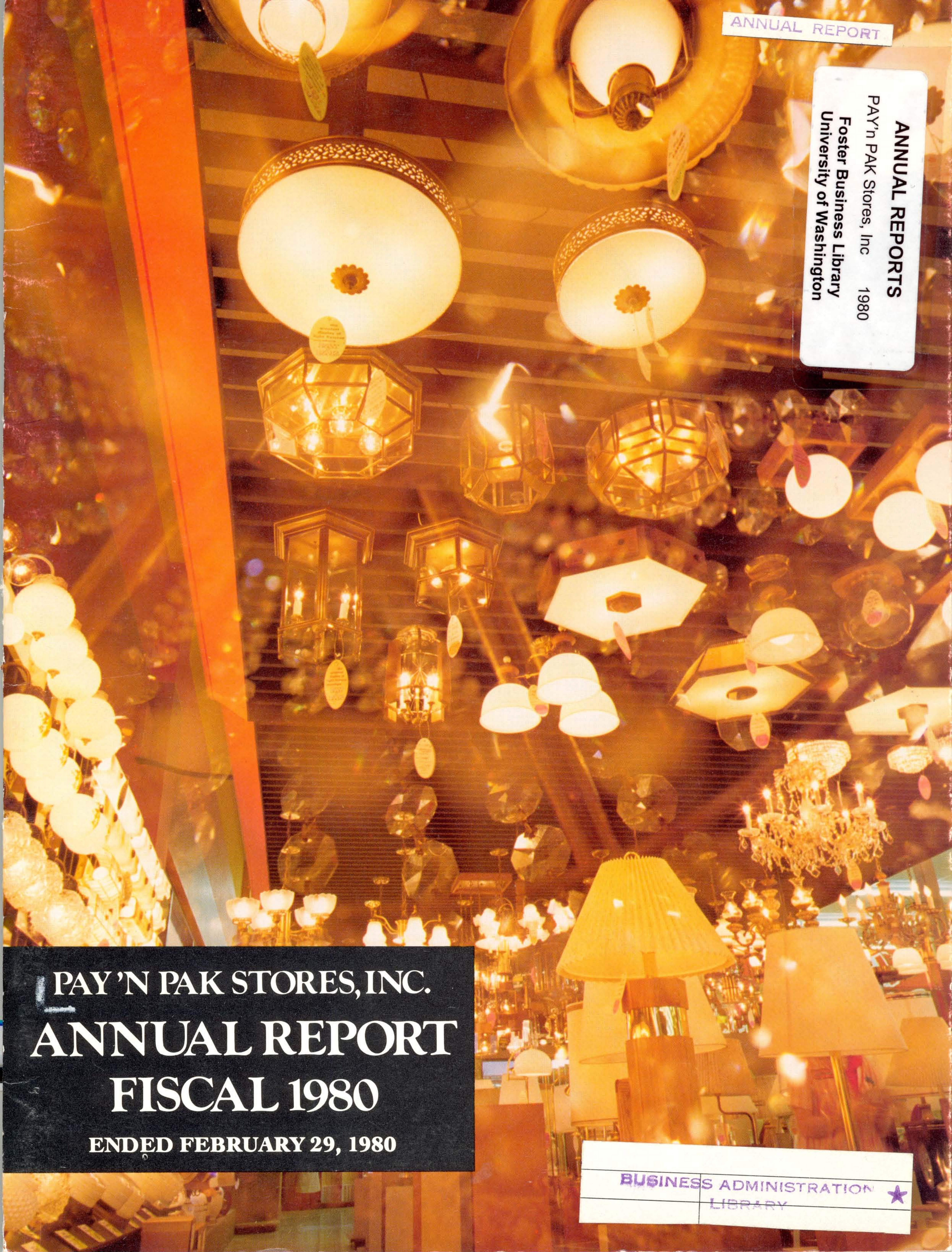


ANNUAL REPORT

ANNUAL REPORTS
PAY'n PAK Stores, Inc 1980
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PAY 'N PAK STORES, INC.
ANNUAL REPORT
FISCAL 1980
ENDED FEBRUARY 29, 1980

BUSINESS ADMINISTRATION ★
LIBRARY

Report to Shareholders

Fiscal 1980 was another year of continued growth and increased profitability for Pay 'N Pak.

We are very proud of the fact that since fiscal 1970 your company has recorded forty consecutive quarter-to-quarter increases in both sales and earnings on a comparative basis.

During the past decade our ten-year compounded growth in sales was 23%; in earnings 28%; and shareholders' return on equity was 21%. There are not too many public companies that can match these consistent results.

As your company has earned more money it has paid out ever increasing dividends. If you had owned 100 shares of stock in 1970, you would have received \$15.00 in cash dividends. In addition to a substantial cash return on your investment, these same 100 shares, as the result of many stock dividends, would have multiplied to 293 shares in fiscal 1980 paying you cash dividends of \$175.80.

Your board of directors is very sensitive to the problems caused by inflation for our shareholders. By increasing the cash dividends annually and issuing many stock dividends, we believe Pay 'N Pak stock has shown itself to be a very solid hedge against inflation.

Revenues for fiscal 1980 were \$138,361,294, an increase of 17.6% over last year. Net income, after taxes, increased 16.8% over fiscal 1979 to \$6,312,882. Per share income for fiscal 1980 was \$1.43 on 4,426,342 shares outstanding as compared to \$1.33 per share on 4,053,934 shares outstanding the previous year.

During the past year new stores were opened in Eureka, California; Fort Collins, Colorado; North Platte, Nebraska; Beaverton, Oregon; Vancouver, Federal Way and Aberdeen, Washington; and Sandy, Utah. We also moved our electric and plumbing, carpet, sporting goods, auto, and building materials departments from the Kent, Washington Mall into a new giant 58,000 square foot Home Center next to the new Kent Mall office headquarters complex which was also started during the year and will be completed in mid-1980.



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



Jerry L. Marlow, *(President and
Chief Operating Officer)*

PAY 'N PAK STORES, INC.

Ten Year Summary of Growth Highlights

Years ended February 28 or 29	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
OPERATIONS										
Revenues	\$138,361,294	\$117,688,090	\$98,051,888	\$80,642,749	\$73,279,952	\$61,470,839	\$51,893,886	\$42,396,952	\$30,927,898	\$21,806,396
*Income before federal and state taxes	11,470,982	10,199,489	7,882,339	5,463,526	4,604,566	4,070,713	3,437,538	2,808,639	2,080,131	1,465,100
*Net income	6,312,882	5,402,926	4,006,465(2)	2,871,128	2,429,974	2,113,438	1,763,378	1,394,451	1,085,032	647,865(3)
COMMON STOCK										
After giving retroactive effect to the 20% stock dividend paid to shareholders on April 27, 1979:										
Average number of common shares	4,426,342	4,053,934	3,862,343	3,862,343	3,986,130	4,010,888	4,010,888	3,974,344	3,886,741	3,864,475
Net income per common share	\$1.43	\$1.33	\$1.04(2)	\$.74	\$.61	\$.53	\$.44	\$.35	\$.28	\$.17(3)
Stock dividends and stock splits	20%	33 1/3%	50%	10%	10%					
Cash dividend paid per common share	\$.60	\$.50	\$.344	\$.225	\$.175	\$.121	\$.086	\$.054	\$.052	\$.052
FINANCIAL POSITION (End of year)										
*Total assets	\$81,691,113	\$ 70,102,914	\$50,272,628	\$45,833,216	\$39,126,568	\$33,155,258	\$29,730,370	\$27,136,642	\$20,355,014	\$13,161,669
*Stockholders' equity	32,471,934	28,475,006	16,694,335	13,566,305	11,616,885	12,081,360	10,451,328	9,033,240	7,699,605	6,548,259
*Return on shareholders' equity	22.2%	32.4%	29.5%	24.7%	20.1%	20.2%	19.5%	18.1%	16.6%	10.6%
Shares of common stock outstanding (end of year)	4,426,342	4,426,342	3,862,343	3,862,343	3,862,343	4,010,888	4,010,888	4,010,888	3,930,301	3,864,960
*Net book value per share	\$7.45(1)	\$6.67(1)	\$4.60(1)	\$3.80(1)	\$3.32(1)	\$3.01	\$2.61	\$2.25	\$1.96	\$1.69
*Long term debt	\$28,680,119	\$ 23,848,328	\$18,467,381	\$19,124,915	\$17,721,561	\$12,518,834	\$12,070,882	\$ 6,555,256	\$ 4,523,274	\$ 2,977,868
STORES IN OPERATION										
Number of stores open (4)	78	70	65	60	55	50	44	40	37	33
Number of stores sold or closed	0	1	1	0	3	1	1	1	0	0
Stores replaced with new stores	1	1	1	2	2	0	3	5	0	0
Number of states in which we operated	15	14	13	13	11	11	11	11	8	6
Square footage of stores	1,688,494	1,496,787	1,365,182	1,260,769	1,144,847	1,030,808	890,527	783,588	584,380	465,180
Average square footage per store	21,647	21,383	21,003	21,013	20,815	20,616	20,239	19,590	15,794	14,096
Average annual inventory in stores	\$28,609,679	\$ 23,302,096	\$20,226,001	\$17,951,974	\$14,814,718	\$13,603,679	\$13,714,778	\$10,645,251	\$ 7,172,653	N/A
Average annual inventory total (includes warehouse)	\$39,143,118	\$ 31,253,285	\$24,616,742	\$21,007,255	\$16,846,580	\$14,825,123	\$14,723,192	\$11,195,251	\$ 7,397,098	\$ 4,216,209
STORE AVERAGES										
Average sales per store	\$1,767,908	\$ 1,657,579	\$ 1,508,490	\$ 1,344,046	\$ 1,332,363	\$ 1,229,417	\$ 1,179,407	\$ 1,059,924	\$ 835,889	\$ 660,800
Number of customers served	5,928,176	5,468,777	4,979,781	4,419,596	4,104,371	3,647,036	3,251,000	2,849,000	N/A	N/A
Average customer purchase	\$23.26	\$21.52	\$19.69	\$18.25	\$17.85	\$16.86	\$15.96	\$14.88	N/A	N/A
Sales per square foot	\$81.67	\$78.63	\$71.82	\$63.96	\$64.01	\$59.63	\$58.27	\$54.11	\$52.92	\$46.88
Sales per full time employee (end of year)	\$128,635	\$ 113,489	\$ 115,084	\$ 108,536	\$ 103,502	\$ 88,320	\$ 91,523	\$ 83,294	\$ 74,345	N/A

- *Retroactive effect has been given for leases capitalized March 1, 1978 in accordance with S.E.C. accounting series 225 and FASB 13.
- (1) After giving effect to shares held by the ESOT which have not been allocated to employee accounts: 358,506 shares in 1976; 296,162 in 1977; 230,089 in 1978; 154,204 in 1979; 66,693 in 1980.
- (2) Net income in 1978 includes a net reduction of \$191,337 (\$.05 per share) due to a change in method of accounting for pre-opening cost to expensing them as incurred rather than amortizing them.
- (3) Net income in 1971 includes a net reduction of \$98,692 (\$.03 per share) due to a loss from discontinued operation.
- (4) Prior to fiscal 1979 the company treated as 5 separate stores the 5 physically separate sales outlets located in the Kent, Washington Mall. In this table and throughout this report the entire Kent Mall is treated as only one store.

PAY 'N PAK STORES, INC.

Pay 'N Pak Stores, Inc. operates 78 stores in 62 cities located in 15 western and midwestern states.

The company concentrates on the do-it-yourself home improvement market through the sale of electrical, lighting, plumbing, and building materials on a cash and carry basis. Eleven stores also feature sporting goods, automotive parts and accessories.

The corporate headquarters is located at 1209 South Central Avenue in Kent, near Seattle, Washington.

THE COVER STORY

Each Pay 'N Pak store carries more than 450 styles of light fixtures, illustrating the fact that we cater to every taste and budget. Additionally, with over 6,000 other electrical and plumbing items, Pay 'N Pak stores reach beyond the run-of-the-mill hardware store in providing our customers with all the necessary merchandise to complete home repair and remodeling projects.



The Board of Directors

We had planned to open nine stores this past year; however weather conditions and construction delays limited us to only eight openings. These eight new stores and the Kent Mall replacement increased our overall store square footage by 191,707 square feet, a net increase of 13%.

During fiscal 1981, Pay 'N Pak plans to open additional stores in Orem and Woods Cross, Utah; Bothell and Burien, Washington; Bend and Medford, Oregon; Sacramento, California and Greeley, Colorado. These stores, and others which may be opened, continue our marketing strategy of leasing existing buildings with ample parking (usually old supermarkets) in smaller cities and fast growing suburban communities.

Since we opened no new stores in the third quarter of fiscal 1980 and the four stores opened in the fourth quarter were opened in the last month of our fiscal year, the pre-opening expenses were incurred in fiscal 1980. These stores, of course, could not contribute much in the way of sales or earnings but they have given us a running start for the 1981 fiscal year.

Sales and earnings slowed somewhat in the last half of fiscal 1980 due to inflation, the energy crunch and rising interest rates. Your management foresaw these problems and tightened up operations by cutting back on personnel and maintaining a close watch on costs. Unless the U.S. economy enters a severe recession in the next year, we think the company is going to do well.

The National Association of Realtors reported that a record \$41 billion was spent on home remodeling and repairs in 1979. We look forward to an even bigger year for the home improvement market in 1980. People are not afraid to invest in their own homes, particularly since a home has probably been one of the most successful investments a person could have made during the past decade.

Any company is only as good as the people who make it work. We are very proud of our employees. They work hard and strive for excellence.

We are especially pleased when we can bring our employees up through the ranks into positions of leadership in the company. To this end, our management team was further strengthened by the following promotions:

In February 1980, Monte A. Leen was named Vice President of Merchandising. Victor W. Crosswhite, a Vice President and previously manager of the Midwestern distribution center was promoted to Vice President of Purchasing. Calvin Karbowski, previously manager of the Western distribution center in Kent was named Vice President of Distribution, and will coordinate the activities of both the Denver and Kent warehouse centers.

In February 1980, Curtis L. Rhodes announced his retirement as Vice President and as a member of the board of directors. Mr. Leen has replaced Mr. Rhodes on the board.

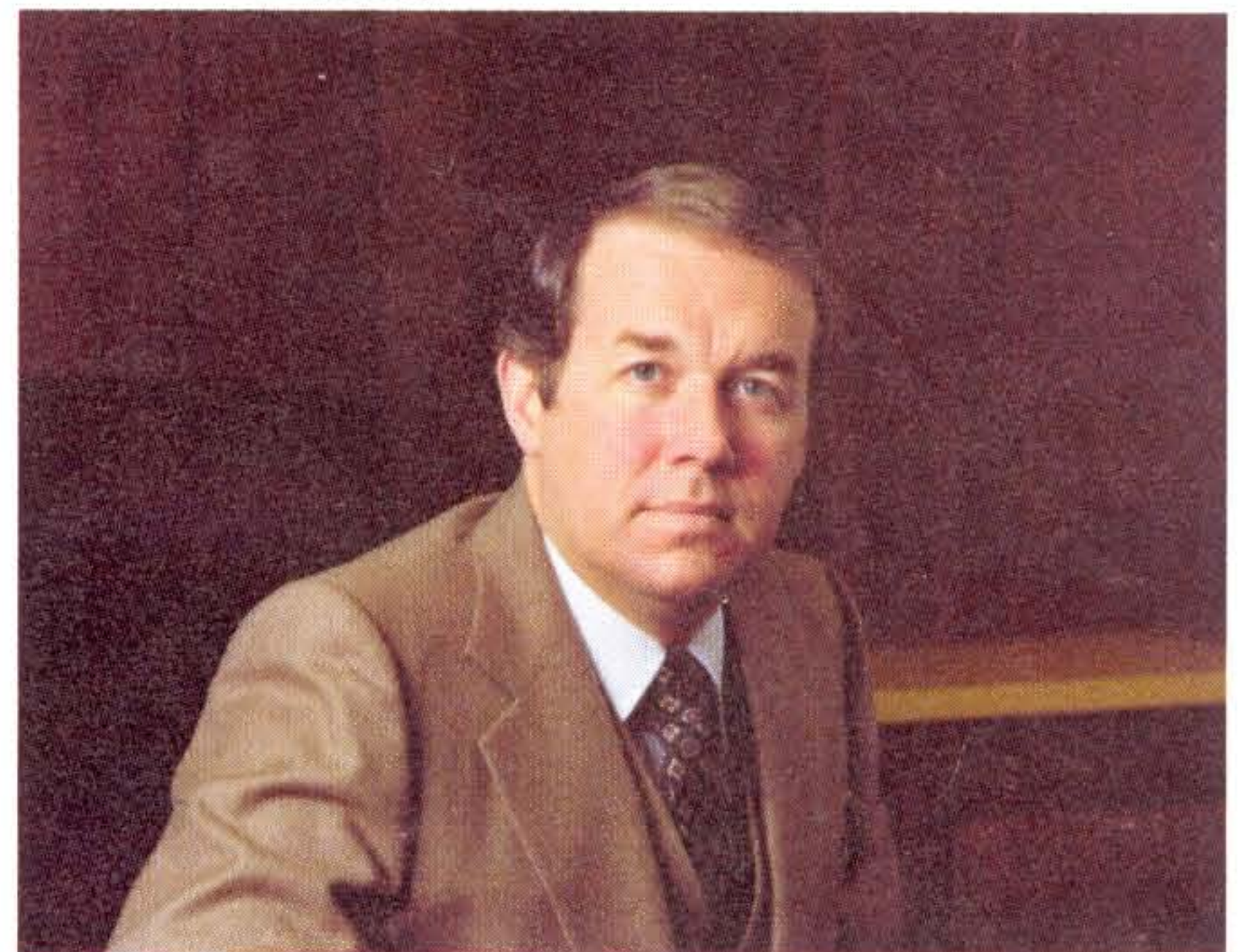
Pay 'N Pak is operated by its management to try and make its shareholders wealthy. To this end we have received many expressions of support and we trust we may continue to warrant them.



Harold F. Bacon, (*Executive Vice President*)



Halvor Knudtzon, Jr., (*Secretary-Treasurer and Controller*)



Monte A. Leen, (*Vice President, Merchandising*)



Woodrow C. Button, (*Vice Chairman, Old National Bank, Bellevue, WA*)



Marshall J. Weigel, (*Independent Corporate Finance Specialist, San Francisco, CA*)

PAY-PAK

COUNTRY



OFFICERS, STAFF AND ASSISTANTS:

David J. Heerensperger, *Chairman of the Board*; Jerry L. Marlow, *President*; Harold F. Bacon, *Executive Vice President*; Halvor Knudtson, Jr., *Secretary-Treasurer and Controller*; Victor W. Crosswhite, *Vice President and Director of Purchasing*; Peter W. Gallina, *Vice President, Real Estate and Store Development*; Calvin E. Karbowski, *Vice President, Distribution*; Monte A. Leen, *Vice President, Merchandising*.

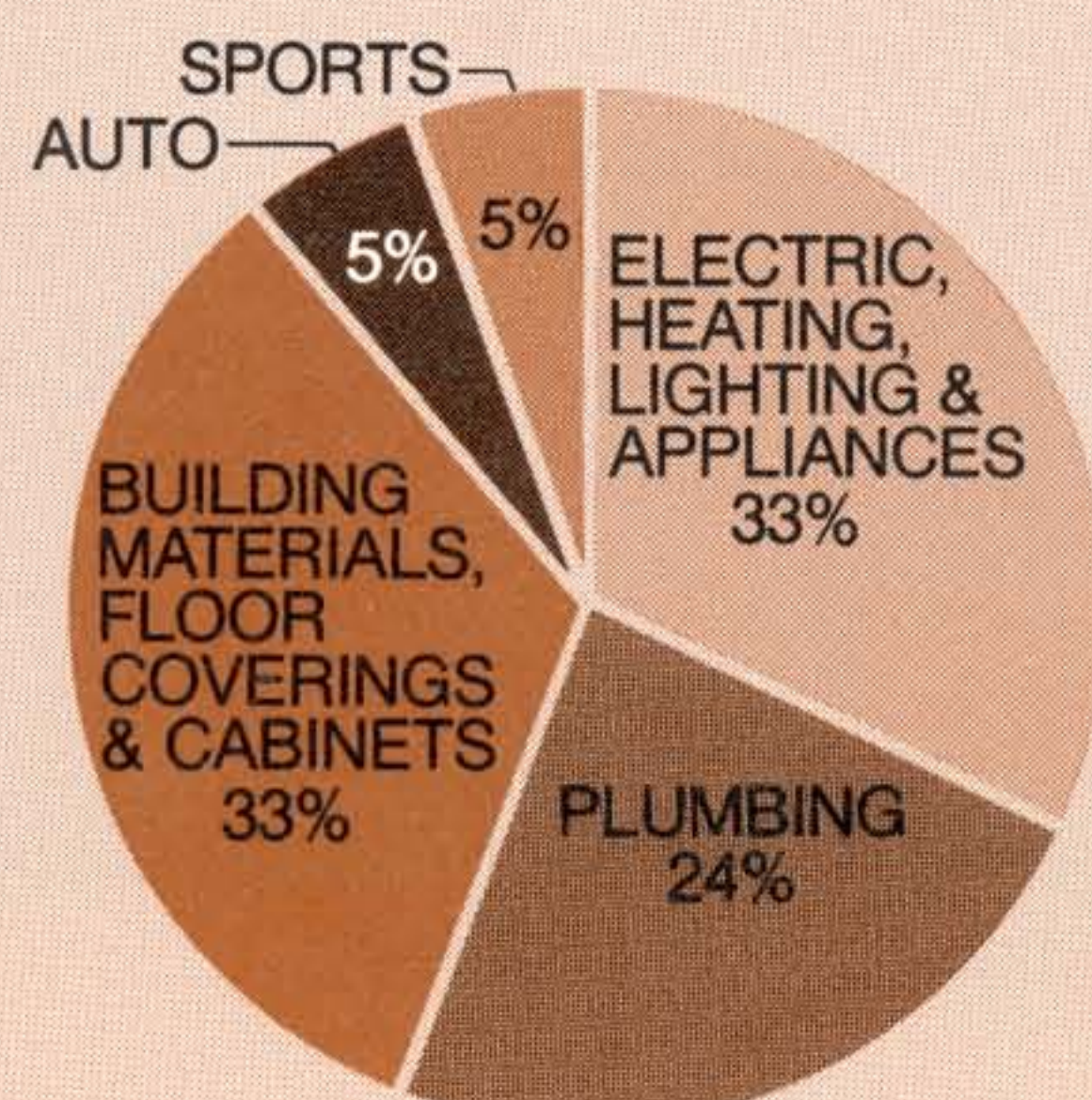
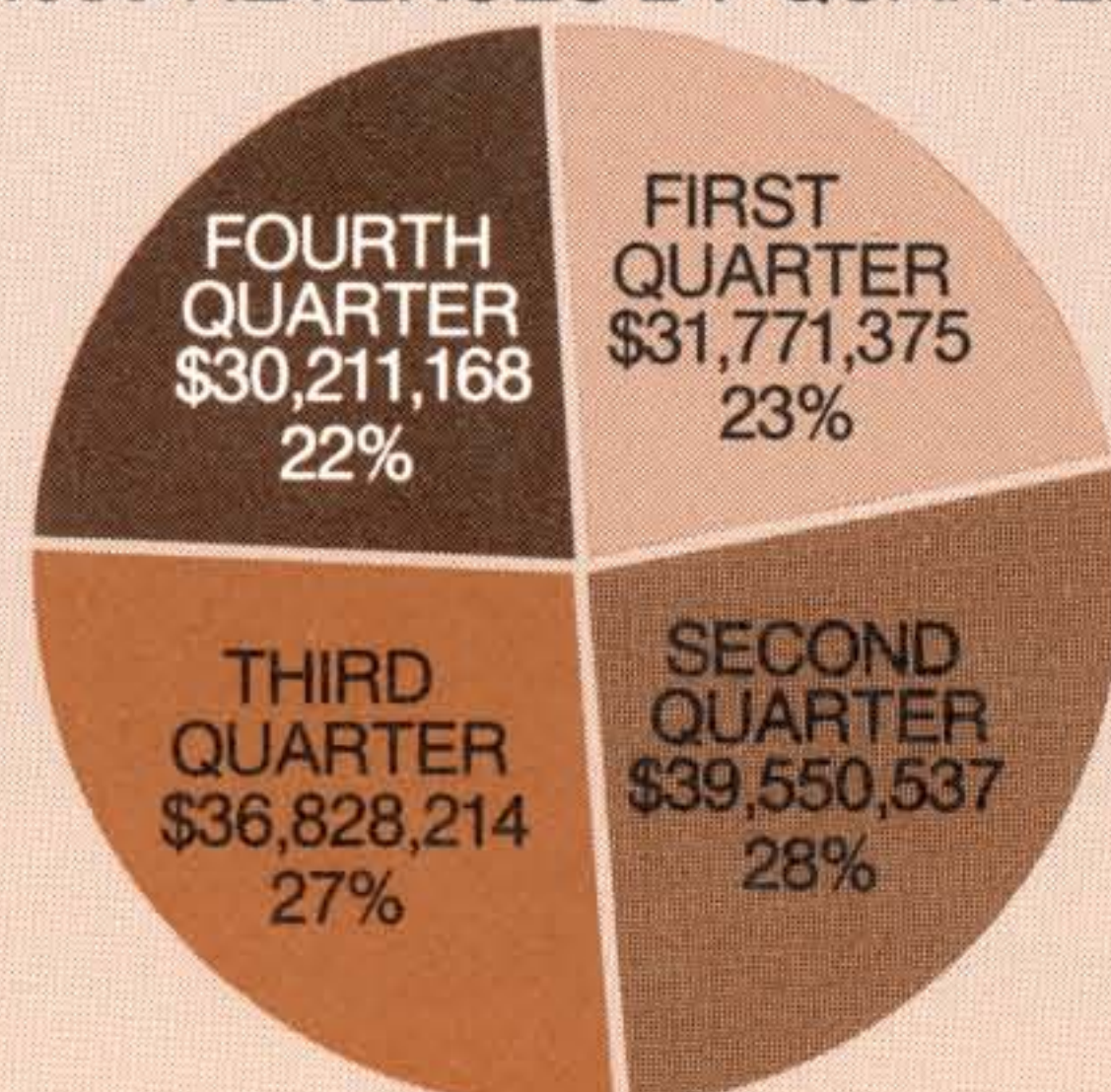
DISTRICT MANAGERS:

Bud Brown, *Midwest North*; John Coogan, *Mountain*; Warren Jones, *Southwestern Washington*; Gene Kasper, *Midwest South*; Mel Kelley, *Oregon-Alaska*; Mike Mandick, *Automotive/Sporting Goods*; Larry Marlow, *Eastern Washington and Northern Idaho*; John Schweitzer, *California-Nevada*; and Wally Tesch, *Western Washington*.

STAFF AND ASSISTANTS:

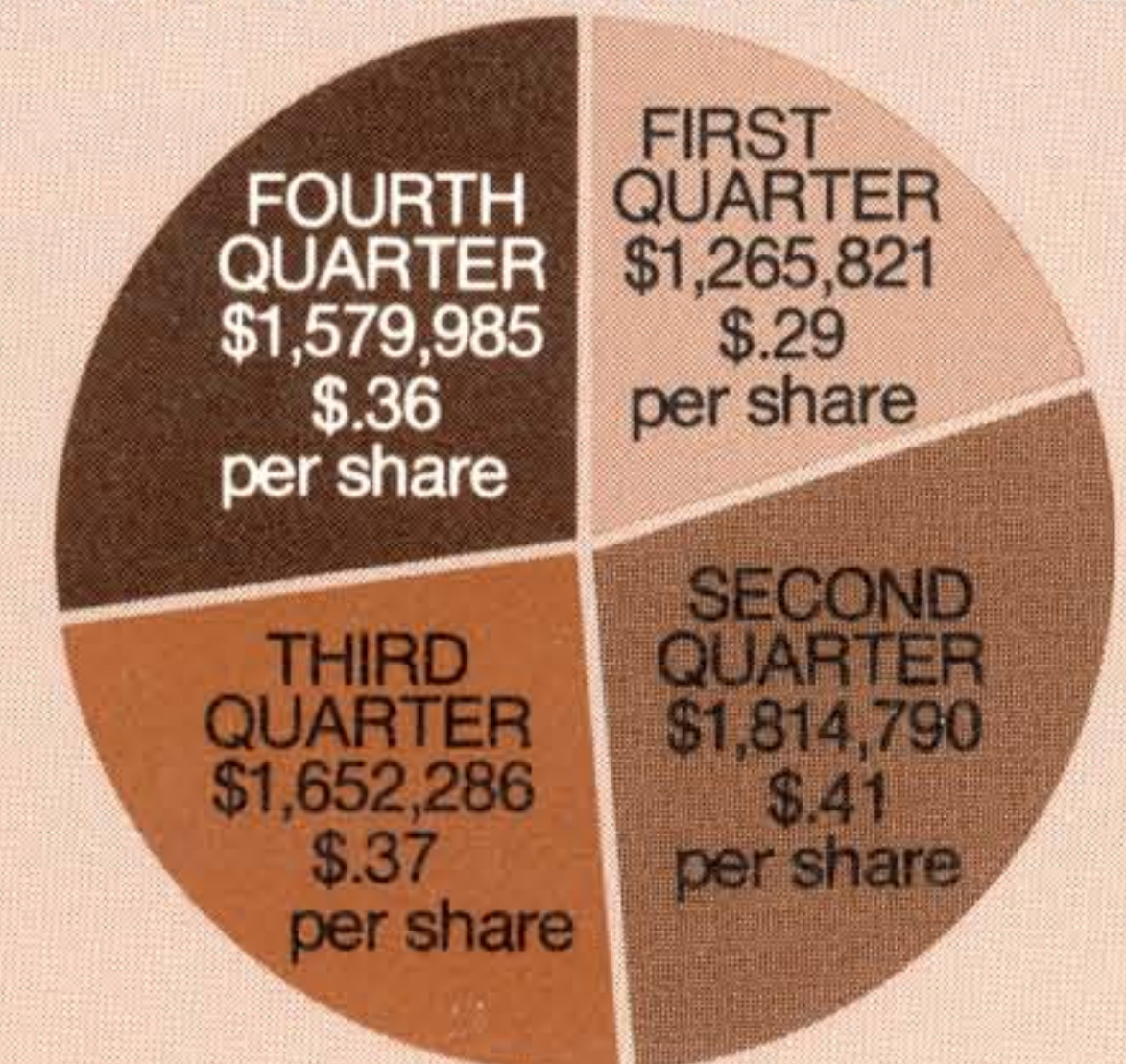
Ralph Beniasch, *Purchasing*; Barbara Collett, *Personnel Director*; Rod Cosgriff, *Purchasing*; Larry Elliott, *Purchasing*; William Gottbreht, *Office Manager*; Bud Larsen, *Purchasing*; Herbert McCleary, *Advertising Director*; Curt Rhodes, *Purchasing*; Bob Scher, *Purchasing*; George Smith, *Training Director*; Steve Unash, *Merchandising Director*; Doug Brown, *Advertising Assistant*; Tom McClosky, *Assistant Controller*; Paul Morris, *Design Assistant (Store Development)*; Marvin Iverson, *Building Production Assistant (Store Development)*.

1980 REVENUES BY QUARTER



1980 SALES BY CATEGORY

1980 EARNINGS BY QUARTER

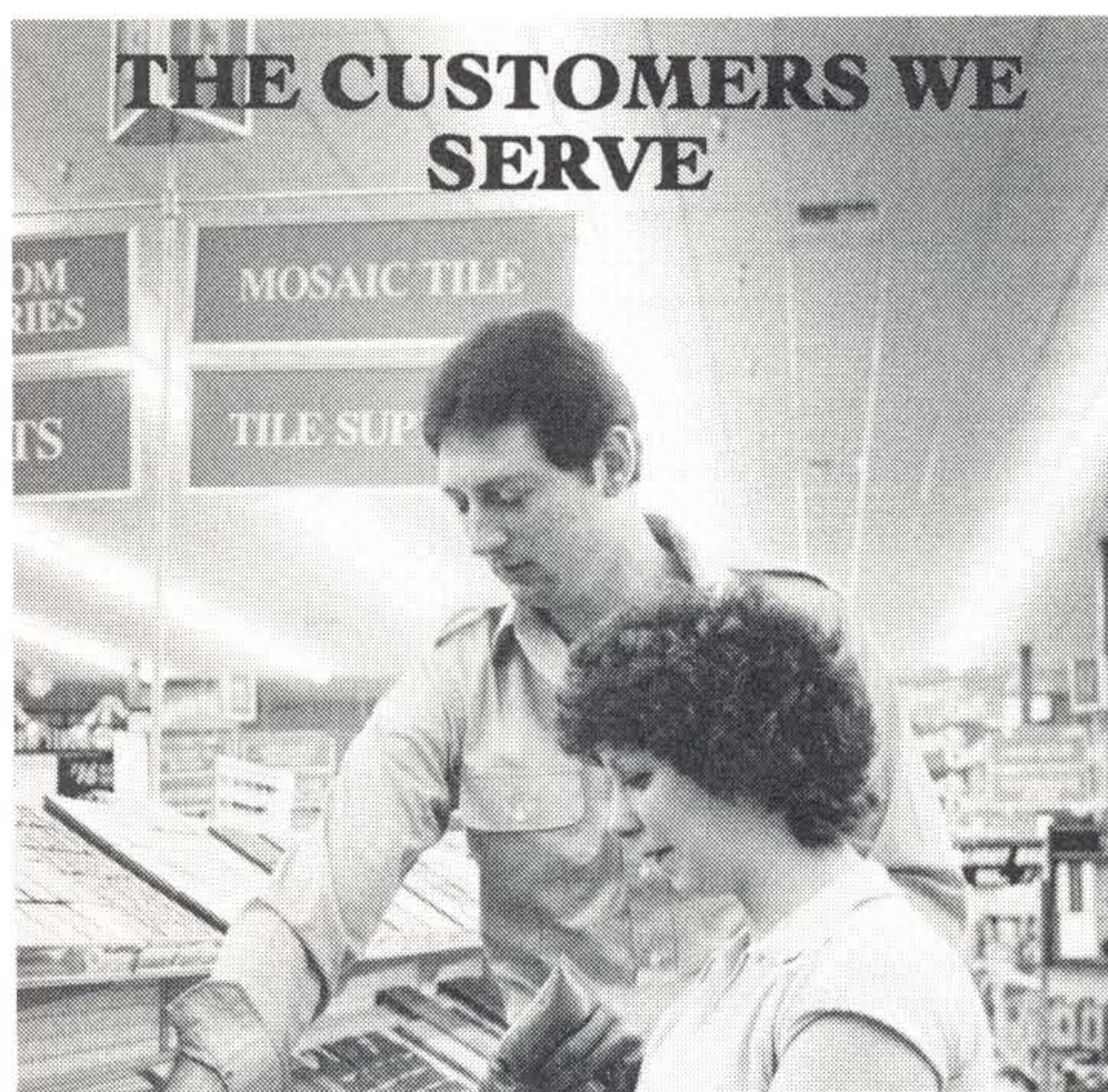


ENTERING A DO-IT-YOURSELF DECADE

During the 1980's, Pay 'N Pak is prepared to serve more customers than ever before.

As Americans struggle to cope with inflation, we expect to see an even greater trend toward do-it-yourself projects. Faced with increasing costs on every side, people will have more incentive than ever to do things themselves instead of hiring someone else. To repair instead of throw away, restore instead of replace.

In the past, we have grown by catering to the do-it-yourselfer, and we have built a strong reputation in the marketplace. For this reason, we are in an excellent position to help our customers maintain and improve their living standards, despite double-digit inflation. We expect to see more customers than ever during the coming year, and we expect to see them more often.



With 78 stores, we currently serve customers in 15 Western states.

As the map indicates, we concentrate on intermediate size cities with populations between 50,000 and 75,000. Experience has proven that in markets of this size we have the best opportunity to establish

ourselves quickly and profitably. For example, because advertising rates are lower, we can afford to advertise extensively in local newspapers and quickly gain high recognition.

In larger cities, we try to open more than one store to reduce the per-store costs of advertising and distribution.

Almost 98% of our business comes from do-it-yourselfers rather than professional contractors and builders. Thanks to this broad base of customers, we have a built-in shock absorber to cushion us against the ups and downs of the economy.

THE PRODUCTS WE SELL

In each of our stores, we try to offer do-it-yourselfers everything they'll need to do the job right. That includes a full selection of electrical, lighting, heating and plumbing supplies in addition to built-in appliances, cabinets, and selected building materials.

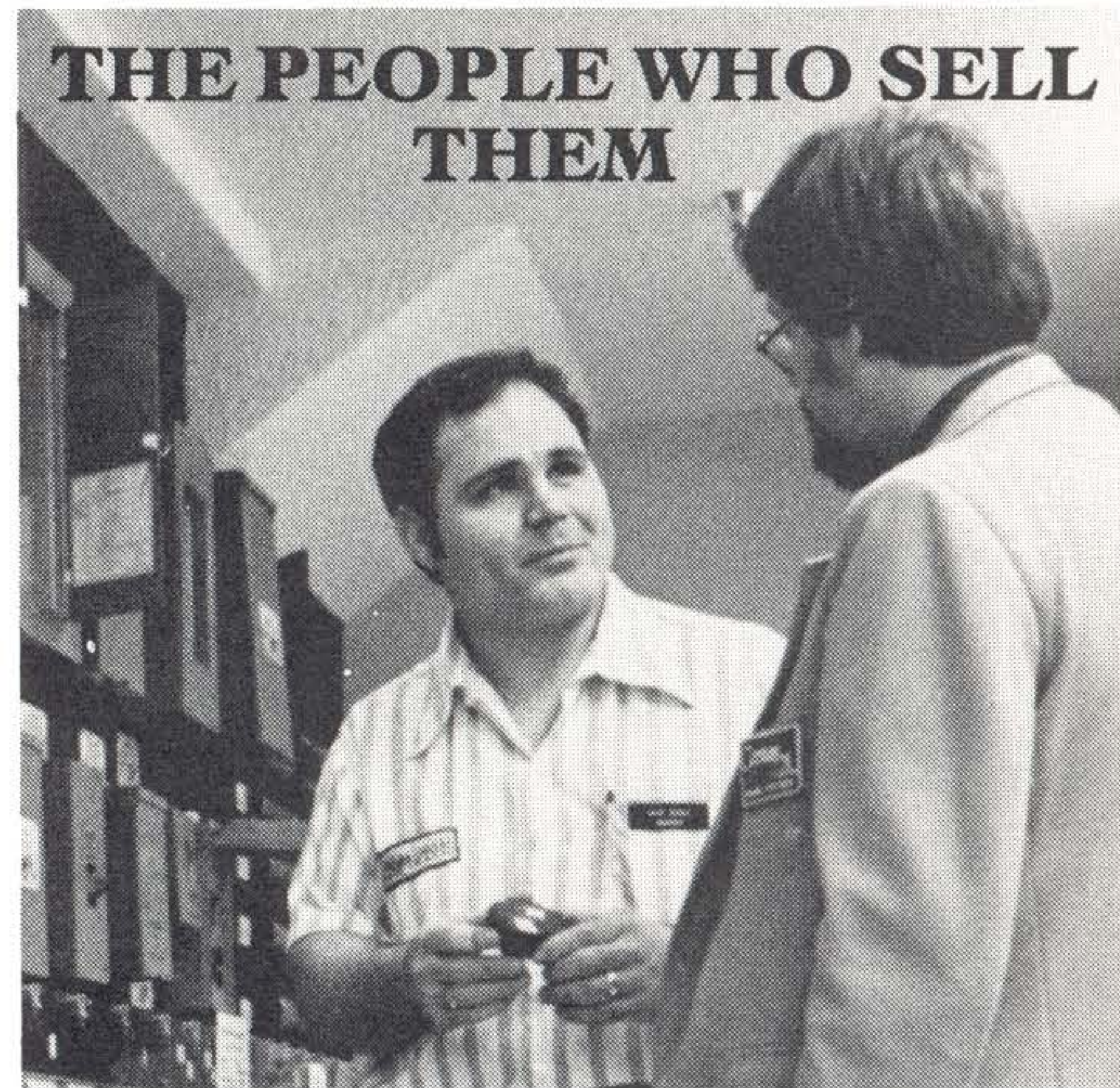
Our customers enjoy an enormous selection. For example, each store carries over 450 styles of light fixtures and over 6,000 different electrical and plumbing items.

In addition to brand name products, we carry a great deal of private label merchandise, much of which is designed and manufactured to our own specifications.

We currently buy more than 80% of our merchandise direct from manufacturers, rather than through wholesalers. This gives us a big competitive advantage. Since we eliminate the "middle man," we can still maintain normal profit margins even though we sell at below-normal prices.

In eleven locations we also offer automotive supplies and sporting goods, which account for about 10% of our total sales — a percentage that has been gradually declining

over the years as we increase our emphasis on the do-it-yourself customer.



Over the years, our people have been our sales strength. Their expertise and concern play a big part in giving customers the confidence they need to tackle unfamiliar jobs.

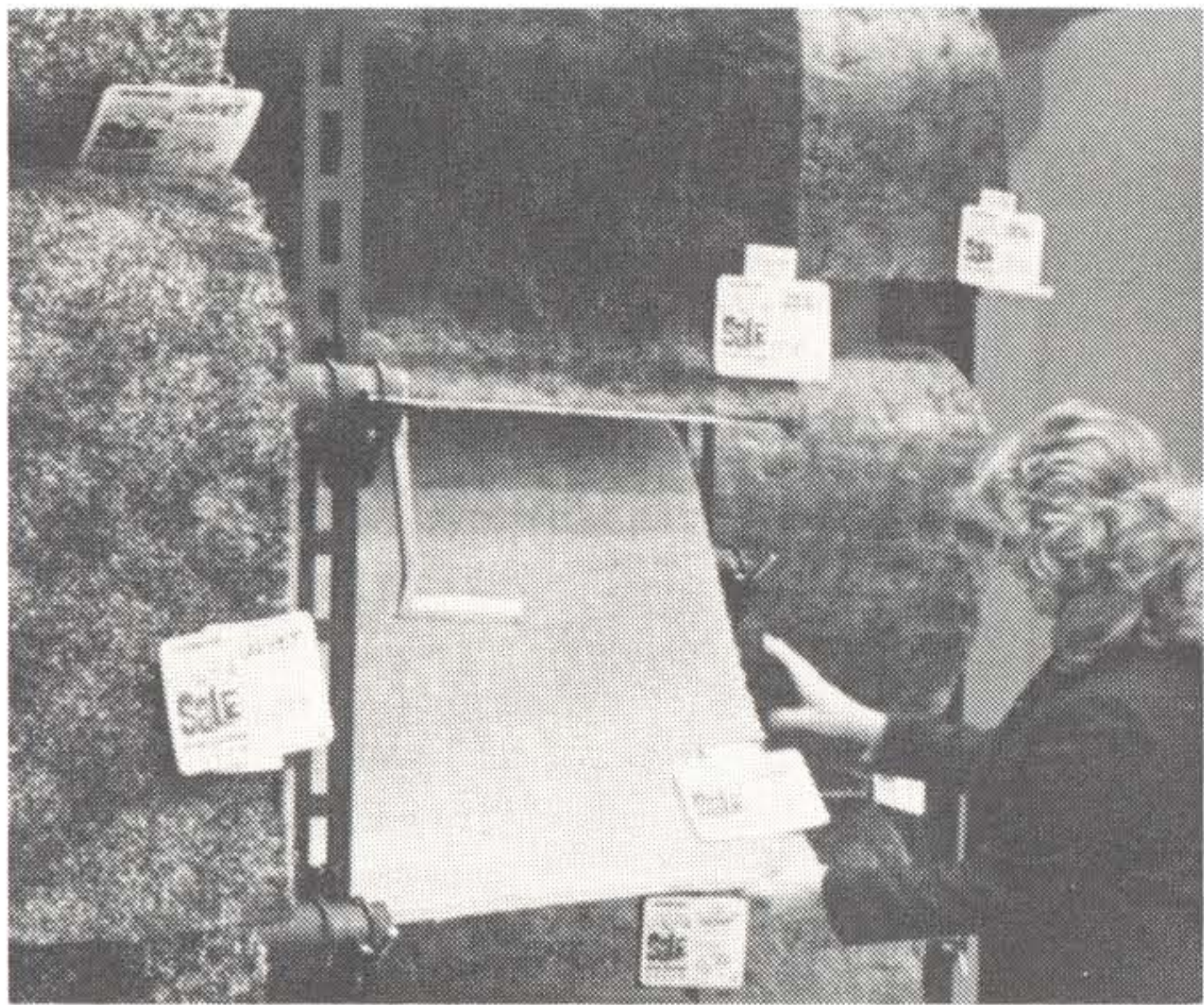
We work hard to attract good people, and then we give them every opportunity to grow with us.

We encourage people to prepare for promotion by training their own replacements. It's an approach that works beautifully. We're very proud of the fact that all of our district and store managers have come up through the ranks.

We also have almost 1/3 of our people enrolled in an Employee Stock Ownership Plan, which gives individuals up to \$2,000 worth of company stock annually, totally paid for by the company. This stock was purchased in 1975, when it cost considerably less than it costs today. This stock is put into the Plan at cost which means that employees immediately gain an increase in value.

We also pay above average wages, provide a strong medical and dental plan, and offer generous bonuses based on store and company profits.

At Pay 'N Pak, hard work pays off for all concerned.



TRAINING FOR SUCCESS



We are strongly committed to on-the-job training at every level of our organization, and we back up that commitment with a full-time staff of 8 people who develop and conduct a wide range of training programs.

For example, our sales people must be able to answer all sorts of questions and provide step-by-step instructions for installing and using products that we sell. Our customers expect our staff to know the "nuts and bolts" of the business.

For this reason we use a variety of programs for training employees: weekly staff meetings to cover procedures and product information, day-by-day training plans for new sales people, an ongoing training program for assistant managers and *their* assistants, plus training programs for cashiers, freight persons, purchasing agents, and other employees.

We also use a sophisticated "classroom on wheels" — a Greyhound bus-type Training Coach that travels over 40,000 miles each year to give on-the-spot training programs for store personnel. The bus is equipped with electrical and plumbing set-ups, for instance, that

operate just as they would in an actual home. Employees can learn by actually installing our products.

In addition, frequent managers' meetings help our managers stay abreast of current developments within the company, the industry, and the economy.

SPREADING THE WORD

When it comes to advertising and sales promotion, we're definitely not shy. We like to use big, powerful newspaper ads, and lots of them. Every week, in each of our markets, we run large-space newspaper ads that consistently feature our low prices.

In addition, we run colorful pre-printed tabloids four times each year. Over 5 million copies of each tabloid are distributed in 70-plus newspapers that cover all of our markets.

Through this aggressive advertising program, we have developed a strong "price" image. People know that we offer them good value for their shopping dollar. That reputation is going to be more valuable than ever during the months ahead.

BIG, MODERN STORES

Company stores average 21,000 square feet and feature the most modern merchandising and marketing techniques.

Store layout and signs are designed at the corporate level and are consistent from store to store. We emphasize displays that show customers how products will look in their own homes, and the displays are constantly being updated.

Over the past decade, we have replaced 21 older stores with new and larger ones. All stores now feature ample off-street parking.

In addition, we have professional real estate and store development people on our staff who are constantly studying new, proposed locations.

ORGANIZED FOR EFFICIENCY

The company's operations are organized to balance the flexibility of decentralization with the strengths of centralized purchasing, marketing, and accounting.

Our marketing area is divided into eight geographical districts. Each one is supervised by a district manager. In addition, there is a



THE DISTRICT MANAGERS



Bud Brown



John Coogan



Warren Jones



Gene Kasper



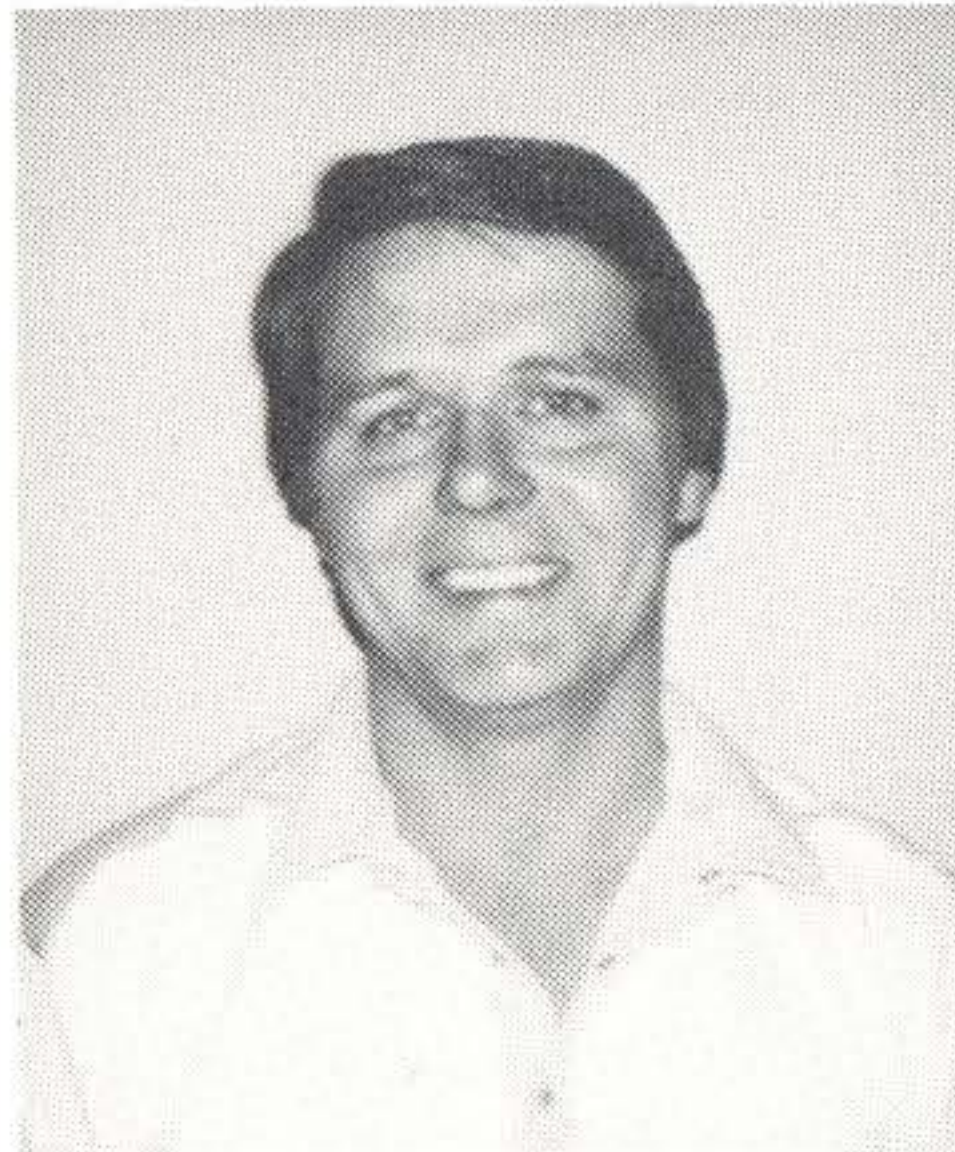
Mel Kelley



Mike Mandick



Larry Marlow



John Schweitzer



Wally Tesch



Steve Unash, Merchandising Director, reviews new in-store merchandising with Monte Leen.



George Smith, Training Director, supervises ongoing training which produces knowledgeable sales personnel.



Pete Gallina, Vice President Real Estate & Store Development, directs company expansion.

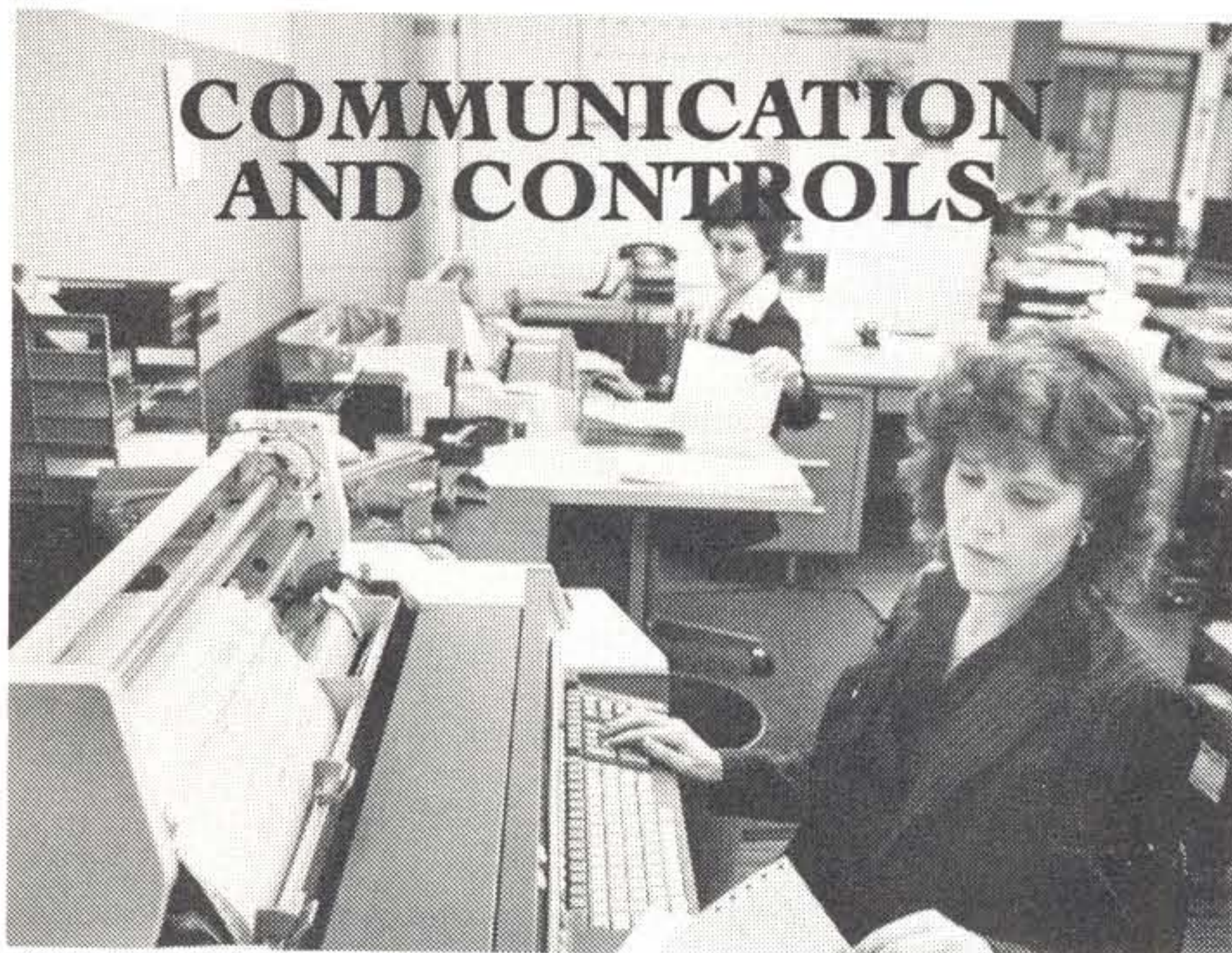
district manager who supervises the eleven locations that sell automotive and sporting supplies.

The district managers provide a two-way flow of information. On the one hand, they are responsible for seeing that individual stores comply with management decisions and policies. At the same time, they pass along information from the store level to help management react to changing market conditions.

Within the district, each manager is responsible for training and developing store managers and assistant managers to meet the company's growth goals.



Careful planning of advertising results in powerful price oriented ads



Communication is vital. To be sure that we don't lose touch with one another, at least three managers' meetings are held annually in each division. Conducted by the president and the district manager, these meetings provide a valuable forum for the first-hand exchange of ideas and information.

In the retail business, accurate information is essential, and the company relies heavily on computerized facilities to provide us with a dependable flow of information.

However, we don't want to rely exclusively on computers. There's no substitute for personal observations, so we rely on our people in the field to help us make important changes in merchandise mix, depth of inventory, and advertising approaches. A special merchandising committee of store managers and purchasing agents collects information from stores in every area and then meets with headquarters staff 3-4 times a year to exchange information on a face-to-face basis.

As Pay 'N Pak expands in the coming decade, it will be this continuous communication that will keep us from growing "out of touch" with one another.

Market and Dividend Information

Pay 'N Pak Stores, Inc. has combined the company's Annual Report with its Form 10-K Report that is filed annually with the Securities and Exchange Commission. The Form 10-K provides more detailed information about the company than does the 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 on NASDAQ and published daily in the financial pages of many daily newspapers.

The range of bid and asked 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.

NASDAQ Symbol PAYP

Quarterly High and Low Bid Prices

(Asked prices are $\frac{1}{2}$ point more)

Last Two
Fiscal Years

Years ended February 28 or 29

	1980	1979
1st quarter	16 $\frac{3}{4}$ -14 $\frac{1}{4}$	13 - 8
2nd quarter	18 $\frac{5}{8}$ -13 $\frac{7}{8}$	13 $\frac{1}{8}$ - 9 $\frac{3}{8}$
3rd quarter	18 $\frac{5}{8}$ -14 $\frac{3}{8}$	18 -11 $\frac{3}{8}$
4th quarter	16 $\frac{1}{8}$ -12 $\frac{1}{2}$	15 $\frac{1}{2}$ -14

Last Two
Fiscal Years

Quarterly Dividends

Years ended February 28 or 29

	1980	1979
1st quarter	.15	.125
2nd quarter	.15	.125
3rd quarter	.15	.125
4th quarter	.15	.125

The range of high and low representative bid prices and the quarterly dividends have been adjusted for the stock dividends of a 20% dividend paid April 27, 1979.

Transfer Agent and Registrar

Security Pacific National Bank
Los Angeles, California

Legal Counsel

Davis, Wright, Todd, Riese & Jones
Seattle, Washington

Auditors

Arthur Young & Company
Seattle, Washington

Banks

Peoples National Bank of Washington
Seattle, Washington

Old National Bank of Washington
Spokane, Washington

Notice of Annual Meeting of Stockholders

The annual meeting of stockholders of Pay 'N Pak Stores, Inc. will be held on June 17, 1980, at 11 o'clock a.m., at the Red Lion Motor Inn, 18740 Pacific Highway South, Seattle, Washington.

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 29, 1980

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 29, 1980 – 4,426,342 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:

Items 13 thru 15 are omitted, except information regarding executive officers, as the required information will be furnished in the Company's proxy statement.

Part I

Item 1 – Business

(a) *General development of business.* Pay 'N Pak Stores, Inc. (the "Company") was incorporated in 1961 under the laws of the State of Washington, as the successor to a partnership formed in 1953 to engage in the retail sale of home improvement products, principally electric and plumbing supplies. The Company in its present form evolved from a merger in 1969 of three groups of similar stores in adjacent geographic areas. Immediately after the merger, the Company had 22 stores in three western states, Washington, California and Colorado. Since the merger, the Company has undertaken a store expansion program and has added auto parts and supplies and sporting goods to its lines of merchandise. During the past five years, the Company has opened between six to nine new stores in each fiscal year and currently operates 80 stores in 15 states, all west of the Mississippi River, although about half of the stores are located in the Pacific Northwest, with 31 stores in Washington and 9 stores in Oregon.

Item 1 – Business, continued

(b) *Industry segments; lines of business.* The Company has only one industry segment and is engaged in only one line of business — retail sales.

(c) (1) (i) *Description of business.* The Company caters to the do-it-yourself home improvement market. Home improvement products include electrical products, plumbing supplies, building materials, and cabinets and built-in appliances. Eleven stores also carry sporting goods and automotive parts and accessories. All but three stores are operated under the name "Pay 'N Pak." Three stores located in Idaho and Oregon are operated under the name "Eagle Electric & Plumbing Supply." The Company's sole method of distribution of merchandise to customers is through sales at its retail stores, all of which are operated by the Company.

The Company's marketing efforts are primarily directed toward homeowners and other do-it-yourself customers. The Company estimates that over 98% of sales of home improvement products and auto supplies were made to do-it-yourself customers in fiscal 1980, with professional builders and others accounting for less than 2%.

The approximate contribution, as a percent of the Company's net sales, of each of the major product categories during the last five fiscal years was as follows:

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Electrical	29%	33%	32%	31%	33%
Plumbing	27	26	26	25	24
Building Materials	30	29	30	33	33
Automotive	7	7	6	6	5
Sporting Goods	7	5	6	5	5
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Company uses modern merchandising and marketing techniques in the operation of its retail stores. Store lay-out, merchandise organization and merchandise signs are designed by the Company's corporate staff and are essentially consistent throughout its stores. Merchandise is conveniently arranged and displayed in well-lighted stores, with emphasis placed on displays which illustrate how the product will look in the customer's own home. Many brand name products are carried by the stores, particularly where the Company believes such brand names are recognized by the customer as indicative of quality and reliability. The Company also carries private label merchandise, some of which is the manufacturers' standard merchandise and some of which is designed and manufactured to the Company's specifications. The Company attempts to charge competitive prices with respect to the merchandise sold through its stores, particularly on high volume, commodity products. Such pricing is facilitated by the Company's ability to purchase certain products in volume directly from manufacturers. Sales are predominantly on a cash and carry basis, which includes sales made through the use of bank credit cards by customers. To a limited extent, goods are also sold under installment sales contracts which are in turn sold to finance companies on a nonrecourse basis. The Company estimates that during fiscal 1980, sales on which it directly extended credit accounted for less than 5% of sales. The Company maintains a liberal merchandise return policy, with full refunds given under most circumstances to customers who return products.

The Company believes that a key feature in its marketing program is the ability of sales personnel to advise customers how to select, install and use products for home improvement and maintenance projects. The Company places particular emphasis on the training of its sales personnel to accomplish this objective. Although the Company does not deliver or install the products it sells, it continually trains its sales personnel so that they may advise customers regarding the selection and use of the products sold and so that they may give step-by-step instructions regarding the installation of such products. The Company has a product training director and staff, and uses training film programs and meetings to qualify employees in product knowledge and selling skills. The Company also owns a 40-foot bus that is specially equipped and used as a mobile training classroom for its sales personnel.

During the fiscal year ended February 29, 1980, the Company opened new stores in Eureka, California, Fort Collins, Colorado, N. Platte, Nebraska (its first entry into Nebraska), Beaverton, Oregon, Vancouver, Washington, Federal Way, Washington, Aberdeen, Washington, and Sandy, Utah. The Company also replaced its Kent Mall (Washington) with a new, larger store at the same location. The old Kent Mall is being remodeled to expand and modernize the Company's head office and the remaining unneeded space will be leased out to other retail tenants.

Item 1 – Business, continued

The following table summarizes the Company's growth in numbers of stores during the past five years:

	Year Ended February 28 or 29				
	1976	1977	1978	1979	1980
Stores in operation at beginning of year (1)	50	55	60	65	70
New stores opened	9	7	6	7	9
Stores replaced by new stores	(2)	(2)	(1)	(1)	(1)
Stores sold or closed (2)	(2)			(1)	
Stores in operation at end of year	55	60	65	70	78

- (1) Prior to fiscal 1979 the Company treated as five separate stores the five physically separate sales outlets in the Kent, Washington Mall. In this table, the Kent Mall is treated as one store.
- (2) In January, 1979, when the Company's lease expired it closed an outmoded store in Redmond, Washington.

The Company has undertaken a store expansion program to increase the annual number of store openings to eight to ten. The exact number of stores opened in any period will depend on many factors, including the availability of suitable locations and general business conditions.

The Company is continually investigating locations for the establishment of new stores. Each location is investigated with respect to population and population trends, competition in the trading area and other pertinent factors in order to analyze its sales potential. The Company attempts to locate its stores in areas which are convenient to the do-it-yourself customer, principally in smaller cities and in suburban areas of larger cities. In selecting locations for future stores, the Company plans to concentrate on trading areas in the western and mid-western half of the United States that have a minimum trading area population of 50,000 persons.

So far in fiscal 1981, the Company has opened new stores in Bothell, Washington and Orem, Utah. The Company has also entered into leases and plans to open new stores later in fiscal 1981 in Woods Cross, Utah, Burien, Washington, Greeley, Colorado, and Bend, Oregon. The Company is also presently negotiating leases for new stores in Pendleton and Medford, Oregon, and an additional store in Sacramento, California, where it now has two stores.

(ii) New product or industry segment. The Company has not recently introduced a new product or begun to do business in a new industry segment which will require the investment of a material amount of the Company's assets.

(iii) Raw materials. The Company buys its merchandise from several hundred independent suppliers, including manufacturers and importers, none of which accounts for more than 8.5% of the Company's purchases.

Approximately half the merchandise is shipped by suppliers directly to the Company's stores. The Company also stores merchandise and supplies its stores through two central warehouse locations, an aggregate of 159,100 square feet in Kent, Washington, and a 78,900 square foot facility in Denver, Colorado. The warehouse in Denver, Colorado, services the company's 29 stores located in Colorado, Kansas, Nebraska, Montana, Oklahoma, South Dakota, North Dakota, Utah, Idaho and Wyoming and the Kent, Washington location services the remainder.

(iv) Patents, etc. The company holds no material patents, trademarks, licenses, franchises or concessions.

(v) Seasonal business. 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.

Item 1 – Business, continued

(vi) Working capital items. The Company attempts to carry sufficient amounts of inventory in stock to meet customer demand and to allow sufficient delivery time for new orders from the factories. The Company engages in volume buying direct from factories as much as possible not only to obtain the benefit of lower unit prices, but also 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.

The Company sells most of its goods on a cash basis and other than selling a limited amount of goods under installment sales contracts that are sold to finance companies on a non-recourse basis, the Company does not provide extended payment terms to customers.

(vii) Dependence upon few customers. The business of the Company is not dependent upon a single customer or a few customers, the loss of any one or more of whom would have an adverse effect on the Company.

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

(ix) Government contracts. No portion of the Company's business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. Government.

(x) Competitive conditions. The retail sales business engaged in by the Company is highly competitive. Competition is based primarily on breadth of product line, service, advertising, price and convenience of location. The Company competes with numerous retail organizations, including integrated department stores such as Sears and Montgomery Ward, home improvement centers and other building materials retailers, and, to a lesser extent, large and small hardware and lumber stores, auto supply stores and sporting goods stores. The Company's competitors, some of which have substantially greater financial resources, 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 of the Company.

(2) (i) Research and development activities. The Company has engaged in research and development activities relating to the improvement of services to its customers, through the development of product knowledge training films, a Retail Selling Skills program, the holding of training seminars, and the acquisition of a 40-foot mobile training bus, 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 \$290,818 in 1979 and \$301,862 in 1980.

(ii) Major customers. The Company does not have any customer to which sales are made in an amount which equals $\frac{1}{2}$ of 1% or more of the Company's consolidated revenue.

(iii) Environmental laws. 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.

(iv) Number of employees. The Company currently employs approximately 1,049 full-time persons and 116 part-time persons.

(d) Foreign and domestic operations; export sales. The Company's revenue, profitability and identifiable assets are attributable to only one geographic area, the western part of the United States, and although the Company is a large importer of foreign goods, it does not have any foreign operations or engage in any export sales.

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 each of the five years in the period ended February 29, 1980, has 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,				
	1976	1977	1978	1979	1980
Revenues:					
Net sales	\$73,221,950	\$80,592,395	\$98,000,321	\$117,341,577	\$137,896,788
Interest	25,394	32,080	42,201	336,047	454,140
Rentals and other	32,608	18,274	9,366	10,466	10,366
	<u>73,279,952</u>	<u>80,642,749</u>	<u>98,051,888</u>	<u>117,688,090</u>	<u>138,361,294</u>
Costs and expenses:					
Cost of sales (a)	48,783,406	51,859,031	62,958,711	75,255,440	88,225,081
Selling and administrative	16,069,234	18,771,334	22,121,472	26,005,335	31,011,234
Rent	813,865	839,042	1,052,671	1,424,436	1,665,937
Depreciation	1,379,970	1,641,183	1,866,524	2,203,011	2,667,637
Interest on long-term debt	1,530,768	2,014,658	2,156,079	2,522,478	2,955,032
Other interest	98,143	53,975	14,092	77,901	365,391
	<u>68,675,386</u>	<u>75,179,223</u>	<u>90,169,549</u>	<u>107,488,601</u>	<u>126,890,312</u>
Income before income taxes	4,604,566	5,463,526	7,882,339	10,199,489	11,470,982
Provision for income taxes (b)	2,174,592	2,592,398	3,684,537	4,796,563	5,158,100
Income before cumulative effect of change in accounting principle	2,429,974	2,871,128	4,197,802	5,402,926	6,312,882
Cumulative effect on prior years (to February 28, 1977) of change in accounting principle (e)			(191,337)		
Net income (e)	<u>\$ 2,429,974</u>	<u>\$ 2,871,128</u>	<u>\$ 4,006,465</u>	<u>\$ 5,402,926</u>	<u>\$ 6,312,882</u>
Average number of common shares (c)	<u>3,986,130</u>	<u>3,862,343</u>	<u>3,862,343</u>	<u>4,053,934</u>	<u>4,426,342</u>
Per common share (c):					
Income before cumulative effect of change in accounting principle	\$.61	\$.74	\$1.09	\$1.33	\$1.43
Cumulative effect of change in accounting principle	—	—	(.05)	—	—
Net income	<u>\$.61</u>	<u>\$.74</u>	<u>\$1.04</u>	<u>\$1.33</u>	<u>\$1.43</u>
Dividends per common share (d):					
Cash paid	<u>\$.175</u>	<u>\$.225</u>	<u>\$.344</u>	<u>\$.50</u>	<u>\$.60</u>
Stock	<u>10%</u>	<u>10%</u>			

(See notes to consolidated statement of income beginning 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 28, 1975—\$15,460,230; February 29, 1976—\$17,691,688; February 28, 1977—\$24,042,732; February 28, 1978—\$27,457,883; February 28, 1979—\$34,493,352; February 29, 1980—\$43,415,204.

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

	Year ended February 28 or 29,				
	1976	1977	1978	1979	1980
Current federal income tax	\$2,108,967	\$2,510,725	\$3,762,303	\$4,712,255	\$5,001,593
Investment tax credit	(101,905)	(120,125)	(157,502)	(168,325)	(233,048)
Tax effect of jobs credit			(52,000)	(52,000)	
Deferred income tax	34,340	43,579	(90,292)	(6,400)	10,962
State income taxes	133,190	158,219	222,028	311,033	378,593
	<u>\$2,174,592</u>	<u>\$2,592,398</u>	<u>\$3,684,537</u>	<u>\$4,796,563</u>	<u>\$5,158,100</u>

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

The provision for deferred income taxes reflects timing differences between income and expenses reported for financial statement and income tax purposes. The federal and state income tax effects of these differences are as follows:

	Year ended February 28 or 29,				
	1976	1977	1978	1979	1980
Depreciation deducted for income tax purposes in excess of the amount deducted for financial reporting purposes	\$132,916	\$179,825	\$193,961	\$120,135	\$132,320
Amortization of leasehold rights and related interest expense in excess of rental expense deducted for income tax purposes	(129,308)	(143,908)	(140,213)	(151,780)	(166,547)
Pre-opening expenses deducted for financial reporting purposes (in excess of) less than the amount deducted for income tax purposes and other	30,732	7,662	(144,040)	25,245	45,189
	<u>\$ 34,340</u>	<u>\$ 43,579</u>	<u>\$ (90,292)</u>	<u>\$ (6,400)</u>	<u>\$ 10,962</u>

- (c) Per common share amounts were determined on the weighted average number of such shares outstanding during each period after giving effect to the 10% stock dividends declared in fiscal years 1976 and 1977 and retroactive effect to the 3 for 2, 4 for 3 and 6 for 5 stock splits declared in fiscal years 1978, 1979 and 1980, respectively.
- (d) Cash dividends paid per common share are stated at amounts after giving retroactive effect to stock dividends and splits described in Note (c). See Note 2 of Notes to Consolidated Financial Statements for restrictions on payment of cash dividends.
- (e) In order to conform with the predominant method used in the retail industry to account for pre-opening costs, the Company changed its method in 1978 to one of charging such costs to expense as incurred. Previously, the Company's pre-opening costs were capitalized and amortized on the straight-line method over three years commencing with the opening of the store. The cumulative effect of the change as of the beginning of the year is presented as a separate charge during 1978. The effect of the change on income before (\$358,982 before income taxes) and after such charge is not material.

Item 2 – Summary of operations, continued

(f) Quarterly financial data (unaudited)

	Quarter Ended			
	May 31	Aug. 31	Nov. 30	Feb. 28 or 29
1979	(000's omitted, except per share amounts)			
Revenues	\$25,659	\$32,131	\$31,940	\$27,958
Gross profit on sales	9,456	11,288	11,516	9,826
Net income	1,050	1,449	1,424	1,480
Net income per share (Note (c))	\$.27	\$.38	\$.35	\$.33
1980				
Revenues	\$31,771	\$39,551	\$36,828	\$30,211
Gross profit on sales	11,267	13,648	12,975	11,782
Net income	1,266	1,815	1,652	1,580
Net income per share (Note (c))	\$.29	\$.41	\$.37	\$.36

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

During the past five years the Company's revenues have increased from \$73,279,952 in fiscal 1976 to \$138,361,294 in fiscal 1980 (an increase of 89%). Net income has increased during this period from \$2,429,974 in fiscal 1976 to \$6,312,882 in fiscal 1980 (an increase of 160%).

The year to year increase in revenues was 10% from fiscal 1976 to 1977, 22% from fiscal 1977 to 1978, 20% from fiscal 1978 to 1979, and 18% from fiscal 1979 to 1980. These increases are generally attributable to new stores opened during the periods, increased volume in existing stores and, to a lesser extent, price increases. For information regarding numbers of new stores opened in each of the last five fiscal years, see "Business". The percentage increase in revenues from 1976 to 1977 was less than the increases for other years, primarily because of the elimination of plywood and sheet rock from the Company's product line and the sale of two stores in December 1975. In addition, management changes occurring in connection with the resignation of the Company's President and Vice President — Operations in November 1975 caused some disruption in the Company's sales efforts in the first two quarters of fiscal 1977. Interest income increased \$293,846 or 696% in fiscal 1979 over 1978 and \$118,093 or 35% in fiscal 1980 over 1979 primarily as a result of investing excess funds in time certificates of deposit.

Increases in store revenues during the five-year period were attributable to the following:

	Increase (Decrease)			
	1977 over 1976	1978 over 1977	1979 over 1978	1980 over 1979
	(In thousands)			
Net sales of stores opened during fiscal year*	\$2,983	\$ 2,721	\$ 2,763	\$ 4,300
Increase in net sales over the preceding year of stores in their first full fiscal year of operation	3,666	4,323	3,279	4,685
Increase in net sales over the preceding year of stores opened for over two fiscal years	2,500	10,364	13,299	12,378
Change in net sales for stores closed or sold	(1,779)	—	—	(808)
	<u>\$7,370</u>	<u>\$17,408</u>	<u>\$19,341</u>	<u>\$20,555</u>

*Does not include net sales of replacement stores. Net sales of such replacement stores are treated as if such stores were equivalent in age to the older stores they replaced.

Item 2 – Summary of operations, continued

During the five-year period, cost of sales and selling and administrative expense have generally increased in proportion to the increase in revenues, except from 1976 to 1977. The elimination of plywood and sheet rock, both low margin items, from the Company's product line and the results of a management reorganization following the resignations discussed above contributed to a decrease in cost of sales, as a percentage of revenues, from 66.6% in fiscal 1976 to 64.3% in fiscal 1977. Rent and depreciation have increased throughout the period, primarily as a result of new store openings. Interest on long-term debt has increased primarily as a result of a \$3,550,000 borrowing in February 1976, a borrowing of \$5,000,000 in June 1978, and an additional borrowing of \$3,300,000 in August 1979. Interest on short-term debt increased \$287,490 in fiscal 1980 over 1979 primarily as a result of interest rate increases and increased short-term borrowing.

The Company's effective income tax rates for the five fiscal years were as follows: 1976—47.2%, 1977—47.4%, 1978—46.7%, 1979—47.0%, 1980—45.0%. The fluctuations were primarily due to variations in the amount of investment tax credit available in the respective periods and federal rate changes in 1979.

Primarily as a result of the factors discussed above, net income increased by 18.2% from 1976 to 1977, by 39.5% from 1977 to 1978, by 34.9% from 1978 to 1979, and by 16.8% from 1979 to 1980.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended February 28 or 29,				
	1976	1977	1978	1979	1980
Balance at beginning of year	\$8,154,527	\$7,699,795	\$ 7,650,026	\$10,570,206	\$13,971,463
Add (deduct):					
Net income	2,429,974	2,871,128	4,006,465	5,402,926	6,312,882
Dividends:					
Cash	(692,114)	(1,110,423)	(1,086,285)	(2,001,669)	(2,655,805)
10% stock at fair market value					
at date of issuance	(2,192,592)	(1,810,474)	—	—	—
Balance at end of year	<u>\$7,699,795</u>	<u>\$7,650,026</u>	<u>\$10,570,206</u>	<u>\$13,971,463</u>	<u>\$17,628,540</u>

See Note 2 to Consolidated Financial Statements concerning restrictions on the payment of cash dividends.

CONSOLIDATED STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE

	Year ended February 28 or 29,				
	1976	1977	1978	1979	1980
Balance at beginning of year	\$3,788,717	\$5,967,497	\$7,216,633	\$7,136,168	\$15,138,550
Add (deduct):					
Excess of fair market value					
over par value of 10% stock					
dividends (138,116 shares in					
1976, 146,301 shares in 1977) . .	2,178,780	1,795,844			
Retirement of treasury stock					
(56,267 shares)		(546,708)			
50% stock split at par value					
(804,655 shares)			(80,465)		
33 1/3% stock split at par value					
(804,655 shares)				(80,466)	
Net proceeds from sale of					
470,000 shares of common					
stock - excess over par value				8,082,848	
20% stock split at par value					
(737,723 shares)					(73,772)
Balance at end of year	<u>\$5,967,497</u>	<u>\$7,216,633</u>	<u>\$7,136,168</u>	<u>\$15,138,550</u>	<u>\$15,064,778</u>

Item 3 – Properties

Of the Company's 80 stores, 31 are located in the State of Washington, 9 in Oregon, 6 in California, 2 in Nevada, 4 in Idaho, 1 in Montana, 4 in Utah, 8 in Colorado, 3 in Kansas, 4 in Oklahoma, 2 in Alaska, 2 in Wyoming, 2 in South Dakota, 1 in North Dakota and 1 in Nebraska. All of the Company's stores except nine are leased under leases expiring at various times between February 28, 1981 and June 1, 2003. Many of these leases contain options to renew. Operations of the Company are directed from its head office Kent, Washington, a Seattle suburb, where all administrative functions, including accounting, merchandising, purchasing and advertising, are performed. The head office is leased under a lease expiring in 1995. The Company also leases central warehouse space in Kent, Washington, under leases that expire in 1983. In addition, the Company also leases a large regional warehouse in Denver, Colorado, under a lease that expires in 1982 and from which the Company's midwest merchandising is conducted. 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 20 acres in Spokane, Washington, and 30 acres in Kent, Washington. The Company has granted an option to purchase 10 acres of the Kent property and intends to construct its own warehouse on the remaining 20 acres to replace the Kent warehouse premises presently under lease.

The Company presently owns its store properties in Fairbanks, Alaska, Pocatello, Idaho, and Casper, Wyoming. The Company obtained long-term mortgage financing on these properties during the fiscal year ended February 28, 1977. The Company also presently owns its store properties in Fort Collins, Colorado, North Platte, Nebraska, and Federal Way, Aberdeen, Bothell and the Kent Mall, all in Washington. These properties are not presently subject to any mortgages or other encumbrances.

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. Since 1969, the Company has replaced 14 older, smaller stores with larger, new stores. The buildings contain all of the fixtures and improvements which the Company believes are necessary in its business. Many of the Company's present stores were formerly supermarkets, as their size, structure and location made them easy and appropriate to convert to Pay 'N Pak stores. 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, 1980.

- | | |
|---------------|---|
| 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 and Indebtedness

The Company's outstanding common stock was increased from 3,688,619 shares to 4,426,342 shares, an increase of 737,723 shares, on April 27, 1979, the date of distribution of a 20% stock split issued as a stock dividend declared on March 14, 1979.

Item 7 – Changes in Securities and Changes in Security for Registered Securities

In August, 1979, the Company entered into a loan agreement with The Prudential Insurance Company of America and issued its note in the original amount of \$15,000,000 payable in annual installments and maturing in 1994. The loan agreement provides, among other things, limitations upon payment of cash dividends and redemption or reacquisition of the Company's stock. Such payments may only be made out of \$1,000,000 plus 60% of the Company's net earnings and after March 1, 1979 only if such payments do not reduce the Company's working capital below \$17,000,000.

Item 8 – Defaults Upon Senior Securities

None.

Item 9 – Approximate Number of Equity Security Holders

As of April 10, 1980, there were 2,546 holders of record of the Company's common stock.

Item 10 – Submission of Matters to a Vote of Security Holders

The election of directors and approval of selection of auditors was submitted to a vote of the Company's stockholders on June 19, 1979 at the annual meeting of stockholders. Proxies for the meeting were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934. There was no solicitation in opposition to management's nominees as listed in the proxy statement and all such nominees were elected. The stockholders also voted upon a Board of Directors resolution recommending an amendment to the Articles of Incorporation to increase the aggregate number of shares of common stock which the Company has authority to issue from 5,000,000 to 10,000,000 shares. The amendment was adopted by 3,145,737 affirmative votes with 8,735 negative votes cast with respect to the amendment.

Item 11 – Indemnification of Directors and Officers

The general effect of Section VIII of the Company's Bylaws is that the officers and directors shall be indemnified by the Company against all costs, expenses, judgments 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 interest 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 person by reason of their position with the Company.

The Company is insured under 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 12 – Financial Statements, Exhibits Filed and Reports on Form 8-K

(a) (1) *Financial Statements.* The consolidated financial statements and supporting schedules as set forth in the index to financial statements on the following pages are filed as part of this Annual Report.

(2) *Exhibits.* None.

(b) *Reports on Form 8-K.* No reports on Form 8-K were filed during the last quarter of the Company's fiscal year ended February 29, 1980.

Item – Executive Officers of the Company

<u>Name</u>	<u>Age</u>	<u>Positions and Offices</u>
David J. Heerensperger	43	Chairman of the Board and Chief Executive Officer; Director
Jerry L. Marlow	44	President and Chief Operating Officer; Director
Harold F. Bacon	63	Executive Vice President; Director
Halvor Knudtzon, Jr.	53	Secretary-Treasurer and Controller; Director
Monte A. Leen	37	Vice President-Merchandising; Director
Victor W. Crosswhite	43	Vice President-Purchasing
Peter W. Gallina	44	Vice President-Real Estate and Store Development
Calvin E. Karbowski	42	Vice President-Distribution

The term of office of each of the above officers is until the next annual meeting of 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. Mr. Knudtzon has served as Secretary-Treasurer and Controller since August, 1970. Mr. Marlow, Mr. Bacon and Mr. Gallina have served in their respective offices since December, 1977. Mr. Crosswhite, Mr. Karbowski and Mr. Leen have served in their respective offices since February, 1980. 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.

There are no family relationships among the above officers except that Mr. Crosswhite's wife and Mr. Heerensperger are first cousins.

During the past five years, the business experience of the executive officers is as follows:

All of the above officers have been employed by the Company during the past five years except Mr. Leen. David J. Heerensperger has served the Company as Chairman of the Board and Chief Executive Officer, and also, from November, 1975, to December, 1977, as President. Halvor Knudtzon, Jr. has served the Company as Controller and Secretary-Treasurer. Harold F. Bacon has served the Company as Executive Vice President since December, 1977, and prior thereto as Vice President-Merchandising. Jerry L. Marlow, prior to his election as President and Chief Operating Officer in December, 1977, served the Company as Vice President-Operations and Chief Operating Officer from November, 1975, and prior thereto as a District Manager. Victor W. Crosswhite, prior to his election as Vice President-Purchasing in February, 1980, served the Company as Vice President-Midwest Merchandising from December, 1977, as a purchasing agent for electrical, lighting and heating supplies from November, 1975, and prior thereto as a store manager. Peter W. Gallina, prior to his election as Vice President-Real Estate and Store Development in December, 1977, served the Company as Director of Store Development, Construction and Real Estate. Calvin E. Karbowski, prior to his election as Vice President-Distribution in February, 1980, served the Company as manager of its Kent warehouse. Monte A. Leen, prior to his election as Vice President-Merchandising in February, 1980, served the Company as a purchasing agent for electrical and lighting supplies and appliances from February, 1978, and prior thereto as Vice President-Operations and Assistant to the President until November, 1975. From November, 1975 to February, 1978, Mr. Leen was employed in California by Yardbirds, Inc. as the manager of an electric and plumbing supplies store for approximately a year and thereafter was self-employed as a co-managing partner of another electric and plumbing supplies store.

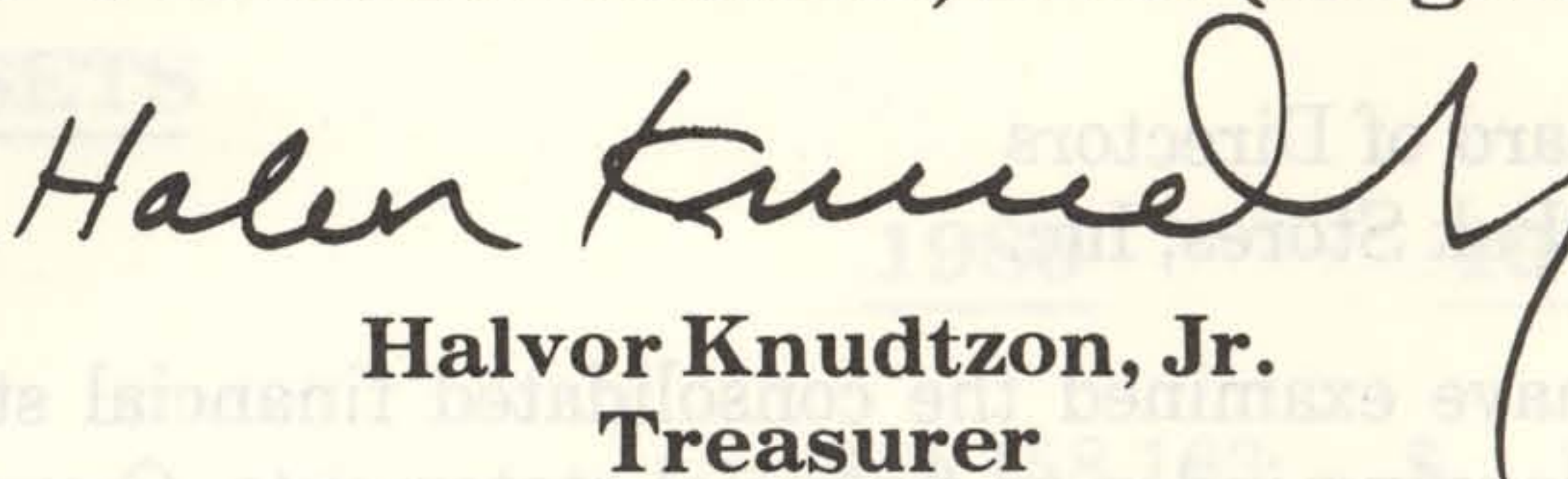
Part II

Items 13-15 are omitted, except information regarding executive officers, 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 Section 13 or 15(d) 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 Knudtson, Jr.
Treasurer

Dated: May 6, 1980

PAY 'N PAK STORES, INC.
INDEX TO FINANCIAL STATEMENTS
COVERED BY REPORT OF CERTIFIED PUBLIC ACCOUNTANTS
(Item 12(a))

Consolidated balance sheet—February 29, 1980 and February 28, 1979

Consolidated statements of income, retained earnings and capital in excess of par value for the five years ended February 29, 1980 (Included in Item 2)

Consolidated statement of changes in financial position for the five years ended February 29, 1980

Notes to consolidated financial statements

Schedules for the years ended February 29, 1980 and February 28, 1979

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 29, 1980 and February 28, 1979 and the consolidated results of its operations and the consolidated changes in financial position for each of the five years in the period ended February 29, 1980, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Seattle, Washington
March 29, 1980

PAY 'N PAK STORES, INC.
CONSOLIDATED BALANCE SHEET
February 29, 1980 and February 28, 1979

	<u>1980</u>	<u>1979</u>
ASSETS		
Current assets:		
Cash	\$ 1,158,163	\$ 804,100
Time certificates of deposit		4,600,000
Trade accounts receivable, less allowance of \$50,000 for doubtful accounts (Schedule XII)	957,199	865,790
Merchandise inventories (Note 1(b))	43,415,204	34,493,352
Prepaid expenses	930,848	882,651
Total current assets	46,461,414	41,645,893
Property, plant and equipment, at cost (Notes 1(c), 1(g) and 2) (Schedule V):		
Land	1,899,977	707,715
Buildings	5,228,058	1,905,719
Leasehold rights and improvements	20,461,758	18,498,568
Store equipment	10,809,886	8,798,214
Transportation equipment	1,405,140	1,241,538
Construction in progress	3,836,517	1,188,091
	43,641,336	32,339,845
Less accumulated depreciation and amortization (Schedule VI) . . .	10,748,958	9,006,583
	32,892,378	23,333,262
Properties held for development and/or investment	1,669,680	1,012,320
Net property, plant and equipment	34,562,058	24,345,582
Time certificates of deposit (Note 2)		3,400,000
Deferred income taxes (Note 1(e))	406,898	417,860
Cost of acquired stores in excess of amounts assigned to net assets at dates of acquisition (Note 1(d))	195,746	223,169
Other assets, at cost	64,997	70,410
	<u>\$81,691,113</u>	<u>\$70,102,914</u>

See accompanying notes

PAY 'N PAK STORES, INC.
CONSOLIDATED BALANCE SHEET

February 29, 1980 and February 28, 1979

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>1980</u>	<u>1979</u>
Current liabilities:		
Notes payable to bank (Note 2)	\$ 6,250,000	\$ 2,400,000
Accounts payable	9,828,058	9,452,304
Federal and state income taxes (Note 1(e))	685,213	1,045,153
Accrued liabilities:		
Payroll and profit sharing	1,431,317	1,191,698
Taxes, other than income	1,079,583	1,093,113
Interest and other	124,995	328,830
	<u>2,635,895</u>	<u>2,613,641</u>
Long-term debt due within one year (Note 2)	371,041	1,152,914
Total current liabilities	19,770,207	16,664,012
Long-term debt (Note 2)	28,680,119	23,848,328
Employee benefit plan (Note 3)	664,018	1,003,869
Deferred income (Note 1(c))	104,835	111,699
Commitments (Note 4)		
Stockholders' equity:		
Preferred stock, without par value, 1,000,000 shares authorized, none issued		
Common stock, \$.10 par value, 10,000,000 shares authorized, 4,426,342 shares issued (3,688,619 at February 28, 1979)	442,634	368,862
Capital in excess of par value	15,064,778	15,138,550
Retained earnings (Note 2)	17,628,540	13,971,463
	<u>33,135,952</u>	<u>29,478,875</u>
Deferred employee benefits (Note 3)	(664,018)	(1,003,869)
Total stockholders' equity	<u>32,471,934</u>	<u>28,475,006</u>
	<u>\$81,691,113</u>	<u>\$70,102,914</u>

See accompanying notes.

PAY 'N PAK STORES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended February 28 or 29,				
	1976	1977	1978	1979	1980
Source of funds:					
Net income	\$ 2,429,974	\$2,871,128	\$4,006,465	\$ 5,402,926	\$ 6,312,882
Items not involving working capital:					
Depreciation and amortization	1,680,425	1,971,564	2,202,053	2,252,019	2,695,809
Deferred income taxes	34,340	43,579	(90,292)	(6,400)	10,962
Net asset amount of land and equipment retired and (gain)loss on sale of assets. . . .	(46,155)	54,021	3,524	24,163	3,913
Working capital provided from operations . . .	4,098,584	4,940,292	6,121,750	7,672,708	9,023,566
Increase in long-term debt:					
Refinancing.				11,700,000	15,000,000
Other.	6,292,311	2,800,277	507,245	966,065	1,914,904
Proceeds from sale of assets, or sale and leaseback of properties	944,997	351,468		353,740	
Proceeds from sale of common stock				8,129,848	
Decrease in notes receivable	245,201				
	<u>11,581,093</u>	<u>8,092,037</u>	<u>6,628,995</u>	<u>28,822,361</u>	<u>25,938,470</u>
Application of funds:					
Additions to property, plant and equipment. .	5,127,869	2,937,493	3,191,383	6,406,526	12,888,026
Increase (decrease) in non-current time certificates of deposit				3,400,000	(3,400,000)
Cash dividends paid and payable	692,114	1,110,423	1,086,285	2,001,669	2,655,805
Non-competition agreements	135,000				
Pre-opening costs and other assets	348,533	278,275	110,384	4,283	2,200
Reduction of long-term debt:					
Refinancing.				6,700,000	11,700,000
Other.	1,128,777	1,418,446	971,680	585,118	383,113
Purchase of treasury stock	552,335				
	<u>7,984,628</u>	<u>5,744,637</u>	<u>5,359,732</u>	<u>19,097,596</u>	<u>24,229,144</u>
Increase in working capital	<u>\$ 3,596,465</u>	<u>\$2,347,400</u>	<u>\$1,269,263</u>	<u>\$ 9,724,765</u>	<u>\$ 1,709,326</u>
Net increases (decreases) in the elements of working capital:					
Cash and time certificates of deposit.	\$ 681,827	\$ (76,825)	\$ (138,305)	\$ 4,803,508	\$ (4,245,937)
Trade accounts receivable	28,876	(158,450)	72,406	504,515	91,409
Merchandise inventories	2,231,458	6,351,044	3,415,151	7,035,469	8,921,852
Prepaid expenses	283,419	(197,393)	(89,459)	306,371	48,197
Notes payable to bank	550,000	(700,000)	(1,150,000)	(550,000)	(3,850,000)
Accounts payable	249,498	(2,083,841)	(82,551)	(1,689,049)	(375,754)
Federal and state income taxes	33,765	(144,578)	(660,123)	210,491	359,940
Accrued liabilities	10,024	(481,711)	(307,920)	(716,220)	(22,254)
Dividends payable		(241,396)	241,396		
Long-term debt due within one year	(472,402)	80,550	(31,332)	(180,320)	781,873
Increase in working capital	<u>\$ 3,596,465</u>	<u>\$2,347,400</u>	<u>\$1,269,263</u>	<u>\$ 9,724,765</u>	<u>\$ 1,709,326</u>

See accompanying notes.

PAY 'N PAK STORES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

February 29, 1980 and February 28, 1979

1. Description of the Company and significant accounting policies

The Company is engaged in retail selling of home improvement products, including electrical products, plumbing supplies, building materials, cabinets and built-in appliances. The Company also sells sporting goods and automotive parts and accessories.

(a) **Consolidation** — The financial statements consolidate the accounts of the parent company and its subsidiaries. Intercompany transactions and accounts have been eliminated.

(b) **Inventories** — Merchandise inventories are stated at the lower of cost (first-in, first-out) or market.

(c) **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 rights and improvements—10 years or life of the lease (principally 15 to 25 years); equipment—3 to 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.

(d) **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 over a twenty-five year period.

(e) **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. See Note (b) of Notes to Consolidated Statement of Income.

Investment tax credits are recorded on the flow-through method when the assets are placed in service.

(f) **Pre-opening costs** — Pre-opening costs are charged to expense as incurred.

(g) **Leases** — The Company has capitalized leased retail stores for capital leases entered into after January 1, 1977 and, effective March 1, 1978, retroactively capitalized the remainder of its capital leases for retail stores in accordance with Statement of Financial Accounting Standards No. 13. Included in leasehold rights and improvements is \$13,261,120 (\$12,128,588 at February 28, 1979) for capitalized leases for retail stores and one warehouse, and accumulated depreciation and amortization includes \$3,631,026 (\$3,018,776 at February 28, 1979) applicable thereto.

(h) **Per share information** — Per common share amounts were determined on the weighted average number of such shares outstanding during each year and give effect to the 10% stock dividends declared in fiscal years 1976 and 1977 and retroactive effect to the 3 for 2, 4 for 3 and 6 for 5 stock splits declared in fiscal years 1978, 1979 and 1980, which splits were effected in the form of 50%, 33⅓% and 20% stock dividends, respectively.

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 29, 1980 and February 28, 1979

2. Short-term and long-term debt

At February 29, 1980, the Company had available unused lines-of-credit of \$4,081,000 under informal agreements with banks, which expire in March and July 1980. The interest rate is at $\frac{1}{2}\%$ above prime. The maximum amount of month-end short-term bank borrowings during the fiscal year ended February 29, 1980 was \$7,950,000 (\$4,950,000 in 1979), the approximate average daily amount of such borrowings was \$578,000 (\$382,000 in 1979) and the weighted daily average interest rate was 11.4% (9.0% in 1979).

Long-term debt outstanding at February 29, 1980 and February 28, 1979 is shown on the following summary:

	<u>1980</u>	<u>1979</u>
9 $\frac{3}{4}\%$ note payable to insurance company, due \$1,025,000 on December 1, 1981 and \$1,075,000 annually beginning December 1, 1982 to 1994, plus interest	\$15,000,000	\$ —
9 $\frac{1}{2}\%$ note payable to insurance company, refinanced in 1980	—	11,700,000
9 $\frac{5}{8}\%$ to 9 $\frac{7}{8}\%$ mortgage notes payable, due \$216,240 annually including interest to 2002, subject to call by holders in 1992	1,953,703	1,977,941
6 $\frac{1}{2}\%$ to 9 $\frac{3}{4}\%$ (average 8.1%) contracts and notes payable, due \$67,777 annually including interest in 1981, \$44,117 in 1982 and reduced amounts to 1989	226,836	318,325
Capitalized lease obligations (\$27,804,367), less imputed interest (\$15,933,746) payable \$1,112,200 per year including imputed interest, 7.7% to 24.3% (average 10.2%), final payment in 2003	11,870,621	11,004,976
	29,051,160	25,001,242
Less amounts due within one year	371,041	1,152,914
	<u>\$28,680,119</u>	<u>\$23,848,328</u>

Payments on the principal of long-term debt and capitalized lease obligations for the four years ending February 28, 1985 are required as follows: 1982 — \$1,708,000; 1983 — \$1,503,000; 1984 — \$1,528,000; 1985 — \$1,582,000.

Operating plant and equipment having a net book value of \$2,085,127 at February 29, 1980 are pledged as collateral for the above debt, except capitalized lease obligations and the note payable to insurance company.

The loan agreement covering the 9 $\frac{3}{4}\%$ note payable to insurance company 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 29, 1980, retained earnings of \$2,131,900 was not restricted. The Company had also agreed to invest \$5,000,000 in new retail stores by July 1, 1980, all of which had been invested at February 29, 1980.

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 29, 1980 and February 28, 1979

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

At February 28, 1979, the \$3,400,000 of time certificates of deposit classified as a non-current asset represented the estimated remaining amount of the proceeds from the October 1978 sale of common stock to be invested in new retail store buildings and improvements.

3. Employee benefit plan

After three years of employment, all employees participate in the Company's Employee Stock Ownership Plan.

In March 1976, the Employee Stock Ownership Trust (ESOT) borrowed \$1,656,732 from a bank to acquire 397,615 shares of the Company's common stock. The unpaid balance is payable at \$62,500 per quarter (including interest at 2¼% above prime) to 1983, when any remaining balance is due. The obligation of the ESOT is guaranteed by the Company and is expected to be serviced through future Company contributions (\$489,217 in 1980 and \$397,158 in 1979) and dividends paid on unallocated shares (66,693 at February 29, 1980) of the common stock. Therefore, the unpaid balance of the loan has been reflected in the accompanying consolidated balance sheet as a liability and an equal amount, representing deferred employee benefits, is recorded as a deduction from stockholders' equity. Deferred employee benefit amortization was \$339,851 (\$249,566 in 1979).

4. Commitments

The Company leases a substantial portion of its retail store facilities and 2 warehouses. Certain of these leases have been capitalized. See Notes 1(g) and 2. 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. Percentage rentals have been 3.0% or less of total annual rental expense during each of the five years in the period ended February 29, 1980. The Company has options to renew most leases for three to five-year periods at agreed amounts. In some cases, rent is subject to renegotiation in the event the Company exercises its option to renew. There are no existing options to purchase leased property.

Rental expense for operating leases, except those with terms of a month or less that were not renewed, was \$1,780,139 and \$1,533,967 for the years ended February 29, 1980 and February 28, 1979, respectively.

Minimum annual rent commitments, exclusive of insurance and property taxes, under non-cancelable operating leases are payable as follows:

<u>Year ending February 28 or 29,</u>	<u>000's omitted</u>
1981.....	\$ 1,526
1982.....	1,599
1983.....	1,583
1984.....	1,556
1985.....	1,534
Later years	18,965
	<u>\$26,763</u>

PAY 'N PAK STORES, INC.

SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT

Years ended February 29, 1980 and February 28, 1979

Description	Balance at beginning of period	Additions at cost	Retirements or sales	Balance at close of period
1979:				
Land	\$ 520,058	\$ 386,015	\$ 198,358	\$ 707,715
Buildings	2,005,018	—	99,299	1,905,719
Leasehold rights and improvements	16,097,581	2,486,199	85,212	18,498,568
Store equipment	7,281,477	1,726,008	209,271	8,798,214
Transportation equipment	1,053,198	237,977	49,637	1,241,538
Construction in progress	84,999	1,103,092	—	1,188,091
	<u>27,042,331</u>	<u>5,939,291</u>	<u>641,777</u>	<u>32,339,845</u>
Properties held for development and/or investment	<u>612,485</u>	<u>467,235</u>	<u>67,400</u>	<u>1,012,320</u>
	<u>\$27,654,816</u>	<u>\$ 6,406,526</u>	<u>\$ 709,177</u>	<u>\$33,352,165</u>
1980:				
Land	\$ 707,715	\$ 1,192,262	\$ —	\$ 1,899,977
Buildings	1,905,719	3,322,339	—	5,228,058
Leasehold rights and improvements	18,498,568	2,087,964	124,774	20,461,758
Store equipment	8,798,214	2,804,859	793,187	10,809,886
Transportation equipment	1,241,538	174,816	11,214	1,405,140
Construction in progress	1,188,091	2,648,426	—	3,836,517
	<u>32,339,845</u>	<u>12,230,666</u>	<u>929,175</u>	<u>43,641,336</u>
Properties held for development and/or investment	<u>1,012,320</u>	<u>657,360</u>	<u>—</u>	<u>1,669,680</u>
	<u>\$33,352,165</u>	<u>\$12,888,026</u>	<u>\$ 929,175</u>	<u>\$45,311,016</u>

PAY 'N PAK STORES, INC.

SCHEDULE VI – ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Years ended February 29, 1980 and February 28, 1979

Description	Balance at beginning of period	Additions charged to income	Retirements or sales	Balance at close of period
1979:				
Buildings.	\$ 146,788	\$ 52,287	\$ 11,614	\$ 187,461
Leasehold rights and improvements	3,876,979	953,669	85,212	4,745,436
Store equipment	2,942,142	1,059,581	209,271	3,792,452
Transportation equipment	169,237	137,474	25,477	281,234
	<u>\$ 7,135,146</u>	<u>\$ 2,203,011</u>	<u>\$ 331,574</u>	<u>\$ 9,006,583</u>
1980:				
Buildings.	\$ 187,461	\$ 87,792	\$ —	\$ 275,253
Leasehold rights and improvements	4,745,436	1,126,297	124,774	5,746,959
Store equipment	3,792,452	1,294,143	793,187	4,293,408
Transportation equipment	281,234	159,405	7,301	433,338
	<u>\$ 9,006,583</u>	<u>\$ 2,667,637</u>	<u>\$ 925,262</u>	<u>\$10,748,958</u>

PAY 'N PAK STORES, INC.

SCHEDULE XII – RESERVES

Years ended February 29, 1980 and February 28, 1979

	Balance at beginning of period	Additions charged to income	Deductions	Balance at close of period
Allowance for doubtful accounts deducted from the asset to which it applies:				
1979.	<u>\$ 50,000</u>	<u>\$ 75,505</u>	<u>\$ 75,505</u>	<u>\$ 50,000</u>
1980.	<u>\$ 50,000</u>	<u>\$115,728</u>	<u>\$115,728</u>	<u>\$ 50,000</u>

PAY 'N PAK STORES, INC.

SCHEDULE XVI – SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years ended February 29, 1980 and February 28, 1979

	Charged to costs and expenses	
	1979	1980
Taxes, other than income.	\$2,215,414	\$2,293,508
Depreciation (Schedule VI)	\$2,203,011	\$2,667,637
Rent — charged to:		
Rent	\$1,424,436	\$1,665,937
Selling and administrative	109,531	114,202
Total rent expense.	\$1,533,967	\$1,780,139
Advertising	\$3,302,069	\$4,300,487

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

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

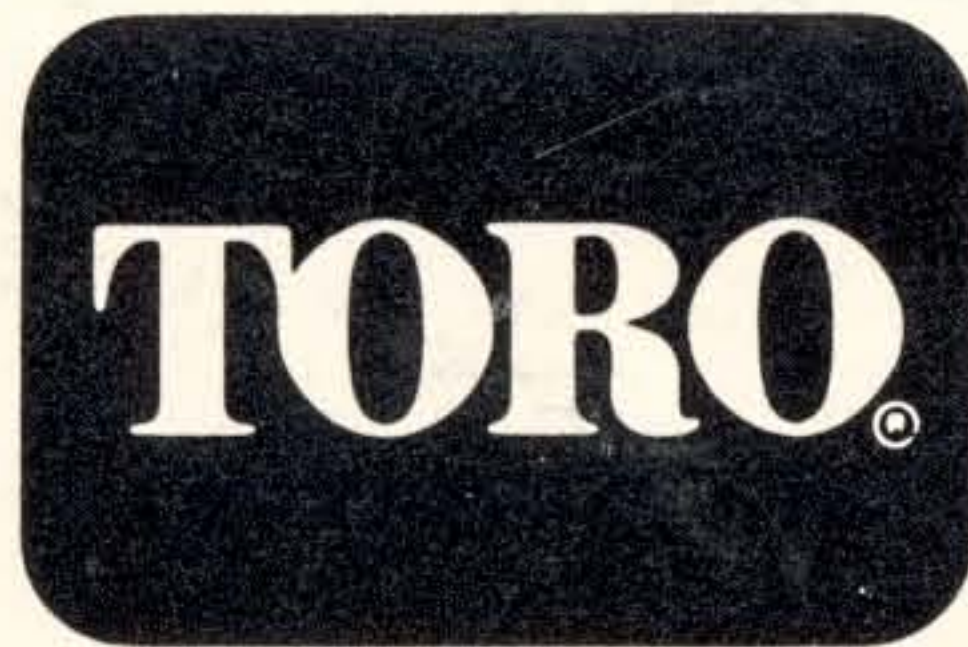
	1979	1980
Depreciation (Schedule VI)	\$2,203,011	\$2,667,637
Amortization of cost and acquired stores in excess of amounts assigned to net assets at dates of acquisition	16,020	27,423
Amortization of deferred gain on sale and leaseback of properties — credited to rent expense.	(6,864)	(6,864)
Amortization of non-competition agreements	33,624	1,833
Amortization of loan fees	6,228	5,780
	\$2,252,019	\$2,695,809

Aut 1984

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Prestone[®]

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SPALDING

