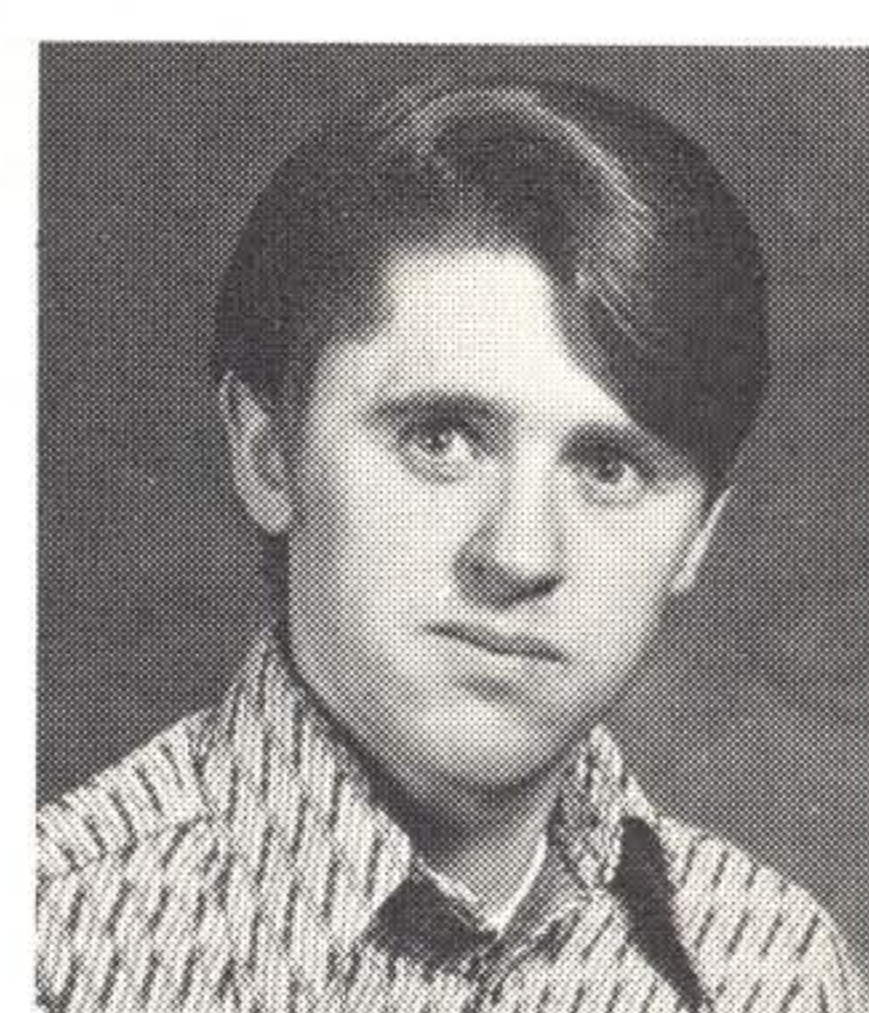
Kirk Knapp  
Portland, Or.  
M. T. S. '75



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



Ken Corzine  
Tulsa, Ok.  
M. T. S. '75



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



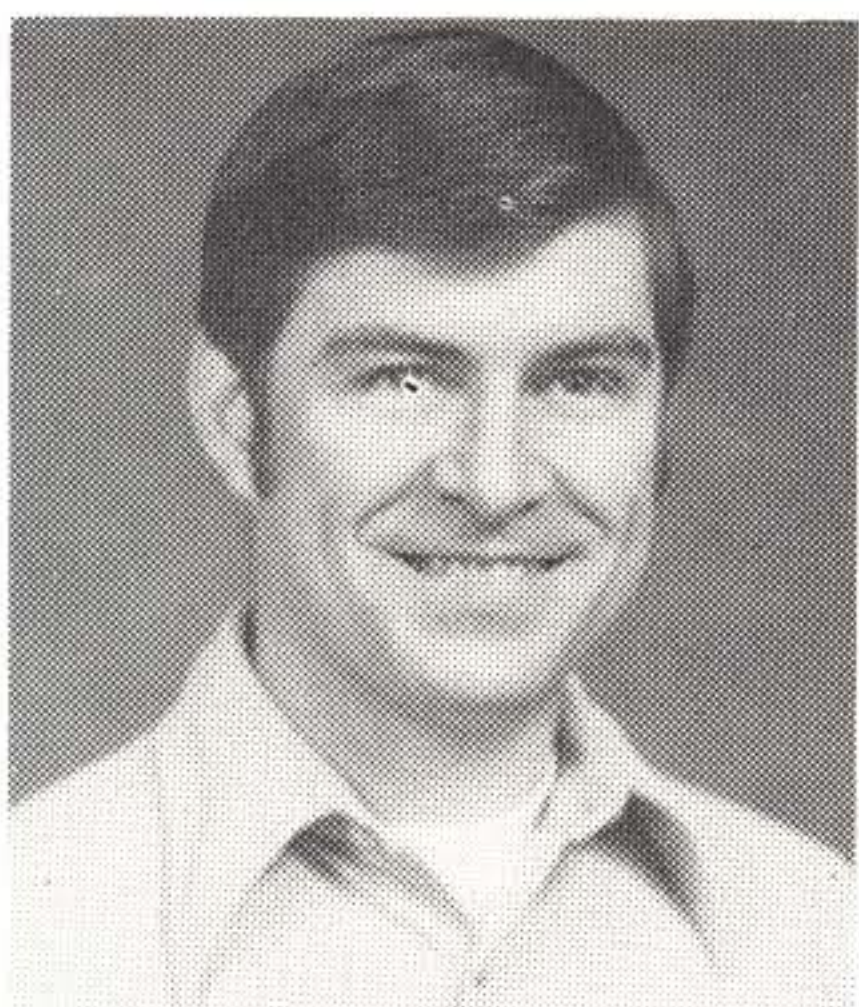
Bob Johns  
Milwaukie, Or.  
M. T. S. '75



Eric Breeze  
Reno, Nv.  
M. T. S. '72



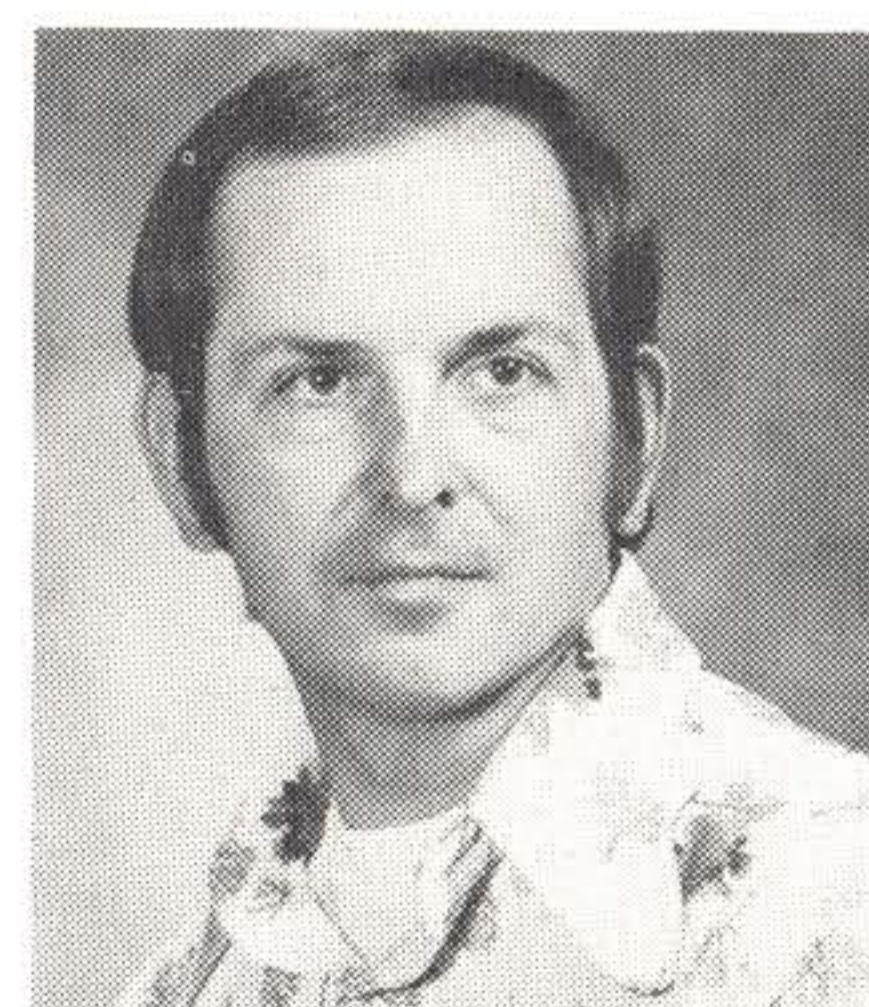
Bill Strohm  
Oklahoma City, Ok.  
M. T. S. '75



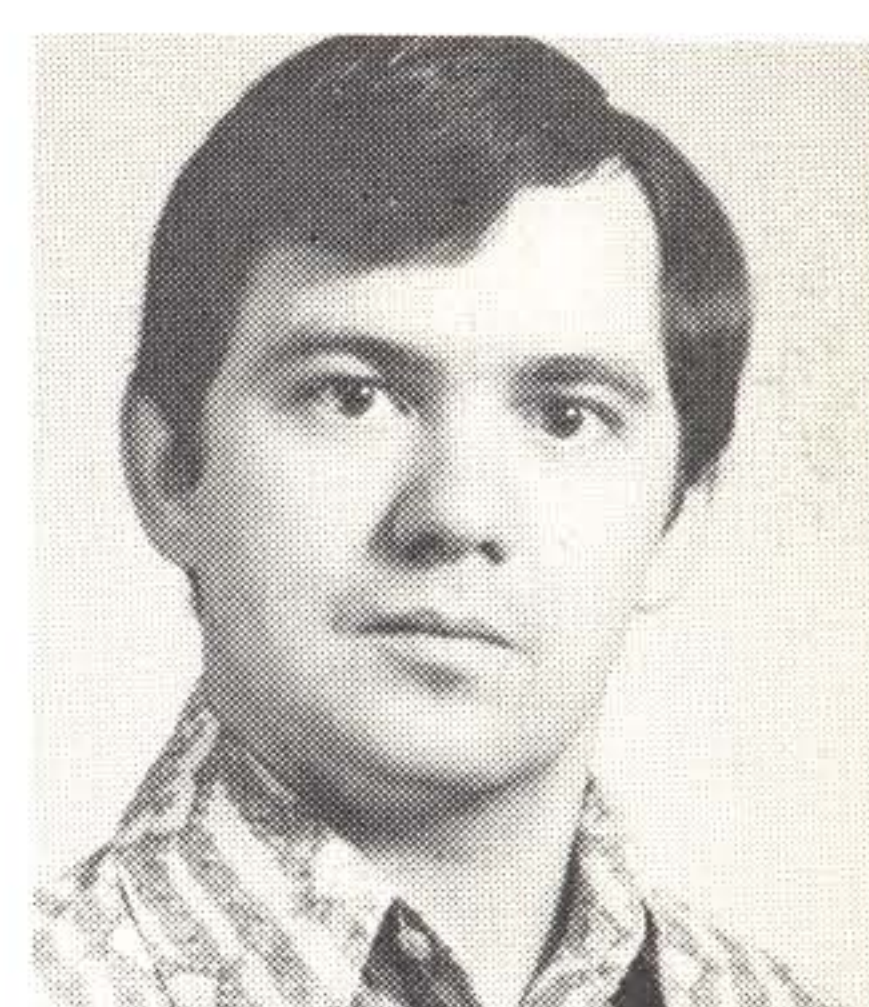
Tom Newlin  
Oklahoma City, Ok.  
M. T. S. '75



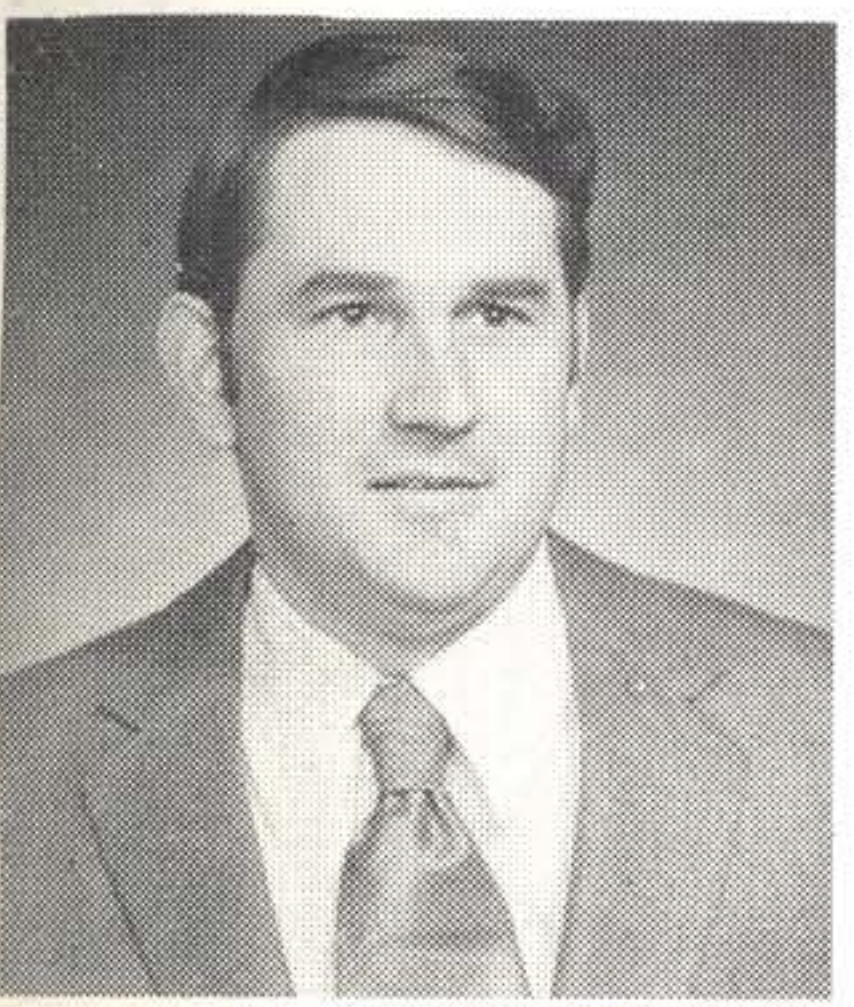
Barney Leach  
Lewiston, Id.  
M. T. S. '73



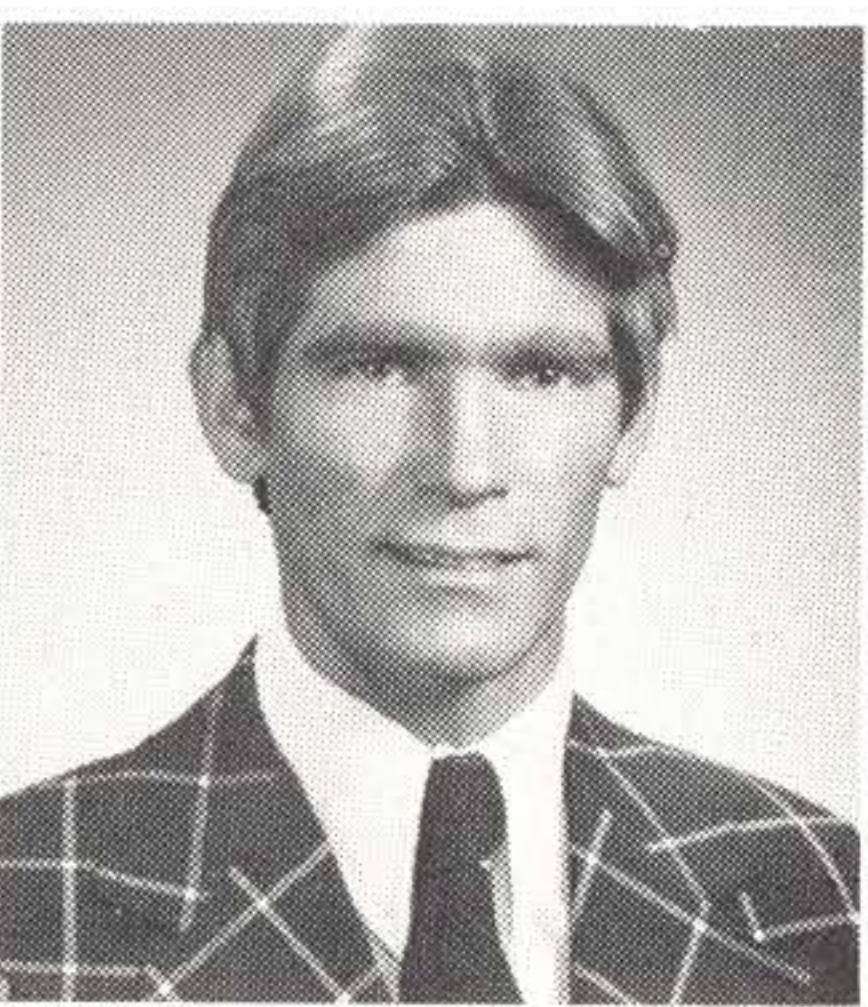
Cal Sennett  
Seattle, Wa.  
M. T. S. '74



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



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



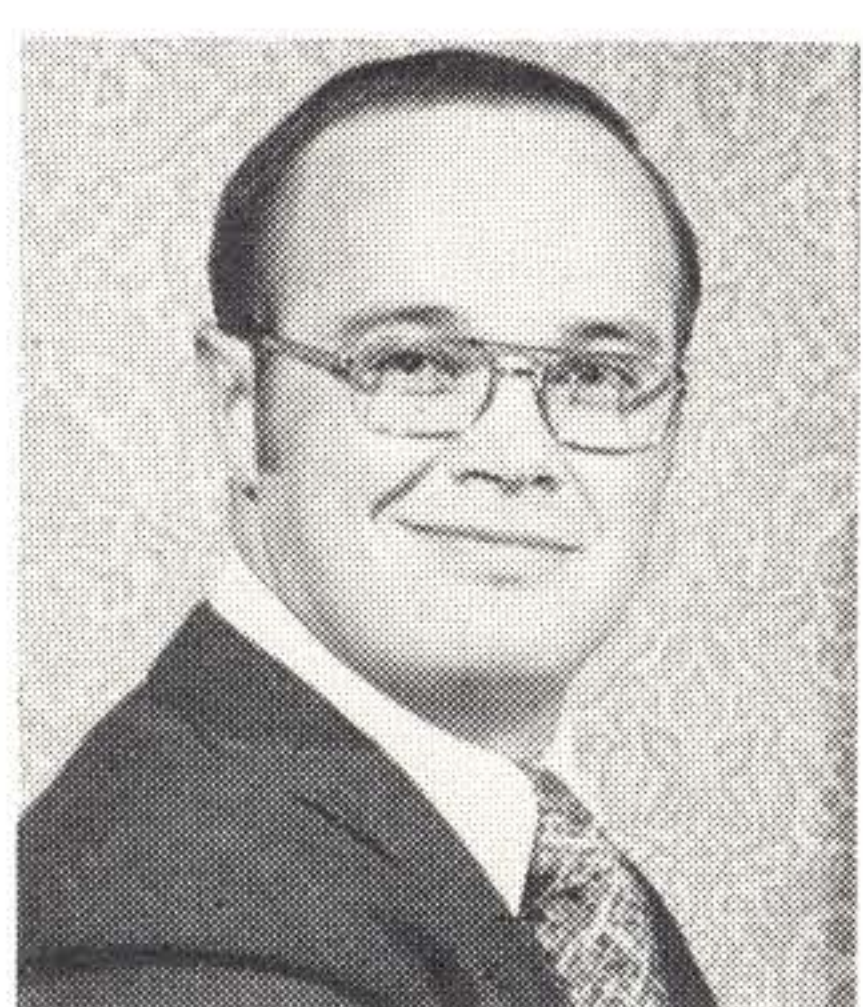
Bruce Jones  
Redmond, Wa.  
M. T. S. '72



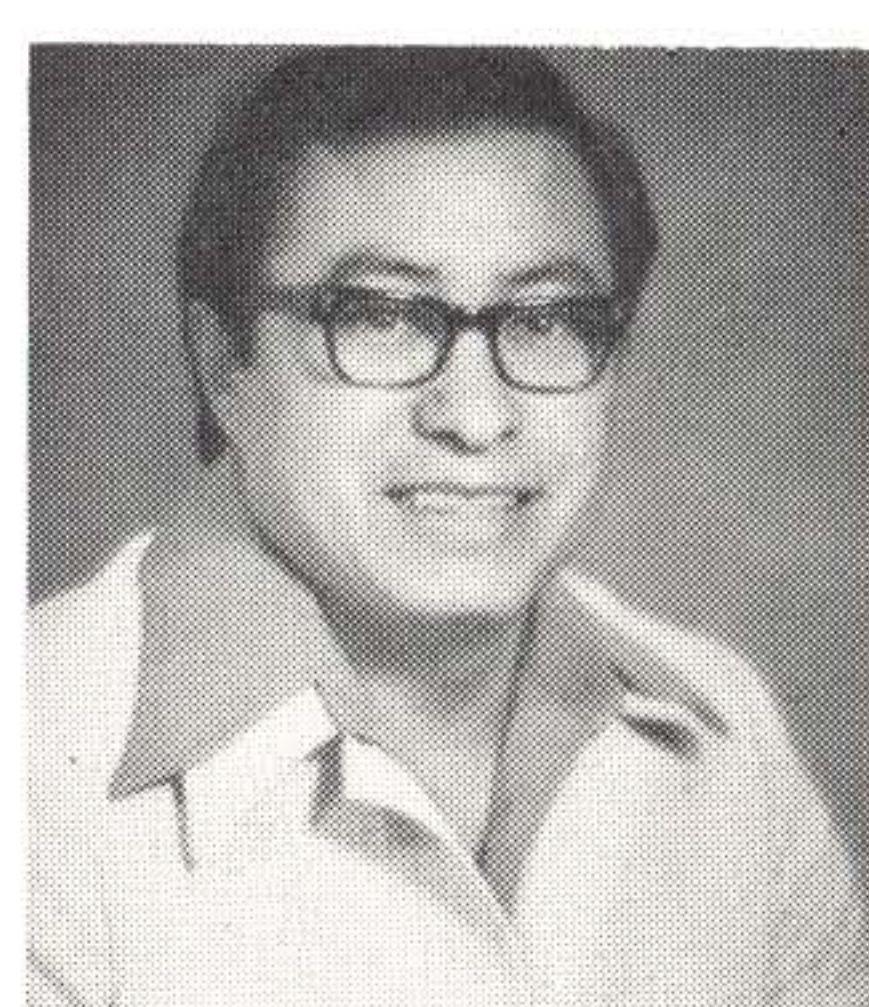
Jack Eckhaus  
Kent, Wa.  
M. T. S. '72



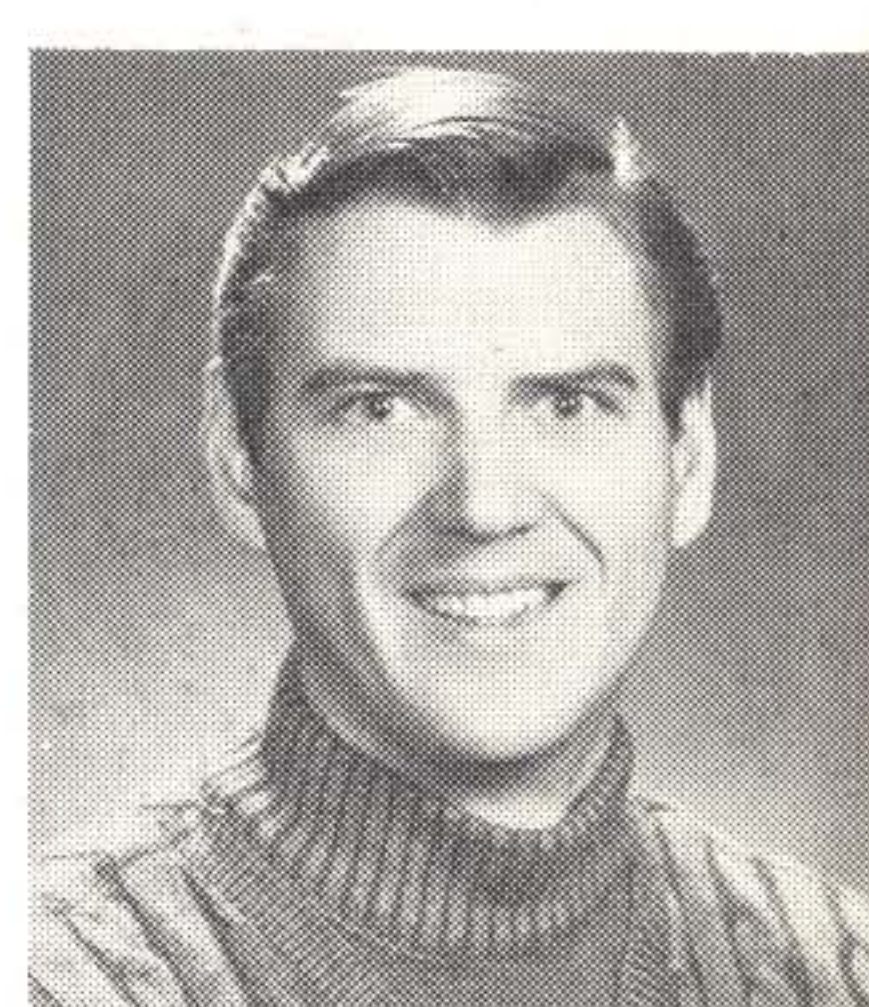
Tom Burton  
Walla Walla, Wa.  
M. T. S. '73



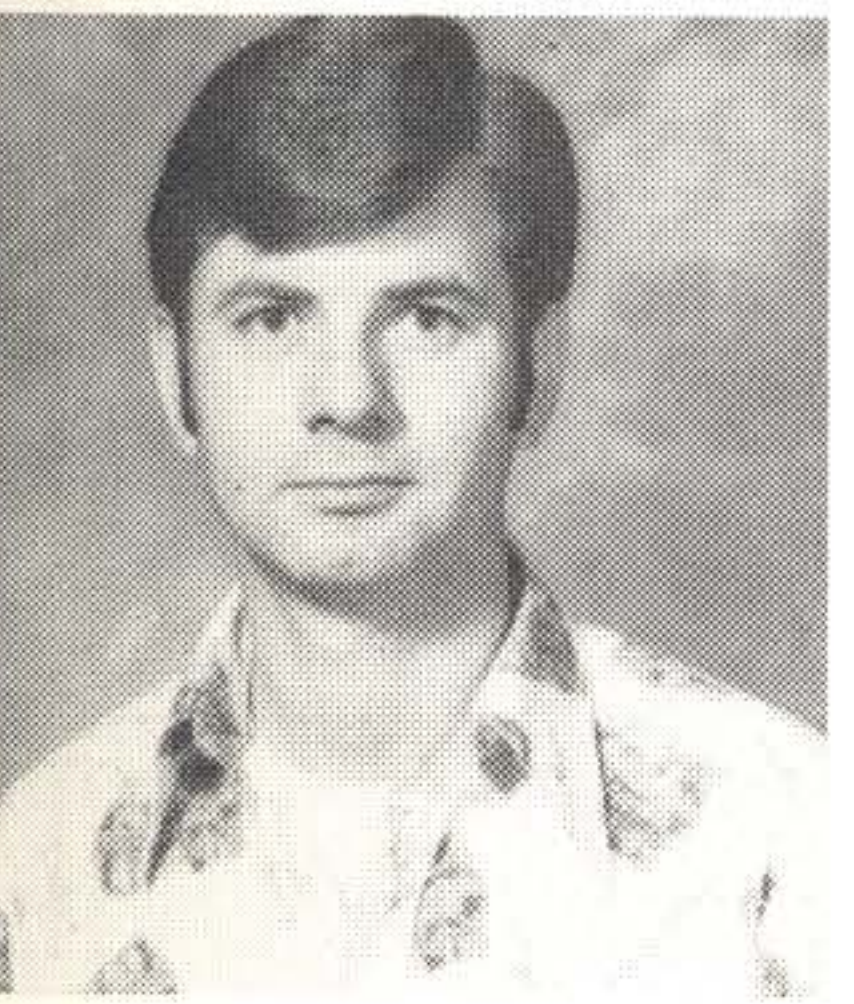
Gene Kasper  
Billings, Mt.  
M. T. S. '74



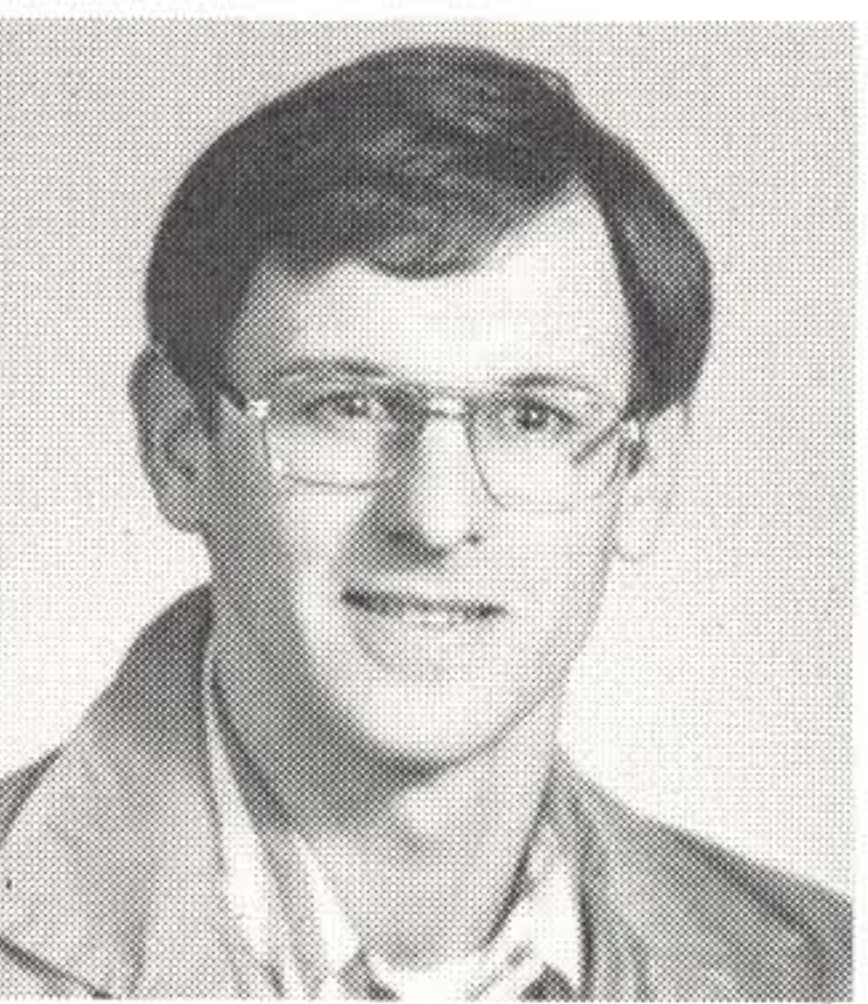
Ramon Florez  
Tulsa, Ok.  
M. T. S. '72



Terry Wagner  
Las Vegas, Nv.  
M. T. S. '72



Ed Wall  
Pocatello, Id.  
M. T. S. '74



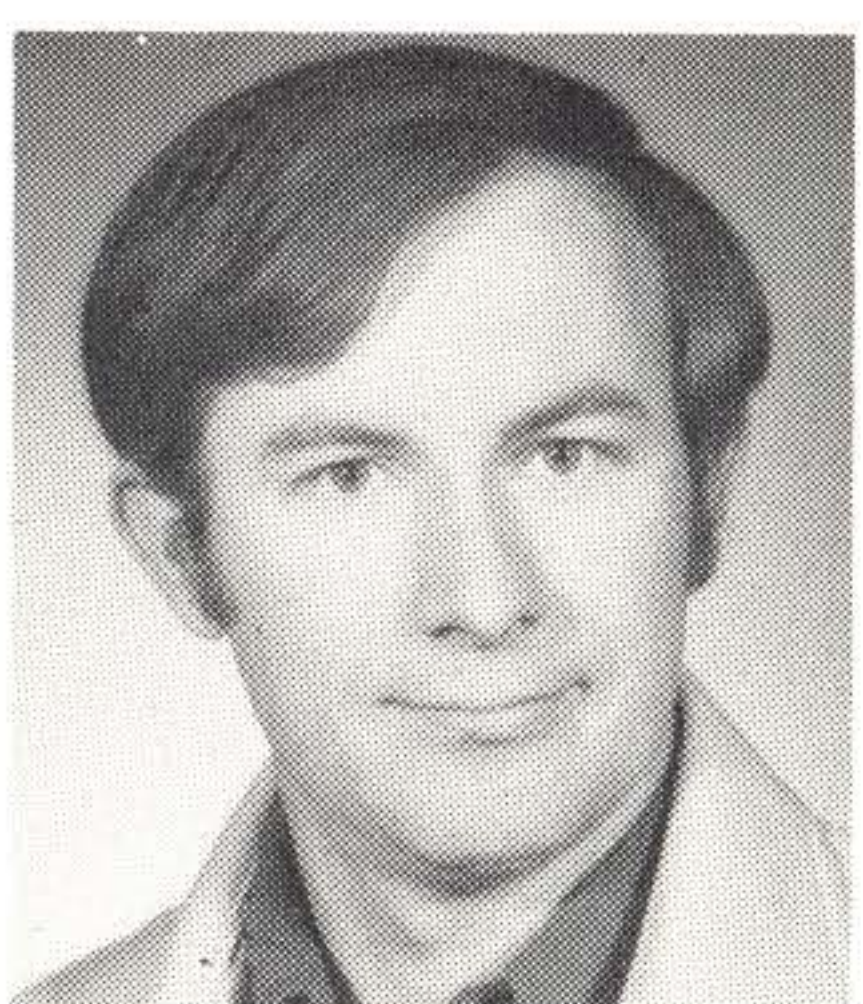
Terry Thornton  
Colorado Springs, Co.  
M. T. S. '73



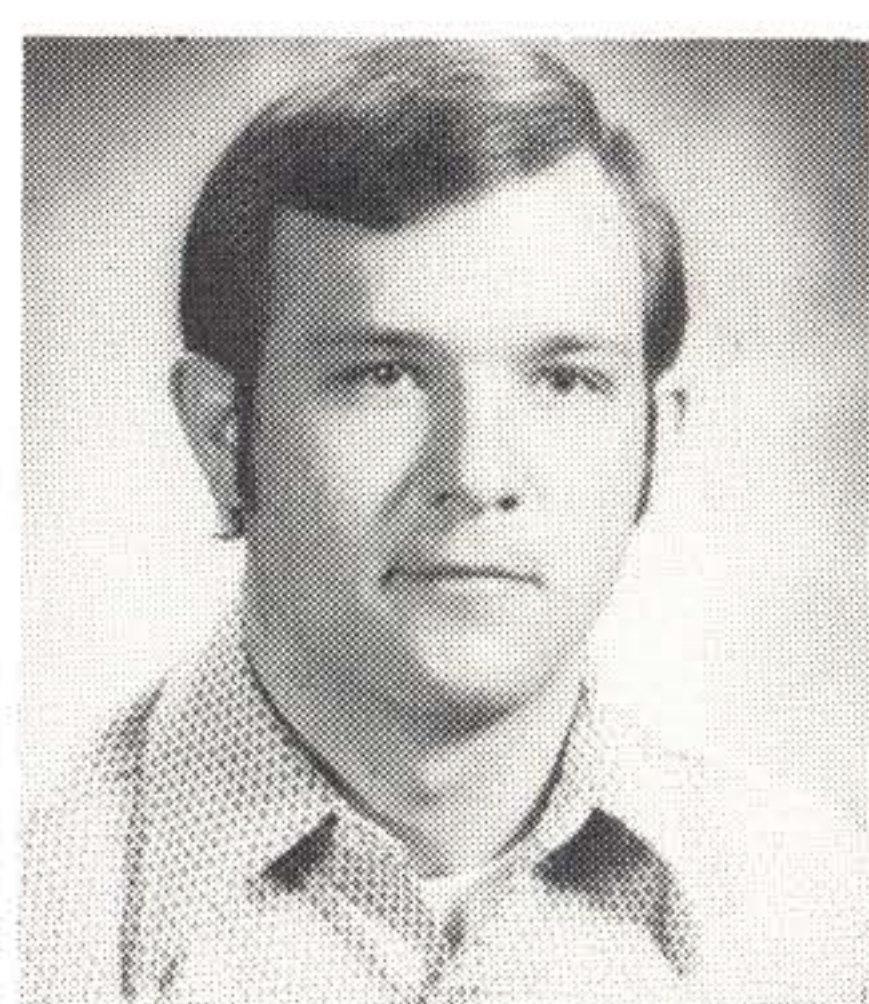
Mike Gayler  
Denver, Co.  
M. T. S. '75



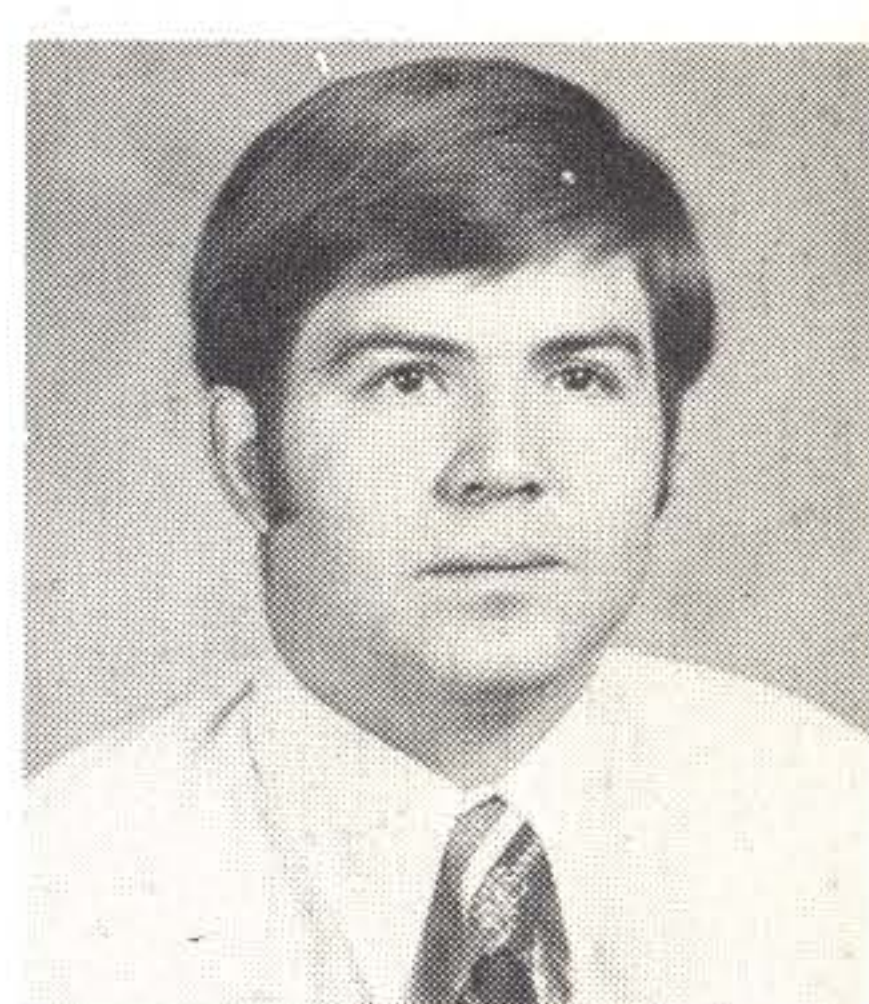
John Molder  
Roseville, Ca.  
M. T. S. '74



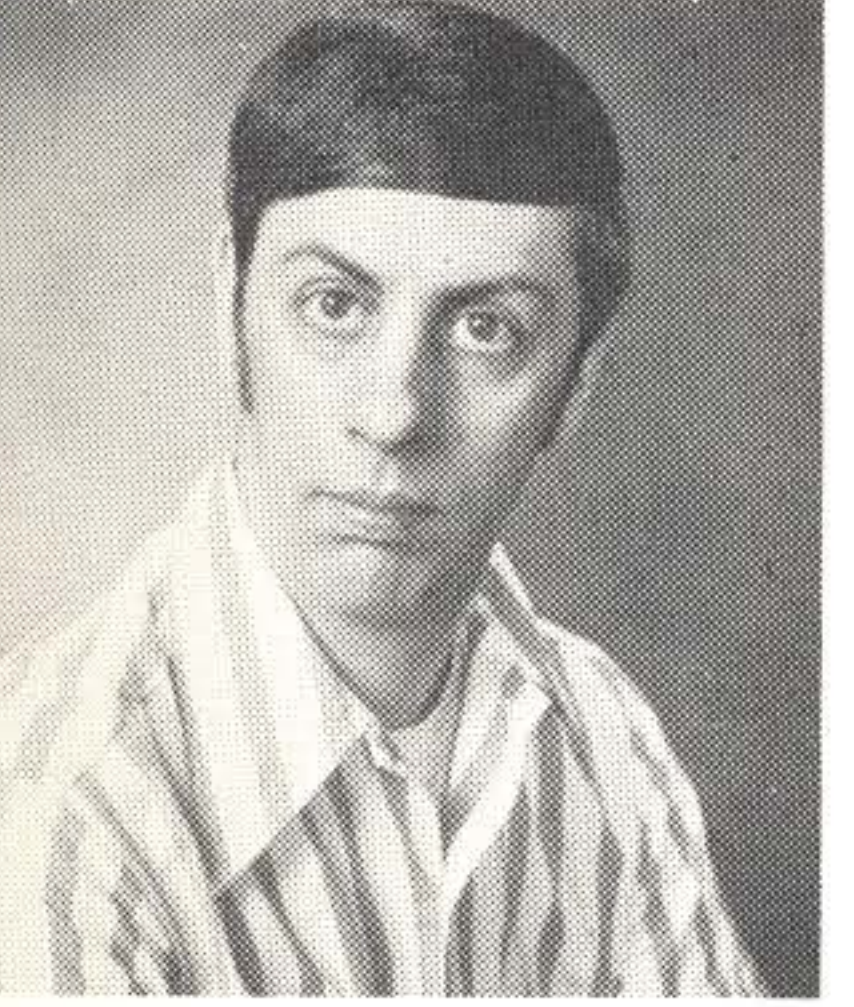
Ken Kowalczyk  
Casper, Wy.  
M. T. S. '72



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



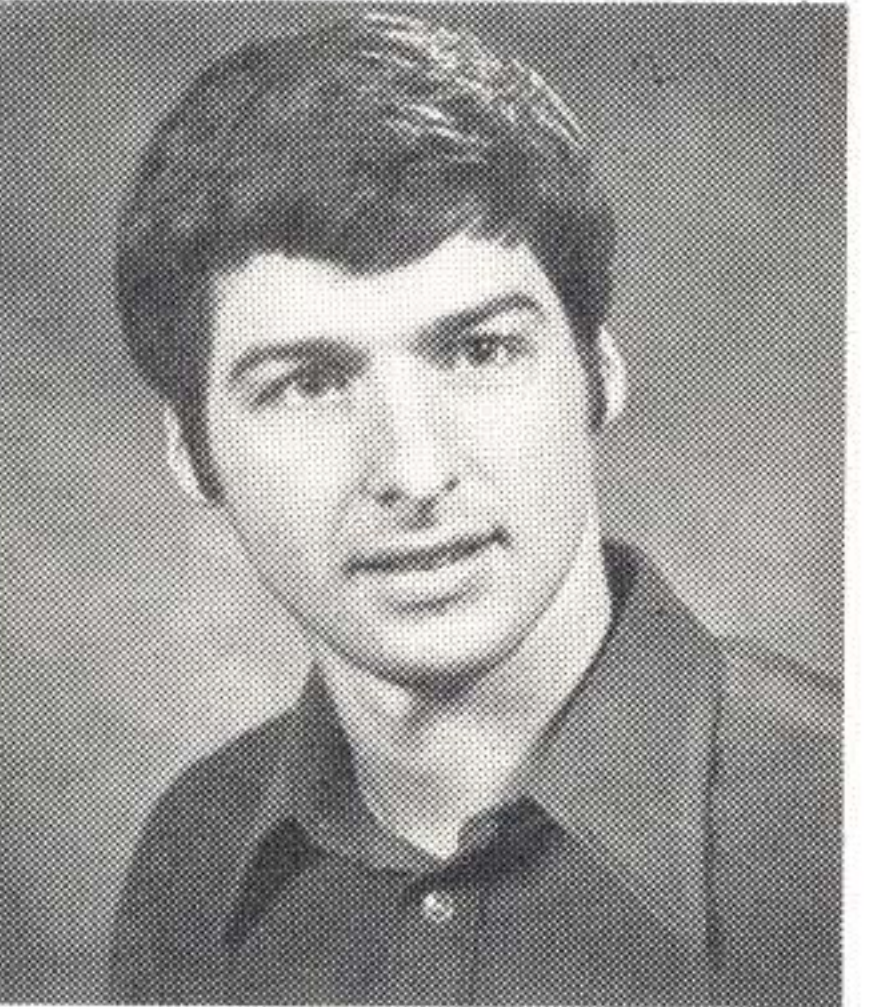
Rocky Edelman  
Ogden, Ut.  
M. T. S. '75



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



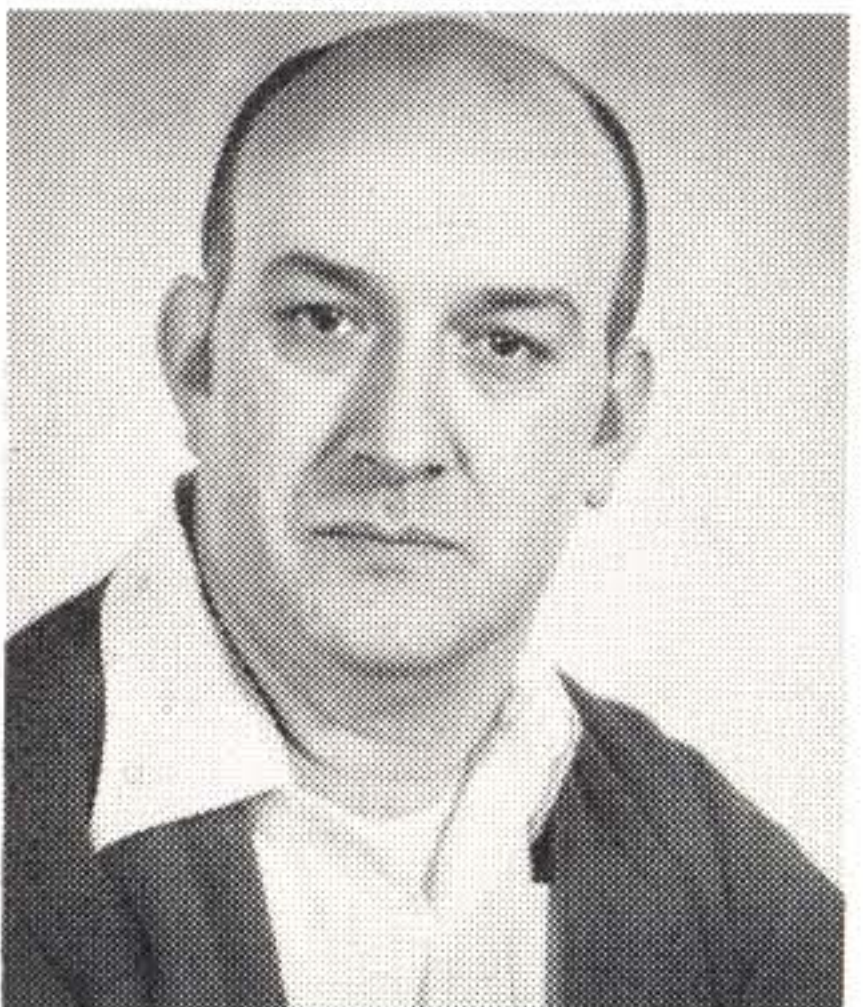
Chuck Pfaff  
Seattle, Wa.  
M. T. S. '72



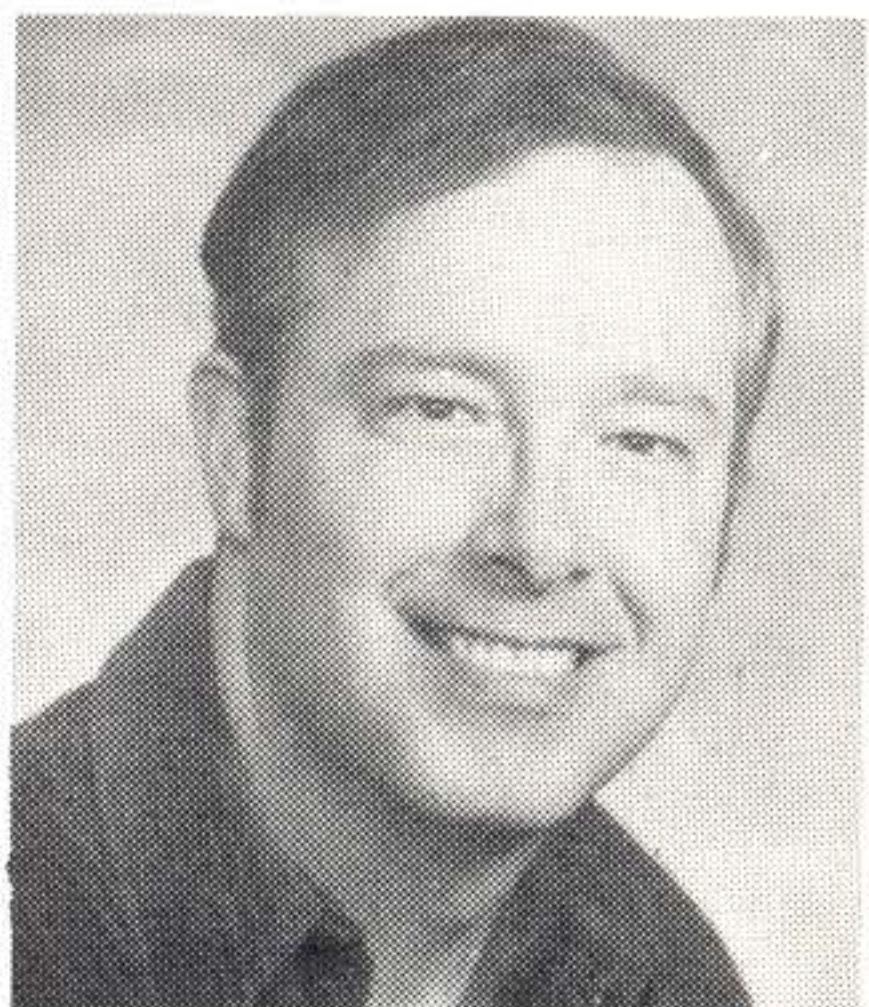
Marc Roberts  
Tacoma, Wa.  
M. T. S. '74



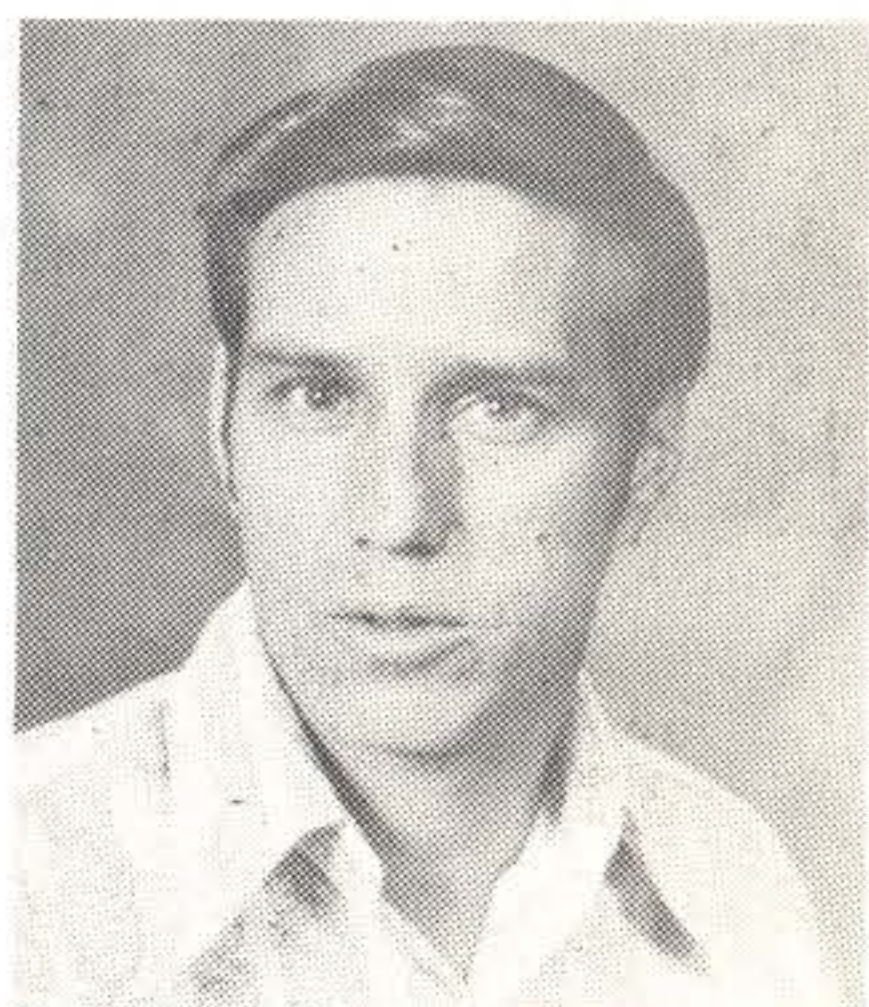
John Pulaski  
Portland, Or.  
M. T. S. '75



Ray O'Dell  
Boise, Id.  
M. T. S. '75



Andy Ashcraft  
Sioux Falls, S. D.



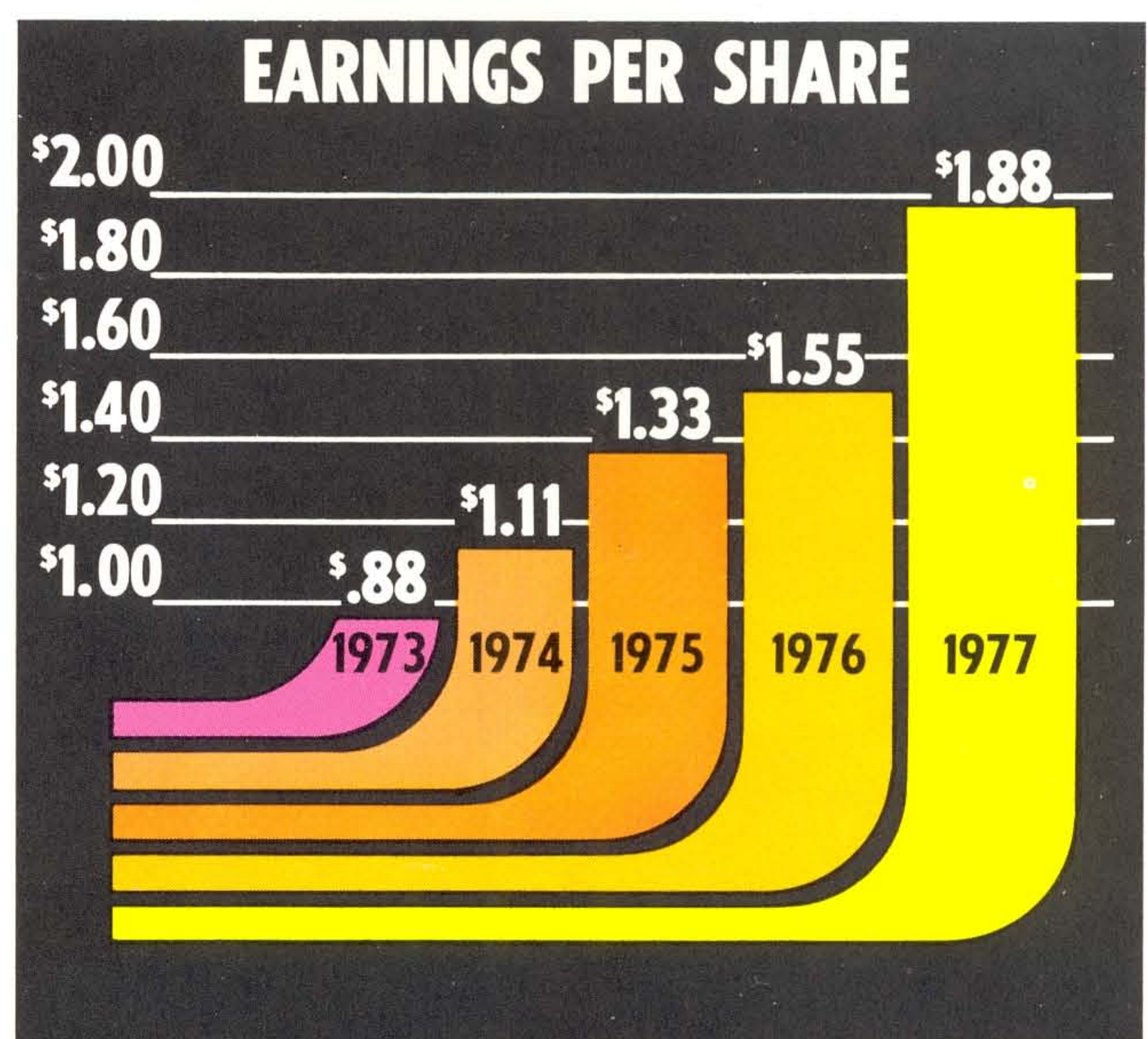
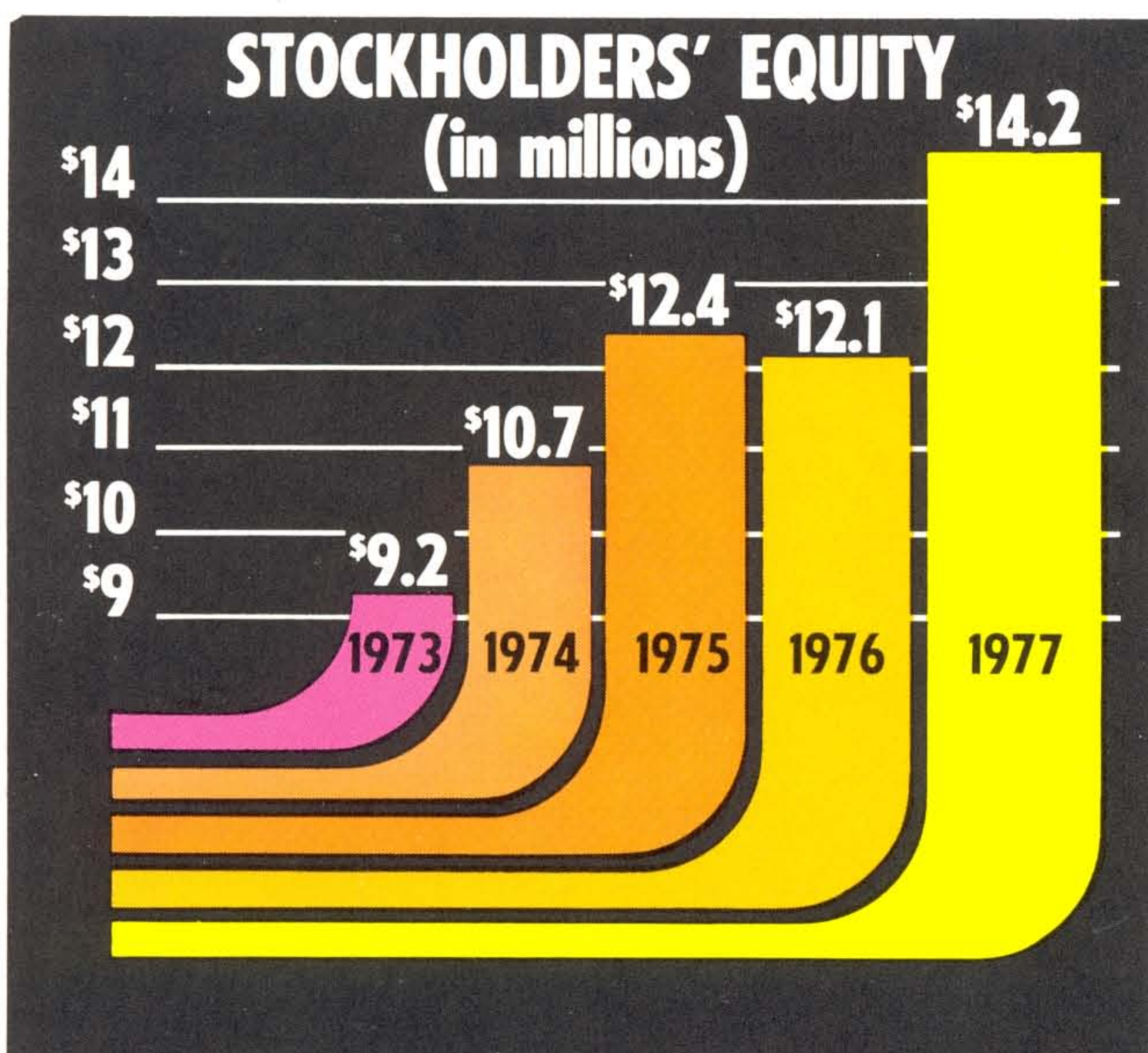
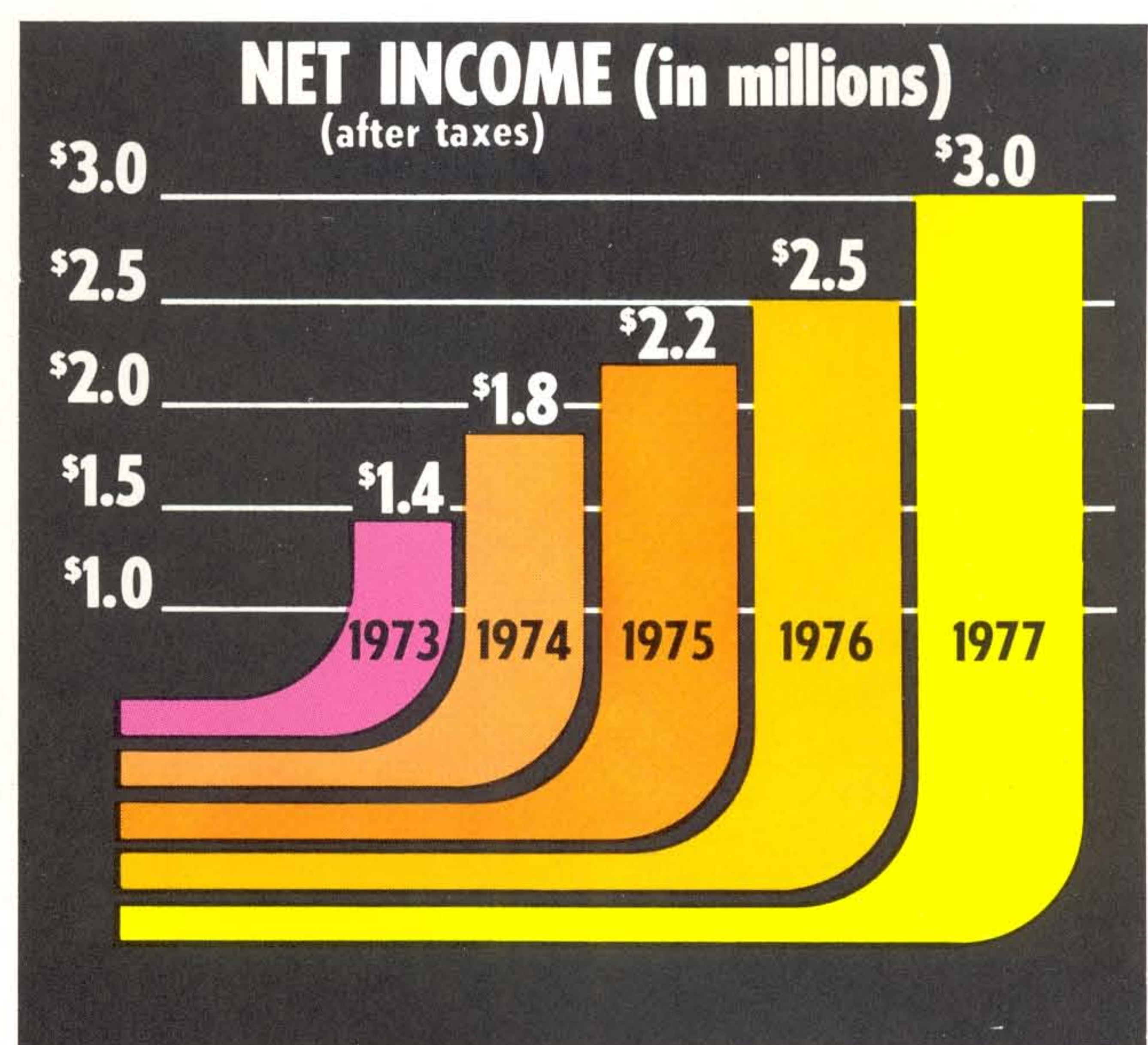
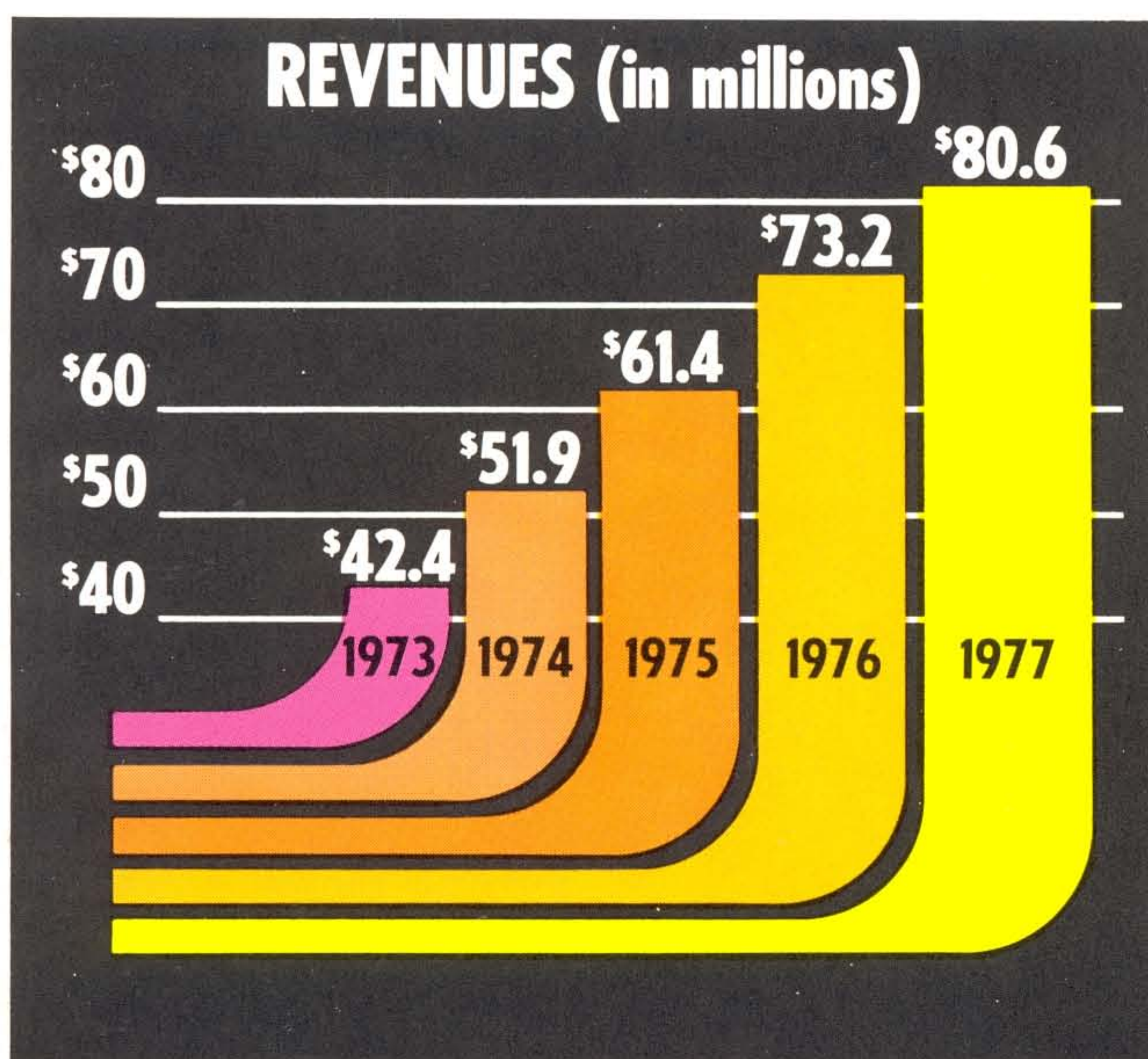
Ben Fleming  
Denver, Co.  
M. T. S. '73  
Store opened in  
March, 1977



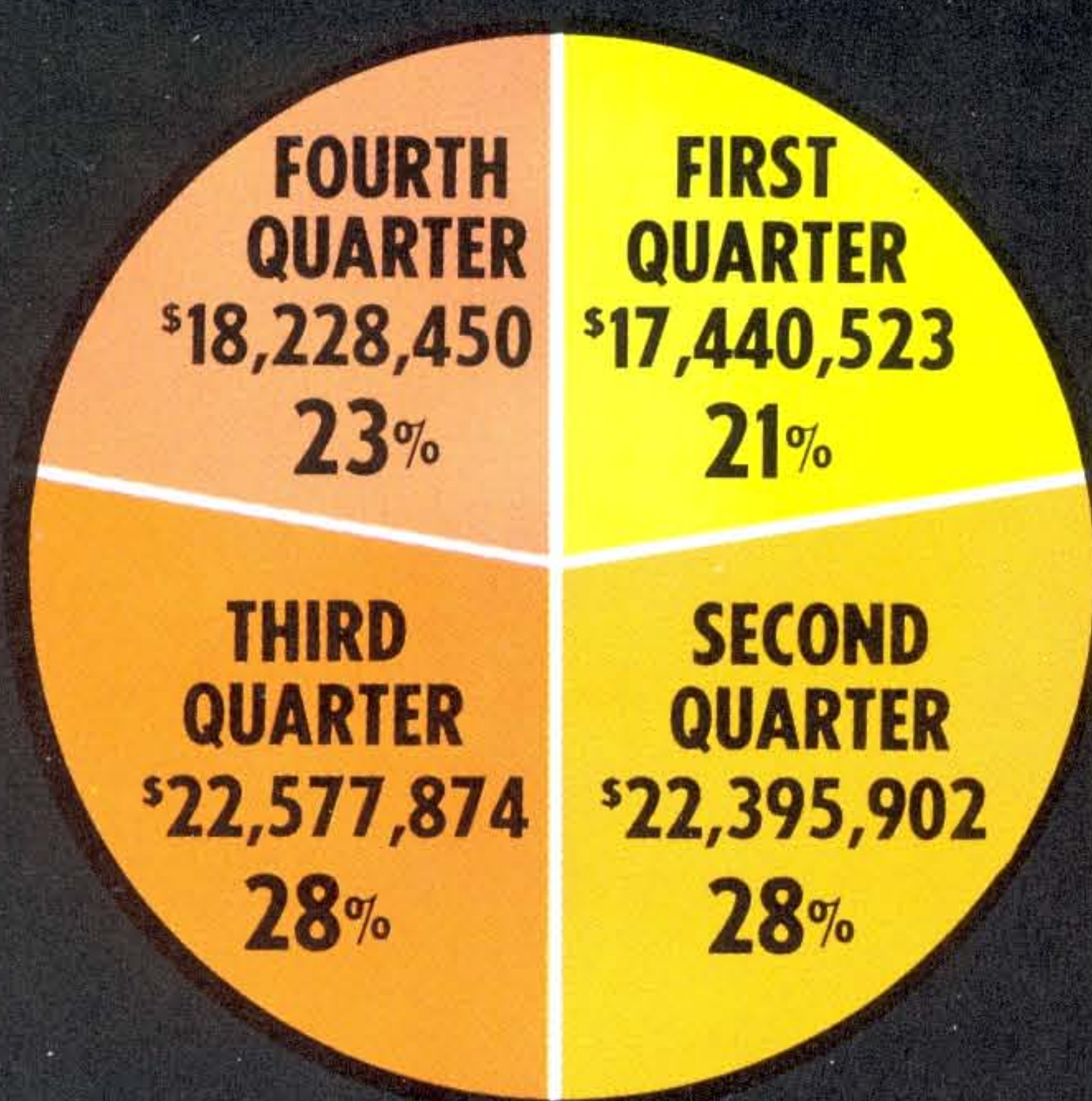
sistant managers are graduates of this program (See the pages entitled, "The Store Managers").

There are several rewarding sales contests each year. The "Top Achiever" program recognizes top sales producers. The unique "Selling-is-serving" award program rewards at least two outstanding employees each month for enthusiasm and dedication. The most prestigious award of all is the coveted "Manager of the

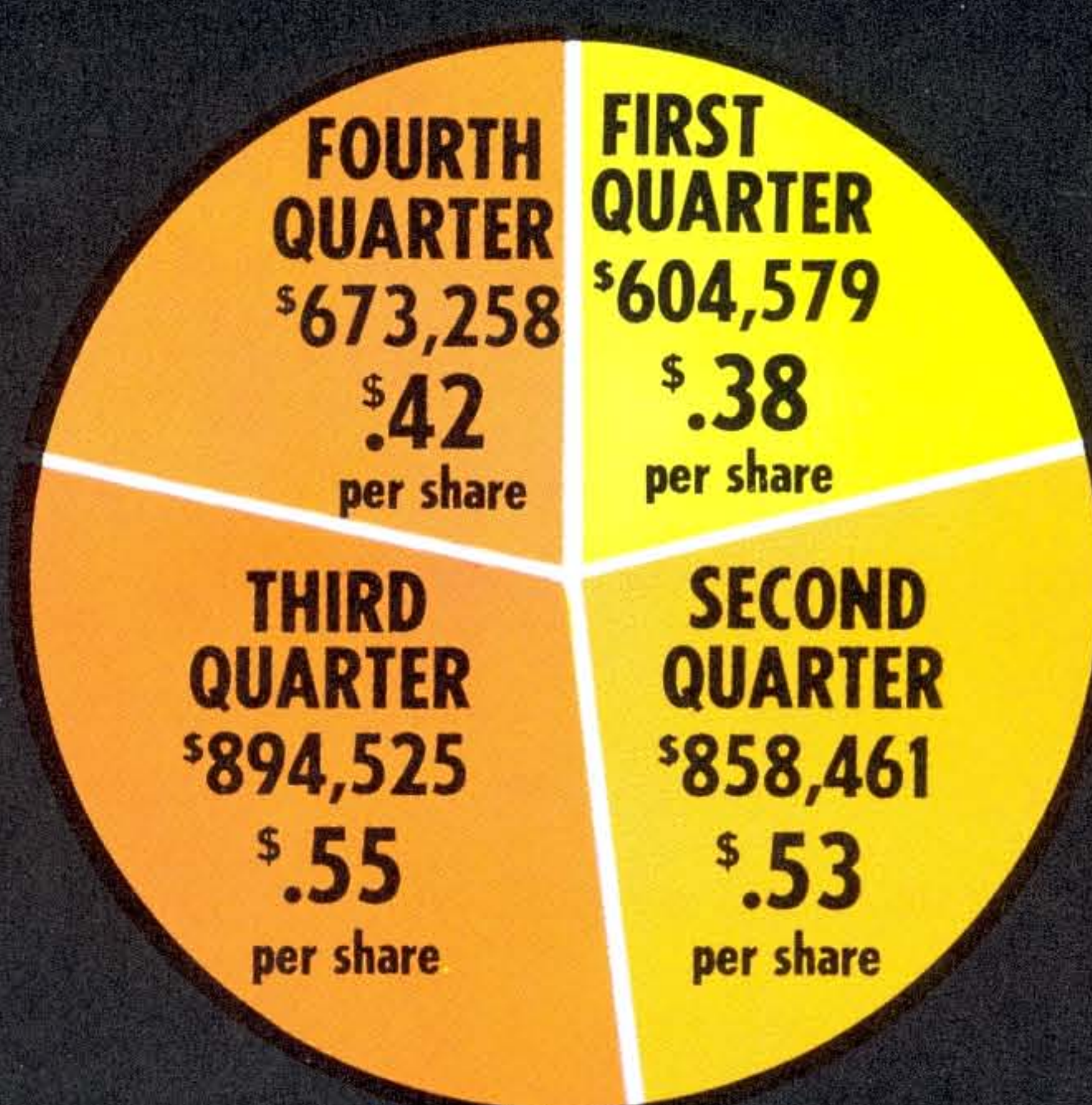
Year" award. Five nominees are selected each year and are judged on strict criteria covering all elements of successful store management. This award is made at the Annual Managers' Meeting when all managers and staff are present. Of the four recipients of this honor (the program was inaugurated in 1973) three have already been promoted to district manager.



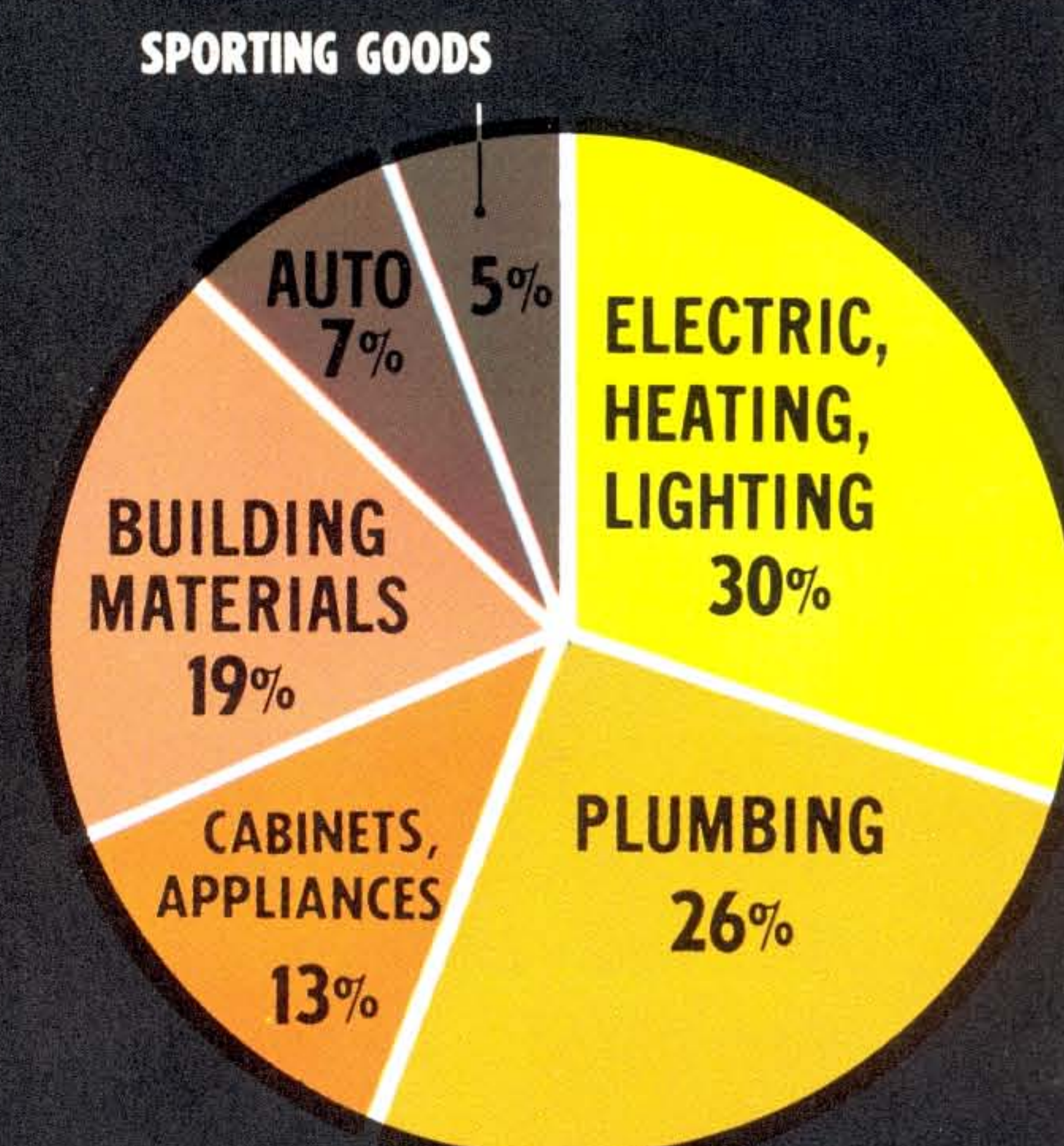




**1977 REVENUES BY QUARTER**



**1977 EARNINGS BY QUARTER**



**SALES BY CATEGORY**

## FIVE YEAR GROWTH HIGHLIGHTS

	YEARS ENDED FEBRUARY 28 OR 29				
	1977	1976	1975	1974	1973
Revenues	\$80,642,749	\$73,279,952	\$61,470,839	\$51,893,886	\$42,396,952
Income before federal and state tax	\$ 5,767,129	\$ 4,878,524	\$ 4,285,203	\$ 3,619,206	\$ 2,940,394
Net income	\$ 3,030,823	\$ 2,574,624	\$ 2,226,045	\$ 1,857,300	\$ 1,459,801
Average number of common shares	1,609,309	1,660,887	1,671,203	1,671,203	1,655,977
Net income per common share	\$1.88	\$1.55	\$1.33	\$1.11	\$ .88
Cash dividends paid per common share	\$ .54 (1)	\$ .418	\$ .289	\$ .206	\$ .128
Financial position at end of year:					
Total assets	\$36,684,651	\$30,239,521	\$26,003,356	\$23,278,072	\$21,407,344
Stockholders' equity	\$14,229,258	\$12,120,143	\$12,439,968	\$10,697,329	\$ 9,185,319
Shares of common stock outstanding	1,609,309	1,609,309	1,671,203	1,671,203	1,671,203
Net asset value per share	\$9.75 (2)	\$8.40 (2)	\$7.44	\$6.40	\$5.50
Number of stores open	64	59	54	48	44
Number of stores sold or closed	0	3	1	1	1
Stores replaced with new stores	2	2	0	3	5
Number of customers served	4,419,596	4,104,317	3,647,036	3,251,000	2,849,000
Average customer purchase	\$18.25	\$17.82	\$16.83	\$15.94	\$14.86
Number of states in which we operated	13	11	11	11	11
Square footage of stores	1,260,769	1,144,847	1,030,808	890,529	783,588
Sales per square foot	\$63.96	\$63.54	\$59.55	\$58.20	\$54.02
Average square footage per store	19,700	19,363	19,089	18,553	17,808
Sales per full time employee at year end	\$ 108,536	\$ 103,502	\$ 88,320	\$ 91,523	\$ 83,294
Average annual inventory (in stores)	\$17,951,974	\$14,814,718	\$13,603,679	\$13,714,778	\$10,645,251

(1) In addition, a \$.15 per share cash dividend for the first quarter of 1978 was declared January 14, 1977 payable April 29, 1977.

(2) After giving effect to shares held by the Employee Stock Ownership Trust which have not been allocated to employee accounts: 165,673 shares in 1976 and 149,378 shares in 1977.



# MARKET AND DIVIDEND INFORMATION

Pay 'N Pak Stores, Inc. this year has combined the company's Annual Report with its Form 10-K that is filed annually with the Securities and Exchange Commission. The Form 10-K provides more detailed information about the operation of the company than does the usual Annual Report.

This Form 10-K has not been approved or disapproved by the Securities and Exchange Commission nor has the Commission passed upon the accuracy or adequacy of the data included herein.

The stock of Pay 'N Pak Stores, Inc. is traded actively in the over-the-counter (OTC) market. Prices are quoted by the National Association of Security Dealers (NASD), as reported by NASDAQ, and published daily in the over-the-counter market sections of various financial publications and financial pages of many daily newspapers.

The range of bid and ask quotations of the company's stock during each quarter of the last 2 fiscal years is shown below. The quarterly cash dividends paid by the company are also shown for each quarter of the last 2 fiscal years.

## STOCK RANGE (high and low, bid and ask) for each quarter in the last 2 fiscal years.

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
FISCAL 1977	High 15 <sup>5</sup> / <sub>8</sub> – 16 <sup>1</sup> / <sub>8</sub> Low 12 <sup>1</sup> / <sub>8</sub> – 12 <sup>5</sup> / <sub>8</sub>	High 10 <sup>7</sup> / <sub>8</sub> – 11 <sup>3</sup> / <sub>8</sub> Low 10 <sup>1</sup> / <sub>4</sub> – 10 <sup>3</sup> / <sub>4</sub>	High 11 <sup>7</sup> / <sub>8</sub> – 12 <sup>3</sup> / <sub>8</sub> Low 11 <sup>1</sup> / <sub>4</sub> – 11 <sup>3</sup> / <sub>4</sub>	High 14 <sup>5</sup> / <sub>8</sub> – 15 <sup>1</sup> / <sub>8</sub> Low 13 <sup>3</sup> / <sub>8</sub> – 13 <sup>7</sup> / <sub>8</sub>
FISCAL 1976	High 15 <sup>3</sup> / <sub>8</sub> – 15 <sup>7</sup> / <sub>8</sub> Low 14 <sup>7</sup> / <sub>8</sub> – 15 <sup>3</sup> / <sub>8</sub>	High 16 <sup>1</sup> / <sub>2</sub> – 17 Low 14 <sup>1</sup> / <sub>2</sub> – 15	High 15 <sup>3</sup> / <sub>4</sub> – 16 <sup>1</sup> / <sub>4</sub> Low 13 – 13 <sup>1</sup> / <sub>2</sub>	High 13 <sup>1</sup> / <sub>2</sub> – 14 Low 12 <sup>3</sup> / <sub>8</sub> – 12 <sup>7</sup> / <sub>8</sub>

## QUARTERLY DIVIDENDS for each quarter in the last 2 fiscal years

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
FISCAL 1977	\$.12	\$.12	\$.15	\$.15
FISCAL 1976	\$.091	\$.109	\$.109	\$.109

After giving retroactive effect to stock dividends paid on May 7, 1975 and May 10, 1976.



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SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

Form 10-K

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

For the fiscal year ended February 28, 1977

Commission file number 0-4967

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

Washington  
(State of incorporation)

91-0729852  
(I.R.S. Employer I.D. No.)

1209 South Central, Kent, Washington 98031

Telephone: (206) 854-5450

Common stock outstanding at February 28, 1977 — 1,609,309 shares.

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

Title of each class  
**None**

Name of each exchange  
on which registered  
**None**

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

Common Stock  
(Title of Class)

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

Yes       X       No



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## **Part II:**

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



## **Part I**

### **Item I — Business**

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

As of April 15, 1977, the Company and its subsidiaries operated 65 stores located in the states of Washington, Oregon, California, Colorado, Nevada, Montana, Alaska, Oklahoma, Kansas, Idaho, Utah, Wyoming and South Dakota. All of the stores are leased except that the Fairbanks, Alaska, Pocatello, Idaho, Casper, Wyoming and one store in Denver, Colorado are owned by the Company. The Company has long-term mortgage loans on these four stores. During its fiscal year ended February 28, 1977, the Company entered new market areas in Boise, Idaho, Casper, Wyoming, and Sioux Falls, South Dakota; and opened its fourth store in the Portland, Oregon area, and its second store in Tacoma, Washington. During this same period of time, the Company replaced smaller stores in Albany, Oregon and Sacramento, California with new, larger stores.

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

	Year ended February 28 or 29,				
	1977	1976	1975	1974	1973
Stores in operation at beginning of year.....	59	54	48	44	40
Stores opened.....	7	9	7	8	10
Stores reacquired.....		1			
Stores sold or closed.....		(3)	(1)	(1)	(1)
Stores replaced with new stores.....	(2)	(2)		(3)	(5)
Stores in operation at end of year.....	<u>64</u>	<u>59</u>	<u>54</u>	<u>48</u>	<u>44</u>

The Company opened its fourth store in the Denver, Colorado area in March, 1977, and has also entered into a lease and plans to open a new store later this year in Puyallup, Washington. The Company is also negotiating leases and plans to open new stores later this year in Marysville, Washington, Ontario, Oregon, Topeka, Kansas, and Grand Forks, North Dakota, which would be its first entry into North Dakota.

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

(b) (1) The retail sales business engaged in by the Company is highly competitive. The Company competes with numerous retail organizations, including integrated department stores such as Sears and Montgomery Ward, as well as large and small hardware and lumber stores, auto supply stores, and sporting goods stores. Some of these competitors have substantially greater financial resources and more complete product warranties than the Company. The Company's competitors are continually expanding and opening new stores in market areas in which the Company has existing stores as well as in new market areas in which the Company plans to expand. Because of the variety of products sold by the Company and the number and variety of its competitors, it is virtually impossible to determine a competitive position for the Company.



**Item I — Business, continued**

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

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

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

(4) The Company buys its merchandise from several hundred independent suppliers, no one of which supplies a significant portion of the products sold by the Company. It is estimated that no supplier provides more than 10% of the Company's merchandise. The Company sells most of its goods on a cash and carry basis and to a limited extent under installment sales contracts that are sold to finance companies, and attempts to carry sufficient amounts of inventory on stock to meet customer demand and to allow sufficient delivery time for new orders from the factories. The Company maintains a 97,000 square foot central warehouse in Kent, Washington, where it stores certain items, but does very little other warehousing. The Company engages in volume buying direct from factories as much as possible to obtain the benefits of lower unit prices, as well as in anticipation of potential shortages and inflationary price increases. This helps to assure the Company of a continuous allotment of goods from suppliers and sometimes results in the Company carrying significant amounts of inventory for the above-described purposes.

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

(6) The Company has incurred research expenses relating to the improvement of services to its customers, through the development of product knowledge training films, a Retail Selling Skills program, and the holding of training seminars, all of which are designed to constantly update product knowledge and selling skills. The goal of this program is to have the Company's sales people completely qualified to explain to customers how to install or use all of the products that the Company sells. The amount spent by the Company on such activities during each of the last two fiscal years is estimated at approximately \$35,000 and \$52,000 in 1976 and 1977 respectively.

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

(8) The Company currently employs approximately 790 full time persons.

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

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



**Item 1—Business,** continued

(2) Information as to classes of similar products or services. The following table sets forth the approximate percentage contribution to net sales during the Company's last five years ended February 28, 1977 for each class of similar products which contributed 10% or more to total sales and revenues in either of the last two fiscal years.

	Net Sales				
	Year ended February 28 or 29				
	1977	1976	1975	1974	1973
Home improvement products.....	88%	86%	85%	85%	85%

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



## Item 2 — Summary of operations

The following consolidated statements of income, retained earnings and capital in excess of par value of Pay 'N Pak Stores, Inc. for the five years ended February 28, 1977, have been examined by Arthur Young & Company, certified public accountants, whose report with respect thereto appears elsewhere in this Form 10-K. The statements should be read in conjunction with the other financial statements appearing elsewhere herein.

### CONSOLIDATED STATEMENT OF INCOME

	Year ended February 28 or 29				
	1973	1974	1975	1976	1977
Revenues:					
Net sales .....	\$42,332,166	\$51,832,114	\$61,379,628	\$73,221,950	\$80,592,395
Interest .....	1,022	5,949	61,633	25,394	32,080
Rentals and other .....	63,764	55,823	29,578	32,608	18,274
	<u>42,396,952</u>	<u>51,893,886</u>	<u>61,470,839</u>	<u>73,279,952</u>	<u>80,642,749</u>
Costs and expenses:					
Cost of sales (a) .....	27,475,369	33,588,811	40,190,618	48,783,406	51,859,031
Selling and administrative .....	9,887,724	11,779,911	13,913,074	15,918,996	18,603,799
Rent .....	1,268,961	1,594,893	1,797,397	2,142,797	2,389,895
Depreciation .....	549,018	793,170	806,028	973,628	1,166,003
Interest on long-term debt .....	50,903	289,294	461,886	484,458	802,917
Other interest .....	224,580	228,601	16,633	98,143	53,975
	<u>39,456,558</u>	<u>48,274,680</u>	<u>57,185,636</u>	<u>68,401,428</u>	<u>74,875,620</u>
Income before income taxes .....	2,940,394	3,619,206	4,285,203	4,878,524	5,767,129
Provision for income taxes (b) .....	1,466,294	1,748,438	2,037,068	2,303,900	2,736,306
	<u>1,474,100</u>	<u>1,870,768</u>	<u>2,248,135</u>	<u>2,574,624</u>	<u>3,030,823</u>
Minority interest .....	14,299	13,468	22,090		
Net income .....	<u>\$ 1,459,801</u>	<u>\$ 1,857,300</u>	<u>\$ 2,226,045</u>	<u>\$ 2,574,624</u>	<u>\$ 3,030,823</u>
Average number of common shares (c) .....	<u>1,655,977</u>	<u>1,671,203</u>	<u>1,671,203</u>	<u>1,660,887</u>	<u>1,609,309</u>
Net income per common share ((c) and (f)) .....	<u>\$ .88</u>	<u>\$1.11</u>	<u>\$1.33</u>	<u>\$1.55</u>	<u>\$1.88</u>
Dividends per common share (d):					
Cash paid .....	<u>\$.128</u>	<u>\$.207</u>	<u>\$.289</u>	<u>\$.418</u>	<u>\$.54*</u>
Stock .....				<u>10%</u>	<u>10%</u>

\* In addition, a \$.15 per share cash dividend for the first quarter of 1978 was declared January 14, 1977 to shareholders of record April 8, 1977, payable April 29, 1977.

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



## Item 2—Summary of operations, continued

### Notes to consolidated statement of income

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

Inventories of merchandise used in the computation of cost of sales were as follows: February 29, 1972 — \$9,561,249; February 28, 1973 — \$13,925,388; February 28, 1974 — \$15,273,351; February 28, 1975 — \$15,460,230; February 29, 1976 — \$17,691,688 and February 28, 1977 — \$24,042,732.

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

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Current federal income tax	\$1,420,122	\$1,696,728	\$1,956,954	\$2,108,967	\$2,510,725
Investment tax credit	(40,956)	(54,045)	(75,167)	(101,905)	(120,125)
Deferred income tax	1,749	1,749	30,945	163,648	187,487
State income taxes	85,379	104,006	124,336	133,190	158,219
	<u>\$1,466,294</u>	<u>\$1,748,438</u>	<u>\$2,037,068</u>	<u>\$2,303,900</u>	<u>\$2,736,306</u>

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

The provision for deferred income taxes reflects timing differences between income and expenses reported for financial statement purposes and income tax purposes. The federal and state income tax effect of these differences are as follows: Gain on the sale of properties sold and leased back (\$1,749 — 1973 through 1977) which gain is being amortized over the period of the leases; depreciation deducted for tax purposes in excess of the amount deducted for accounting purposes (1975 — \$58,179; 1976 — \$132,916 and 1977 — \$179,825), pre-opening expenses deducted for tax purposes in the year paid (\$5,913 in 1977) and \$28,983 of airplane repair costs accrued for accounting purposes in 1975 and deducted for tax purposes in 1976 when paid.

- (c) Net income per common share was determined on the weighted average number of such shares outstanding during each period after giving retroactive effect to the 10% stock dividends declared on March 13, 1975 and on March 16, 1976.
- (d) Cash dividends paid per common share are stated at amounts after giving retroactive effect to the 10% stock dividends declared March 13, 1975 and March 16, 1976. See Note 2 of Notes to Consolidated Financial Statements for restrictions on payment of cash dividends.



## Item 2 — Summary of operations, continued

### Notes to consolidated statement of income

#### (e) Quarterly financial data (unaudited)

Quarterly financial data for the year ended February 28, 1977 are presented below.

(000's omitted, except for per share amounts)

	1977 Quarter ended			
	May 31	Aug. 31	Nov. 30	Feb. 28
Net sales	\$17,441	\$22,396	\$22,578	\$18,228
Gross profit	\$ 6,260	\$ 7,741	\$ 7,898	\$ 6,885
Net income	\$ 605	\$ 858	\$ 895	\$ 673
Net income per share	\$ .38	\$ .53	\$ .55	\$ .42

- (f) Event subsequent to the date of the report of certified public accountants — On April 21, 1977, the Board of Directors declared a 3 for 2 stock split which is issuable in the form of a 50% stock dividend on July 29, 1977 to stockholders of record July 8, 1977. The stock split does not have an effect on total stockholders' equity. Net income per common share after giving retroactive effect for the 3 for 2 stock split for the years ended February 28 or 29 is as follows: 1973—\$.59; 1974—\$.74; 1975—\$.89; 1976—\$1.03; and 1977—\$1.26.

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

Net sales in 1977 and 1976 increased over the 1976 and 1975 levels by \$11,822,000 for 1976 over 1975 and \$7,500,000 for 1977 over 1976 or 18.4% and 10.3% respectively. These increases were attributable to the following:

	Increase (decrease) in 1977 over 1976		Increase (decrease) in 1976 over 1975	
	Amount	%	Amount	%
	(In thousands, except %)			
Net sales of stores opened during the year	\$ 2,983	40	\$ 3,017	25
Increase in net sales over the preceding year of stores in their first full year of operation	3,666	49	6,241	53
Net increase in sales of stores opened for over 2 years	2,630	35	3,400	29
Increase (decrease) in net sales for stores closed or sold	(1,779)	(24)	(836)	(7)
	<u>\$ 7,500</u>	<u>100</u>	<u>\$11,822</u>	<u>100</u>

Interest revenue increased in 1977 as compared to 1976 as a result of investment of excess funds in short-term securities.

Cost of sales and selling and administrative expense increased due primarily to the increased sales volume. The cost of sales in 1977 decreased as a percent of net sales as compared to 1976 due primarily to the eliminations of plywood and sheetrock from our product mix (two low profit commodity items) and improved operating disciplines put into effect by the new management team.

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

Depreciation expense increased in 1977 as compared to 1976 due primarily to new store expansion and the modernization of existing stores.

Interest on long-term debt increased in 1977 as compared to 1976 due primarily to the additional \$3,550,000 borrowed from The Prudential Insurance Company of America in February, 1976. Other interest in 1977 compared to 1976 decreased as a result of this long-term financing.



Item 2 — Summary of operations, continued

**CONSOLIDATED STATEMENT OF RETAINED EARNINGS**

	Year ended February 28 or 29				
	1973	1974	1975	1976	1977
Balance at beginning of year	\$4,011,245	\$5,258,486	\$6,770,496	\$8,513,135	\$8,203,053
Add (deduct):					
Net income	1,459,801	1,857,300	2,226,045	2,574,624	3,030,823
Dividends:					
Cash	(212,560)	(345,290)	(483,406)	(692,114)	(1,110,423)(b)
10% stock at fair market value at date of issuance				(2,192,592)	(1,810,474)
Balance at February 28 or 29 (a)	<u>\$5,258,486</u>	<u>\$6,770,496</u>	<u>\$8,513,135</u>	<u>\$8,203,053</u>	<u>\$8,312,979</u>

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

(b) Includes cash dividends of \$.54 per share paid in 1977 and in addition a \$.15 per share cash dividend for the first quarter of 1978 declared January 14, 1977 payable April 29, 1977.

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

	Year ended February 28 or 29				
	1973	1974	1975	1976	1977
Balance at beginning of year	\$3,639,748	\$3,788,717	\$3,788,717	\$3,788,717	\$5,967,497
Add (deduct):					
Excess of fair market value over par value of 10% stock dividends				2,178,780	1,795,844
Excess of proceeds over par value of shares issued upon exercise of stock options	147,112				
Expenses applicable to prior year registration of shares	(5,643)				
Purchase of minority interest in subsidiary	7,500				
Retirement of treasury stock					(546,708)
Balance at February 28 or 29	<u>\$3,788,717</u>	<u>\$3,788,717</u>	<u>\$3,788,717</u>	<u>\$5,967,497</u>	<u>\$7,216,633</u>



### **Item 3 – Properties**

Of the Company's 65 stores, 29 are located in the State of Washington, 7 in Oregon, 5 in California, 2 in Nevada, 3 in Idaho, 1 in Montana, 2 in Utah, 7 in Colorado, 1 in Kansas, 4 in Oklahoma, 2 in Alaska, 1 in Wyoming, and 1 in South Dakota. All of the Company's stores except four are leased under leases expiring at various times between August 30, 1977 and January 31, 2002. Many of the leases contain options to renew. Operations of the Company are directed from its main offices in Kent, Washington, a Seattle suburb, where all administrative functions, including accounting, merchandising, purchasing and advertising, are performed. The main offices are leased under a lease expiring in 1995. The Company also leases a large central warehouse in Kent, Washington, under two leases that expire in 1979 and 1983, respectively. These leases contain options to renew.

In addition to the properties and buildings used in the Company's daily business operations, the Company owns approximately eighteen acres in Spokane, Washington; four acres adjacent to its Kent Mall, and six lots adjacent to one of its Denver, Colorado stores. These properties are either being developed for new stores or held for investment and possible future expansion.

The Company presently owns its stores in Fairbanks, Alaska, Pocatello, Idaho, Casper, Wyoming, and a store in Denver, Colorado. The Company obtained long-term mortgage financing on three of these properties during the fiscal year ended February 28, 1977.

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

### **Item 4 – Parents and Subsidiaries**

There are no parents of the Company. Following is a list setting forth the Company and its subsidiaries as of April 15, 1977:

Company:	Pay 'N Pak Stores, Inc. a Washington corporation
Subsidiaries:	(a) Pay 'N Pak Properties, Inc. a Washington corporation 100% owned by the Company
	(b) Eagle Electric & Plumbing Supply, Inc. a Washington corporation 100% owned by the Company

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

### **Item 5 – Legal Proceedings**

None.

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

(a) In April, 1976, the Company cancelled and restored 56,267 shares of treasury stock to the status of authorized but unissued shares. This exchange decreased the number of shares of its common stock that the Company had outstanding from 1,519,275 shares to 1,463,008 shares.



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

(b) On December 31, 1976, the Company obtained a loan from The Mutual Life Insurance Company of New York and received aggregate net cash proceeds of \$1,100,000. The loan bears interest at 9.875% per annum and is repayable in monthly installments of \$9,900, with a final installment due on the date in the fifteenth loan year specified by the holder of the note, or if the holder does not so specify such a date, on January 1, 2002. The loan is evidenced by a promissory note dated December 31, 1976, and is secured by a Deed of Trust dated December 23, 1976, wherein the Company is Trustor, Alaska Title Guaranty Company is Trustee, for the benefit of the Mutual Life Insurance Company of New York, covering the Company's retail store property in Fairbanks, Alaska. No brokers, underwriters or finders were involved. The entire aggregate net cash proceeds of \$1,100,000 are being used for working capital purposes. The note issued by the Company to The Mutual Life Insurance Company of New York in the amount of \$1,100,000 was not registered under the Securities Act of 1933, in reliance upon Section 4(2) of the Act, as the note was not offered to any other person and was taken for investment by The Mutual Life Insurance Company of New York. For these reasons, the note was not legended nor were stop-transfer instructions given in connection with the note.

On February 28, 1977, the Company obtained two real property mortgage loans from Pacific Mutual Life Insurance Company. One loan was in the amount of \$485,000 and is secured by a real property mortgage on the Company's retail store property in Casper, Wyoming, and the other loan was in the amount \$435,000 and is secured by a real property mortgage on the Company's retail store property in Pocatello, Idaho. Both loans bear interest at 9<sup>5</sup>/<sub>8</sub>% per annum. The loans are evidenced by promissory notes dated February 28, 1977 and the real property mortgages bear the same date. The loans are repayable in monthly installments of \$4,281 and \$3,839, respectively, with final installments due on the date in the fifteenth loan year specified by the holder of the note, or if the holder does not so specify such a date, on March 1, 2002. No brokers, underwriters or finders were involved. The entire aggregate net cash proceeds of \$920,000 are being used for working capital purposes. The notes issued by the Company to Pacific Mutual Life Insurance Company in the amounts of \$485,000 and \$435,000, respectively, were not registered under the Securities Act of 1933, in reliance upon Section 4(2) of that Act, as the notes were not offered to any other person and were taken for investment by Pacific Mutual Life Insurance Company. For these reasons the notes were not legended nor were stop-transfer instructions given in connection with the notes.

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

As of April 8, 1977 there were 1769 holders of record of the Company's common stock.

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

(a)

<u>Name</u>	<u>Age</u>	<u>Positions and Offices</u>
David J. Heerensperger	40	Chairman of the Board and President; Director
Halvor Knudtzon, Jr.	50	Secretary-Treasurer and Controller; Director
Harold F. Bacon	60	Vice President – Merchandising
Jerry Marlow	41	Vice President – Operations

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



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

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

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

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

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

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



## Item 10 – Financial Statements and Exhibits Filed

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

(b) Exhibits.

(1) Computation of weighted shares of common and common equivalent shares used in calculating primary earnings per share and computation of fully-diluted earnings per common and common equivalent share for the five years ended February 28, 1977.

## PART II

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

### SIGNATURE

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

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

By



Halvor Knudtzon, Jr.  
Treasurer

Dated: May 14, 1977



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

Consolidated balance sheet — February 28, 1977 and February 29, 1976

Consolidated statements of income, retained earnings and capital in excess of par value for the five years ended February 28, 1977 (Included in Item 2)

Consolidated statement of changes in financial position for the five years ended February 28, 1977

Notes to consolidated financial statements

Schedules for the years ended February 28, 1977 and February 29, 1976

V — Property, plant and equipment

VI — Accumulated depreciation of property,  
plant and equipment

XII — Reserves

XVI — Supplementary income statement  
information

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

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



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

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

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

We have examined the consolidated financial statements of Pay 'N Pak Stores, Inc. listed in the accompanying index to financial statements. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements listed in the accompanying index to financial statements present fairly the consolidated financial position of Pay 'N Pak Stores, Inc. at February 28, 1977 and February 29, 1976, the consolidated results of its operations and the consolidated changes in financial position for the five years ended February 28, 1977, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

**ARTHUR YOUNG & COMPANY**

Seattle, Washington  
March 25, 1977



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED BALANCE SHEET**  
February 28, 1977 and February 29, 1976

<u>ASSETS</u>		
	<u>1977</u>	<u>1976</u>
Current assets:		
Cash.....	\$ 738,897	\$ 815,722
Note and trade accounts receivable, less allowance of \$40,000 (\$34,622 in 1976) for doubtful accounts (Schedule XII) .....	288,869	447,319
Merchandise inventories, at the lower of cost (first-in, first-out) or market .....	24,042,732	17,691,688
Prepaid expenses .....	665,739	863,132
Total current assets .....	25,736,237	19,817,861
Other assets:		
Cost of acquired stores in excess of amounts assigned to net assets at dates of acquisition (Note 1(c)) .....	255,209	271,229
Pre-opening costs and other (Note 1(d)) .....	231,105	218,651
Non-competition agreements (Note 1(e)) .....	90,862	146,266
Total other assets .....	577,176	636,146
Property, plant and equipment, at cost (Notes 1(b) and 2) (Schedule V):		
Land .....	520,058	441,700
Buildings .....	1,849,521	1,455,958
Leasehold improvements .....	4,071,354	3,529,906
Store equipment .....	6,217,794	5,344,436
Transportation equipment .....	538,118	504,852
Construction in progress .....	164,502	369,107
	13,361,347	11,645,959
Less accumulated depreciation and amortization (Schedule VI) .....	3,601,594	2,921,425
	9,759,753	8,724,534
Properties held for development and/or investment .....	611,485	1,060,980
Net property, plant and equipment .....	10,371,238	9,785,514
	<u>\$36,684,651</u>	<u>\$30,239,521</u>

*See accompanying notes.*



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED BALANCE SHEET**  
February 28, 1977 and February 29, 1976

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<u>1977</u>	<u>1976</u>
Current liabilities:		
Notes payable to bank (Note 2) .....	\$ 700,000	\$
Accounts payable .....	7,680,704	5,596,863
Federal and state income taxes .....	595,521	450,943
Accrued liabilities:		
Payroll and profit sharing .....	691,621	459,716
Taxes, other than income .....	812,151	618,687
Interest and other .....	85,729	29,387
	<u>1,589,501</u>	<u>1,107,790</u>
Dividends payable (Note 3) .....	241,396	
Long-term debt due within one year .....	748,162	850,235
Total current liabilities .....	<u>11,555,284</u>	<u>8,005,831</u>
Long-term debt (Note 2) .....	9,020,548	8,225,894
Employee benefit plan (Note 4) .....	1,461,285	1,650,000
Deferred income (Note 1(b)) .....	125,427	132,291
Deferred income taxes (Note 1(f)) .....	292,849	105,362
Commitments (Note 5)		
Stockholders' equity:		
Preferred stock, without par value, 1,000,000 shares authorized, none issued		
Common stock, \$.10 par value, 5,000,000 shares authorized, 1,609,309 shares issued (1,519,275 in 1976, including 56,267 shares in treasury) (Note 6) .....	160,931	151,928
Capital in excess of par value .....	7,216,633	5,967,497
Retained earnings (Note 2) .....	8,312,979	8,203,053
	<u>15,690,543</u>	<u>14,322,478</u>
Treasury stock, at cost (Note 3) .....		(552,335)
Deferred employee benefits (Note 4) .....	(1,461,285)	(1,650,000)
Total stockholders' equity .....	<u>14,229,258</u>	<u>12,120,143</u>
	<u>\$36,684,651</u>	<u>\$30,239,521</u>

*See accompanying notes.*



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

	Year ended February 28 or 29				
	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Source of funds:					
Net income .....	\$1,459,801	\$1,857,300	\$2,226,045	\$2,574,624	\$3,030,823
Charges (credits) against income not involving working capital:					
Depreciation and amortization .....	865,571	1,065,709	1,211,434	1,274,083	1,496,384
Deferred federal income tax .....	1,749	1,749	30,945	163,648	187,487
Minority interest .....	14,299	13,468	22,090		
Net asset amount of land and equipment retired; (gain) loss on sale of assets .....	44,495	51,956	60,877	(46,155)	54,021
Working capital provided from operations .....	2,385,915	2,990,182	3,551,391	3,966,200	4,768,715
Increase in long-term debt .....	22,000	5,166,000	54,000	4,174,770	2,020,000
Exercise of stock options to purchase common stock .....	149,887				
Proceeds from sale; or sale and leaseback of properties .....	430,971	356,780	145,661	944,997	351,468
	<u>2,988,773</u>	<u>8,512,962</u>	<u>3,751,052</u>	<u>9,085,967</u>	<u>7,140,183</u>
Application of funds:					
Additions to property, plant and equipment .....	1,483,195	2,157,172	3,535,312	3,010,328	2,157,216
Cash dividends paid and payable .....	212,560	345,290	483,406	692,114	1,110,423
Reduction of long-term debt .....	69,882	395,392	418,259	957,200	1,225,346
Cost of investment in subsidiary and acquired stores in excess of amounts assigned to net assets .....	92,604				
Non-competition agreements .....	22,000			135,000	
Pre-opening costs and other .....	260,781	173,490	389,804	348,533	278,275
Increase (decrease) in notes receivable .....			245,201	(245,201)	
Purchase of minority interest in subsidiary .....	(7,500)		63,311		
Purchase of treasury stock .....				552,335	
	<u>2,133,522</u>	<u>3,071,344</u>	<u>5,135,293</u>	<u>5,450,309</u>	<u>4,771,260</u>
Increase (decrease) in working capital .....	<u>\$ 855,251</u>	<u>\$5,441,618</u>	<u>\$(1,384,241)</u>	<u>\$3,635,658</u>	<u>\$2,368,923</u>
For the increase (decrease) in the elements of working capital, see below:					
Cash and treasury bills .....	\$ 161,374	\$ (24,441)	\$ (437,485)	\$ 681,827	\$ (76,825)
Receivables .....	(331,822)	(172,537)	140,988	28,876	(158,450)
Merchandise inventories .....	4,364,139	1,347,963	186,879	2,231,458	6,351,044
Prepaid expenses .....	95,198	(52,273)	125,366	283,419	(197,393)
Notes payable .....	(1,600,000)	4,985,000	115,000	550,000	(700,000)
Accounts payable .....	(1,679,890)	(86,029)	(1,265,777)	249,498	(2,083,841)
Federal and state income taxes .....	(3,951)	(46,723)	(30,130)	33,765	(144,578)
Accrued liabilities .....	(142,642)	(185,390)	(195,873)	10,024	(481,711)
Dividends payable .....					(241,396)
Long-term debt due within one year .....	(7,155)	(323,952)	(23,209)	(433,209)	102,073
Increase (decrease) in working capital .....	<u>\$ 855,251</u>	<u>\$5,441,618</u>	<u>\$(1,384,241)</u>	<u>\$3,635,658</u>	<u>\$2,368,923</u>

*See accompanying notes.*



**PAY 'N PAK STORES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**February 28, 1977 and February 29, 1976**

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

(a) **Consolidation** — The financial statements consolidate the accounts of the parent company and its subsidiaries.

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

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

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

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

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

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

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

(g) **Per share information** — Net income per common share was determined on the weighted average number of such shares outstanding after giving retroactive effect to the 10% stock dividends declared on March 13, 1975 and on March 16, 1976.

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

At February 28, 1977, the Company has available an unused line-of-credit of \$3,300,000 under informal agreements with banks, which expire in June, 1977. The interest rate is at ½% above prime. The maximum amount of month-end short-term bank borrowings during the fiscal year ended February 28, 1977 was \$2,500,000 (\$2,950,000 in 1976), the approximate average daily amount of such borrowings was \$558,000 (\$1,225,000 in 1976) and the weighted daily average interest rate was 7.6% (8.0% in 1976).



**PAY 'N PAK STORES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued**  
**February 28, 1977 and February 29, 1976**

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

Long-term debt outstanding at February 28, 1977 and February 29, 1976 is shown in the following summary:

	<u>1977</u>	<u>1976</u>
9½% note payable to insurance company, due \$650,000 annually to 1987 and \$200,000 in 1988, plus interest .....	\$7,350,000	\$8,000,000
9⅝% to 9⅞% mortgage notes payable, due \$216,240 annually including interest to 2002, subject to call by holders in 1992 .....	2,019,152	
6½% to 9¾% contracts and notes payable, due \$103,842 annually including interest to 1980, \$50,607 in 1981 and reduced amounts to 1989 .....	399,558	760,054
10½% capitalized lease, paid in 1977 .....		316,075
	9,768,710	9,076,129
Less long-term debt due within one year .....	748,162	850,235
	<u>\$9,020,548</u>	<u>\$8,225,894</u>

Properties held for development and/or investment at a cost of \$189,681 and operating plant and equipment having a net book amount of \$2,368,020 are pledged as collateral for the above debt.

The loan agreement covering the 9½% note payable provides, among other matters, restrictions on the payment of cash dividends, redemption or reacquisition of the Company's stock and payment of certain stockholder-employee compensation. At February 28, 1977, retained earnings of \$1,251,959 was not restricted.

Payments on the principal of long-term debt for the four years ending February 28, 1982 are required as follows: 1979 — \$756,000; 1980 — \$768,000; 1981 — \$718,000; 1982 — \$704,000.

**3. Dividends and treasury stock**

In 1977 cash dividends of \$.54 per share were paid. In addition, a \$.15 per share cash dividend for the first quarter of 1978 was declared January 14, 1977 to shareholders of record on April 8, 1977, payable April 29, 1977.

In 1976, the Company exchanged the assets (\$518,786) of two retail stores, located in California, for 56,267 shares of common stock held by a former officer/director. The basis of the exchange was the net book amount of the Company's common stock (\$9.22 per share) at November 30, 1975. Costs associated with this non-taxable transaction and related unamortized intangible costs of \$33,549 have been included in the cost of these shares held as treasury stock at February 29, 1976. These treasury shares were retired in 1977.



**PAY 'N PAK STORES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued**  
**February 28, 1977 and February 29, 1976**

**4. Employee benefit plan**

During 1976, the Company adopted amendments to the existing Profit Sharing Plan and Trust to convert them to an Employee Stock Ownership Plan (ESOP) and Trust (ESOT). All employees participate in the ESOP after three years of employment.

In December 1975, the ESOT purchased from a former officer/director of the Company (Note 3) 150,612 shares of the Company's common stock at a cost of \$1,656,732. The price paid per share was less than the then market price per share and was a taxable transaction to the officer/director. These funds were borrowed from a bank by the ESOT and are payable at \$62,500 per quarter to 1982 including interest at 2¼% above prime. The Company has guaranteed repayment of the loan. The obligation of the ESOT is expected to be serviced through future Company contributions (\$279,166 in 1977 and \$218,596 in 1976) and dividends paid on the common stock. Therefore, the obligation has been reflected in the accompanying consolidated balance sheet as a liability. An amount equal to the unpaid balance of the loan, representing deferred employee benefits, is recorded as a reduction from stockholders' equity.

**5. Commitments**

The Company leases substantially all retail store facilities. Rent expense during the years ended February 28, 1977 and February 29, 1976 was as follows:

	1977	1976
Operating leases .....	\$ 951,938	\$ 770,714
Non-capitalized financing leases .....	1,437,957	1,372,083
	<u>\$2,389,895</u>	<u>\$2,142,797</u>

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

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

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

	Total commitment	Applicable to non-capitalized financing leases
	(000's omitted)	
1978 .....	\$2,102	\$1,313
1979 .....	\$2,047	\$1,315
1980 .....	\$1,964	\$1,316
1981 .....	\$1,898	\$1,317
1982 .....	\$1,824	\$1,319
1983 - 1987 .....	\$7,373	\$6,414
1988 - 1992 .....	\$6,034	\$5,711
1993 - 1997 .....	\$4,081	\$3,942
1998 - 2002 .....	\$1,071	\$1,028

Present values of minimum lease commitments for non-capitalized financing leases aggregate \$10,697,000 and \$9,792,000 at February 28, 1977 and February 29, 1976, respectively.



**PAY 'N PAK STORES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued**  
**February 28, 1977 and February 29, 1976**

**5. Commitments, continued**

If all non-capitalized financing leases were capitalized, related assets were amortized on a straight-line basis over estimated useful lives of 15 to 25 years and interest cost was accrued on the basis of the outstanding lease liability, the impact on net income for the years ended February 28, 1977 and February 29, 1976 would be as follows:

Pro forma adjustments:	<u>1977</u> (000's omitted)	<u>1976</u>
Reduction of rental expense .....	\$(1,236)	\$(1,184)
Increase in amortization expense .....	520	484
Increase in interest expense .....	912	861
Income tax effects .....	(94)	(77)
Pro forma decrease in net income .....	<u>\$ 102</u>	<u>\$ 84</u>

The interest rates used in discounting net lease commitments vary from 7% to 12%, which are similar to the rates implicit in the terms of sale and leaseback agreements negotiated by the Company. The weighted average interest rate was 9.3% and 9.2% at February 28, 1977 and February 29, 1976, respectively.

**6. Event subsequent to the date of the report of certified public accountants.**

On April 21, 1977, the Board of Directors declared a 3 for 2 stock split which is issuable in the form of a 50% stock dividend on July 29, 1977 to stockholders of record July 8, 1977. The stock split does not have an effect on total stockholders' equity. See Note (f) of Notes to Consolidated Statement of Income.



**PAY 'N PAK STORES, INC.**  
**SCHEDULE V – PROPERTY, PLANT AND EQUIPMENT**  
Years ended February 28, 1977 and February 29, 1976

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions at cost</u>	<u>Retirements or sales</u>	<u>Balance at close of period</u>
1976:				
Land.....	\$ 366,700	\$ 183,500	\$ 108,500*	\$ 441,700
Buildings.....	995,012	922,393	461,447*	1,455,958
Leasehold improvements.....	3,015,832	645,721	131,647	3,529,906
Store equipment.....	4,188,763	1,291,309	135,636	5,344,436
Transportation equipment.....	222,323	453,963	171,434	504,852
Construction in progress.....	756,432	(387,325)		369,107
	<u>9,545,062</u>	<u>3,109,561</u>	<u>1,008,664</u>	<u>11,645,959</u>
Properties held for development and/or investment.....	1,230,442	(99,233)	70,229	1,060,980
	<u>\$10,775,504</u>	<u>\$ 3,010,328</u>	<u>\$ 1,078,893</u>	<u>\$12,706,939</u>
1977:				
Land.....	\$ 441,700	\$ 98,358	\$ 20,000*	\$ 520,058
Buildings.....	1,455,958	416,688	23,125*	1,849,521
Leasehold improvements.....	3,529,906	638,956	97,508	4,071,354
Store equipment.....	5,344,436	1,246,044	372,686	6,217,794
Transportation equipment.....	504,852	46,042	12,776	538,118
Construction in progress.....	369,107	(204,605)		164,502
	<u>11,645,959</u>	<u>2,241,483</u>	<u>526,095</u>	<u>13,361,347</u>
Properties held for development and/or investment.....	1,060,980	(84,267)	365,228	611,485
	<u>\$12,706,939</u>	<u>\$ 2,157,216</u>	<u>\$ 891,323</u>	<u>\$13,972,832</u>

\*Properties sold and leased back.

**SCHEDULE VI – ACCUMULATED DEPRECIATION OF  
PROPERTY, PLANT AND EQUIPMENT**  
Years ended February 28, 1977 and February 29, 1976

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions charged to income</u>	<u>Retirements or sales</u>	<u>Balance at close of period</u>
1976:				
Buildings.....	\$ 26,537	\$ 44,377	\$ 8,652*	\$ 62,262
Leasehold improvements.....	709,727	257,427	35,668	931,486
Store equipment.....	1,331,771	614,794	57,932	1,888,633
Transportation equipment.....	59,814	57,030	77,800	39,044
	<u>\$ 2,127,849</u>	<u>\$ 973,628</u>	<u>\$ 180,052</u>	<u>\$ 2,921,425</u>
1977:				
Buildings.....	\$ 62,262	\$ 44,782	\$ 10,329*	\$ 96,715
Leasehold improvements.....	931,486	323,196	97,508	1,157,174
Store equipment.....	1,888,633	736,493	370,938	2,254,188
Transportation equipment.....	39,044	61,532	7,059	93,517
	<u>\$ 2,921,425</u>	<u>\$ 1,166,003</u>	<u>\$ 485,834</u>	<u>\$ 3,601,594</u>

\*Properties sold and leased back.



**PAY 'N PAK STORES, INC.**  
**SCHEDULE XII – RESERVES**  
Years ended February 28, 1977 and February 29, 1976

	<u>Balance at beginning of period</u>	<u>Additions to income charged</u>	<u>Deductions accounts written-off</u>	<u>Balance at close of period</u>
Allowance for doubtful accounts deducted from the asset to which it applies:				
1976.....	\$ 58,943	\$ 38,848	\$ 63,169	\$ 34,622
1977.....	\$ 34,622	\$123,656	\$118,278	\$ 40,000

**SCHEDULE XVI – SUPPLEMENTARY INCOME STATEMENT INFORMATION**

Years ended February 28, 1977 and February 29, 1976

	<u>Charged to costs and expenses for years ended February 28 or 29</u>	
	<u>1977</u>	<u>1976</u>
Taxes other than taxes on income.....	\$1,413,049	\$1,211,294
Depreciation (Schedule VI).....	\$1,166,003	\$ 973,628
Rent – charged to:		
Rent.....	\$2,389,895	\$2,142,797
Selling and administrative.....	128,351	181,467
Total rent expense.....	\$2,518,246	\$2,324,264
Advertising.....	\$2,717,324	\$2,533,016

There were no royalties paid during the period. Maintenance and repairs and amortization of intangible assets did not exceed one percent of net sales.

Depreciation and amortization as shown on Consolidated Statement  
of Changes in Financial Position:

Depreciation – Schedule VI.....	\$1,166,003	\$ 973,628
Amortization of cost of acquired stores in excess of amounts assigned to net assets at dates of acquisition.....	16,020	17,280
Amortization of deferred gain on sale and leaseback of properties – credited to rent expense.....	(6,864)	(6,864)
Amortization of non-competition agreements.....	55,404	3,144
Amortization of pre-opening costs.....	263,669	286,895
Amortization of loan fees.....	2,152	
	<u>\$1,496,384</u>	<u>\$1,274,083</u>



**PAY 'N PAK STORES, INC.**  
**SCHEDULE OF COMPUTATION OF WEIGHTED AVERAGE SHARES**  
**OF COMMON AND COMMON EQUIVALENT SHARES**  
**USED IN CALCULATING PRIMARY EARNINGS PER SHARE**

<u>Date</u>	<u>Year ended February 28 or 29</u>				
	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Shares of common stock outstanding:					
Balance beginning of year (1).....	1,637,625	1,671,203	1,671,203	1,671,203	1,609,309
Options exercised:					
6-15-72 @ \$3.62 per share.....	9,680				
6-22-72 @ \$9.89 per share.....	4,538				
8-30-72 @ \$3.62 per share.....	9,680				
11-10-72 @ \$3.62 per share.....	9,680				
Purchase of treasury shares:					
12-31-75 @ \$8.38 per share.....				(61,894)	
Balance end of year.....	<u>1,671,203</u>	<u>1,671,203</u>	<u>1,671,203</u>	<u>1,609,309</u>	<u>1,609,309</u>
Number of shares used to compute primary net income per share:					
Weighted average number of common shares outstanding.....	1,655,977	1,671,203	1,671,203	1,660,887	1,609,309
Common stock equivalent shares (2)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
	<u>1,655,977</u>	<u>1,671,203</u>	<u>1,671,203</u>	<u>1,660,887</u>	<u>1,609,309</u>



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

	Year ended February 28 or 29				
	1973	1974	1975	1976	1977
Net income.....	<u>\$1,459,801</u>	<u>\$1,857,300</u>	<u>\$2,226,045</u>	<u>\$2,574,624</u>	<u>\$3,030,823</u>
Common and common equivalent shares:					
Average shares outstanding during the year (1).....	1,655,977	1,671,203	1,671,203	1,660,887	1,609,309
Potentially dilutive shares which affect fully diluted earnings per share — issuable for stock options.....	<u>15,664</u>	<u>113</u>			
Maximum potential shares included in computation of fully-diluted earnings per share.....	<u>1,671,641</u>	<u>1,671,316</u>	<u>1,671,203</u>	<u>1,660,887</u>	<u>1,609,309</u>
Fully-diluted earnings per share (1).....	<u>\$ .87</u>	<u>\$1.11</u>	<u>\$1.33</u>	<u>\$1.55</u>	<u>\$1.88</u>

The Consolidated Statement of Income does not include fully-diluted earnings per share data because the dilutive effect of stock options was not material in any year.

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

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