

PACIFIC

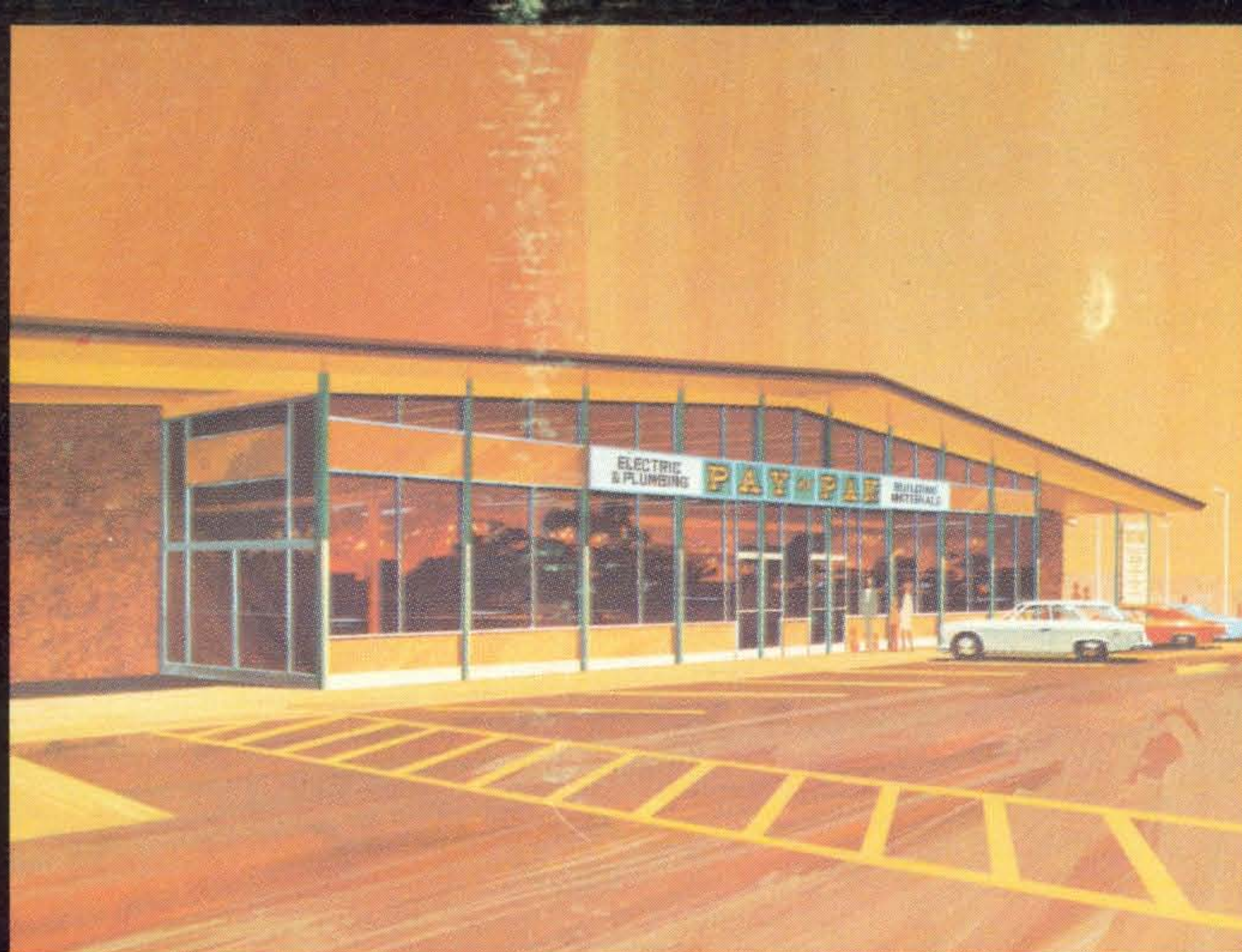
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Business & Economics  
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NOV 16 1973

ANNUAL REPORT

ROOM 204



# Pay 'N Pak Stores, Inc. Annual Report 1972





# Your company?

■ Pay 'N Pak Stores, Inc. is engaged in the retail sale of complete lines of quality home improvement products, including electrical, lighting and plumbing fixtures, cabinets, built-in appliances, building materials, hand tools and floor coverings.

Sales are primarily to the do-it-yourself customer on a cash-and-carry basis. Sales personnel are constantly trained to give customers advice concerning installation and use of products carried in the stores. Six stores carry lines of automotive parts and accessories and sporting goods.

The company operates 39 stores in the western United States and Alaska and one store in British Columbia, Canada.

The management is engaged in an aggressive and balanced expansion of stores.

Pay 'N Pak Stores, Inc. corporate offices are located at 1209 South Central Avenue, Kent, Washington, a suburb of Seattle.

## Cover story

■ Fiscal 1972, ended February 29, 1972, has been a year of growth and foundation for growth. The cover illustration, as evidence of that growth, shows renderings of the four new stores opened during the year. Reading from top, with the opening dates, they are Sacramento, California, June 13; Portland, Oregon, July 11; Anchorage, Alaska, December 15, and Wichita, Kansas, January 2.

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## Transfer Agents

Peoples National Bank of Washington  
Seattle, Washington

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

## Bank

Peoples National Bank of Washington  
Seattle, Washington



# Board of Directors



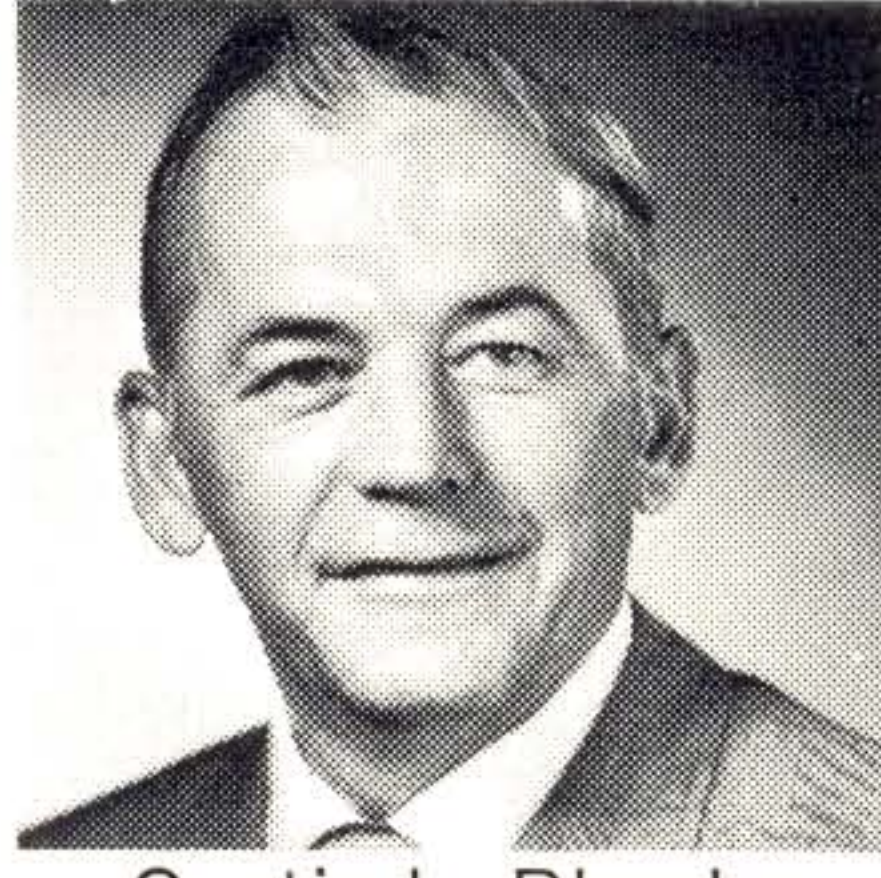
David J. Heerensperger  
*Chairman of the Board*



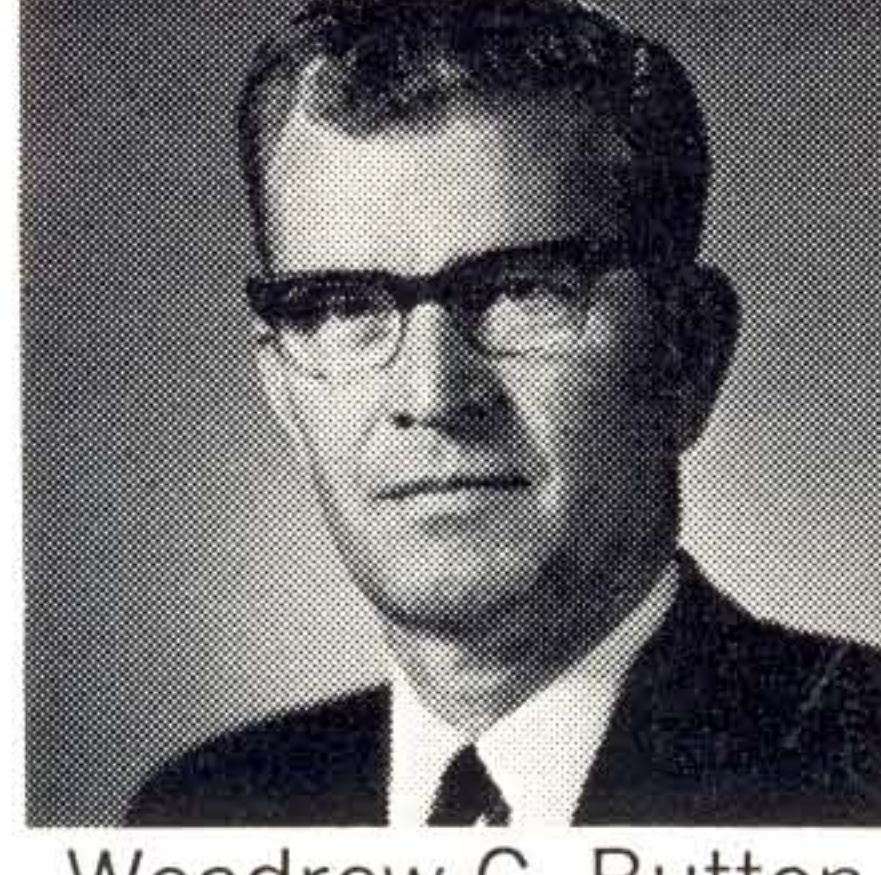
John M. Headley  
*President*



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



Curtis L. Rhodes  
*Director of Purchasing*



Woodrow C. Button  
*President,  
Bank of Cowlitz County,  
Longview, Washington*



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

# Financial Highlights

Year ended	February 29 1972	February 28 1971
Revenues	\$30,927,898	\$21,806,396
Income before federal income tax	\$ 2,159,004	\$ 1,512,778
Income from continuing operations	\$ 1,147,472	\$ 785,272
(Loss) from discontinued operations		\$ (98,692)
Net income	\$ 1,147,472	\$ 686,580
Average number of common shares	1,338,409	1,330,742
Per common share:		
Income from continuing operations	\$ .86	\$ .59
(Loss) from discontinued operations		(.07)
Net income per share	\$ .86	\$ .52

# Officers

- David J. Heerensperger  
*Chairman of the Board, Chief Executive Officer*
- John M. Headley  
*President, Chief Operating Officer*
- Halvor Knudtson, Jr.  
*Secretary-Treasurer, Controller*
- Harold F. Bacon  
*Vice President, Advertising Director*

Pay 'N Pak  
Stores, Inc.  
Annual Report  
1972





## Report to the shareholders

■ Pay 'N Pak's fiscal year 1972 was a year in which your company pursued its growth objectives more vigorously than ever before.

We are pleased to report that your company achieved record sales for the year and a substantial increase in net earnings.

Revenues totaled \$30,927,898 as compared with \$21,806,396 in fiscal 1971, an increase of 41.8 percent.

Net income after taxes was \$1,147,472 as compared with \$785,282 (from continuing operations) the previous year, an increase of 46

percent. Per share income was 86 cents on the weighted average number of common shares outstanding in fiscal 1972 of 1,338,409 compared with 59 cents a share on 1,330,742 shares outstanding in fiscal 1971.

Your company was able to achieve the foregoing results in spite of the fact that gross margins were adversely affected by the price freeze. Additionally, your company was faced with higher salary costs, property taxes and rents. Nonetheless, management was able to offset these problems through a greatly expanded sales effort coupled with reduced ad-



ministrative costs (as a percent of sales). This enabled us to improve our net profit margin.

A dividend of 15 cents per share was paid to stockholders in fiscal 1972.

In November 1971 a secondary offering of 435,159 shares of common stock of Pay 'N Pak Stores, Inc. was made. This sale broadened the market for the company's shares with negligible dilution because the number of outstanding shares remained substantially the same.

This year the company opened new stores in Sacramento, California; Portland, Oregon; Anchorage, Alaska and Wichita, Kansas, adding 119,200 square feet of selling and warehouse space. The new stores in Portland and Sacramento were the second in each city thus adding to market penetration. In July the company replaced an older store in Salem, Oregon with a new 18,000 square foot store. Work was also started on new stores in Tulsa, Oklahoma; Burnaby, (Vancouver area), B. C., Canada and Tacoma, Washington, all of which are now in operation. In addition, three existing stores were remodeled to add sporting goods departments. This is all part of your company's continuing plan to expand in the major growth areas of the United States and Canada. While the new stores increased sales volume, your company is pleased to report a store-for-store (stores 2 years old or older) sales increase of 23.5 percent as compared to the previous fiscal year.

Your company's growth during the past year reflected the improved condition of our industry, increased housing starts, increased remodeling activity and lower interest rates. It also reflects the performance of your new management team which completed its second year in office.

Your management recognizes that the development of sales, executive and staff personnel is the life-blood of any business. To this end we have emphasized our training program which culminated in a week long seminar which provided us with twenty-nine graduates trained to take on additional managerial responsibilities.

Much has been written about economic conditions in the Seattle area, which of course is important to your company because the area accounts for a substantial portion of total sales. For the past six months the economy of the Seattle area has been on the upward trend. It should be pointed out that Pay 'N Pak's identical store-for-store sales in the Seattle area showed a 12.5 percent sales gain in fiscal 1972 over the previous year. Additionally, however, as Pay 'N Pak expands its operation to other geographical areas its dependency upon the Seattle area market is being reduced. For example, in fiscal 1970 Seattle area sales accounted for 42.5 percent of the company's volume; in fiscal 1971 the percentage was reduced to 33.3 percent, and in 1972 to 28 percent.

We are particularly appreciative of the faith and confidence that our employees and shareholders have shown us during the past year and hope that we may continue to merit this trust.

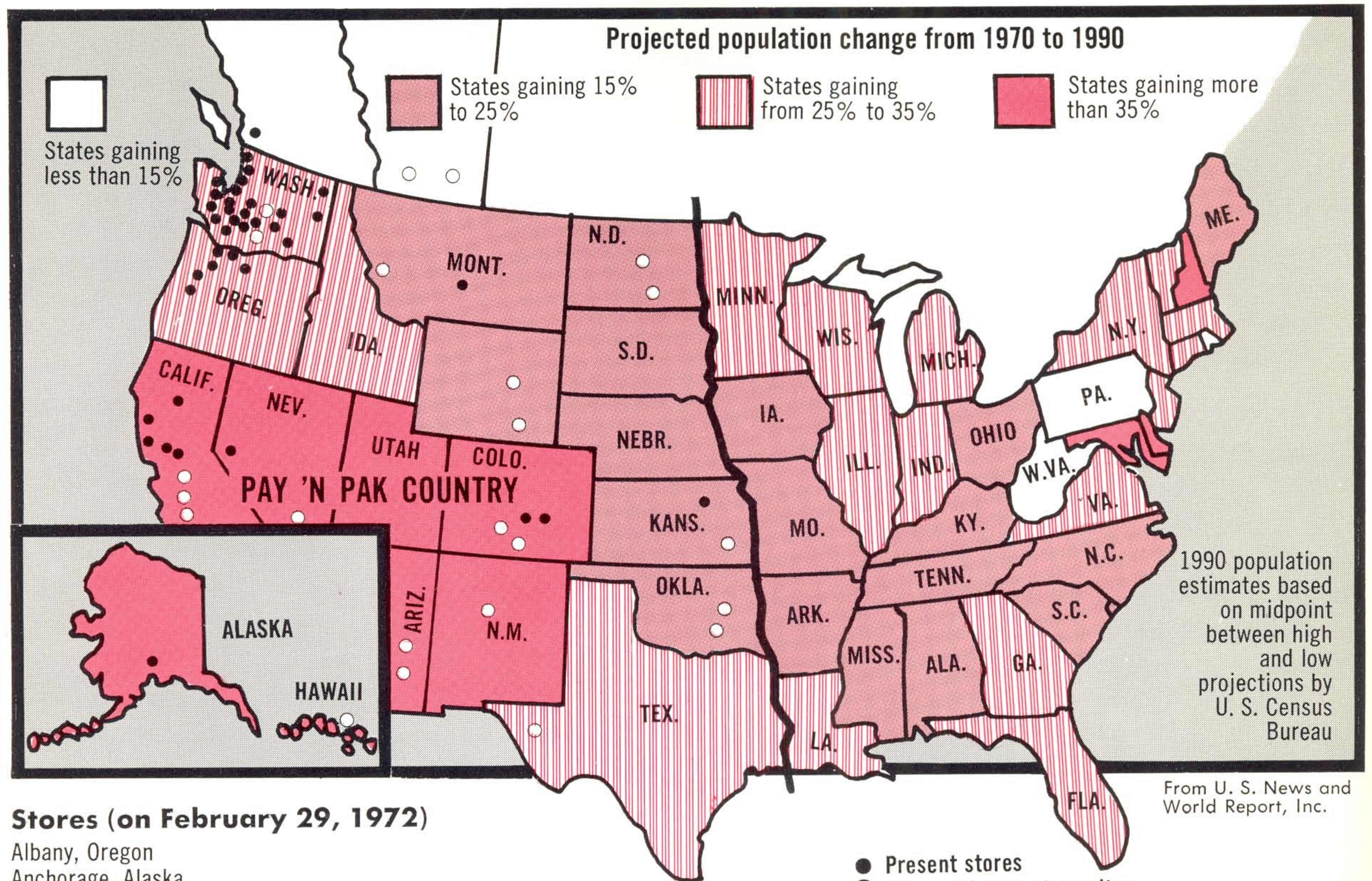


David J. Heerensperger  
*Chairman of the Board*



John M. Headley  
*President*





### Stores (on February 29, 1972)

Albany, Oregon  
Anchorage, Alaska  
Aurora, Colorado  
Bellingham, Washington  
Billings, Montana  
Bremerton, Washington<sup>1</sup>  
Denver, Colorado  
Eugene, Oregon  
Everett, Washington  
Kennewick, Washington  
Kent, Washington (3)  
Longview, Washington  
Moses Lake, Washington  
Mount Vernon, Washington  
Napa, California<sup>2</sup>  
Portland, Oregon (3)  
Olympia, Washington  
Redding, California  
Redmond, Washington  
Reno, Nevada  
Sacramento, California (2)  
Salem, Oregon  
Santa Rosa, California  
Seattle, Washington (4)  
Spokane, Washington (2)  
Tacoma, Washington (2)  
Wenatchee, Washington  
Wichita, Kansas  
Vancouver, B.C., Canada  
Yakima, Washington

<sup>1</sup> 75% company owned subsidiary

<sup>2</sup> Franchise terminated after February 29th and store no longer associated with company.

## Growth patterns

■ Two new states, Kansas and Alaska, were added to Pay 'N Pak country in fiscal 1972, to go along with Washington, Oregon, California, Nevada, Montana, Colorado and British Columbia, Canada, making a total of 8 states and Canada at the end of the year.

The states of Nevada, California, Utah, Colorado, Arizona, New Mexico, Alaska and Hawaii are predicted for the greatest population growth by U. S. census figures in the period to 1990. These states are closely followed by Washington, Oregon, Idaho, and Texas, with Oklahoma, Kansas and the Dakotas above average.

The additions tentatively planned for as shown on the map on this page represent our future expansion goals.

Early in the first half of this year new stores will open in Tulsa, Oklahoma and Pueblo, Colorado. A new large, full-line store (including building materials, electric, plumbing, automotive supply and sporting goods) will replace existing outmoded stores in Vancouver, British Columbia and Tacoma, Washington. The second half of the year will see the opening of a third store in Portland, Oregon, and larger stores in Yakima and Olympia, Washington and Santa Rosa, California replacing small units in these cities.



## People and organization for growth

■ Any company's growth is in direct relationship to the growth capability of its people. It is the policy of Pay 'N Pak management to offer personal growth opportunities to its people that attracts decision makers at every level of the corporation. Twenty-three key people make up the present management team. Each staff member enjoys a distinct area of responsibility utilizing his or her experience. The staff furnishes the tools to back up the people who make it happen—the store personnel who daily meet the customer.

An effective and valuable two-way flow of communication is implemented by the District Managers, constantly in contact with the stores.

A "people" concept exists. It starts with the individual customer and his buying needs and habits. This concept includes people within the company whose merchandising and selling skills must constantly be developed. This includes motivation to perform well in all phases of store operation.

The company's full-time training director contributes to this internal "people" concept with a constant program of product and technique training and constantly searches out, discovers and trains new management potential among our personnel. In tribute to the effectiveness of this program all of today's store managers and company district managers have come from this internal program.

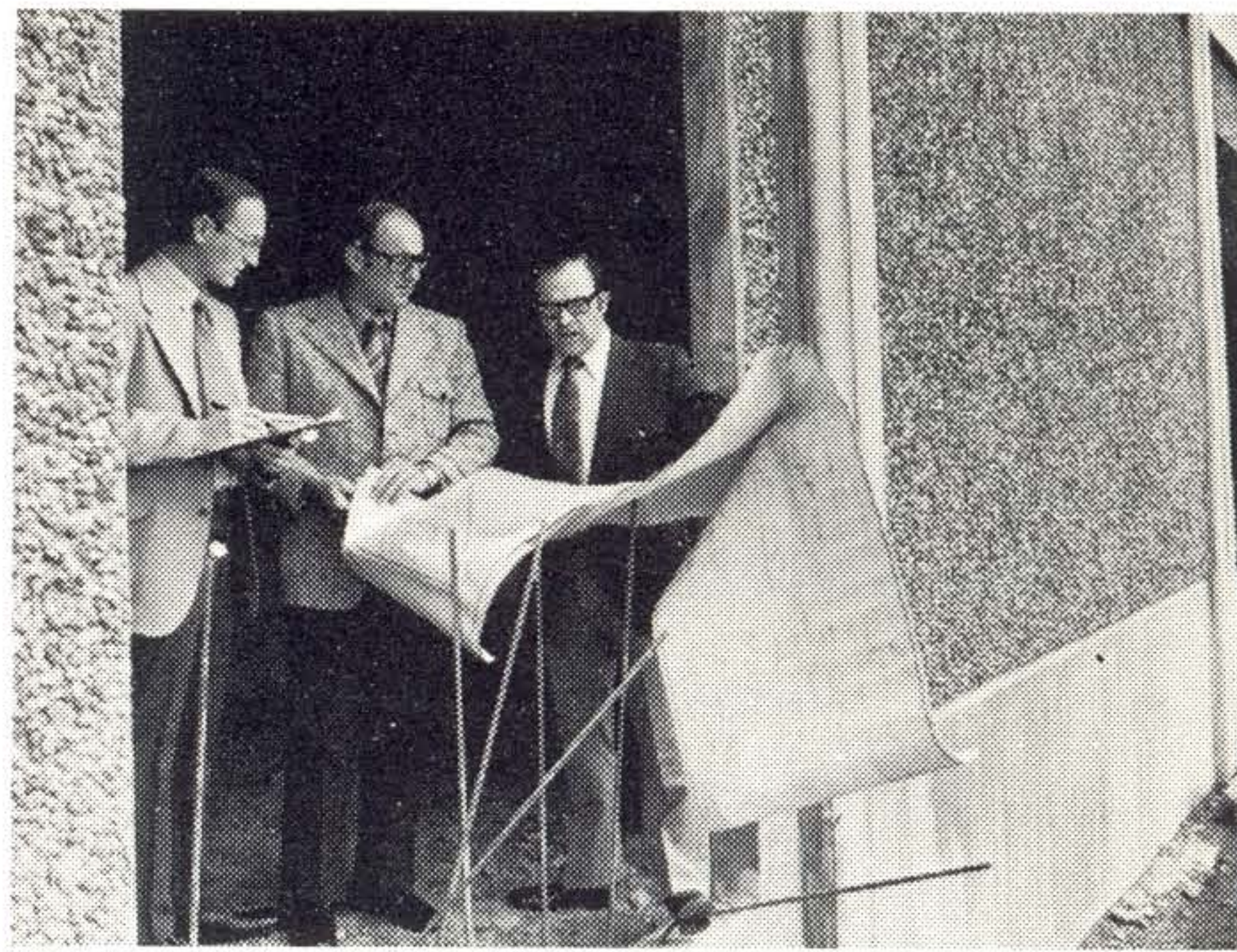
Our new store development group is fully capable of preparing the plans for completing six new stores per year and has the capability to increase this number.

A new employee's training begins with his first day. He receives an eighteen page informational brochure explaining company policies, a detailed job description and explanations on the company's group health and profit sharing programs. He then receives his orange and white striped shirts which will mark him as a future skilled, career expert ready to advise and assist any customer. The new employee is rotated throughout the various areas of the store until a complete orientation is attained.

He also learns of the company's promotion-from-within policy.

## Incentives for growth

■ Each store is on an incentive bonus plan in which both the manager and the crew shares. The manager's bonus is based upon his store's gross and net profit and inventory turns. Each employee's bonus is based upon his individual store volume and gross profit.



*The new store development team is constantly on the go . . .*



*The staff and assistants co-ordinate all phases of centralized management.*



*The new sound proof data processing room has increased efficiency.*



*Training seminars prepare Pay 'N Pak personnel for advancement.*



There are company "get-togethers" at a central area in preparation for special sales events.

A unique "Selling is Serving" program rewards two employees from the total store group each month with a plaque in their respective stores, and a substantial bonus check and the distinctive "Selling is Serving" ring. This highly coveted award is for a service or services above and beyond the normal call of duty.

The corporation gives preference to the employment of aggressive, clean-cut, young-thinking people whose qualities of enthusiasm and attitude will assist in the growth of the company. Our people know they will be helped to the opportunity to grow and will not be overlooked as that growth presents new job opportunities.

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

The Pipeyard Gazette, the company's bi-monthly news publication is an excellent communications tool. It is, in part, written by 40 reporters in the stores, has grown to a size of 14 pages with over 60 photographs and is mailed to every employee's home. Twice a year it is also sent to stockholders and suppliers to give them an added insight into the company.

## Product mix for continuing growth

■ The increase in the scope of the do-it-yourself market has rounded out the merchandise mix for our stores.

A few short years ago few people would consider a do-it-yourself installation of carpet. Today, thanks to mounting installers costs and easier installing products and methods, self installation of carpet has become a common practice. Carpet squares, carpet for your pool, patio, kitchen or bath hastened this result and added to the scope of carpet sales.

Much the same evolution has occurred in shelf shops and home decorative items and these items have become standbys with our stores.

Items of a different nature and seasonal items have been added and have enriched our merchandise mix.

The demographics of our customer profile (primarily adult male) has been instrumental in the good measure of acceptance sporting goods has enjoyed when added to our automotive supply stores.

New techniques have been utilized in merchandise displays. More products are shown in settings to demonstrate how the product will look in your home.



*Graduation day at the training seminar launches a new Pay 'N Pak manager.*



*Continual training pays off whenever you sell the do-it-yourselfer.*



*The proved technique of know your product follows through the sporting goods sales program.*



*Products displayed as they would look in your home, a Pay 'N Pak tradition.*



Famous name brands that our customers know and trust are still the backbone of this product mix for sustained growth.

## Market motivation for growth

■ Prerequisite to being one of the nation's fastest growing retailers is having an innovative, aggressive advertising strategy. The past three years have seen an increase in Pay 'N Pak's advertising capability.

Breaking sales records has become a pleasant habit for the company's relatively small but solidly professional advertising group. The goals of every person in the group are to keep the customers coming in and to steadily upgrade the effectiveness of their contribution.

Three extensive chain-wide special sales events are conducted each year to complement and stimulate the regular weekly advertising program largely done in newspapers. Each of these events utilizes almost three million pre-printed tabloids of 8 to 12 page size done in multicolor. These tabloids are then distributed in thirty-one papers in thirty-one cities. These events in fiscal 1972 have increased sales volume very significantly.

All stores share the benefits of centralized management, purchasing and advertising.

The company continues to be identified with big-time sports activity and benefits materially from this image.

These activities include the nationally competitive Pride of Pay 'N Pak, U-25, unlimited hydroplane (expected by many to be the National Champion this year), the western champion Pride of Pay 'N Pak AA/Fuel dragster and Funny Car, the Northwest Regional Championship fast pitch softball team and numerous fast pitch contenders from other Pay 'N Pak cities. Little League ball clubs and a championship hockey team round out the image making value of this participation in sports.

The internal spirit making value of these activities among our personnel is almost immeasurable.



## The staff and assistants

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

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

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

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

Curtis L. Rhodes, *Purchasing Director*

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

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

John Mead, *District Manager, Automotive and Sporting Goods*

Russell S. Morgan, *District Manager, Western Washington*

Gerald Newenhof, *District Manager, Canada*

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

Terri Clevenger, *Training Director*

Peter W. Gallina, *New Store Development Director*

John B. Regan, *Real Estate Director*

Ralph Beniasch, *Purchasing Agent*

Glenn Geisey, *Purchasing Agent*

Bud Larsen, *Purchasing Agent*

Rod Shutt, *Purchasing Agent*

Thomas J. McCloskey, *Assistant Controller*

William Gottbreht, *Office Manager*

Clemens Erlander, *Assistant, Advertising*

Paul Morris, *Assistant, New Store Development*

Gerald Wishman, *Security and Procedures Assistant*





A.



B.



D.



C.

*The district managers  
a vital link in communication.*

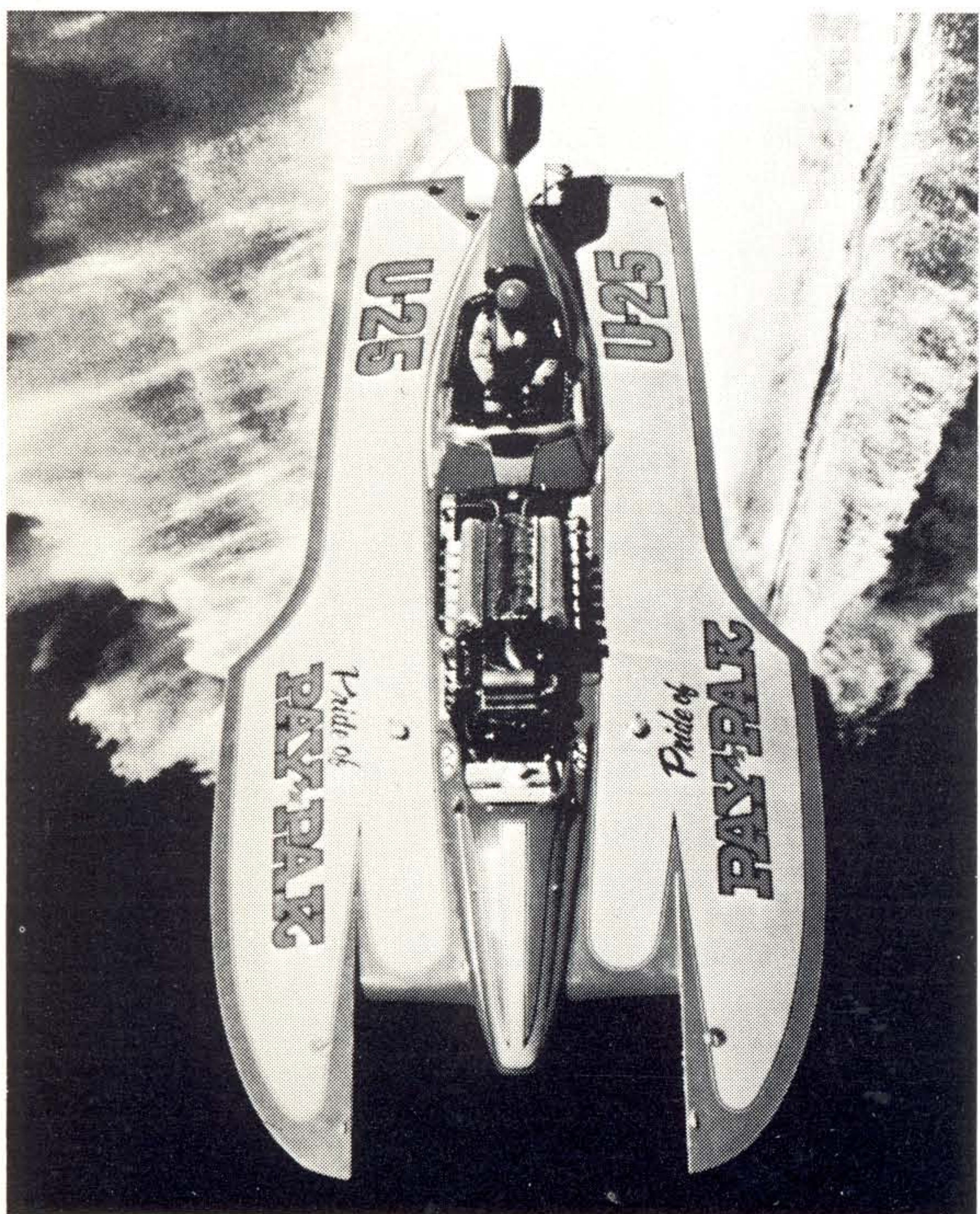
A. Monte Leen, California, Oregon, Nevada district manager meets with Mr. Headley in the field.

B. John Mead, Automotive district manager discussed a 'direct buy' with Mr. Heerensperger and Mr. Headley.

C. Russ Morgan, Western Washington district manager and Mr. Headley at a new store opening in his district.

D. Jerry Marlow, Eastern Washington district manager formulates special events for his district with Hal Bacon.

E. Ray White, Colorado, Kansas and Oklahoma district manager checks personnel's training proficiency with Terri Clevenger.

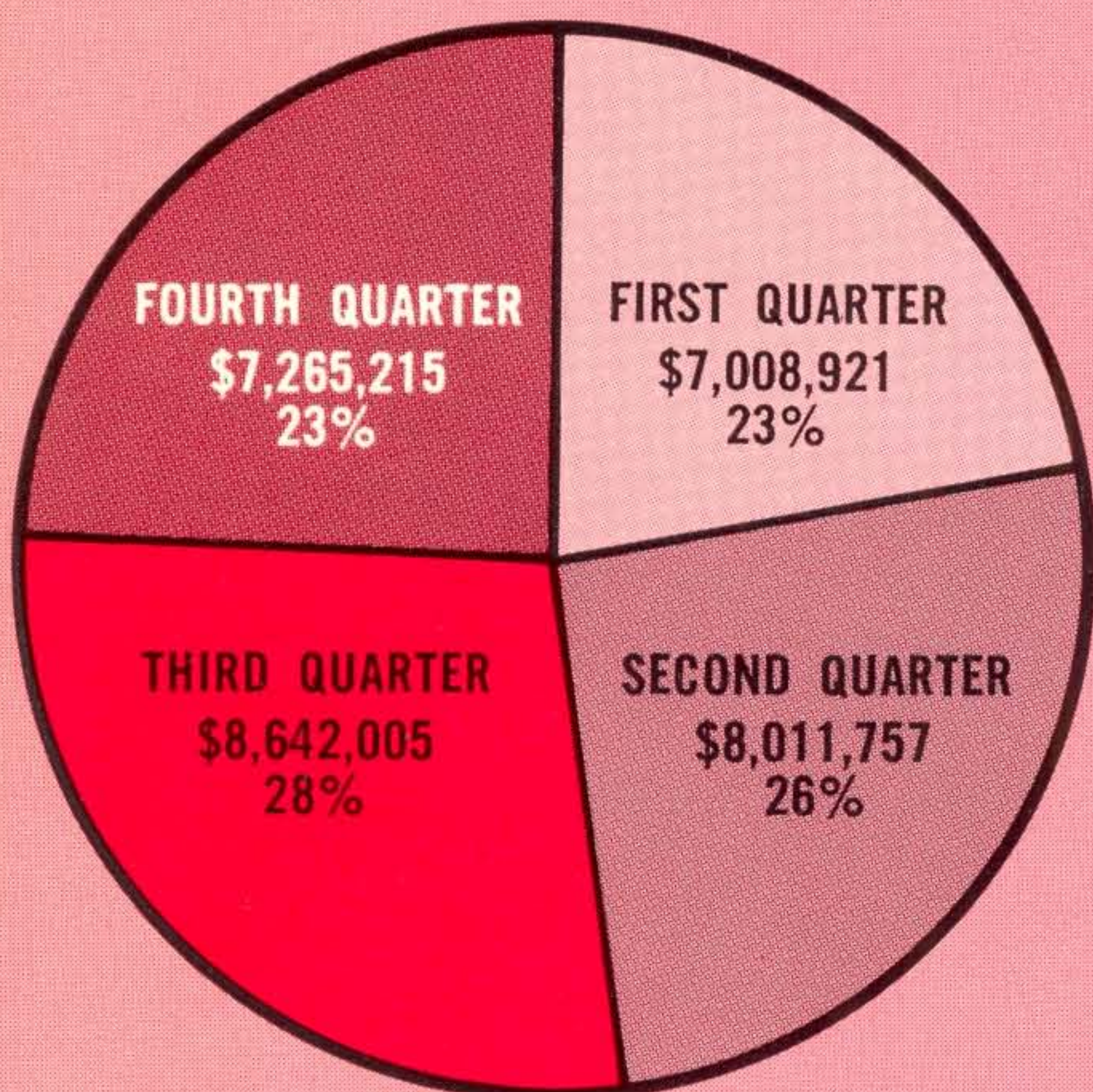


*The Pride of Pay 'N Pak carries the company banner on the unlimited hydroplane circuit accruing publicity for name exposure.*

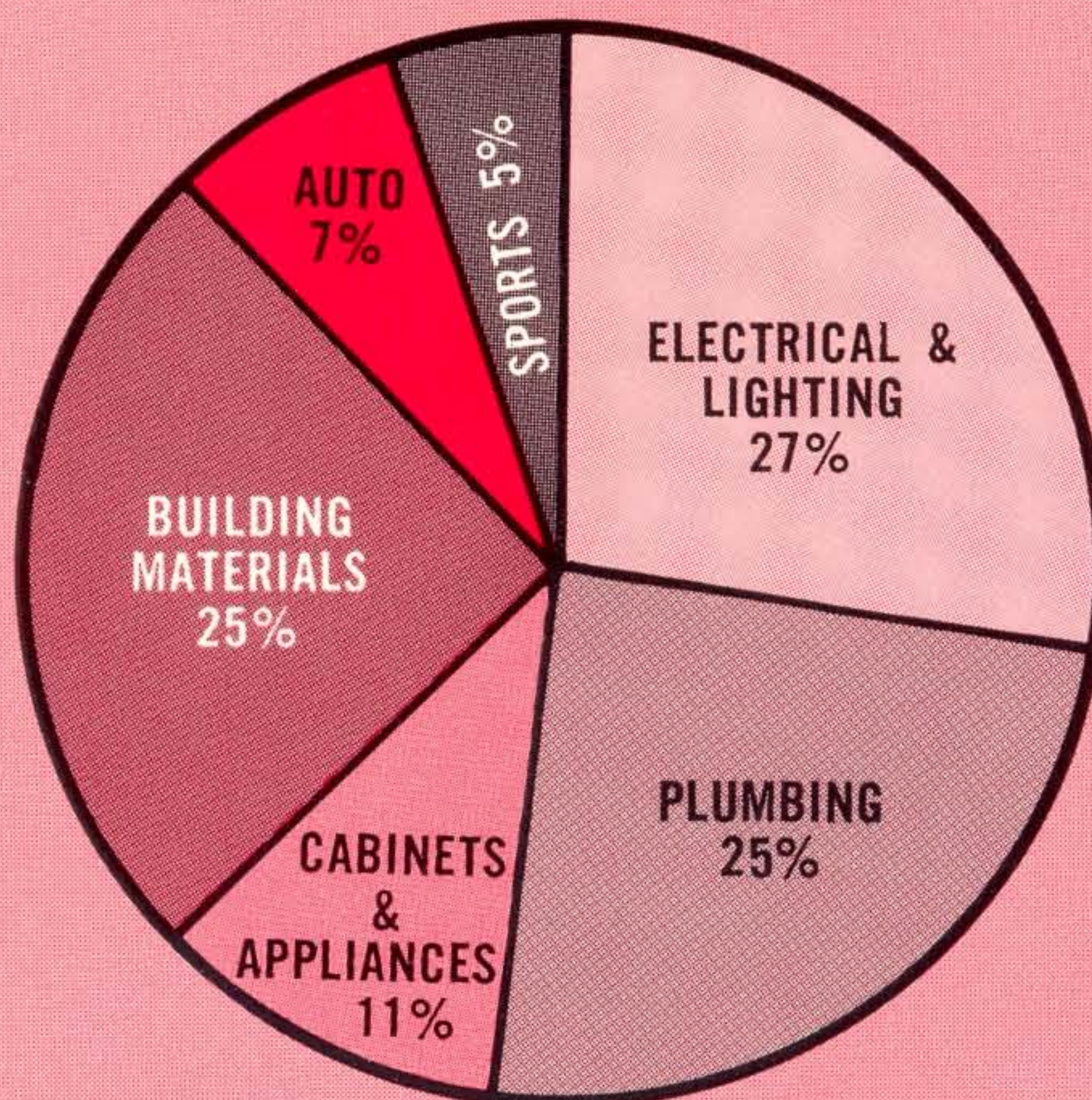


E.

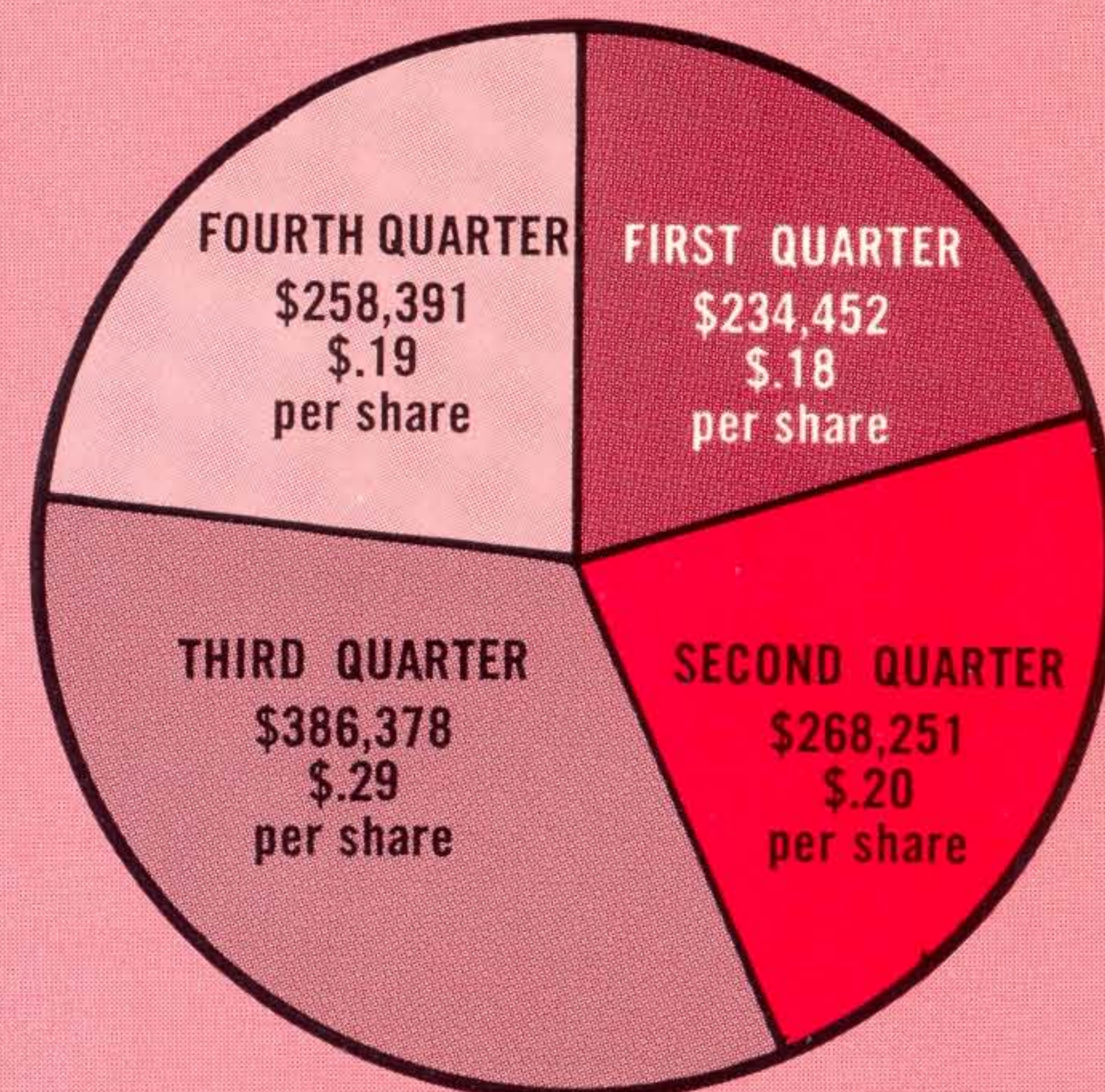




1972 REVENUES  
BY QUARTERS



SALES % BY MERCHANDISE  
CATEGORIES



1972 EARNINGS  
BY QUARTERS



Almost ten million preprinted multicolor tabloid newspaper sections are prepared annually and highlight 3 major promotions each year. This aggressive advertising has achieved sales increases as high as 52% in one month alone.



# Consolidated Statement of Income

Years ended February 29, 1972 and February 28, 1971

## Revenues:

Net sales.....	
Franchise fees and royalties (Note 5).....	
Interest.....	
Rentals.....	

1972	1971
\$30,844,478	\$21,646,673
13,579	57,626
9,629	22,615
60,212	79,482
<u>30,927,898</u>	<u>21,806,396</u>

## Costs and expenses:

Cost of sales.....	
Selling and administrative.....	
Rent.....	
Depreciation.....	
Interest.....	

20,048,868	13,896,941
7,396,008	5,409,172
806,276	630,696
400,794	275,849
116,948	80,960
<u>28,768,894</u>	<u>20,293,618</u>

Income before federal income tax.....

2,159,004	1,512,778
-----------	-----------

## Provision for federal income tax (Note 7):

Current.....	
Deferred.....	

1,002,252	771,405
(3,204)	(52,887)
<u>999,048</u>	<u>718,518</u>

1,159,956	794,260
12,484	8,988

Minority interest.....

Income from continuing operations.....

1,147,472	785,272
-----------	---------

(Loss) from discontinued operations (Note 6).....

	(98,692)
--	----------

Net income.....

<u>\$ 1,147,472</u>	<u>\$ 686,580</u>
---------------------	-------------------

Average number of common shares (Note 8).....

<u>1,338,409</u>	<u>1,330,742</u>
------------------	------------------

## Per share of common stock:

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

\$ .86	\$ .59
	(.07)
<u>\$ .86</u>	<u>\$ .52</u>



# Consolidated Statement of Changes in Financial Position

Years ended February 29, 1972 and February 28, 1971

## Source of funds:

### Operations:

Net income.....	
Charges against income not involving working capital:	
Depreciation and amortization.....	
Deferred federal income tax.....	
Minority interest.....	
Net asset amount of land and equipment sold or retired.....	
Write-off of unamortized research and development costs.....	
Total provided by operations.....	

Proceeds from sale and leaseback of properties.....	
Exercise of stock options to purchase common stock.....	
Decrease in non-current notes receivable.....	
Increase in long-term debt.....	

## Application of funds:

Additions to property, plant and equipment.....	
Cash dividends paid.....	
Reduction of long-term debt.....	
Cost of investment in subsidiary and acquired stores in excess of amounts assigned to net assets.....	
Non-competition agreement.....	
Pre-opening and other.....	

Increase in working capital.....	
----------------------------------	--

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

Cash.....	
Receivables.....	
Merchandise inventories.....	
Prepaid expenses.....	
Property held for sale.....	
Notes payable.....	
Accounts payable.....	
Federal income tax.....	
Accrued liabilities.....	
Mortgage notes payable on property held for sale.....	
Long-term debt due within one year.....	
Increase in working capital.....	

1972

1971

\$ 1,147,472	\$ 686,580
473,140	326,519
(3,204)	(109,305)
12,484	8,988
48,979	24,394
	95,638
1,678,871	1,032,814
2,308,599	977,331
269,325	1,500
	88,676
115,375	387,331
4,372,170	2,487,652
3,195,019	1,504,769
203,011	199,636
292,772	244,933
22,450	110,949
	326,250
152,921	20,238
3,866,173	2,406,775
\$ 505,997	\$ 80,877
\$ (213,032)	\$ (359,886)
534,476	(130,413)
4,496,584	1,414,180
136,896	96,269
	(694,918)
(3,425,000)	(247,193)
(1,066,763)	(235,033)
(10,451)	(88,018)
(81,993)	(185,007)
	569,929
135,280	(59,033)
\$ 505,997	\$ 80,877

See accompanying notes.



# Consolidated Balance Sheet

## ASSETS

### Current assets:

Cash.....

### Receivables:

Notes and trade accounts receivable, less allowance of  
\$26,286 (\$17,816 in 1971) for doubtful accounts.....

Sale of properties.....

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

Prepaid expenses.....

Total current assets.....

### Other assets:

Deferred federal income tax.....

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

Non-competition agreement, at cost less \$110,379  
amortization (\$45,313 in 1971) (Note 1).....

Total other assets.....

### Property, plant and equipment, at cost:

Land.....

Buildings.....

Leasehold improvements.....

Store equipment.....

Transportation equipment.....

Construction in progress.....

Less accumulated depreciation, principally  
on the straight-line method.....

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

Net property, plant and equipment.....

Cost of investment in subsidiaries and acquired stores in  
excess of amounts assigned to net assets at dates of  
acquisition, less amortization (Note 1).....

1972

1971

\$ 434,447

\$ 647,479

200,496

247,338

581,318

9,561,249

5,064,665

411,422

274,526

11,188,932

6,234,008

40,817

37,613

239,997

92,822

168,701

280,937

449,515

411,372

158,500

697,140

195,277

582,362

1,048,382

646,476

2,005,603

1,323,350

361,816

384,402

131,390

7,823

3,900,968

3,641,553

911,187

710,698

2,989,781

2,930,855

1,714,067

1,320,214

4,703,848

4,251,069

281,013

273,129

\$16,623,308

\$11,169,578



## LIABILITIES AND STOCKHOLDERS' EQUITY

### Current liabilities:

Notes payable to bank.....	
Accounts payable.....	
Federal income tax.....	
Accrued liabilities.....	
Long-term debt due within one year.....	
Total current liabilities.....	

Long-term debt (Note 2).....

Deferred income (Note 7).....

Minority interest in subsidiary.....

Commitments and contingency (Note 3).....

### Stockholders' equity (Notes 2 and 4):

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

Common stock, \$.10 par value,  
2,000,000 shares authorized, 1,353,409  
shares issued (1,330,909 in 1971).....

Capital in excess of par value.....

Retained earnings.....

    Total stockholders' equity.....

1972

1971

\$ 4,050,000	\$ 625,000
2,814,665	1,747,902
381,182	370,731
561,809	479,816
62,710	197,990
<u>7,870,366</u>	<u>3,421,439</u>
721,761	946,328
173,963	167,593
32,984	23,770
—	—
135,341	133,091
3,639,748	3,372,673
4,049,145	3,104,684
<u>7,824,234</u>	<u>6,610,448</u>
<u>\$16,623,308</u>	<u>\$11,169,578</u>

See accompanying notes.



# Consolidated Statement of Stockholders' Equity

Years ended February 29, 1972 and February 28, 1971

	Common stock	Capital in excess of par value	Retained earnings	Total
Balance February 28, 1970	\$ 133,051	\$3,371,773	\$2,617,740	\$6,122,564
Add (deduct):				
Net income for year ended February 28, 1971.....			686,580	686,580
Cash dividends paid (\$ .15 per share).....			(199,636)	(199,636)
Stock options exercised, 400 shares at \$3.75 per share.....	40	1,460		1,500
Expenses of sale of common stock.....		(560)		(560)
Balance February 28, 1971.....	133,091	3,372,673	3,104,684	6,610,448
Add (deduct):				
Net income for year ended February 29, 1972.....			1,147,472	1,147,472
Cash dividends paid (\$ .15 per share).....			(203,011)	(203,011)
Stock options exercised, 22,500 shares at \$11.97 per share.....	2,250	267,075		269,325
Balance, February 29, 1972 (Notes 2 and 4).....	<u>\$ 135,341</u>	<u>\$3,639,748</u>	<u>\$4,049,145</u>	<u>\$7,824,234</u>

See accompanying notes.



# Notes to Consolidated Financial Statements

February 29, 1972

## 1. Basis of financial statements

The consolidated financial statements include the accounts of the Company and its subsidiaries.

At February 29, 1972, the cost of investment in subsidiaries and stores purchased in excess of amounts assigned to net assets at dates of acquisitions was \$63,898 and \$217,115, respectively (\$68,003 and \$205,126, respectively in 1971) net of accumulated amortization of \$4,110 and \$67,523, respectively (\$2,554 and \$54,512, respectively in 1971) using a twenty-five year life.

The Company capitalizes preopening costs, which are amortized over three years commencing with the opening of the store. The non-competition agreement, the liability for which was paid in 1972 at a discount of \$47,170, is being amortized to April 1975.

## 2. Long-term debt

Long-term debt outstanding at February 29, 1972 and February 28, 1971 is shown in the following summary.

	1972	1971
6¼% note payable to insurance company, due \$25,000 annually plus interest on September 1 to 1976	\$150,000	\$175,000
6½%-7% real estate contracts, due \$50,880 per year including interest to 1979 and \$46,680 per year to 1983	385,217	408,798
7% real estate contract, due \$13,488 per year including interest to 1989	134,566	138,486
6½%-7% mortgage notes payable, due \$74,167 in 1972 and \$15,732 per year including interest thereafter to 1982	114,688	74,167
Non-competition agreement (Note 1)		280,937
10¼% note payable		61,081
Insurance contracts payable		5,849
	784,471	1,144,318
Less long-term debt due within one year	62,710	197,990
	<u>\$721,761</u>	<u>\$946,328</u>

Property of \$931,309 is pledged as collateral for the above long-term debt.

The loan agreement with the insurance company provides, among other things, restrictions on the payment of cash dividends, redemption or reacquisition of the Company's stock, payment of certain stockholder-employee compensation and advances to and investment in a consolidated real estate subsidiary. At February 29, 1972, retained earnings of \$933,702 was not restricted.

## 3. Commitments and contingency

Minimum rent commitments, exclusive of insurance and property taxes, under non-cancellable leases for retail stores are payable as follows: 1973—\$1,062,000; 1974—\$1,022,000; 1975—\$1,003,000; 1976—\$992,000; and 1977—\$973,000; and reduced amounts to 1997. The Company has options to renew most leases for three to ten year periods at agreed amounts. An airplane is leased at \$89,520 per year to 1980.

The Company is contingently liable at February 29, 1972 on real estate mortgage notes of \$500,834 assumed by the purchasers of a store sold in 1964 and a store sold and leased back in 1971.

## 4. Stock options

Options granted in 1968 to then officers and/or Directors (one is presently a Director) under the 1967 executive stock option plan to purchase 24,000 shares of common stock at \$4.375 per share (aggregate price of \$105,000) were outstanding at February 29, 1972 and were first exercisable in May 1968 and expire in November 1972.

A five year non-transferable option to purchase 7,500 shares of common stock which is exercisable at \$11.97 (aggregate of \$89,775), \$12.71 and \$13.44 per share during the year ended September 25, 1972, 1973 and 1974, respectively, is outstanding at February 29, 1972.

At February 29, 1972, options to purchase 53,600 shares of common stock were available to be granted to officers and employees under the 1968 qualified stock option plan which terminates September 15, 1973. Options become exercisable not less than six months after date of grant.

## 5. Franchise income

During 1970, a franchise for \$25,000 was sold of which \$10,000 and \$2,467 was collected in 1971 and 1972, respectively, and \$12,533 is being deferred until collection.

## 6. Discontinued operations

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

## 7. Federal income tax

Deferred federal income tax was provided for the excess of accelerated over straight-line depreciation of new buildings and research and development costs deferred in 1970 for financial statement purposes and written-off for income tax purposes. All unamortized research and development costs were written-off for financial statement purposes in 1971 (Note 6). The gain on the sale of such buildings sold and leased back in 1971 and other buildings sold and leased back in 1972 and the applicable deferred federal income tax are being amortized to income over the twenty-five year life of the leases. The Company accounts for the investment tax credit (\$45,000 — \$.03 per share in 1972) on the flow through method.

## 8. Per share information

Common share amounts were determined on the weighted average of such shares outstanding. The dilutive effect of stock options was not material.



# Report of Certified Public Accountants

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

We have examined the accompanying consolidated balance sheet of Pay 'N Pak Stores, Inc. at February 29, 1972 and the related consolidated statements of income, stockholders' equity, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consoli-

dated financial position of Pay 'N Pak Stores, Inc. at February 29, 1972 and February 28, 1971 and the consolidated results of operations and the consolidated changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

*Arthur Young & Company*

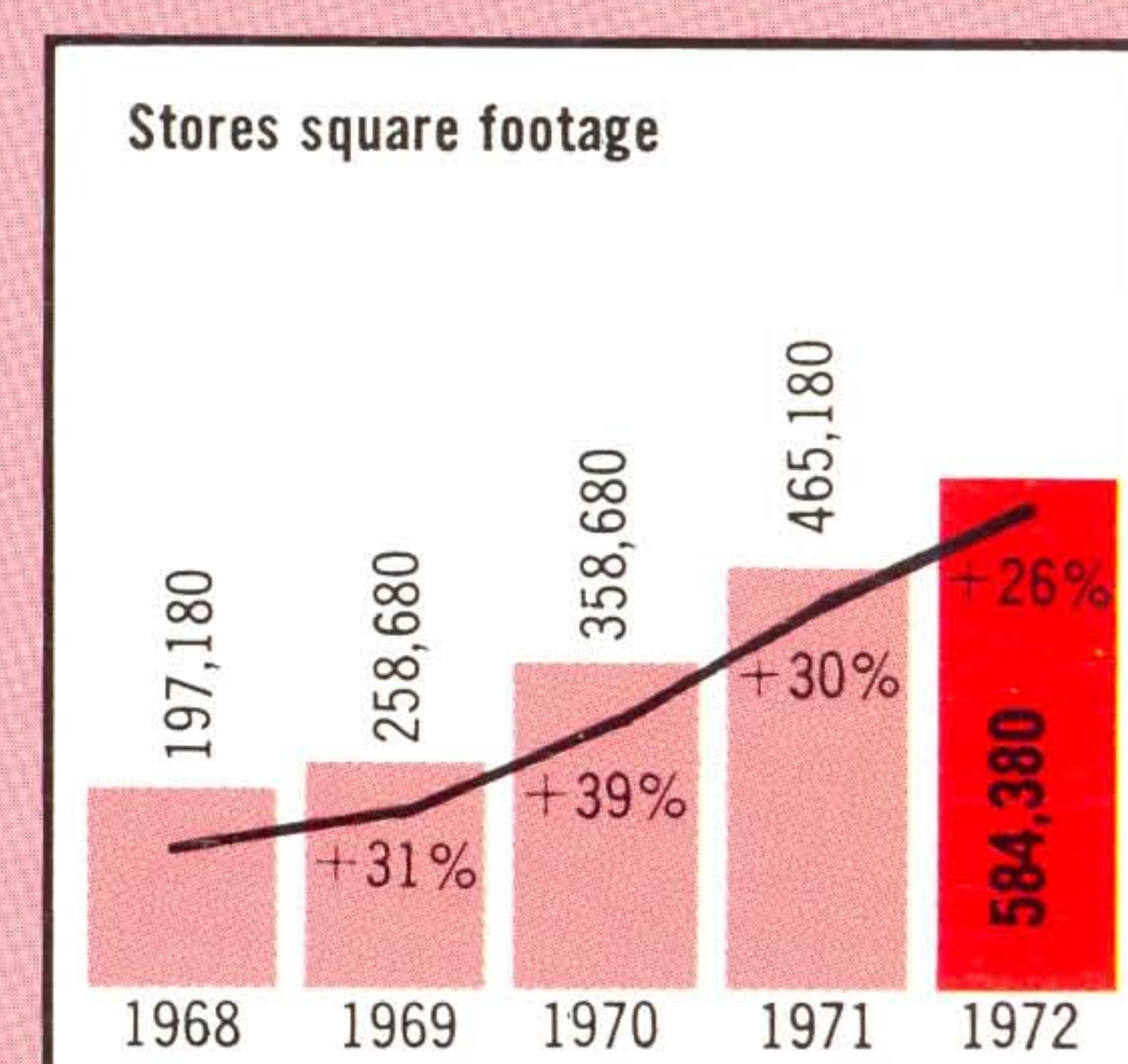
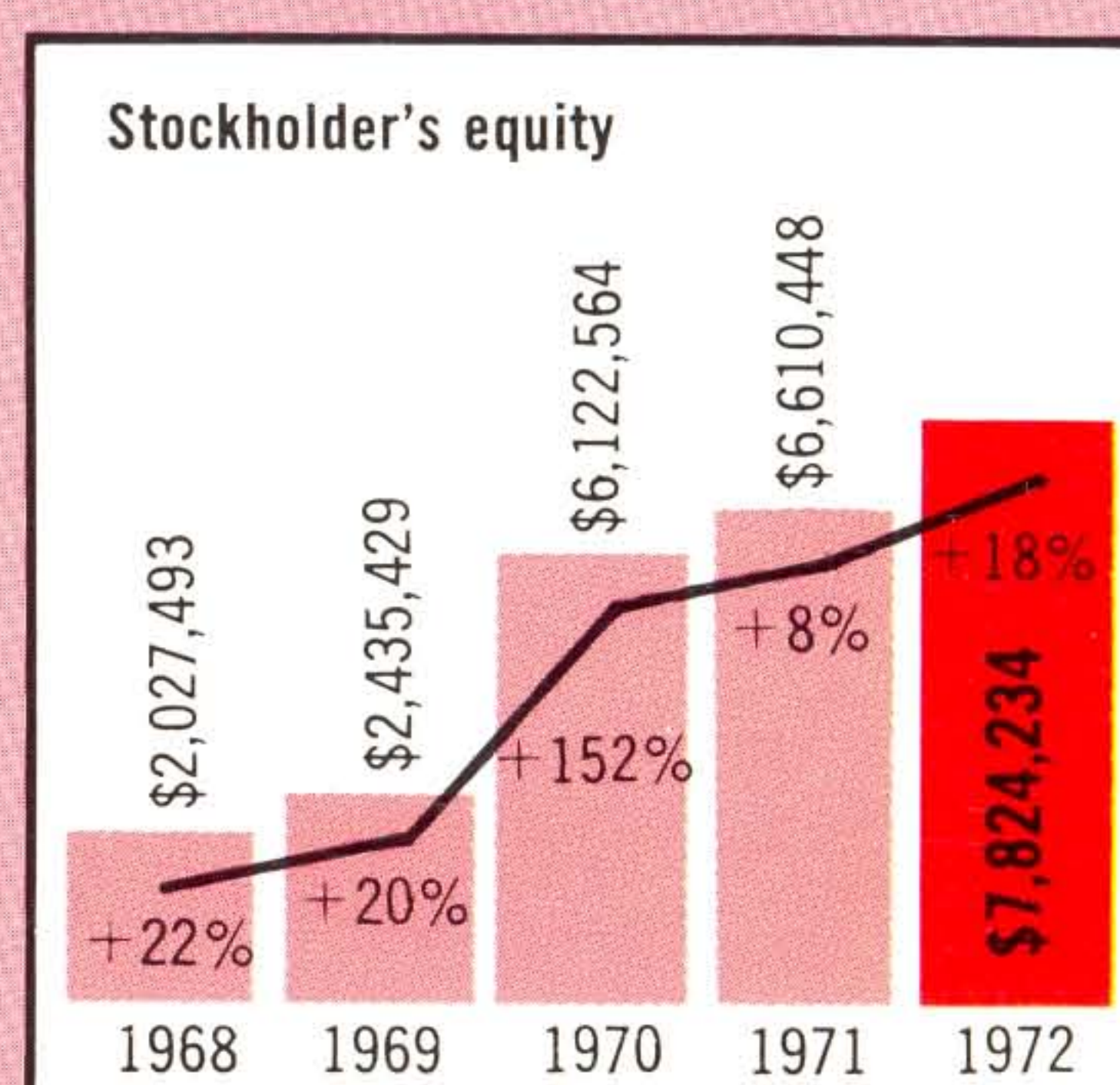
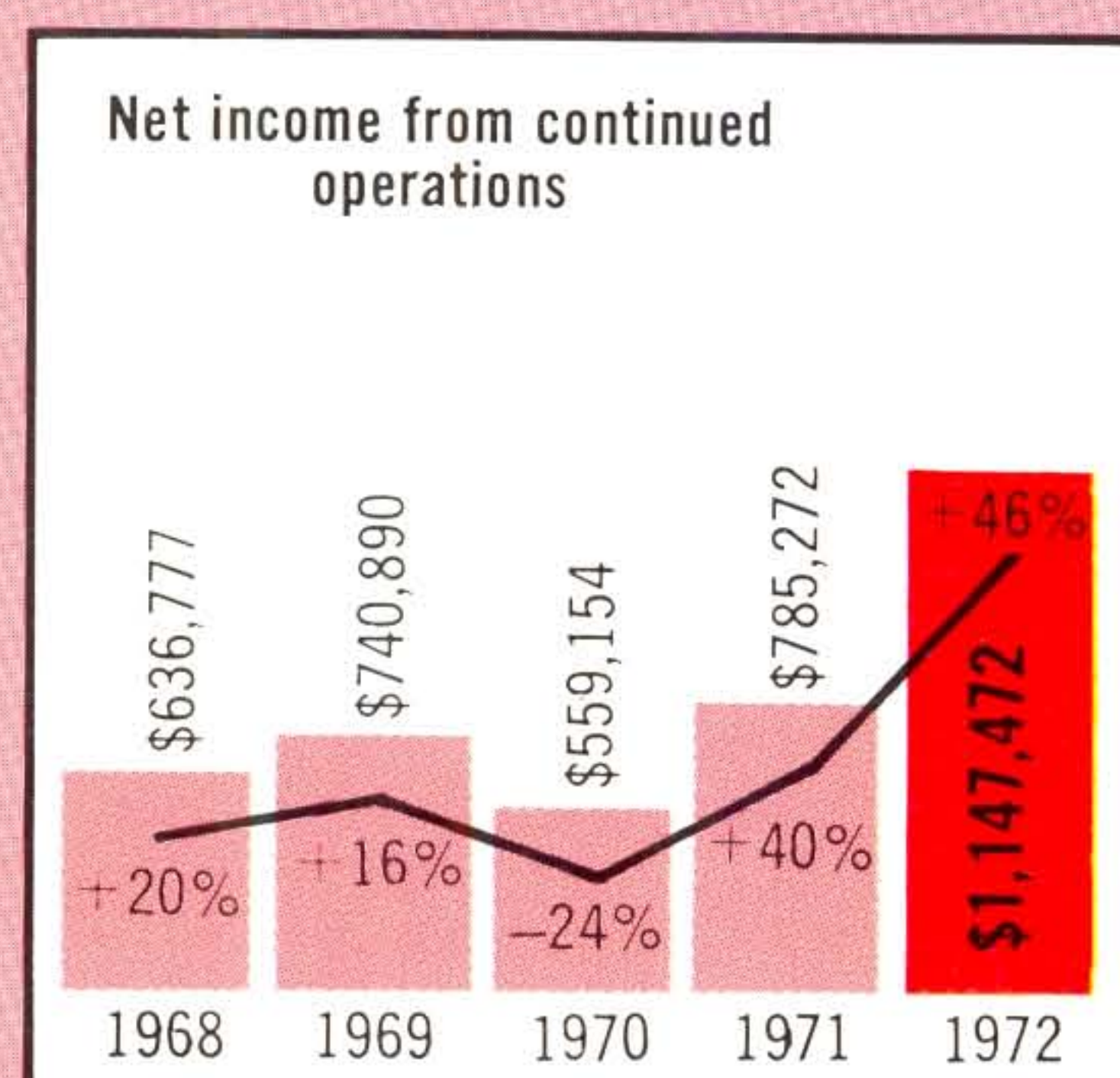
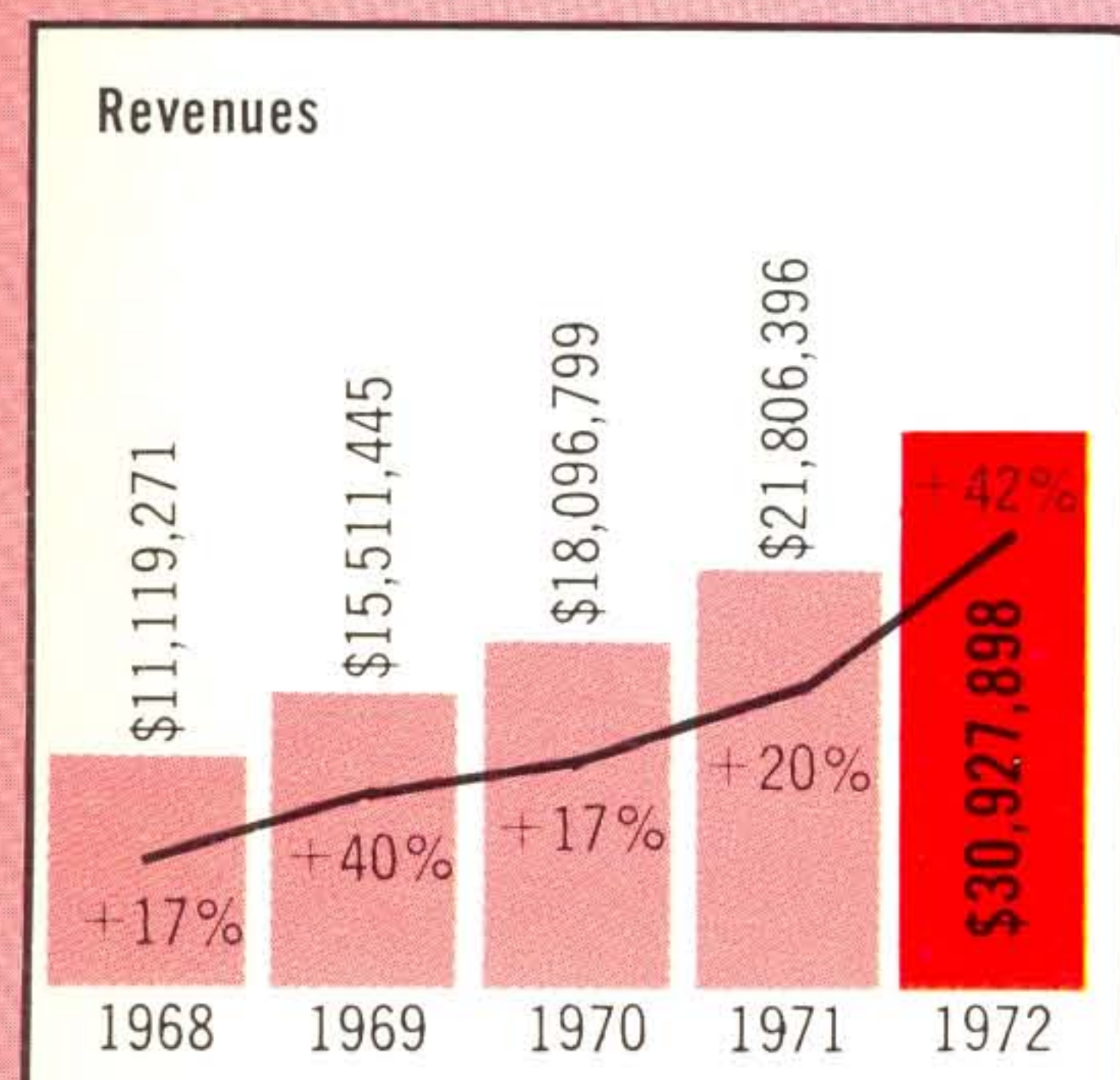
Seattle, Washington  
April 7, 1972



# Five Year Growth Highlights

Year ended February 28 or 29

	1972	1971	1970	1969	1968
Revenues	\$30,927,898	\$21,806,396	\$18,096,799	\$15,511,445	\$11,119,271
Income before federal tax	\$ 2,159,004	\$ 1,512,778	\$ 1,160,524	\$ 1,454,704	\$ 1,153,771
Income from continuing operations	\$ 1,147,472	\$ 785,272	\$ 559,154	\$ 740,890	\$ 636,777
(Loss) from discontinued operations		\$ (98,692)			
Net income	\$ 1,147,472	\$ 686,580	\$ 559,154	\$ 740,890	\$ 636,777
Average number of common shares	1,338,409	1,330,742	1,115,809	997,123	1,010,911
Per common share:					
Net income from continuing operations	\$ .86	\$ .59	\$ .50	\$ .74	\$ .63
(Loss) from discontinued operations		( .07)			
Net income	\$ .86	\$ .52	\$ .50	\$ .74	\$ .63
Cash dividends paid	\$ .15	\$ .15	\$ .15	\$ .125	\$ .125
Financial position at end of year:					
Total assets	\$16,623,308	\$11,169,578	\$10,220,358	\$ 6,420,741	
Stockholders' equity	\$ 7,824,234	\$ 6,610,448	\$ 6,122,564	\$ 2,435,429	\$ 2,027,493
Shares of common stock outstanding	1,353,409	1,330,909	1,330,509	962,109	1,010,909
Net asset amount per share	\$5.78	\$4.97	\$4.60	\$2.53	\$2.00
Number of stores open	40	36	31	22	19
Number of states in which we operated	8	6	6	4	3
Square footage of stores	584,380	465,180	358,680	258,680	197,180





THERMADOR  AMTICO  
TOOLS  STANLEY KITCHENAID  
 BLACK & DECKER DAP  
APPAN  JOHNS MANVILLE  
OWENS / CORNING  VANPLY  
 WESTINGHOUSE  FEDDER  
CARDINAL  WESLOCK  C  
GEORGIA-PACIFIC  AMTICO  
R KING  BORG WARNER  
 GLIDDEN  HONEYWELL  
ALL MACK  MODERN MAIL  
 WESLOCK  SIMPSON  
N  BURLINGTON  HALL M  
THERMADOR  AMTICO  
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