

helping hands for today's do-it-yourself market...

**PAY 'N PAK
STORES, INC.
1975
ANNUAL REPORT**

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Business & Economics Dept.
REFERENCE COPY

MAY 27 1975

PACIFIC

PAY 'N PAK STORES, INC.

Pay 'N Pak Stores, Inc. is a retail company geared to the needs of America's do-it-yourself market. As of February 28, 1975 the company operated 54 stores in 11 western and mid-western states.

The company is primarily engaged in the retail sale of electrical, lighting, plumbing and building materials on a cash and carry basis. Ten of the 54 stores also carry complete lines of automotive parts, accessories and sporting goods.

During fiscal 1975 (ended February 28, 1975) the company was able to continue an aggressive program of expansion with the addition of seven new stores.

The corporate headquarters are located in the large Pay 'N Pak Mall at 1209 South Central Avenue in Kent, Washington near Seattle.

WASHINGTON

- Bellingham
- Mt. Vernon
- Everett
- Seattle
- Seattle
- Seattle
- White Center
- Bellevue
- Redmond
- Kent
- Tacoma
- Olympia
- Longview
- Bremerton
- Spokane
- Spokane
- Spokane
- Yakima
- Moses Lake
- Wenatchee
- Kennewick
- Walla Walla
- Lynnwood

OREGON

- Portland
- Portland
- Milwaukie
- Salem
- Eugene
- Albany

CALIFORNIA

- Redding
- Santa Rosa
- Vallejo
- Yuba City
- Sacramento
- Sacramento
- Napa
- Hayward
- Roseville
- Fresno
- Bakersfield
- Modesto

IDAHO

- Lewiston
- Pocatello

UTAH

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

NEVADA

- Reno
- Las Vegas

COLORADO

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

ALASKA

- Anchorage
- Fairbanks

OKLAHOMA

- Tulsa
- Tulsa
- Oklahoma City
- Oklahoma City

KANSAS

- Wichita
- Wichita
- Topeka

MONTANA

- Billings
- Missoula

WYOMING

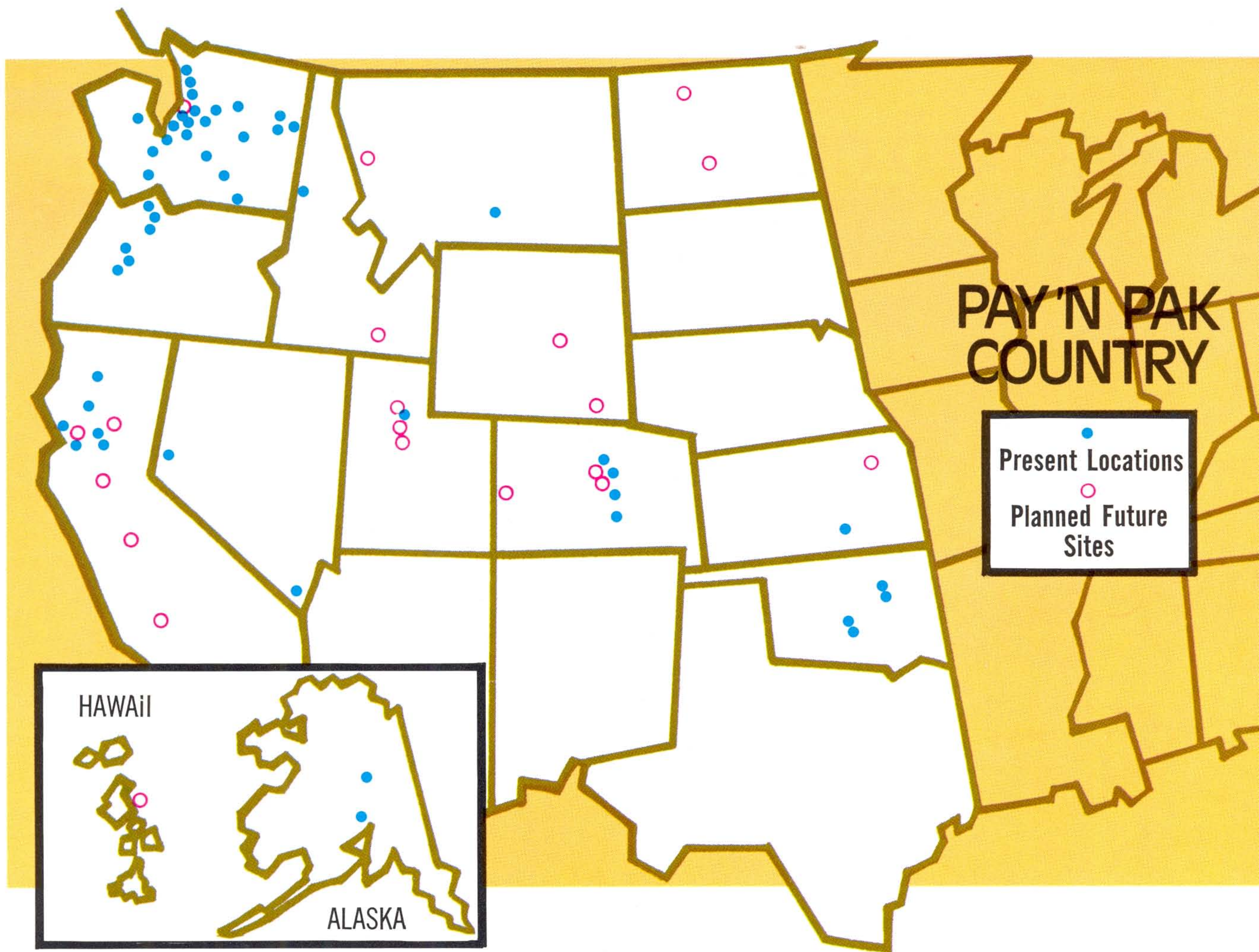
- Casper
- Cheyenne

NORTH DAKOTA

- Minot
- Bismark

HAWAII

- Honolulu



FISCAL 1975 FINANCIAL HIGHLIGHTS

YEAR ENDED FEBRUARY 28, 1975

FEBRUARY 28, 1974

Revenues.....	\$61,470,839	\$51,893,886
Income before income taxes.....	\$ 4,285,203	\$ 3,619,206
Net income.....	\$ 2,226,045	\$ 1,857,300
Average number of common shares.....	1,381,159	1,381,159
Net income per share.....	\$ 1.61	\$ 1.34
Cash dividends paid per share.....	\$.35	\$.25
Average number of common shares....	* 1,519,275	* 1,519,275
Net income per share.....	*\$ 1.47	*\$ 1.22
Cash dividends paid per share.....	*\$.318	*\$.227

*After giving retroactive effect to 10% stock dividend declared on March 13, 1975 payable May 7, 1975 to shareholders of record on April 15, 1975.

TRANSFER AGENTS

Peoples National Bank of Washington
Seattle, Washington

First National City Bank
New York City, New York

BANK

Peoples National Bank of Washington
Seattle, Washington

OFFICERS

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

John M. Headley
President, Chief Operating Officer

Halvor Knudtzon, Jr.
Secretary-Treasurer, Controller

Harold F. Bacon
Vice President — Merchandising

Monte Leen
Vice President — Operations

BOARD OF DIRECTORS



David J. Heerensperger, *Chairman of the Board*

John M. Headley, *President*



Woodrow C. Button
*Chairman of the Board,
Bank of The West,
Bellevue, Wa.*



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



Curtis L. Rhodes
*Purchasing
Co-ordinator*



Marshall J. Weigel
*Corporate Finance
Specialist*

Shareholders review:

The past year provided new record sales and earnings for your company. Sales reached the highest level in company history, reflecting increased capacity, aggressive marketing and a continuing high level of demand for do-it-yourself and home improvement products.

Revenues for the fiscal year ended February 28, 1975 totaled \$61,470,839 as compared with \$51,893,886 in fiscal 1974, an increase of 18%. Net income after taxes was \$2,226,045 as compared with \$1,857,300 the previous year, an increase of 20%. Per share income was \$1.61 on the weighted average number of common shares outstanding of 1,381,159 as compared to \$1.34 per share on the same number of shares in the previous fiscal year.

Dividends totaling 35 cents per share were paid during fiscal 1975. This represented the fourth consecutive year in which increased dividends were paid. The company paid 25 cents per share in fiscal 1974.

After giving retroactive effect to a 10% stock dividend paid on May 7, 1975, per share net income would be \$1.47 on the weighted average number of common shares outstanding of 1,519,275 as compared to \$1.22 per share on 1,519,275 shares the prior year. As adjusted the dividends reported above would be \$.318 this year compared to \$.227 last year.

It is the company's policy to increase dividends for the benefit of shareholders as earnings and other conditions warrant.

Fiscal 1975 was a trying year for all business. Although economic indicators point to little growth for

the country in the year ahead, we believe that business activity in the western states, where our market penetration is strong, will remain better than in the country as a whole.

During the year our company continued its vigorous expansion by opening 7 new stores. These stores were opened in Las Vegas, Nevada; Salt Lake City, Utah; Yuba City, California; Colorado Springs, Colorado and Fairbanks, Alaska. Additionally, we increased our market penetration in the state of Washington with the opening of a store at White Center, in Seattle while adding another store in Spokane.

The company obtained ownership of the last existing franchise store which was located in Bremerton, Washington with the purchase of the franchisee's interest. As part of the arrangement we then sold to the franchisee the Tucson, Arizona store which was opened last year and had not yet become profitable.

With these new facilities, less the sale of the Tucson store, we increased the company's net square footage to 1,030,808 square feet, an increase of 15%.

By mid year our total inventory was increasing and was lowering our rate of merchandise turns. As soon as this trend became apparent we embarked on a control program designed to reduce inventory. By fiscal year end the plan proved to be successful in that it enabled the company to reduce inventories by an effective two million dollars considering the cost of inventory to stock new stores. As a result we were able to increase our inventory turns by 18%.

In September the company added to management depth by creating an additional vice-presidency and naming assistants for both the chairman and the president. These moves were essential to keep pace with our growth.

Retailing is basically a people-to-people business. It is vital that we find and hold employees who are competent, efficient and devoted to the concept of service. That is why you will find in this Annual Report pictures of our personnel. Although we are extremely proud of our physical plants, we are well aware that our success in the past and our growth in the future is dependent on people and their desires to succeed. Our policy is to promote from within our company wherever possible, and a large part of the personnel training is specifically targeted at developing managers as rapidly as possible.

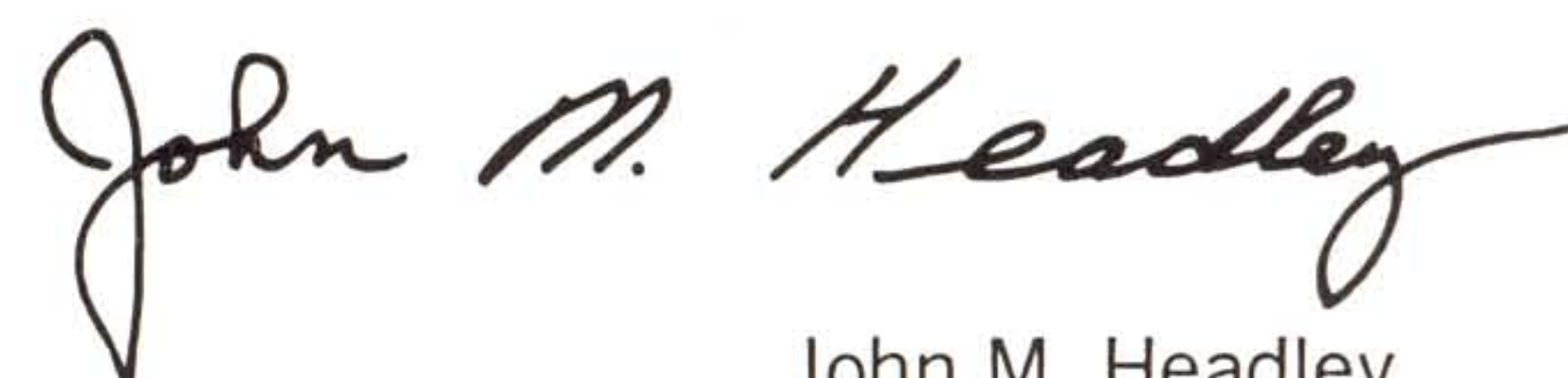
Each store and each district is expected to produce people ready to move up as new job opportunities arise. With this philosophy we expect to continue to hold the strongest career-oriented people. The excellent profit sharing plan plus bonus arrangements for improved sales and profits, give all our people a proprietary interest in the company.

It is a pleasure to say that the continued growth of your company, despite the challenges of this volatile year, was possible because of the energetic efforts and professionalism demonstrated by our people.

We are anticipating continuing growth in sales and earnings next year, but, of course, the economic climate will have an effect in determining the degree of that growth.



David J. Heerensperger
Chairman of the Board



John M. Headley
President

**Staff
and
assistants**



Harold F. Bacon,
*Vice President —
Merchandising, Assistant
to the Chairman*



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



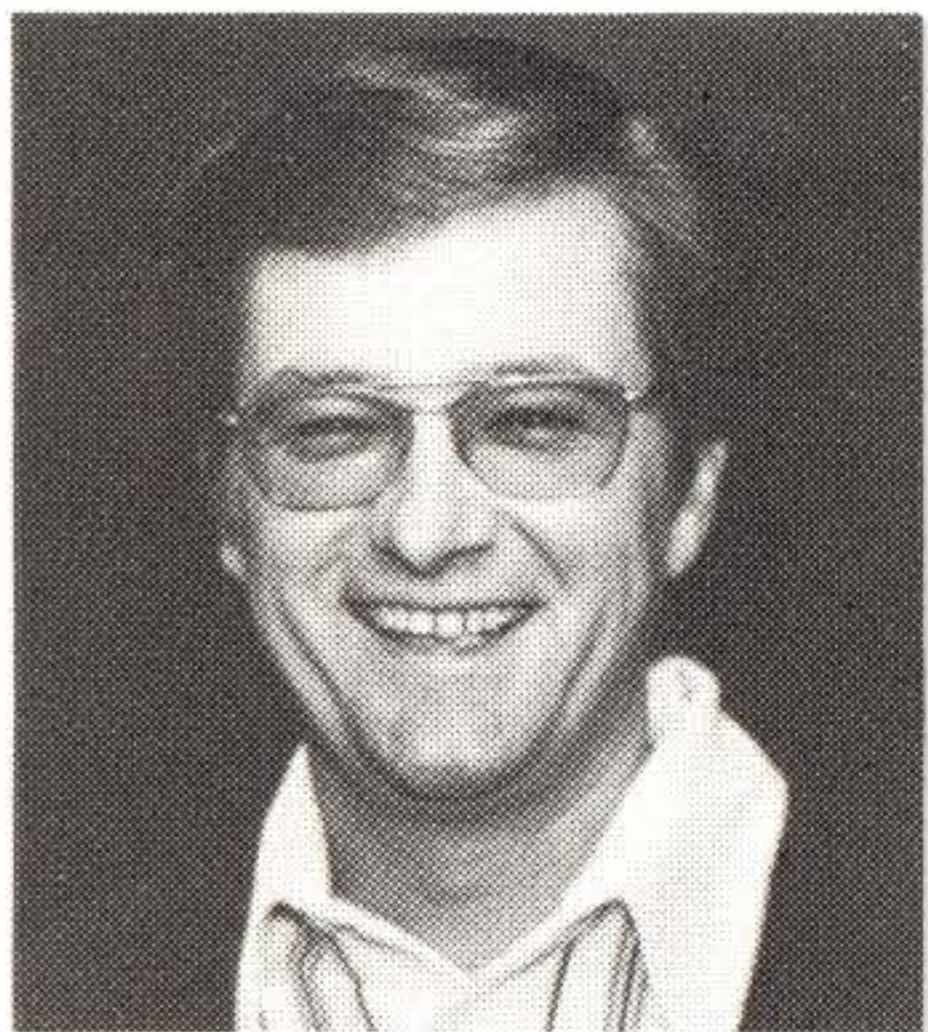
Monte Leen,
*Vice President —
Operations, Assistant
to the President*



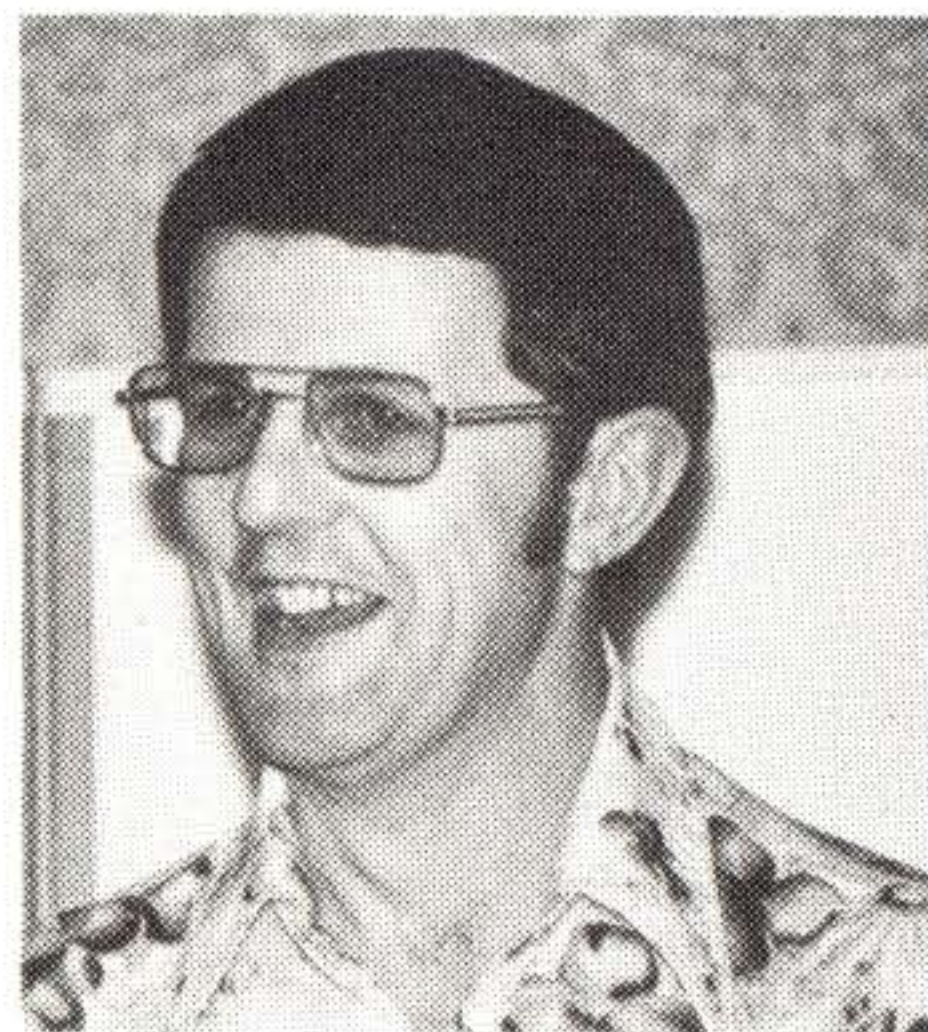
Mel Kelley,
*District Manager —
California, Nevada*



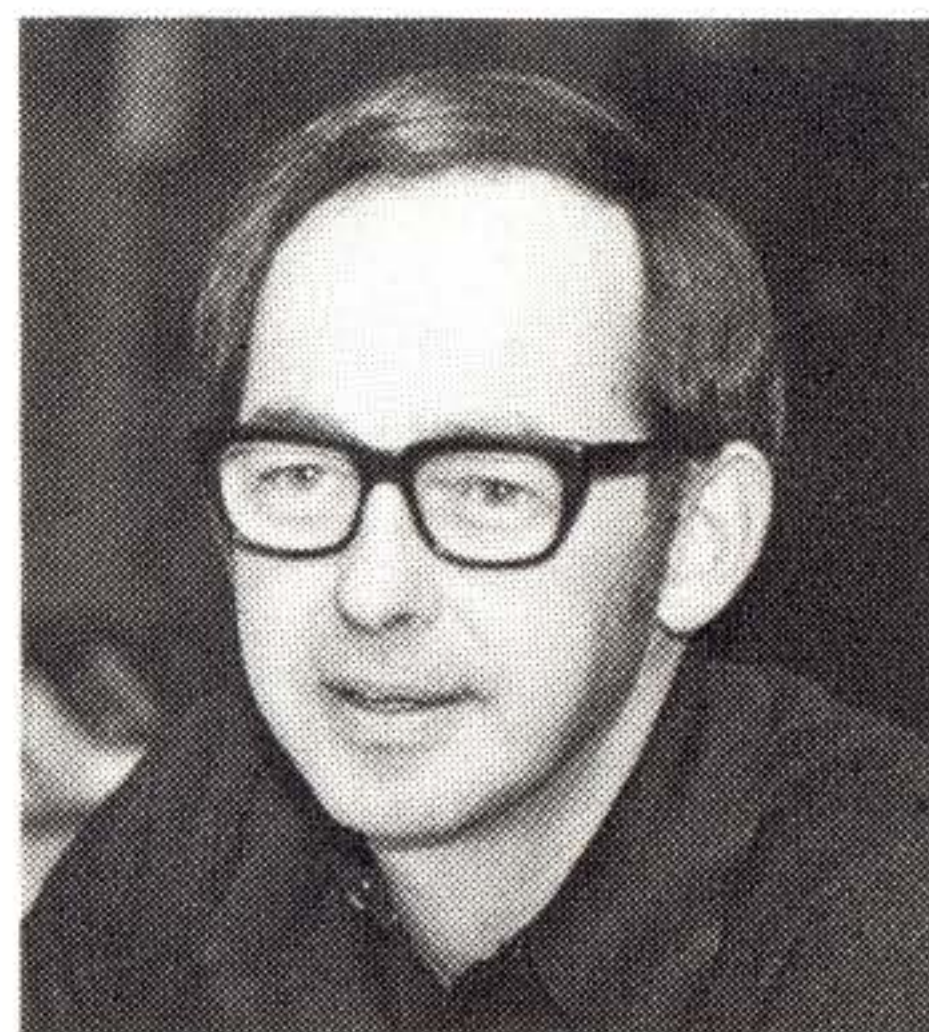
Jerry Marlow,
*District Manager —
Idaho, Eastern Washing-
ton, Montana, Utah*



John Mead,
*District Manager —
Alaska, Oregon, South-
western Washington*



Russell Morgan,
*District Manager —
Northwestern
Washington*



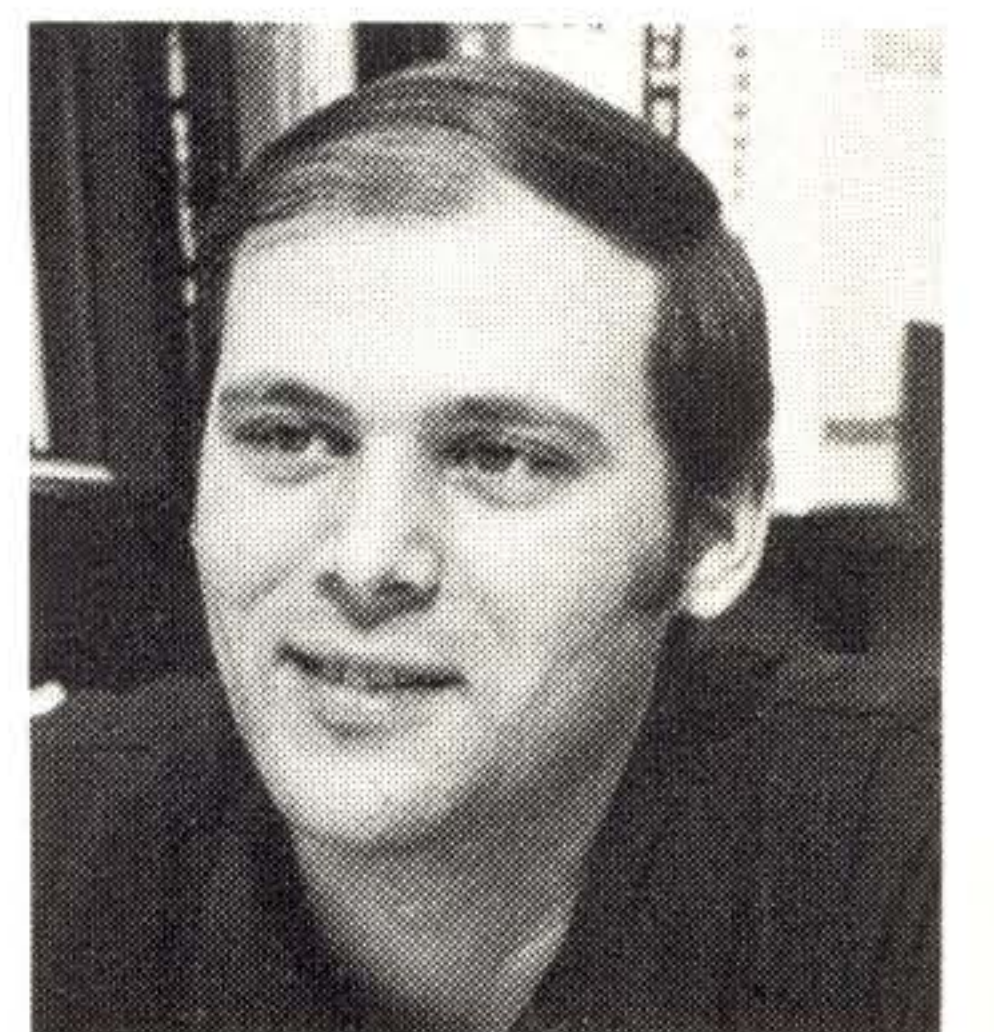
Ray White,
*District Manager —
Colorado, Kansas,
Oklahoma*



Ralph Beniasch,
*Purchasing Agent —
Building Materials*



Rod Cosgriff,
*Purchasing Agent —
Automotive*



Larry Elliott,
*Purchasing Agent —
Sporting Goods*



Peter Gallina,
*Store Development and
Real Estate Director*



Bud Larsen,
*Purchasing Agent —
Plumbing-Cabinets*



Terri Lucero,
Personnel Director



Curtis L. Rhodes,
*Purchasing
Co-ordinator*



Rod Shutt,
*Purchasing Agent —
Electrical-Lighting*



George Smith,
Training Director



Gary Wieber,
Advertising Director



Thomas J. McCloskey,
Assistant Controller



William Gottbreht,
Office Manager



Clemens Erlander,
Advertising Manager



Paul Morris,
*Store Development
Assistant*



Gerald Wishman,
*Procedures and
Security*

Operations profile:

Pay 'N Pak Stores, Inc. has developed into a vigorous "do-it-yourself" retail chain of electric, plumbing and building materials home centers augmented by automotive supply and sporting goods in 10 of its stores. The company is operating 54 stores in 11 states.

Operations are divided into 5 districts, each with its own manager. Each district manager is responsible for sales and profit within his district and works closely with headquarters management in suggesting improvements and merchandising adjustments. Each district manager works closely with his store managers in developing future management potential people.

The company holds managers meetings 3 times each year with each store manager, district manager and the top management team. These meetings are held in a centrally located city within the individual district.

Training:

We believe an informed salesman is a better salesman. As compared to a retail establishment that sells familiar products to its customers our merchandise often demands specific knowledge on the part of the salesman. He must be able to explain how to use and install almost everything we sell. Therefore the company has a full time training director who in conjunction with suppliers is constantly conducting product training classes at the store level. Additionally the company maintains a Training Theatre program with a Technicolor Super 8 training theatre in every store. It includes a complete library of company produced films, showing how

to use and install major products that we sell in every store. Employees are constantly refreshing their skills by a scheduled exposure to these films.

A Retail Selling Skills program with its own mini-refresher course is also utilized in all stores. This develops and refreshes all the selling technique skills of our employees. Both these aids have their own testing procedures to constantly evaluate the effectiveness of the programs as well as the progress of each individual.

Future management development:

The personnel director conducts Management Training Seminars each year which are week long accelerated management training programs covering all phases of the management of Pay 'N Pak stores. The seminars feature role play situations with those attending actually participating. Several long workshop experience situations are also included so that participants learn not only by hearing but by actually doing. All subjects are taught by the management or staff person with particular expertise in that subject. A measure of the effectiveness of

these seminars is seen in the fact that 43 of the present store managers are graduates of this program and 40 of the assistant managers and department heads are also graduates.

The company gives preference to the employment of aggressive, clean cut, progressive thinking people and then constantly reviews their progress and maturity to base the selection of those to attend the training seminars.

Communication flow:

This fiscal year the company embarked on a store evaluation plan whereby all staff members continually visit stores, evaluate the store's performance and assist in the merchandising at store level. This practice communicates invaluable information both ways, to management and to the store's operating team.

The management team, staff and district managers additionally conduct a minimum of 5 staff meetings per year. This provides closer rapport and liaison among all operations units, headquarters and district managers, who in turn complete the communication and the



tion cycle to personnel in the stores. This constant communication generates valuable ideas at all levels, fosters maximum initiative and helps management maintain the close control over operations which rapid corporate expansion often dilutes.

The staff must, of course, also co-ordinate merchandising and buying practices, motivate the public with aggressive, distinctive advertising and motivate personnel with assistance and direction.

Continuing expansion and growth:

The company has knowledgeable career people in the field of real estate who are continually viewing, analyzing and locating new or improved locations. The store development department completely plans and directs the construction and modification of new and remodeled stores.

The department design team creates the store atmosphere, the color co-ordination and distinctive graphics. Additionally, it is responsible for the concept of "home environmental" store displays that help bring home improvement dreams to reality for the company's

customers. The customer can actually view "new look" bathrooms as they would look in the customer's home.

The store development team is currently planning new stores for the year ahead in Pocatello, Idaho; Grand Junction, Colorado; Denver, Colorado; Lynnwood, Washington; Ogden, Utah; Casper, Wyoming and Roseville, California. The present Longview and Wenatchee, Washington stores are slated to be replaced this year with new larger units. These planned expansions should add another 151,000 square feet to the company's total square footage—a planned increase of 15%.

Central purchasing and merchandising:

The company's central purchasing agents are all experts in their individual merchandise categories. These agents attend national and regional trade shows and are continually analyzing new products for possible inclusion in, or extension of, the company's merchandise mix. These agents administer a chain-wide pricing, stock control and source system.

These buyers develop good personal relationships with our manu-

facturers and suppliers. These relationships, in many cases, accounted for your company having goods on hand when short supply meant many of our competitors did not.

They also work closely with the advertising department in maintaining a complete central signing program assuring that all stores will have signs for every product we stock. This is a complete central sign program administered by the staff.

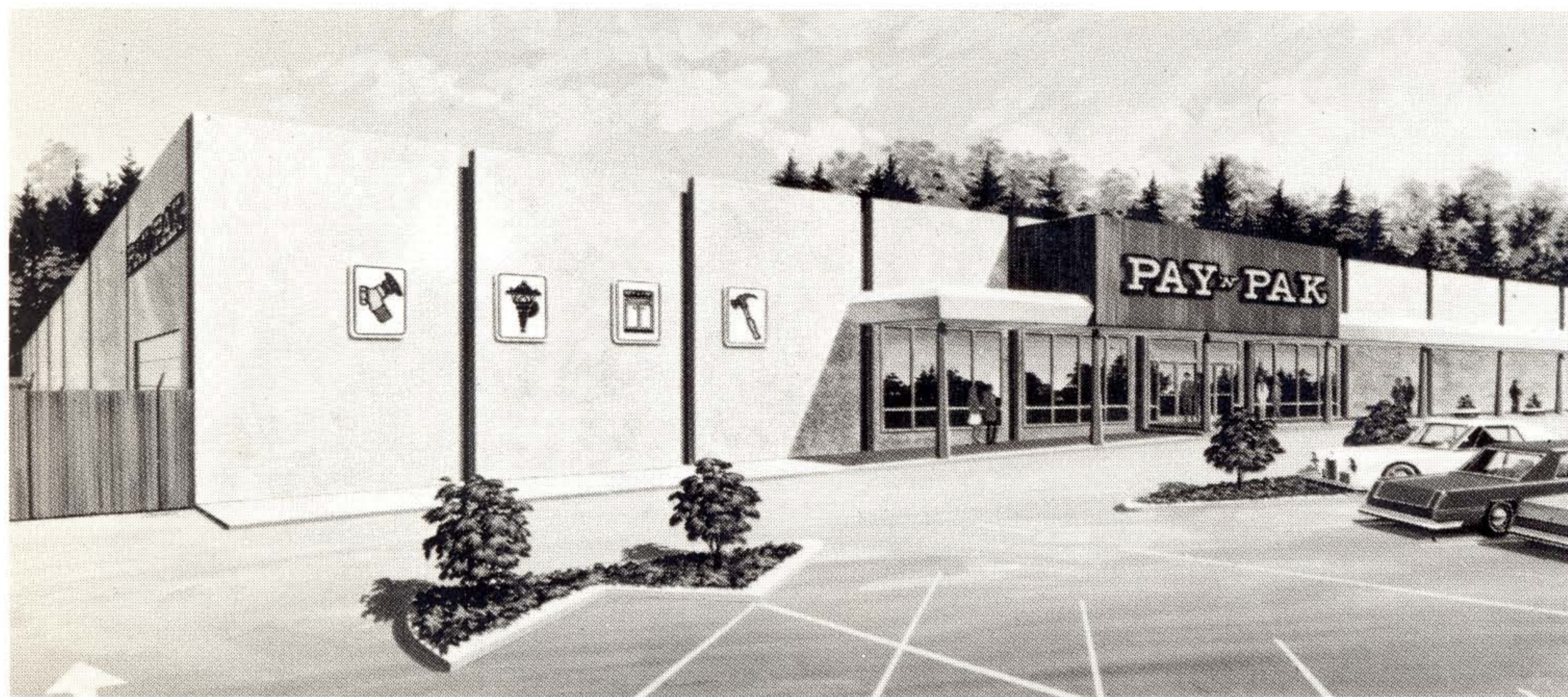
The display book program is another collaboration between the purchasing agents and the advertising department. This display book, one in every store, shows photographically how displays should look in every store and provides instructions on how to build the display.

Controls for growth:

The centrally controlled accounting department, directly under the secretary-treasurer, has record keeping programs and management information systems to assure an orderly growth for the company's expansion.

The purchase, this fiscal year, of our own computer facility has guaranteed prompt and dependable flow of information on sales, costs and other statistical data enabling management to effectively handle operations with day by day control.

Store managers and all members of the management team receive a statement of income, showing in detail each store's operations compared with the same period of the previous year, with budget projections and year-to-date comparisons. Inventory levels, purchases by category, inventory turns and open-to-buy information are furnished and used daily in controlling the operations of the company.



Store development department drawing of the planned Lynnwood, Washington store.

Motivation in the market place:

Our multi-media approach to the market still shows aggressive newspaper advertising as our most effective media. The distinctive ads for all fifty-four stores, which run weekly or twice a week, are produced by the company's innovative advertising team at the central headquarters in Kent.

Four chain wide special sales events are conducted each year to add to and to complement the regular weekly advertising program. These events each utilize over 4,000,000 multi-color, pre-printed tabloids in either 8 or 12 page size. These tabloids are distributed in 54 newspapers covering the company's entire marketing area.

Another pre-print tabloid is published for the automotive and sporting goods division only in December. This effort prints and distributes almost 2 million copies and has very materially contributed to that month's sales improvement for the company.

Additionally, the advertising department is constantly preparing clearance ads for individual stores as needed and creating exciting opening ads and promotions to celebrate new store openings.

Incentives for motivation:

The company's profit sharing plan gives employees an individual sense of ownership, responsibility and participation, and is a strong incentive for continuing employment.

Longevity pins are issued after 3, 5, 10 and 15 years to all employees, and profit share check facsimiles showing each employee's share of the fund are issued every year after 3 years of employment.



The new computer provides day by day controls.



Purchasing planning is a team effort.

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

Each store is on an incentive bonus plan, in which both the store manager and his entire crew share. There are additionally several individually rewarding sales contests each year. The entire staff also has a liberal bonus plan.



The advertising team guides the promotion vehicle.

The "Top Achiever" program awards top sales producers 6 times each year with the "Top Achiever" sports jacket.

The most prestigious award in all of Pay 'N Pak is the Manager of the Year Award which was started in fiscal 1973. The nominees are judged on a strict criteria covering all elements of successful store management.

The unique "Selling is Serving" award program rewards two outstanding employees each month with a plaque and ceremony in their respective store, a special bonus check and the distinctive, gold Selling is Serving ring. The contribution leading to their selection is featured in the company's house organ. This company news publication, The Pipeyard Gazette, named after the store's yard in which they store pipe, is an excellent communications tool. Each store group hears from all other store groups and hears about happenings all over the company by this vehicle. The publication has grown to a 24 page format illustrated with 100 pictures per issue and is mailed to every employee's home every other month.

Sports promotions demonstrate the spirit of Pay 'N Pak

The young minded Pay 'N Pak employee can quickly identify with the company's sports sponsorships activity and derives a great deal of pride in each achievement.

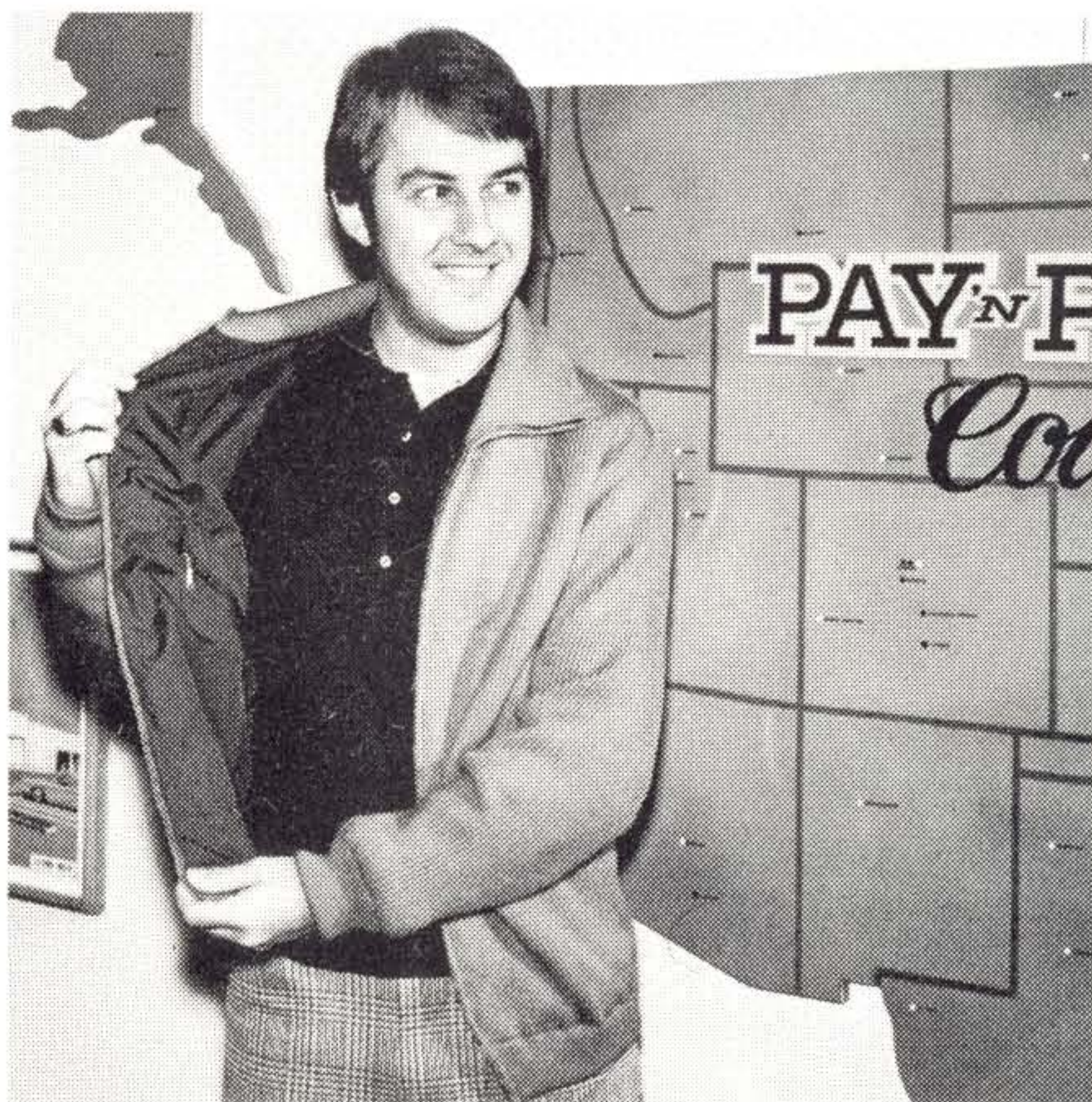
The Pay 'N Pak fastpitch softball team (4 out of 5 years the Northwest Regional champions) was selected by the United States State Department to tour Central America this year as a good-will ambassador in sports.

But the supreme pride is obtained in the national unlimited hydroplane racing world where the Pay 'N Pak entry U-1 won her second consecutive national championship and was heralded by the boat racing world as the unlimited hydroplane of the future.

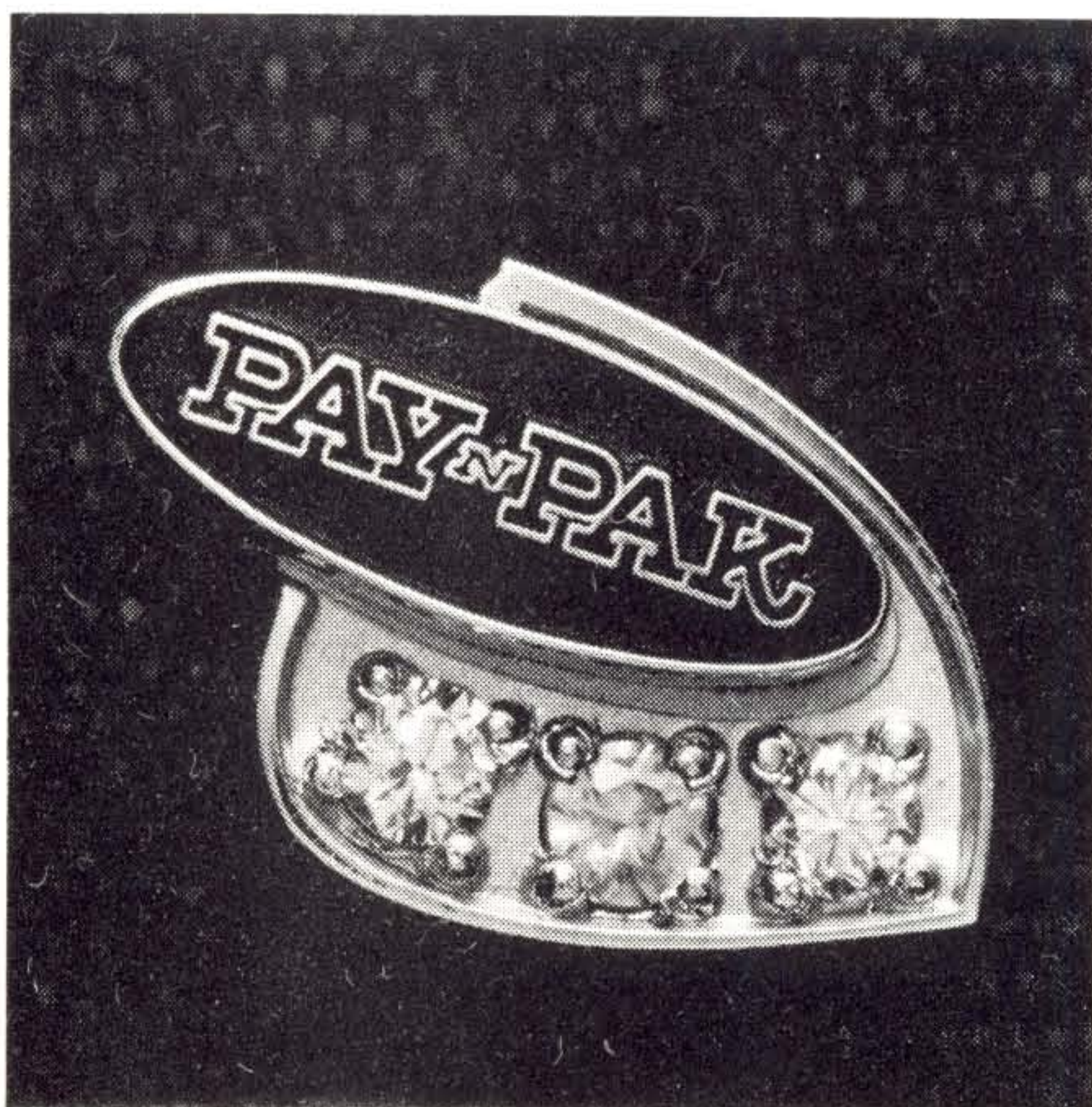
As this year's racing season closed the Rolls-Royce powered thunderboat even eclipsed the record of 1973 when she set 26 out of 29 possible records. The summary showed Pay 'N Pak had won them



The Pipe Yard Gazette a communications tool.



The new Top Achiever jacket is earned for sales excellence.



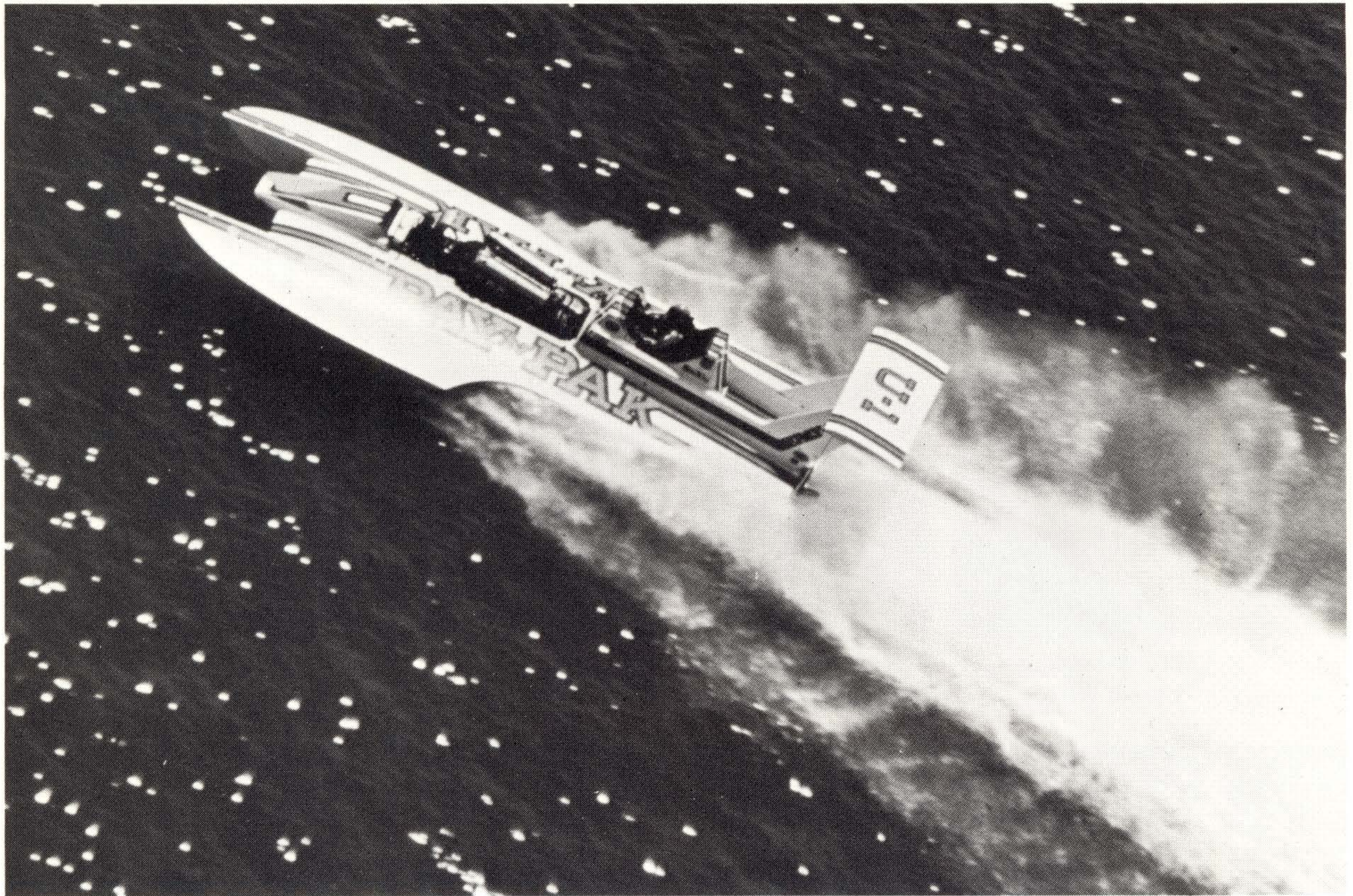
Longevity pins recognize personnel service span.

all, seven race wins, 24 heat wins, several world records and 20 individual course records.

This was coupled with first place wins at Washington, D. C.—The President's Cup; Owensboro, Kentucky—The Kentucky Governor's Cup; Pasco, Washington—The World Championship Cup; Dayton, Ohio—The Hydro-Globe Cup; San Diego, California—The San Diego Cup; Madison, Indiana—The Indiana Governor's Cup, and Seattle, Washington—The Gold Cup, the most prestigious trophy of all. The outcome of the season awarded the National Championship Martini and Rossi Trophy to the Pride of Pay 'N Pak for the second consecutive year.

No other hydroplane has ever won 7 races in one season and never has any other boat gathered so many records in one single season.

The newspaper, magazine, radio and television coverage given these victories and Pay 'N Pak was of inestimable value.



The National Champion unlimited "zeroes-in" on the second consecutive national championship.



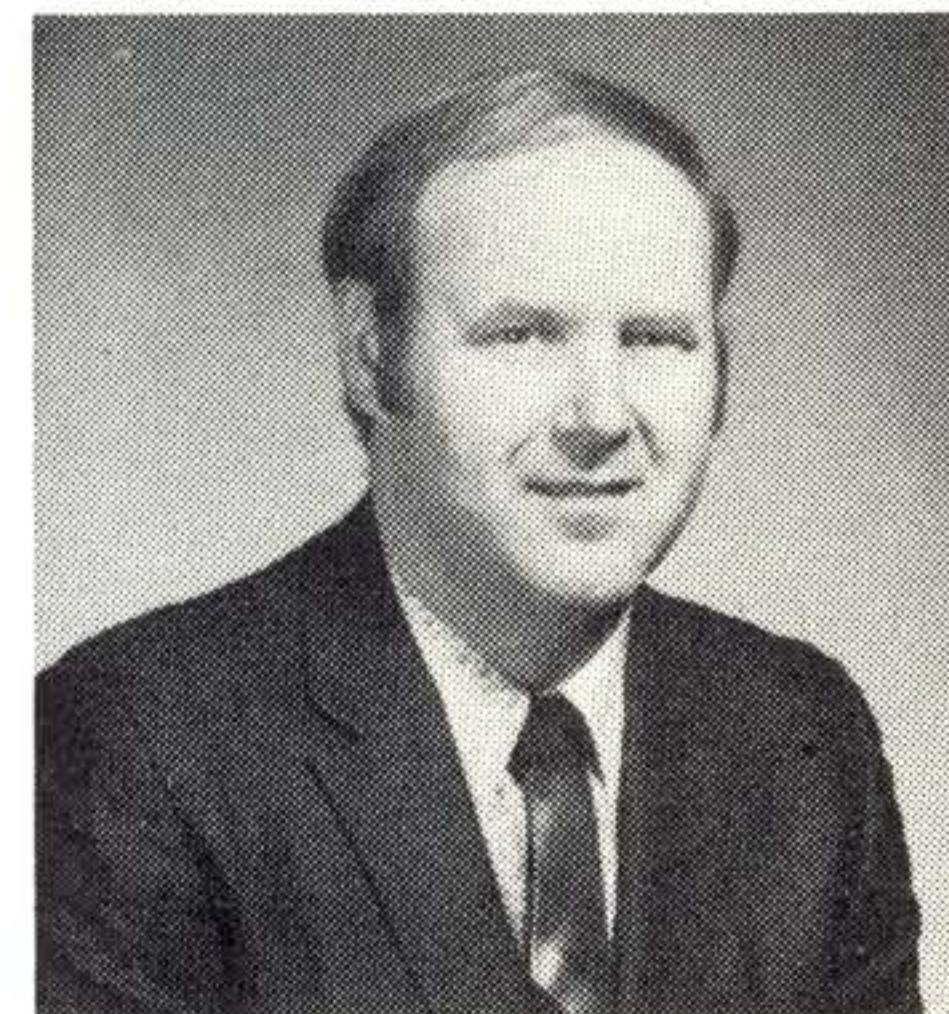
The prestigious Gold Cup, the most sought after trophy in boat racing.



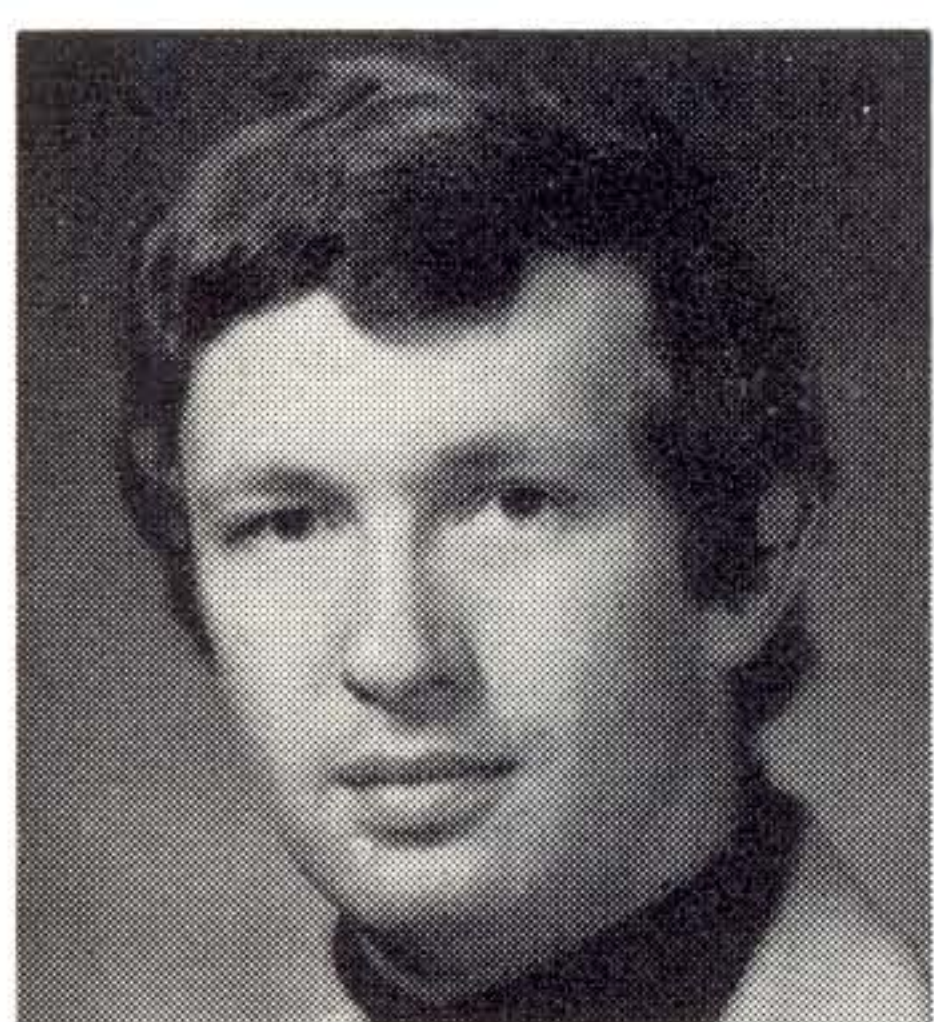
The Martini and Rossi trophy symbol of the National Champion.

The helping hands that make it happen:

The men in the field, the company's management team from the 54 stores in the 11 western and mid-western states.



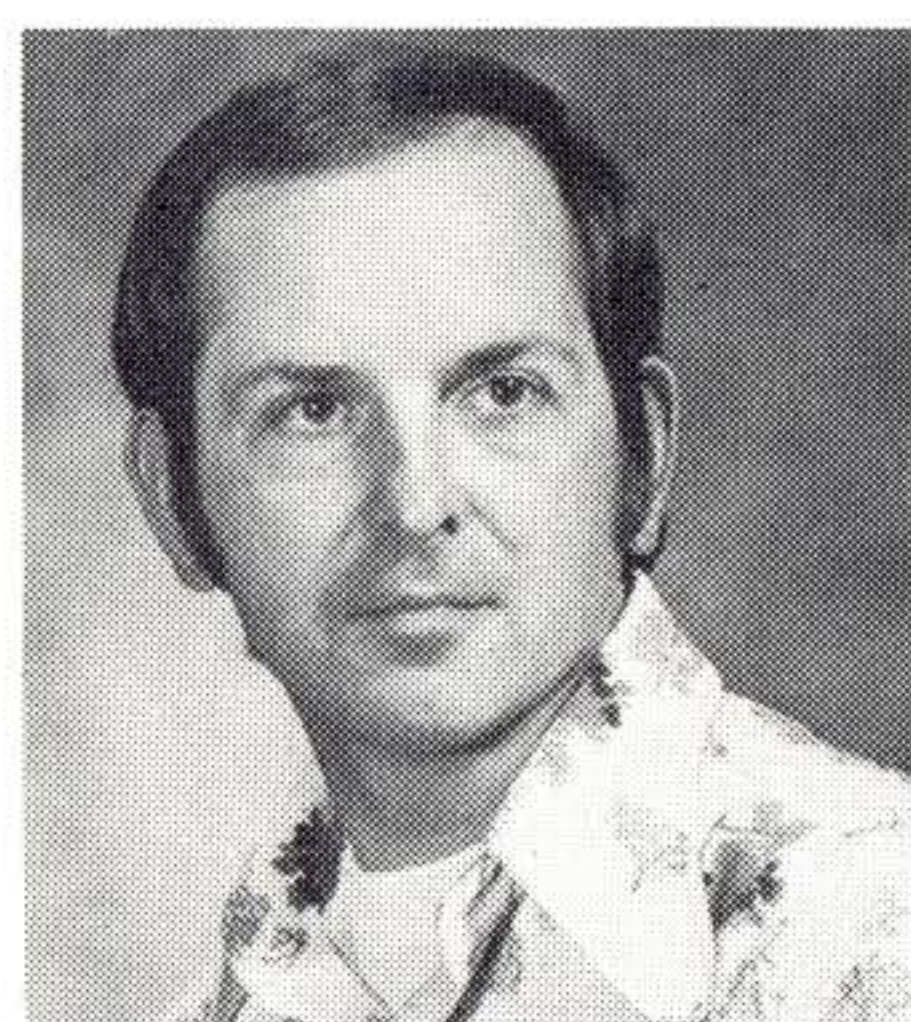
Cal Karbowski
Kent Warehouse



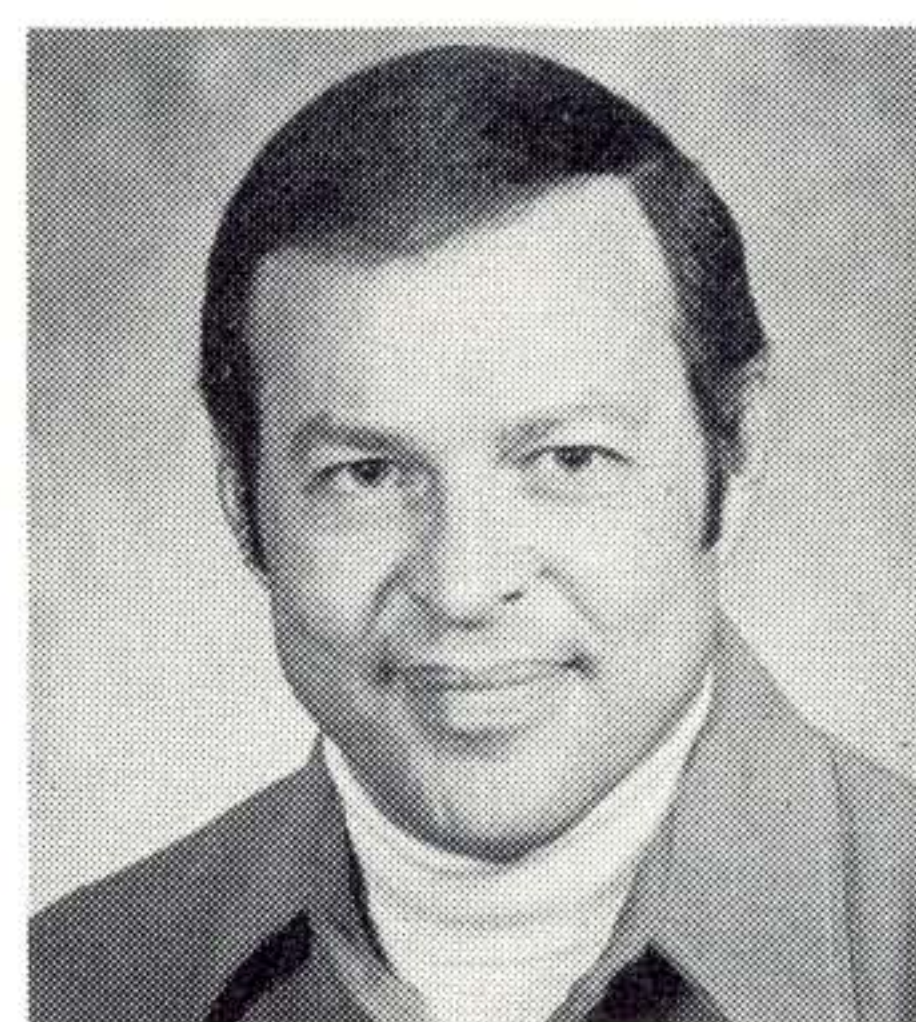
Ray Moore
Longview, Wa.



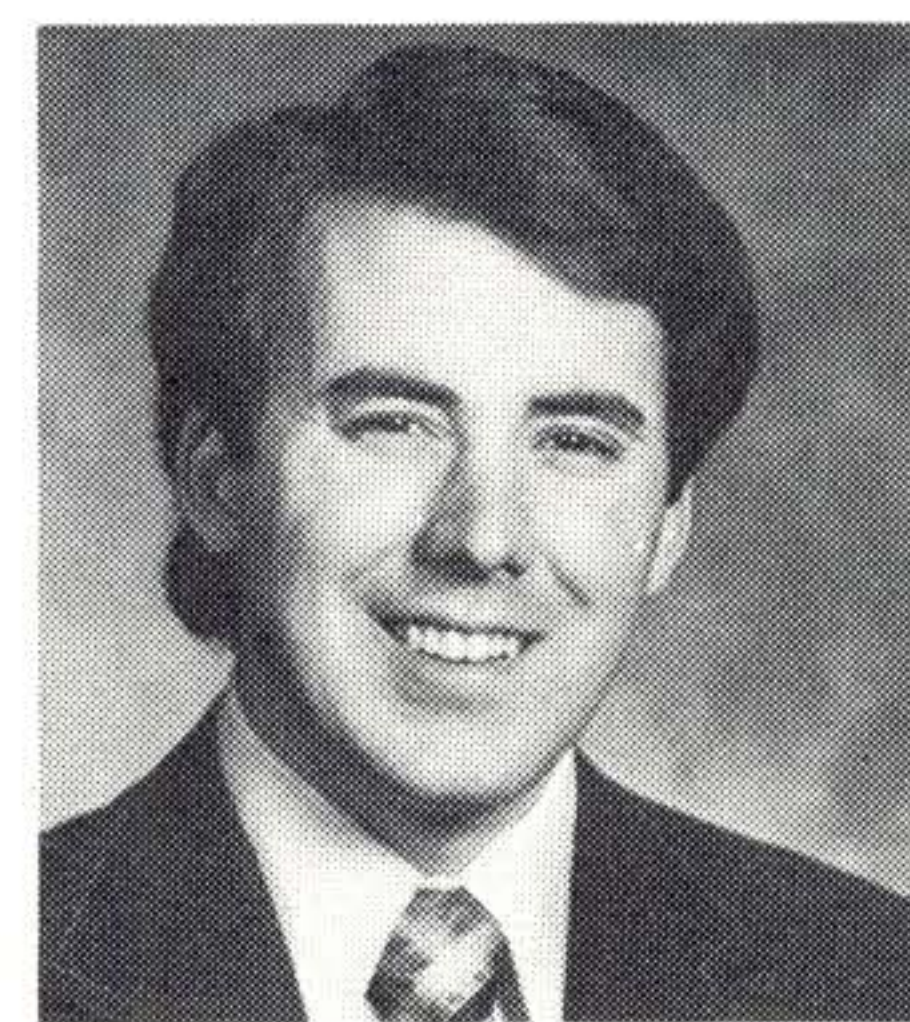
Jim Robison
Tacoma, Wa.



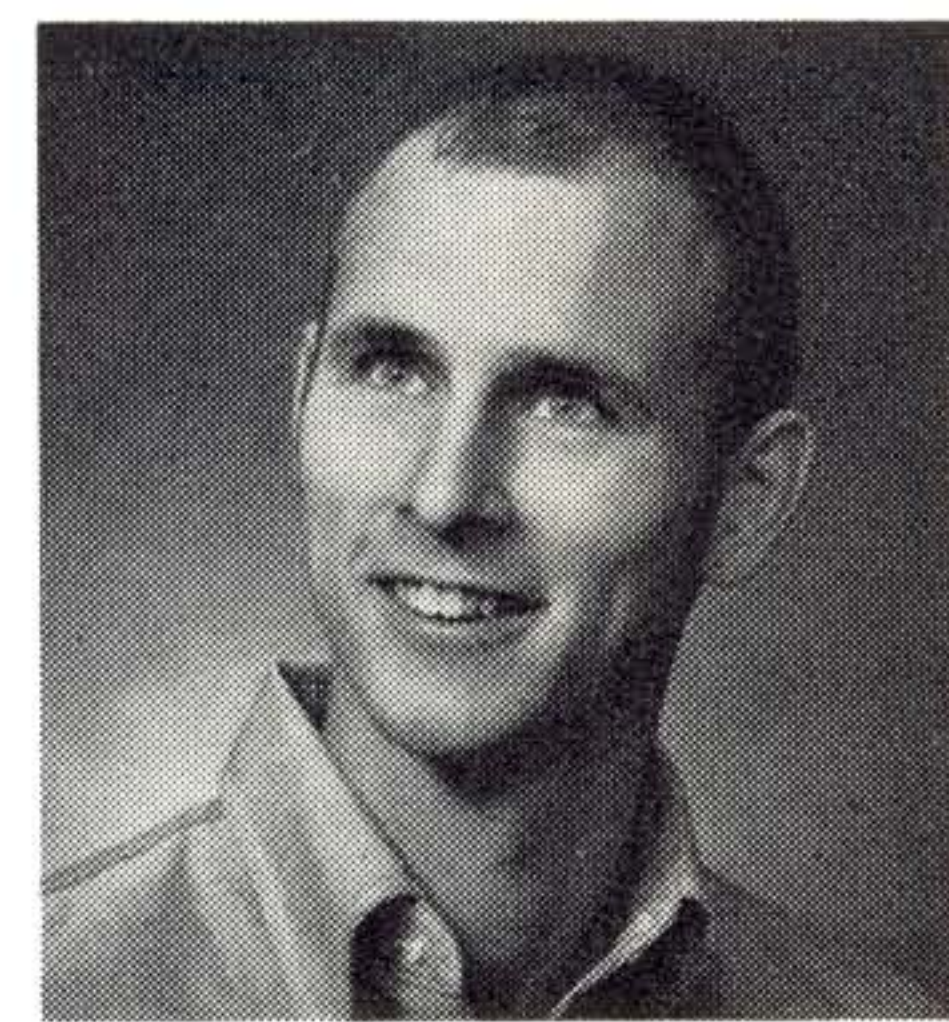
Cal Sennett
Seattle, Wa.



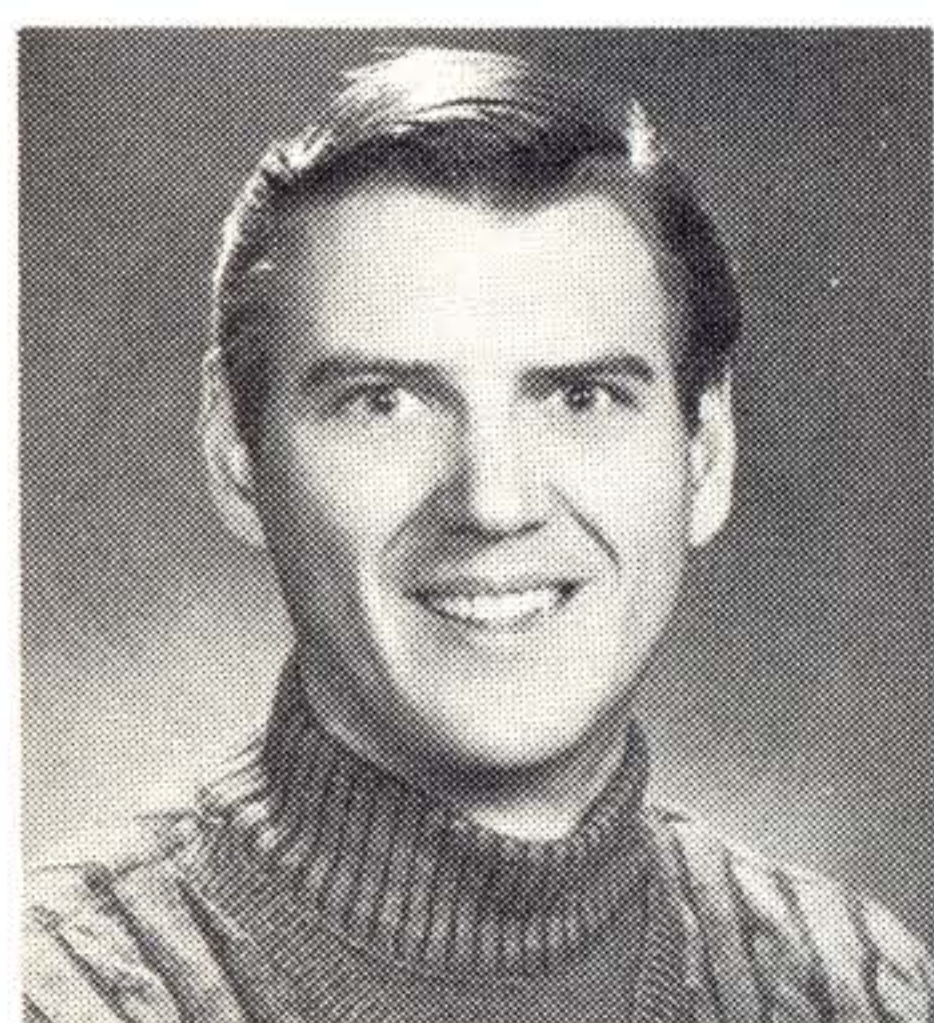
Gene Hauf
Spokane, Wa.



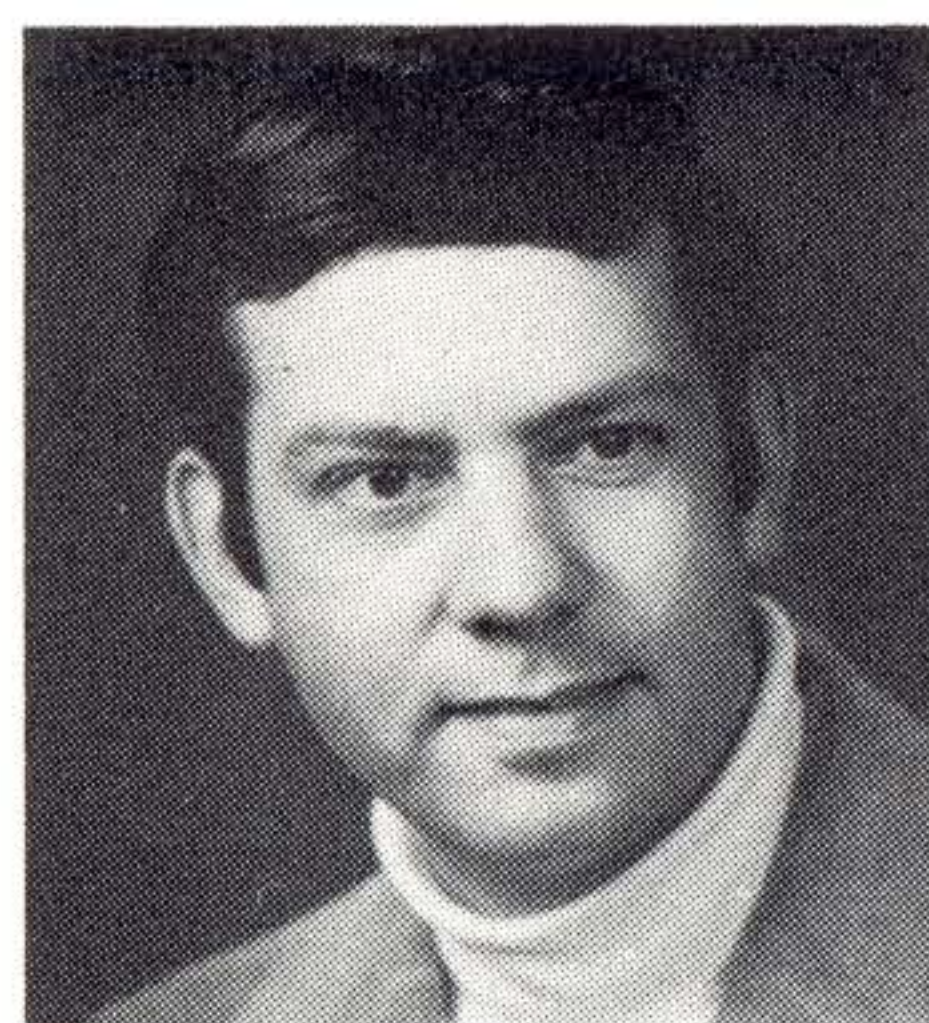
Rick Noegel
Olympia, Wa.



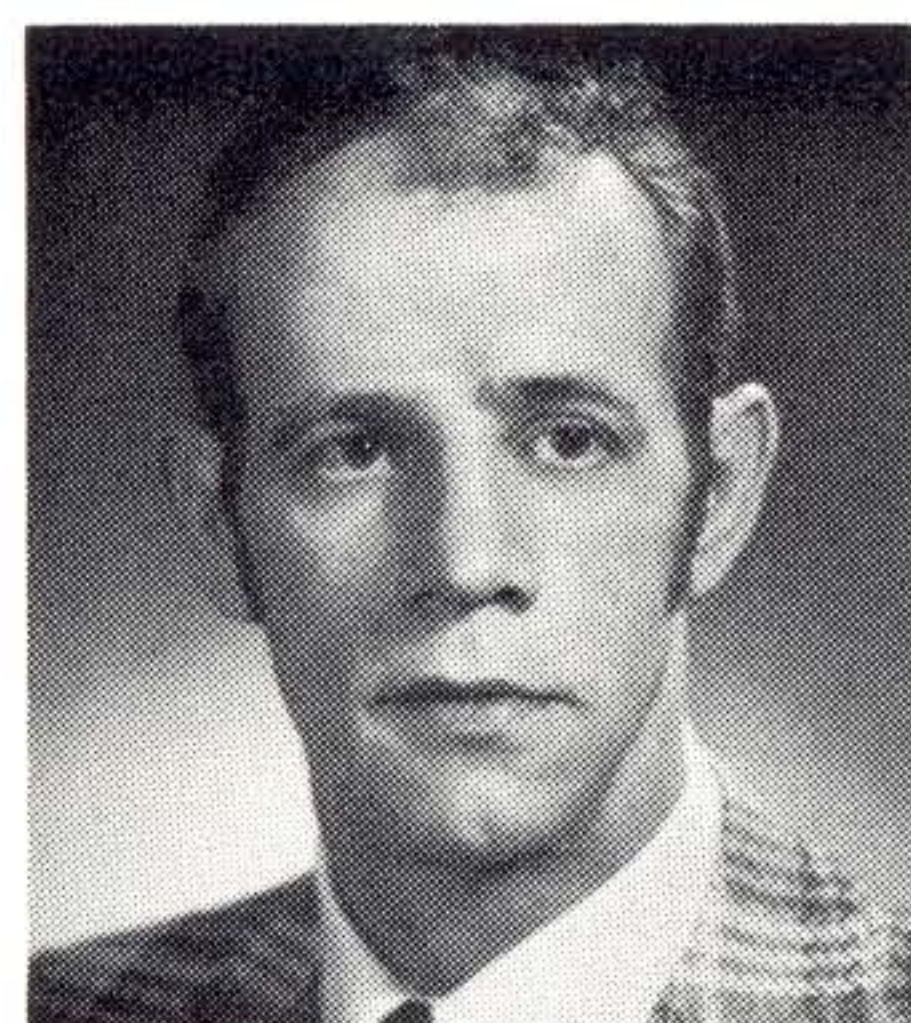
Mark Kranz
Wenatchee, Wa.



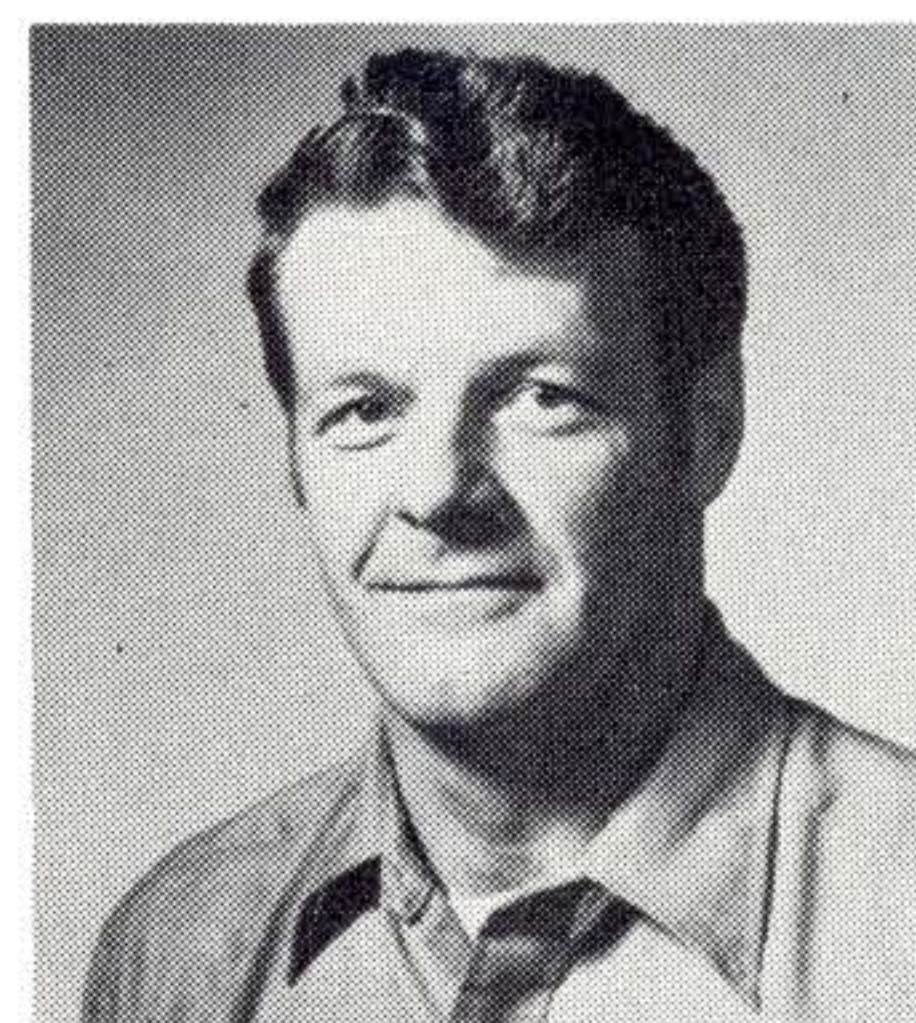
Terry Wagner
Bellingham, Wa.



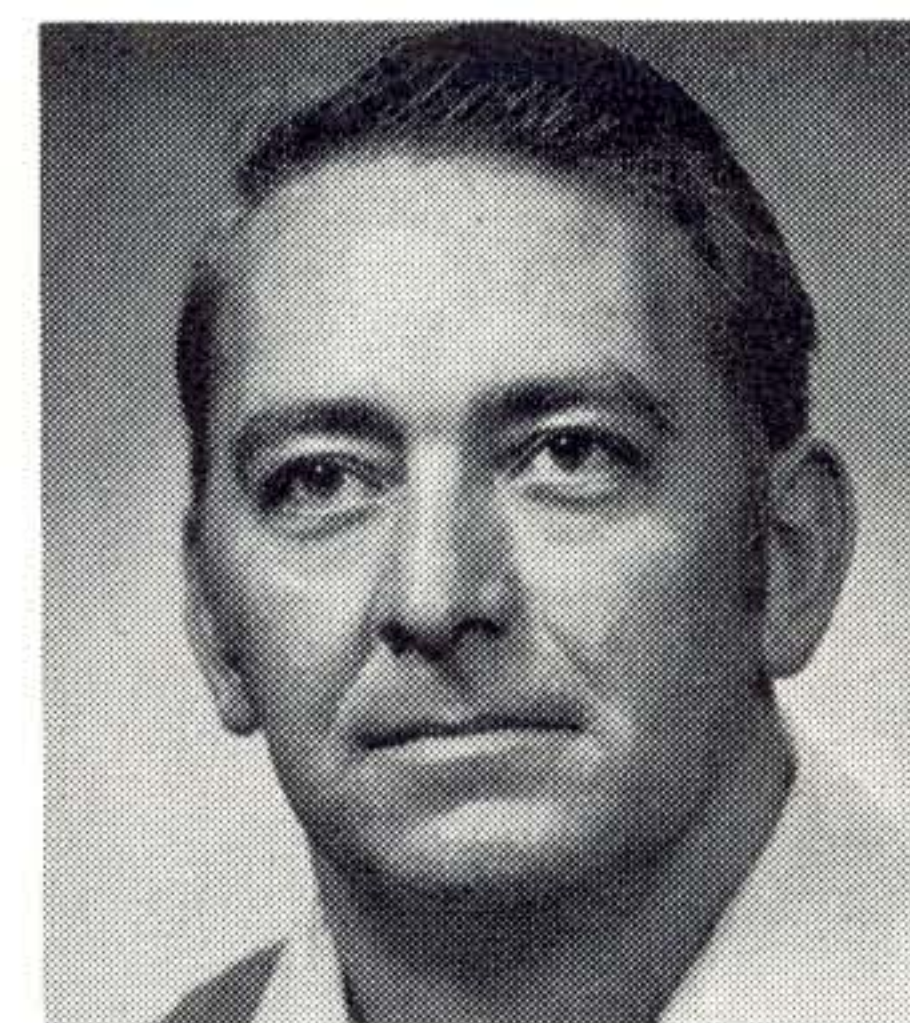
Ernie Kelly
Kent, Wa.



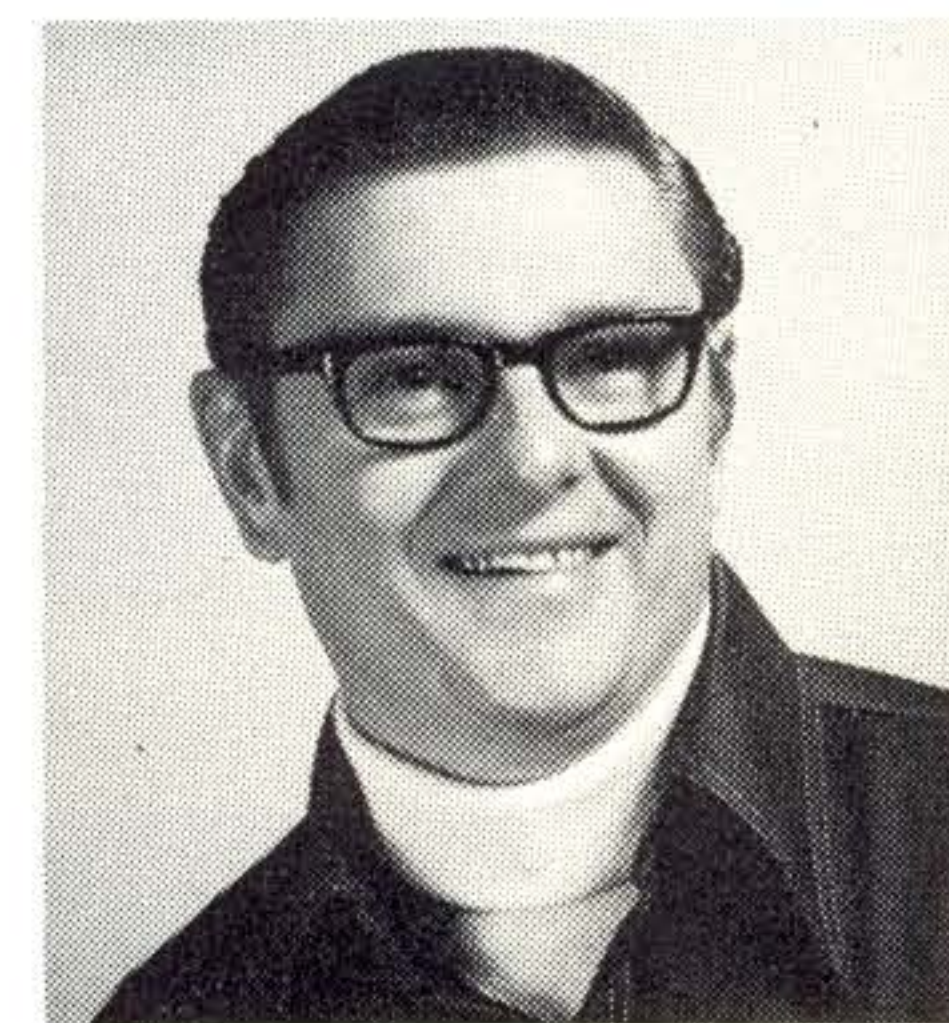
Dale Dellinger
Mt. Vernon, Wa.



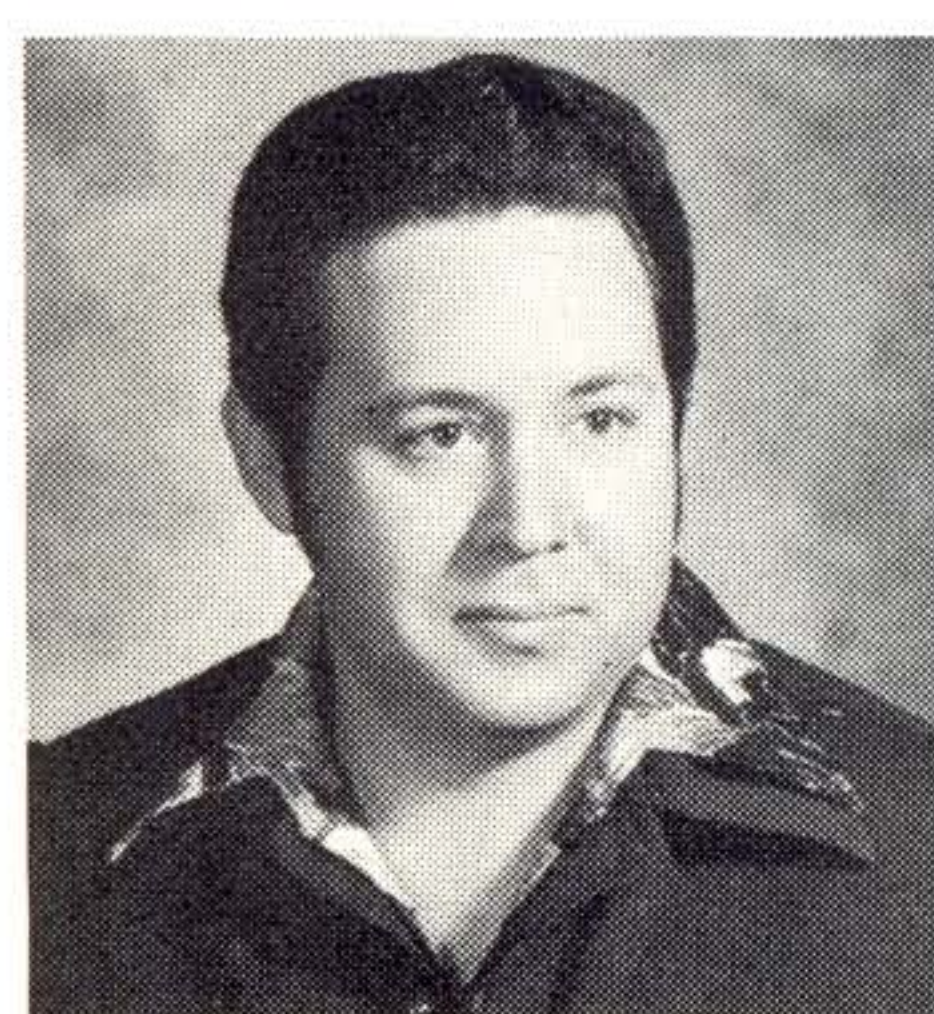
Larry Marlow
Spokane, Wa.



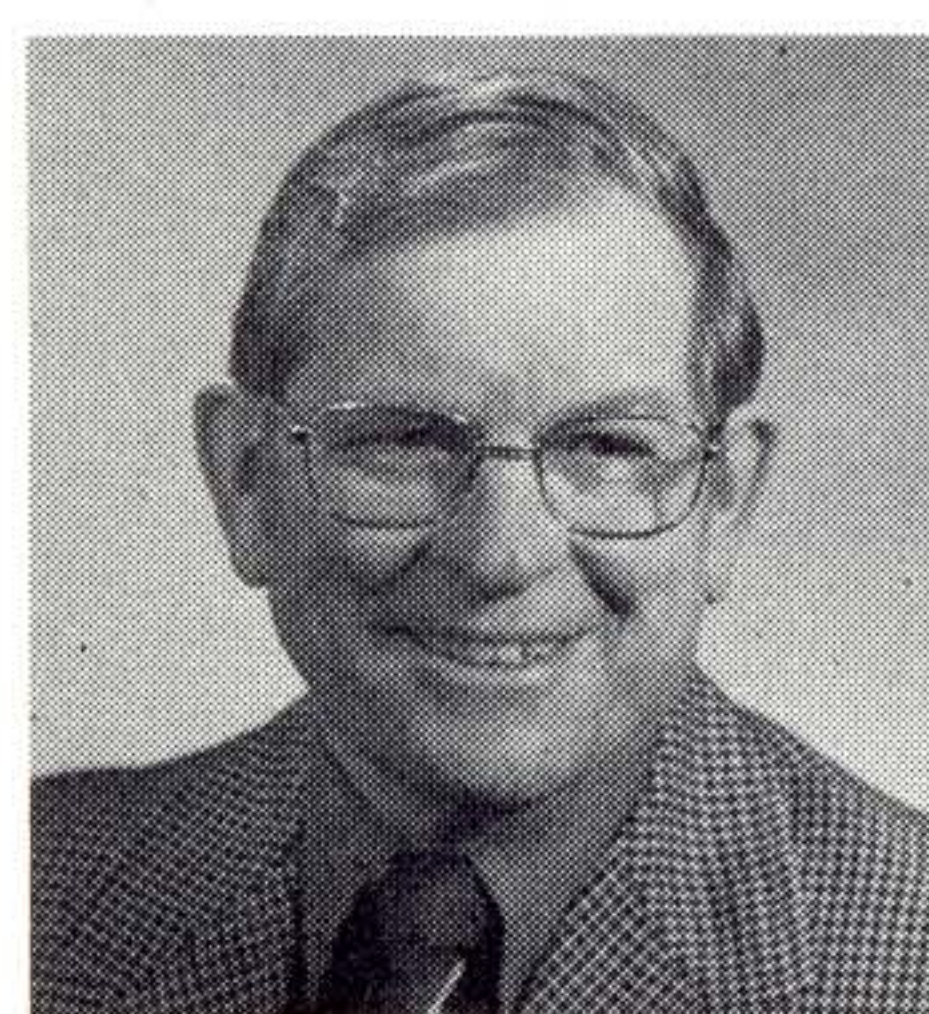
Charles Hogue
Moses Lake, Wa.



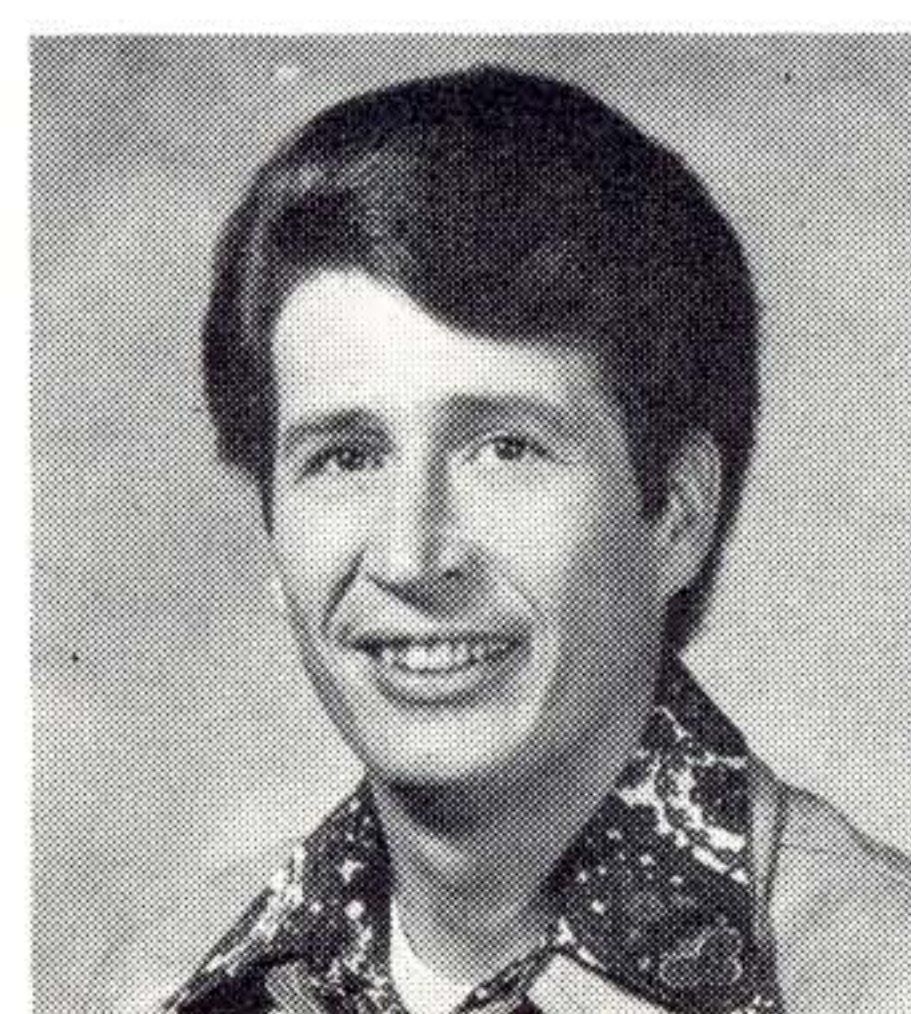
Wally Tesch
Yakima, Wa.



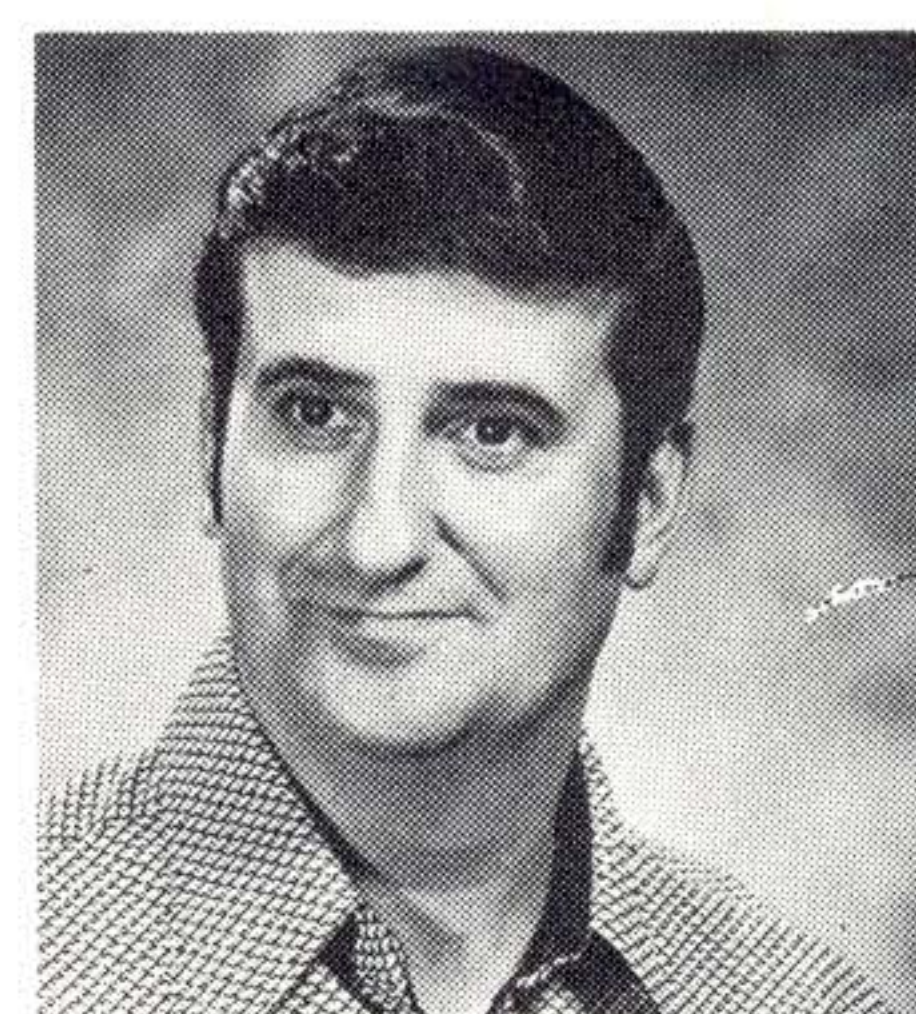
Randy Hunsaker
Seattle, Wa.



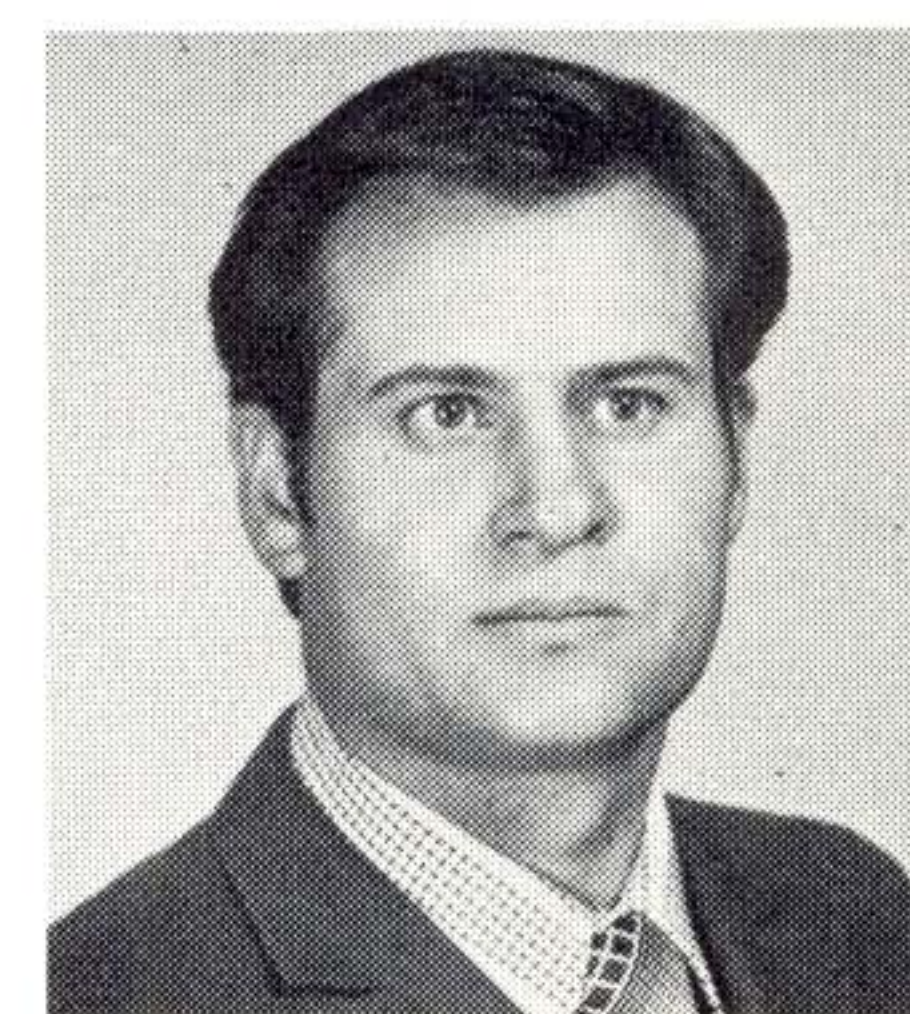
Warren Jones
Seattle, Wa.



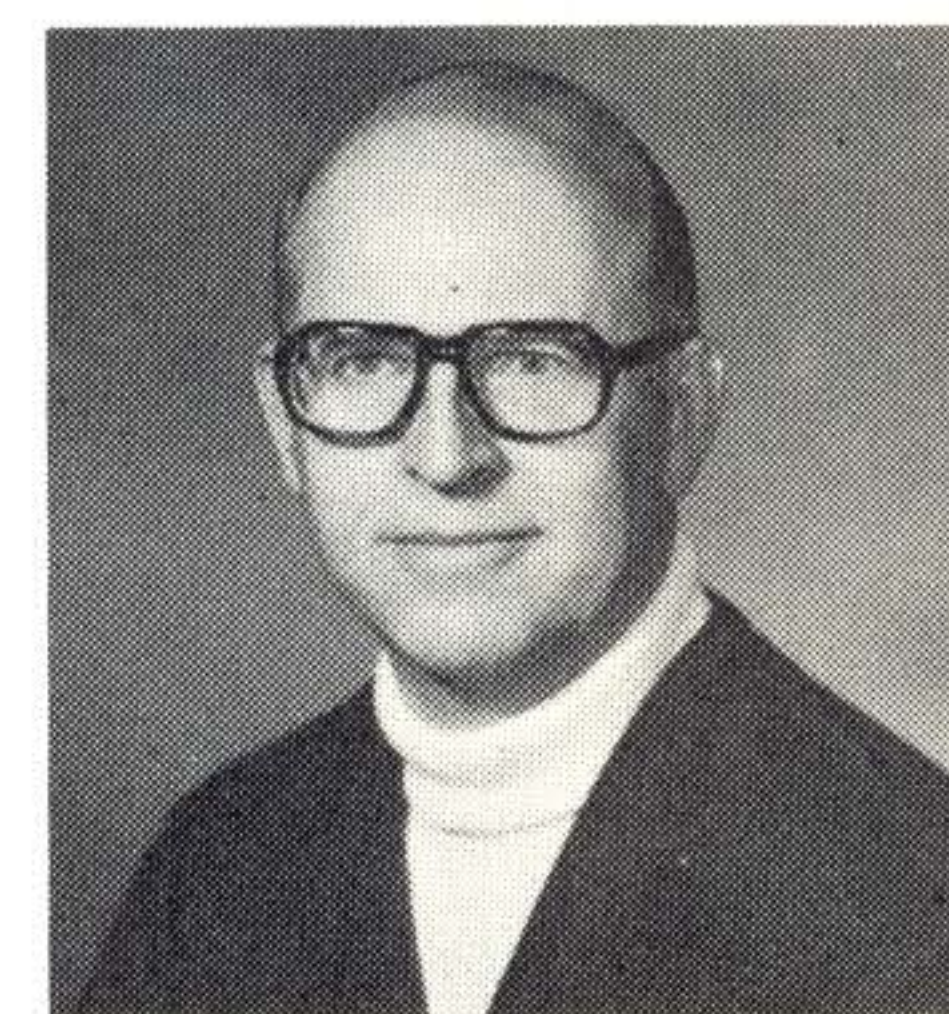
Roger Worrell
Denver, Co.



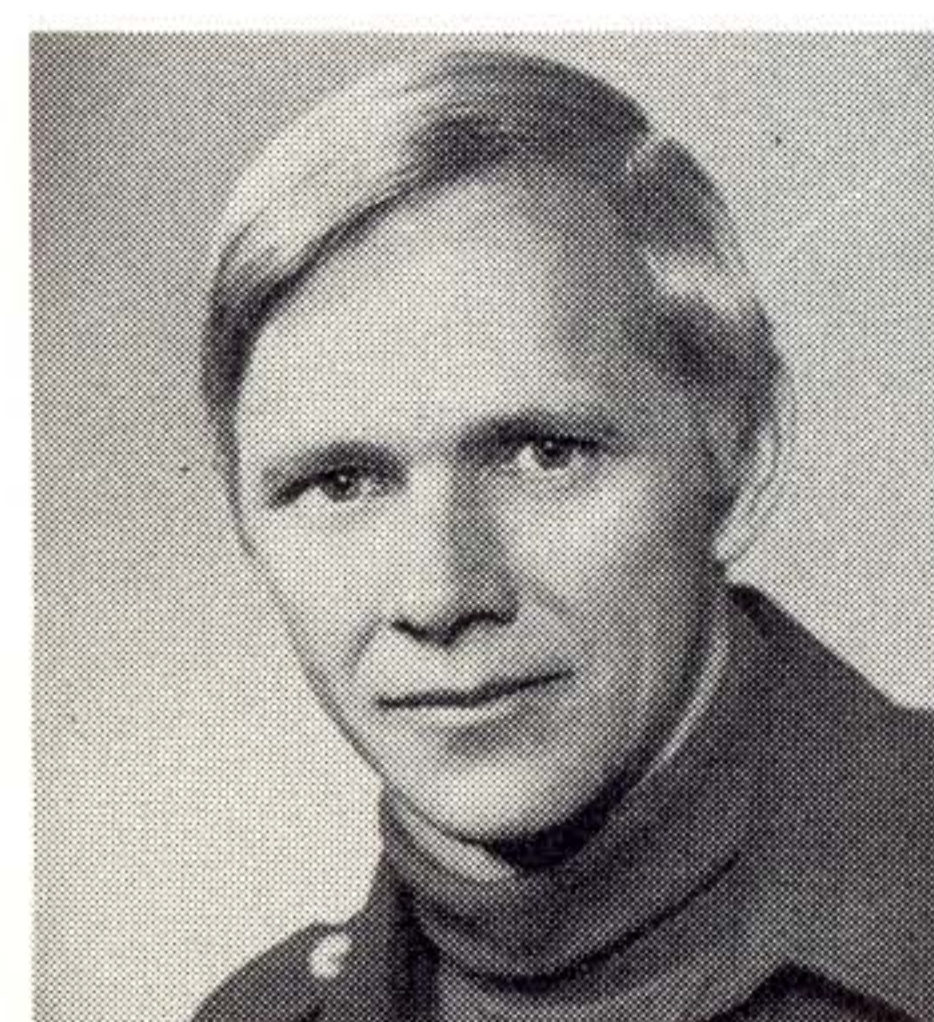
Jack Regan
Everett, Wa.



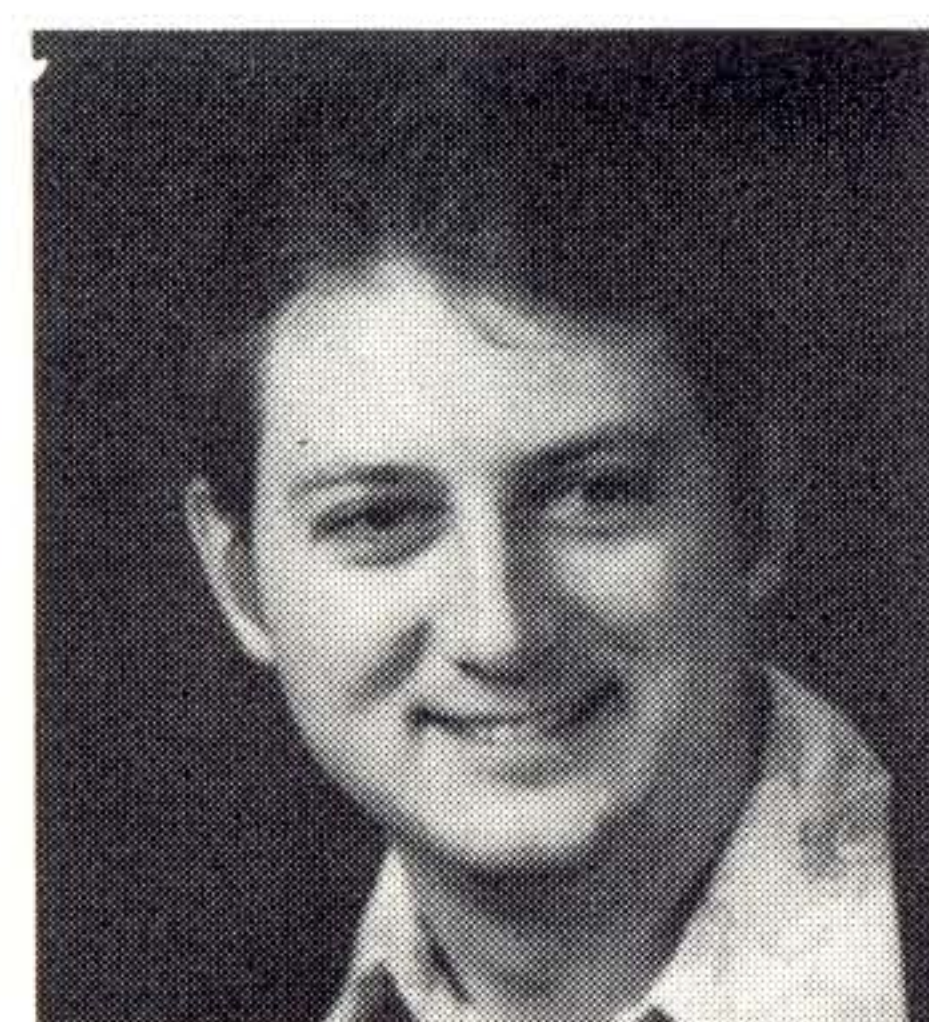
Tate Burnett
Redding, Ca.



Mike Mandick
Spokane, Wa.



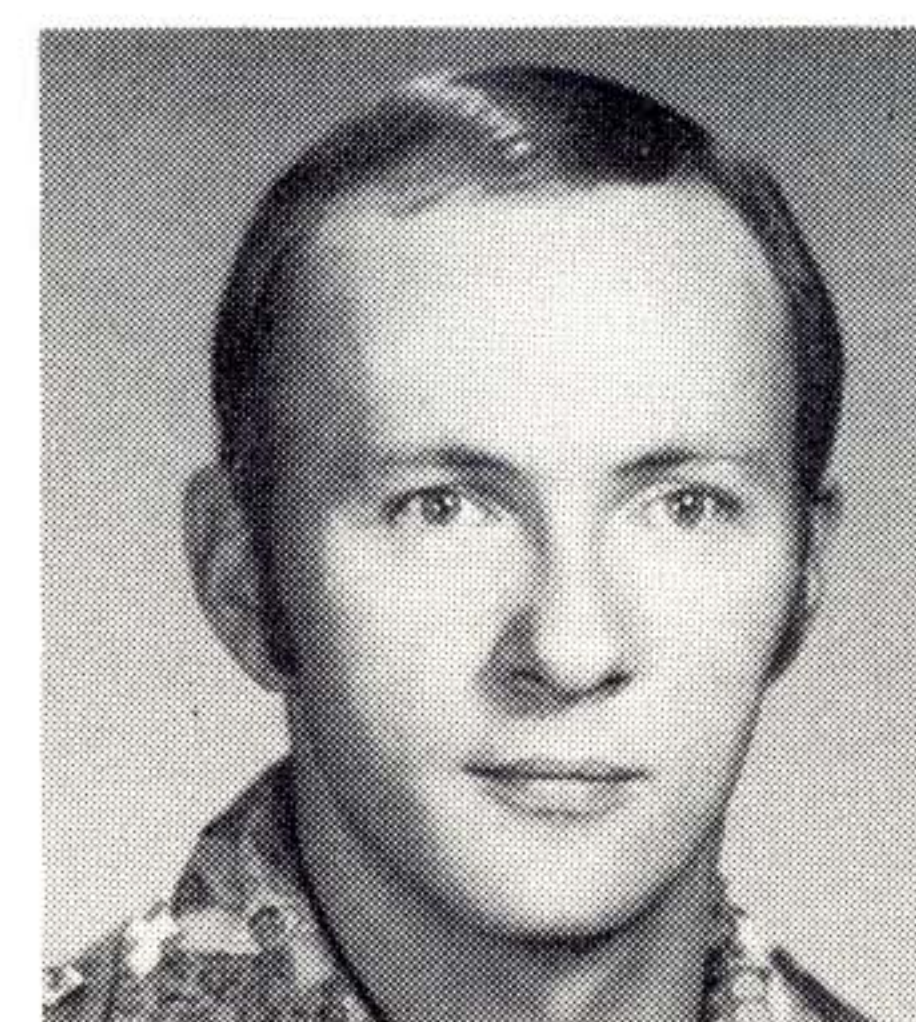
Del Oleson
Yuba City, Ca.



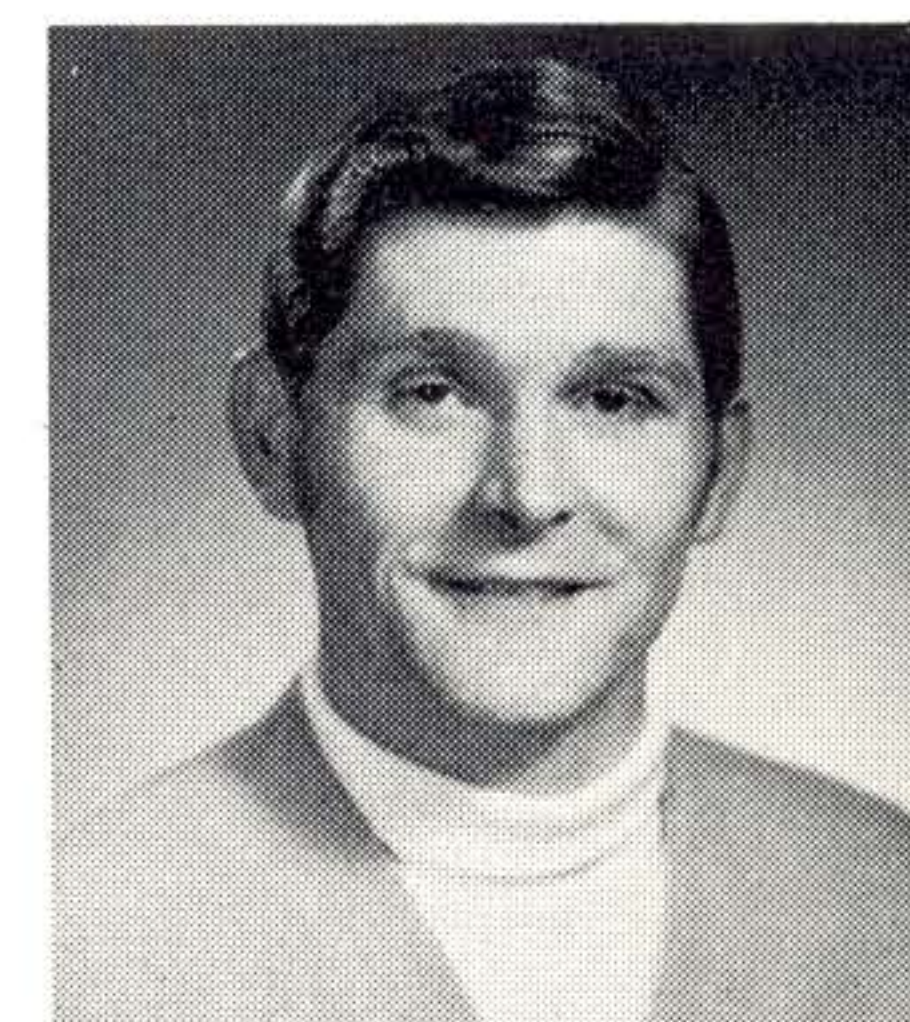
Dale Craker
Kent, Wa.



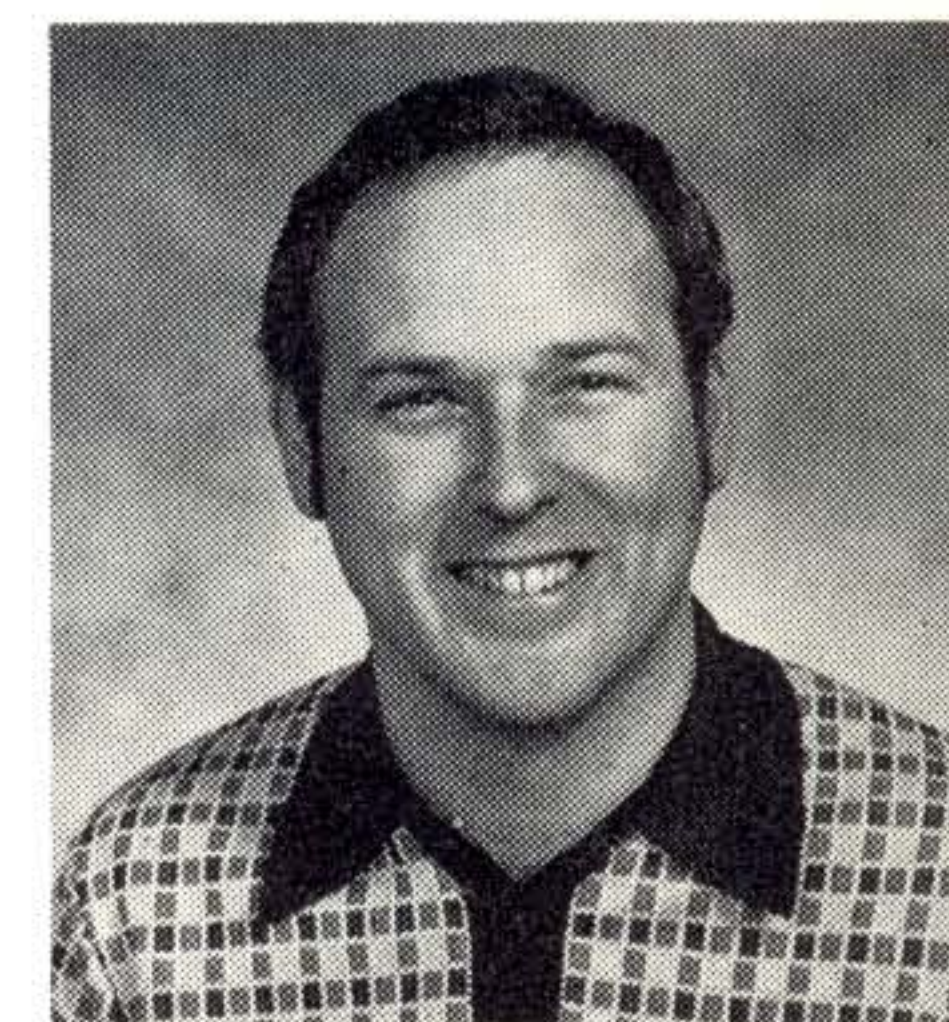
Joe King
Kent, Wa.



Lynn Gettis
Salem, Or.



Don Conklin
Eugene, Or.



Dave Wieldraayer
Portland, Or.



Stan Webster
Aurora, Co.



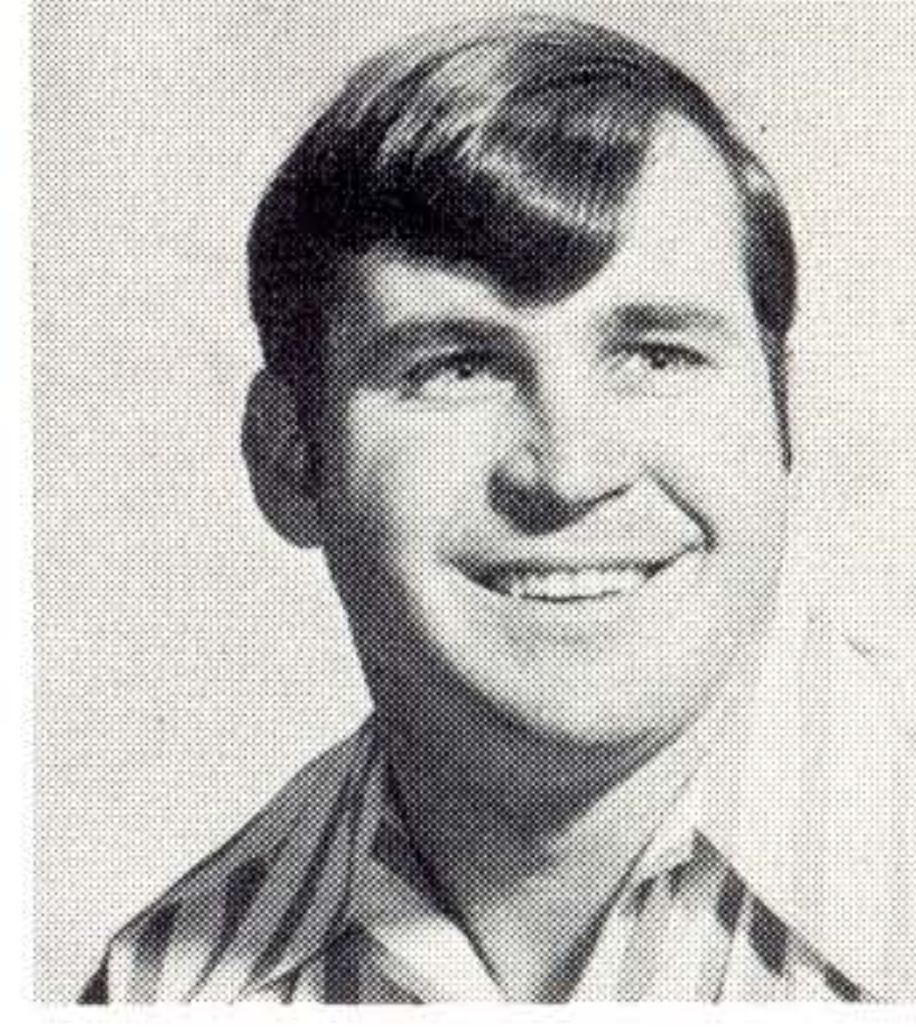
Bill Crosswhite
Reno, Nv.



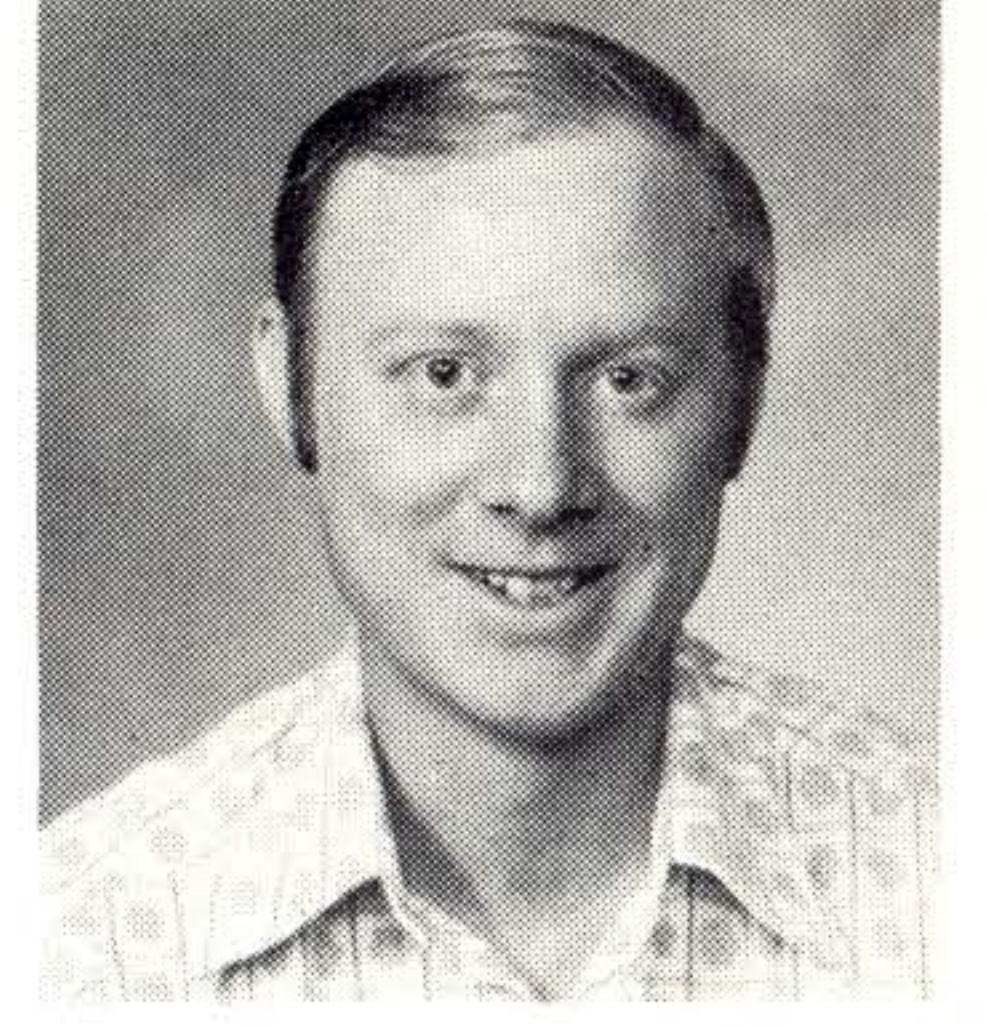
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Sacramento, Ca.



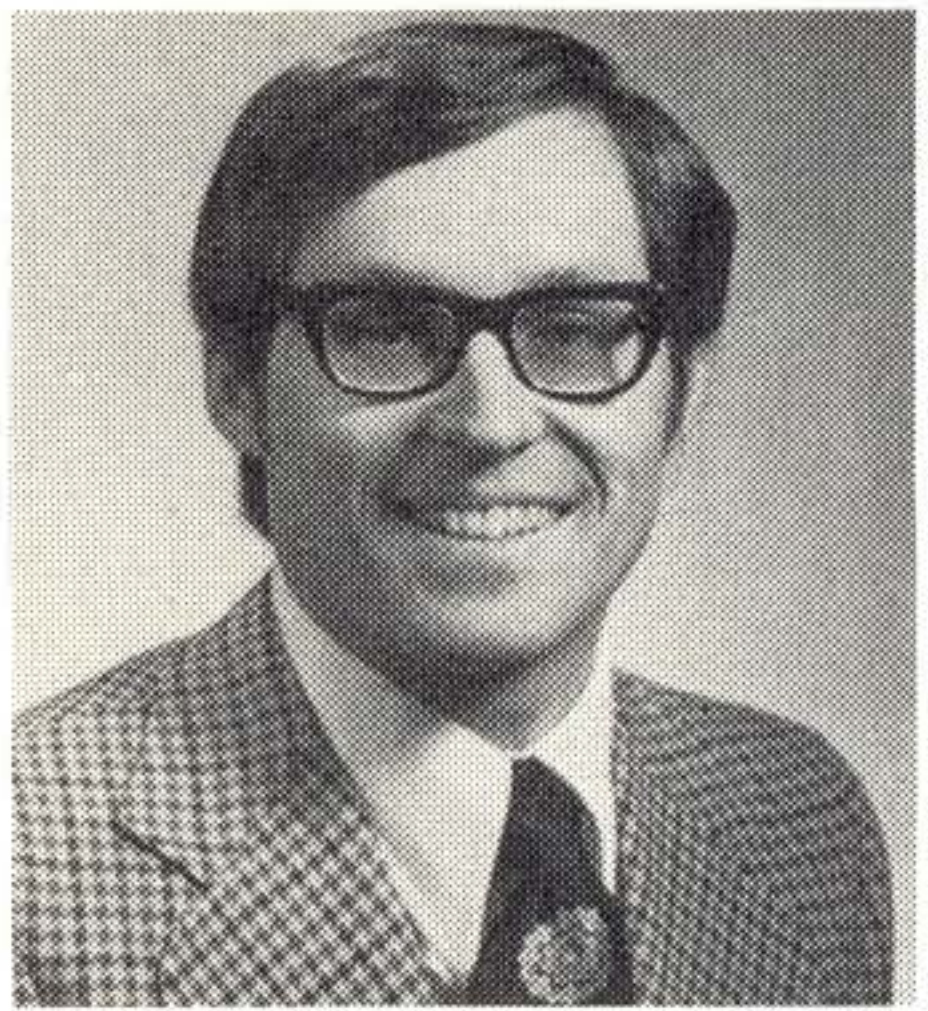
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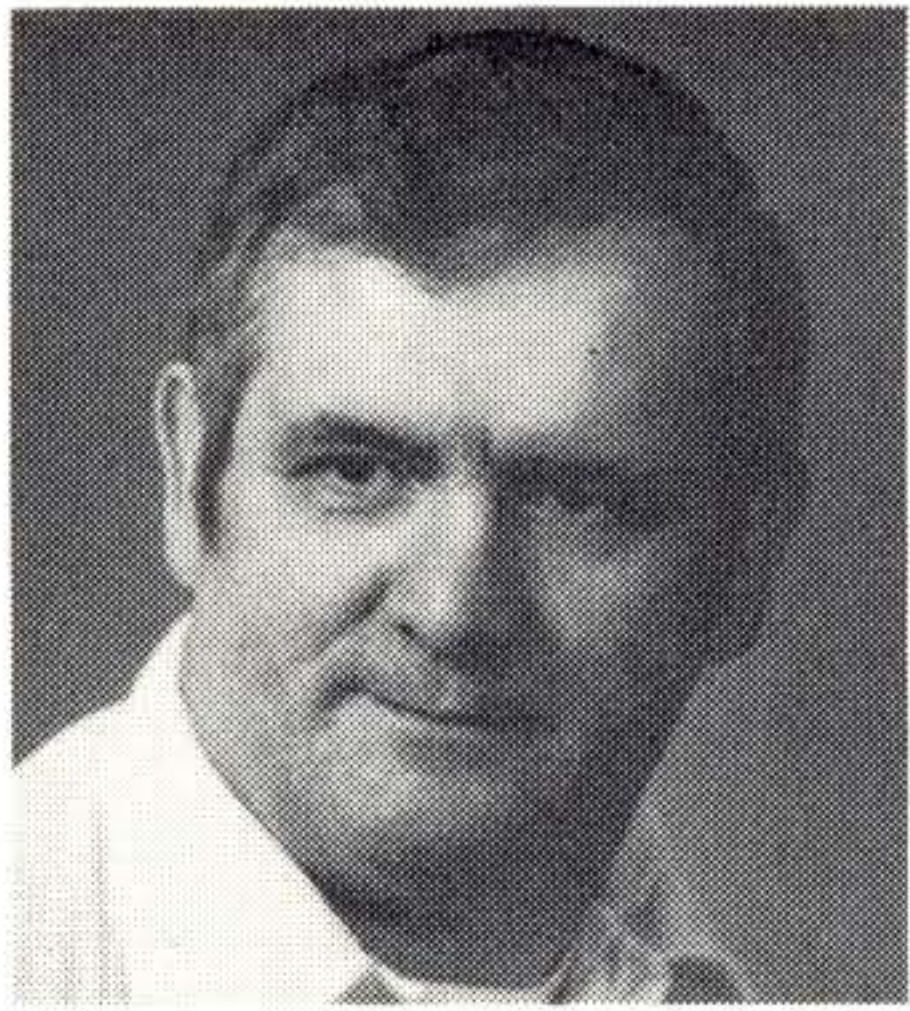
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Carl Fritts
Kennewick, Wa.



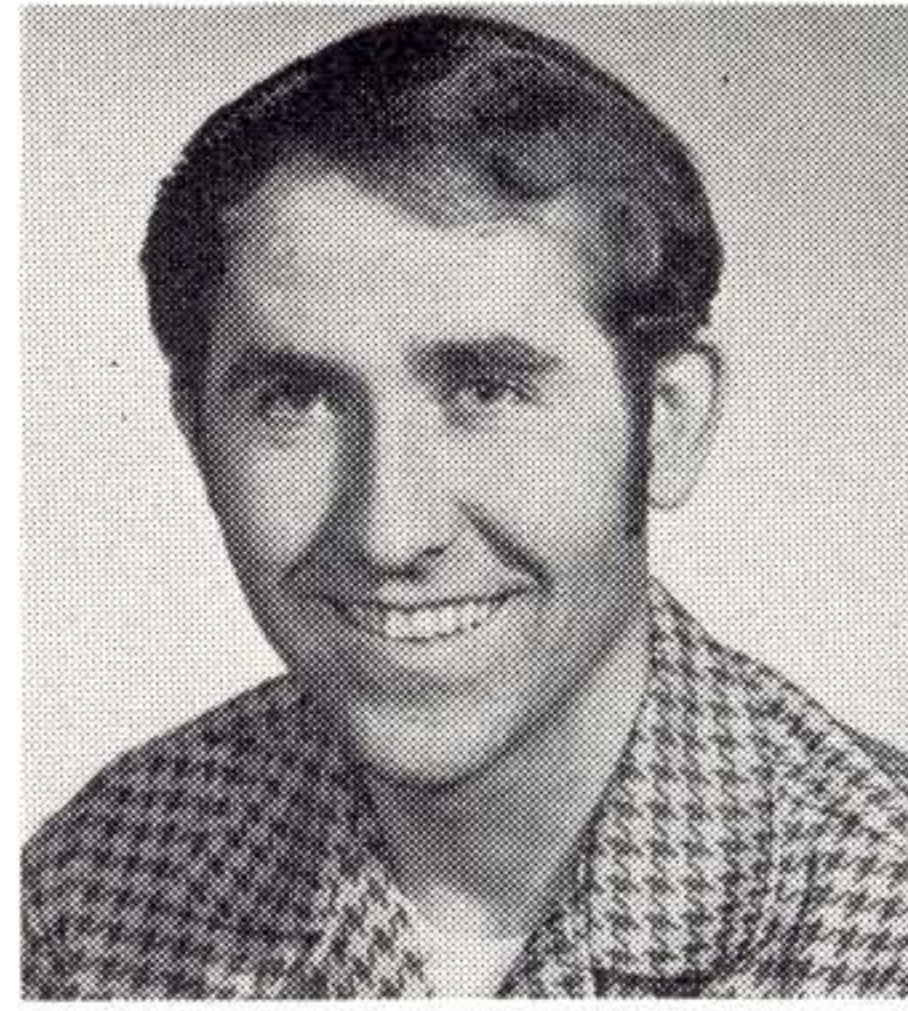
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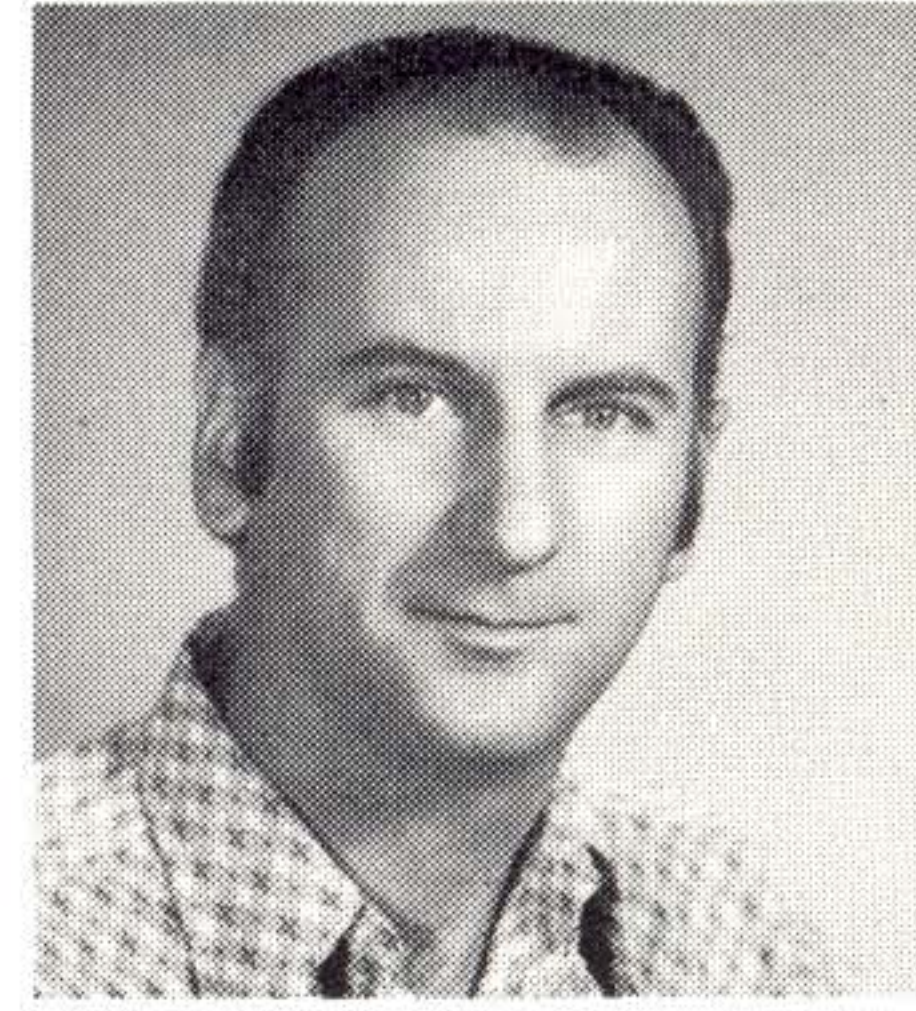
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Kent, Wa.



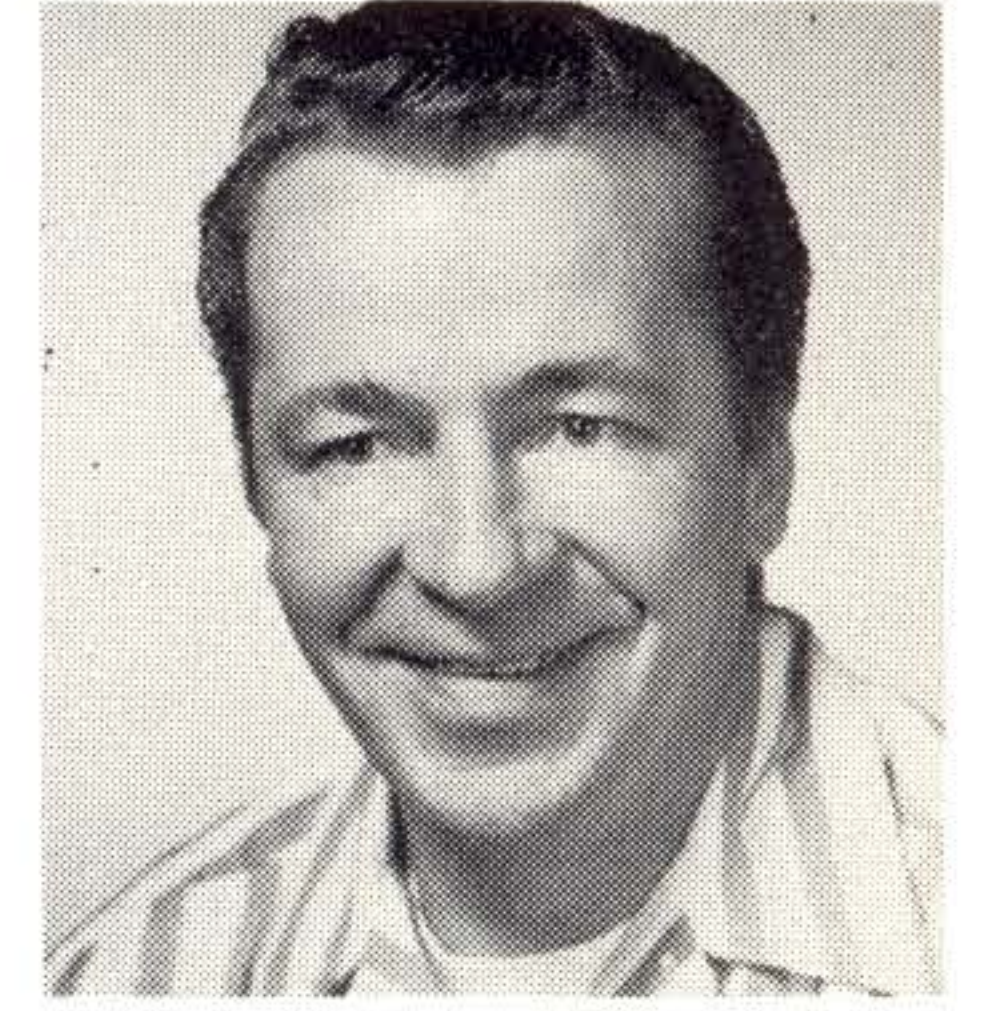
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Anchorage, Al.



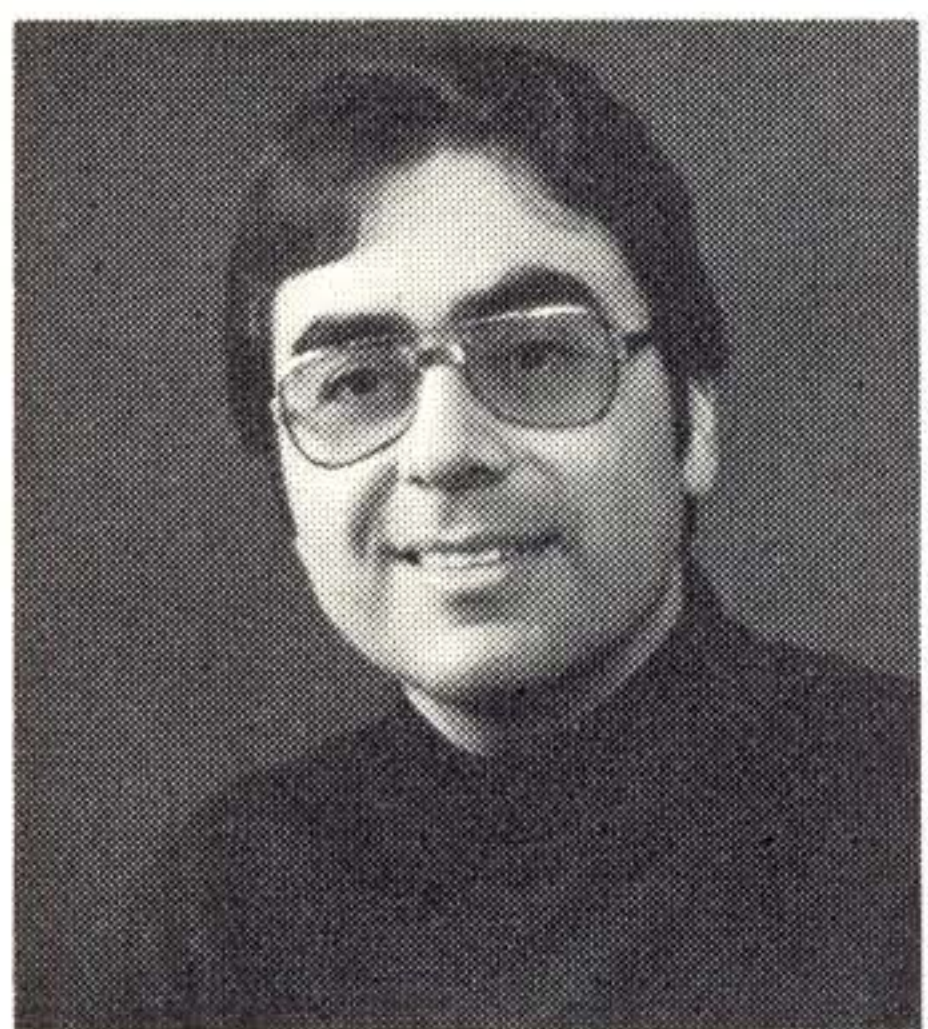
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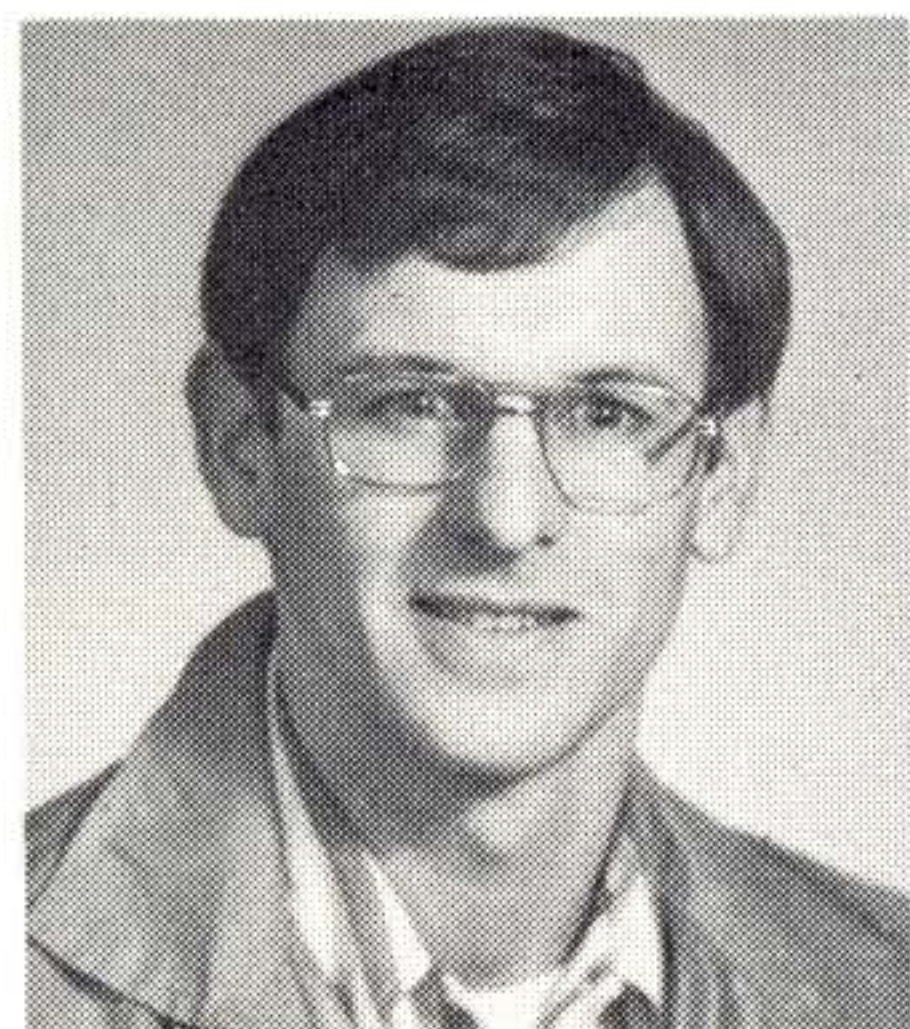
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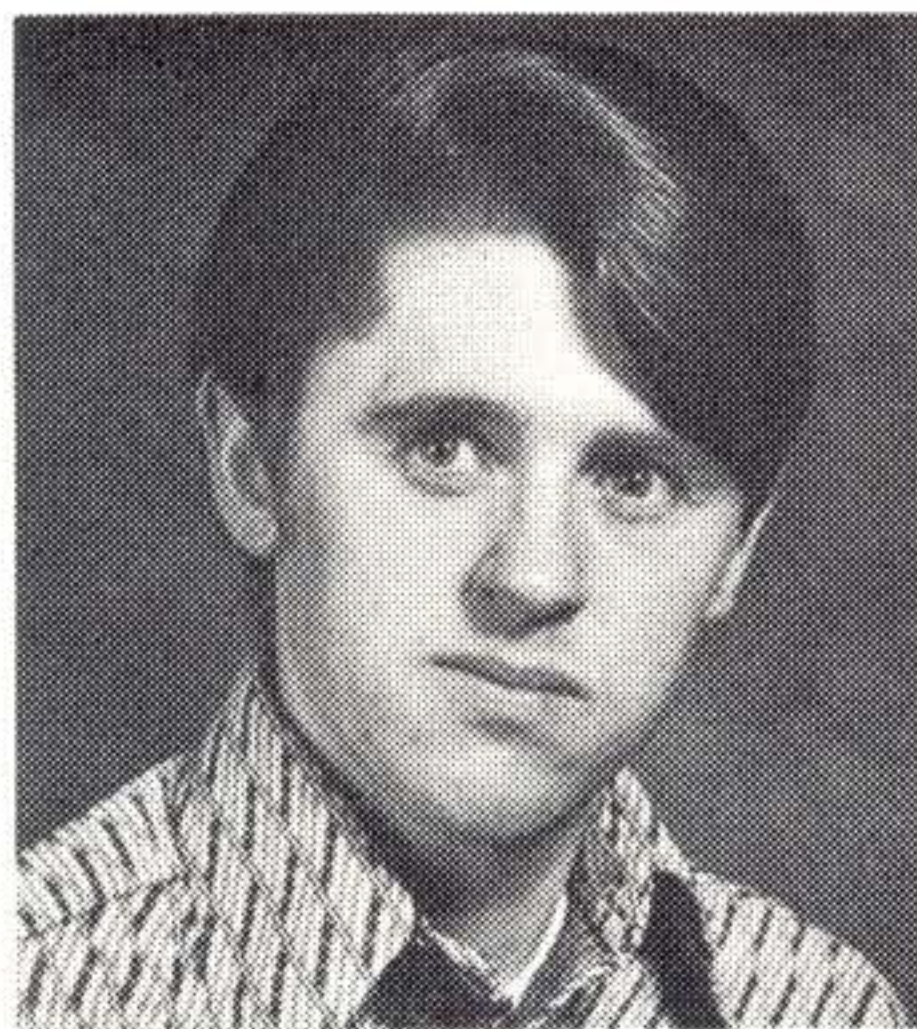
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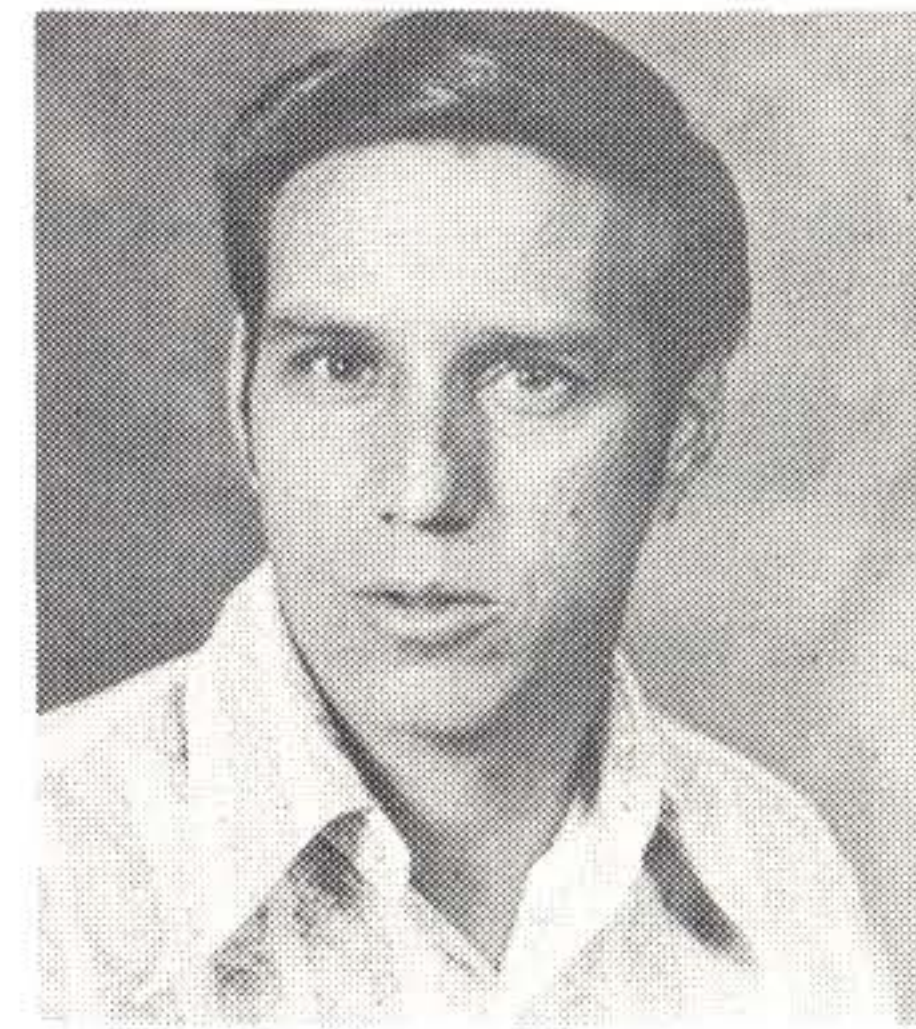
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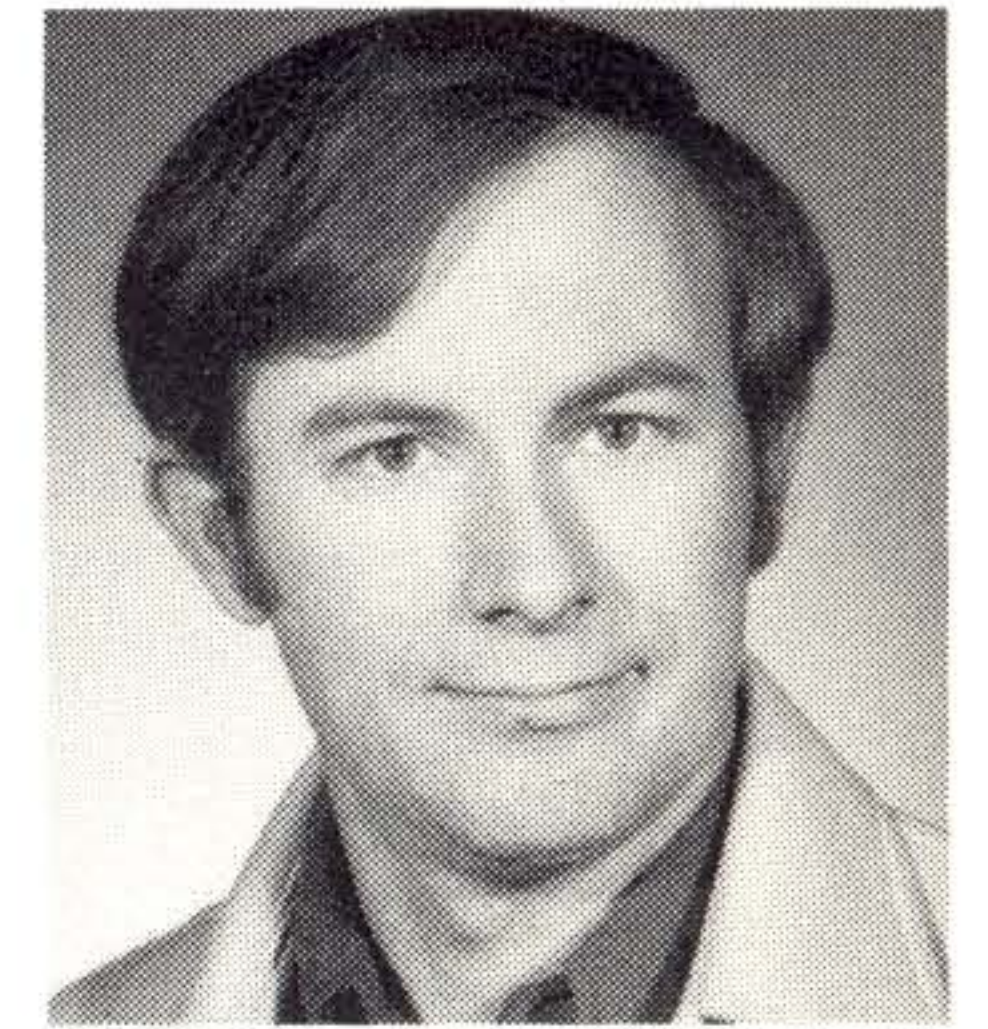
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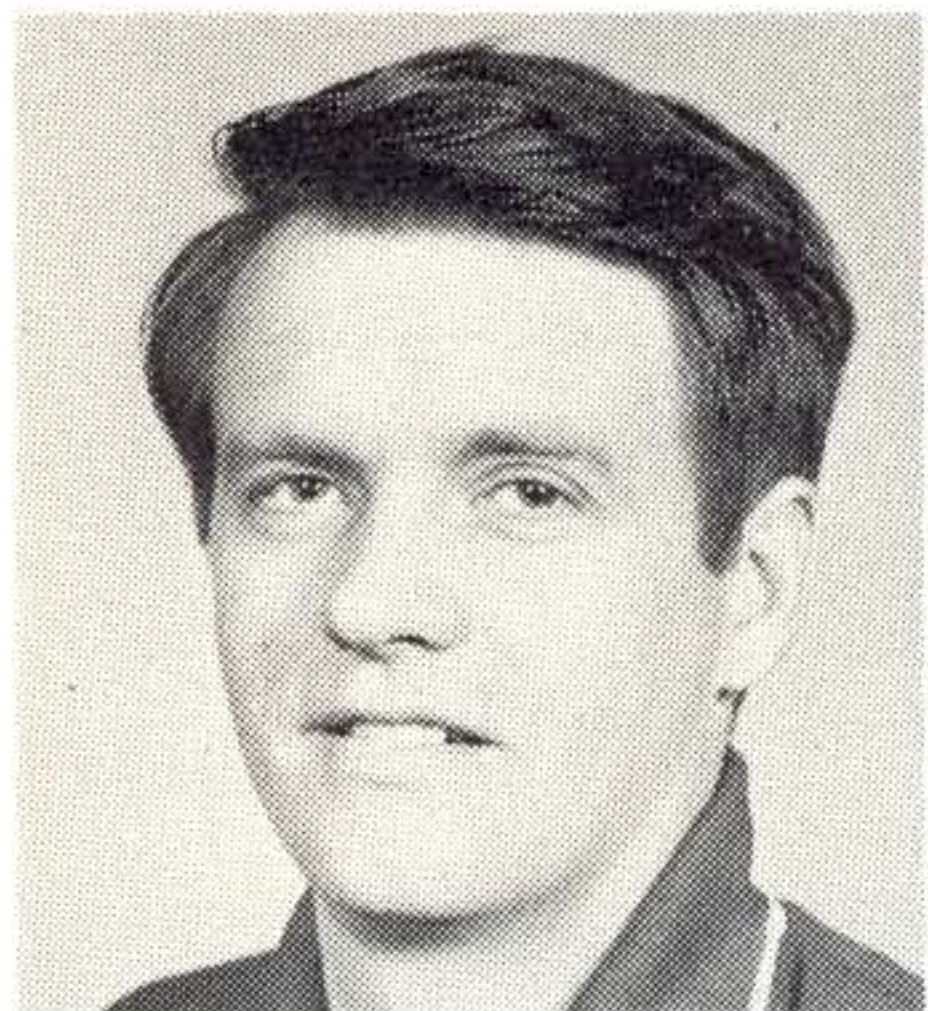
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Ben Fleming
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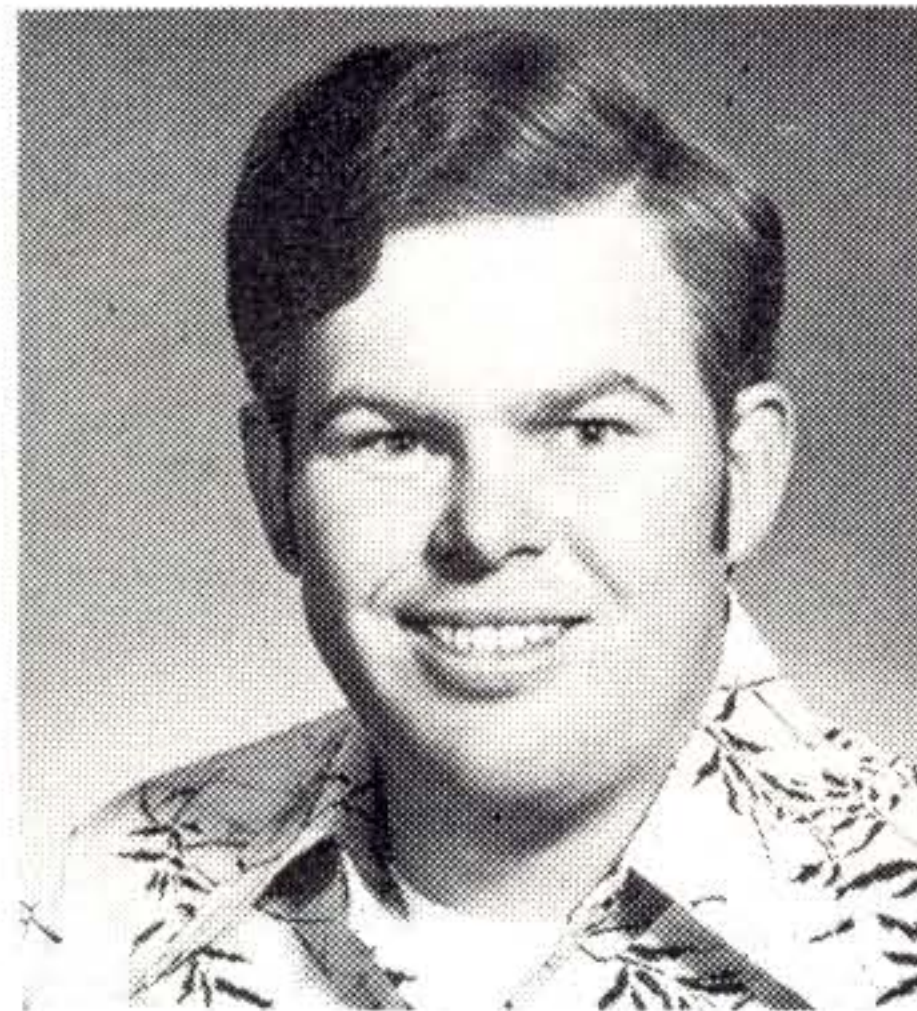
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Oklahoma City, Ok.



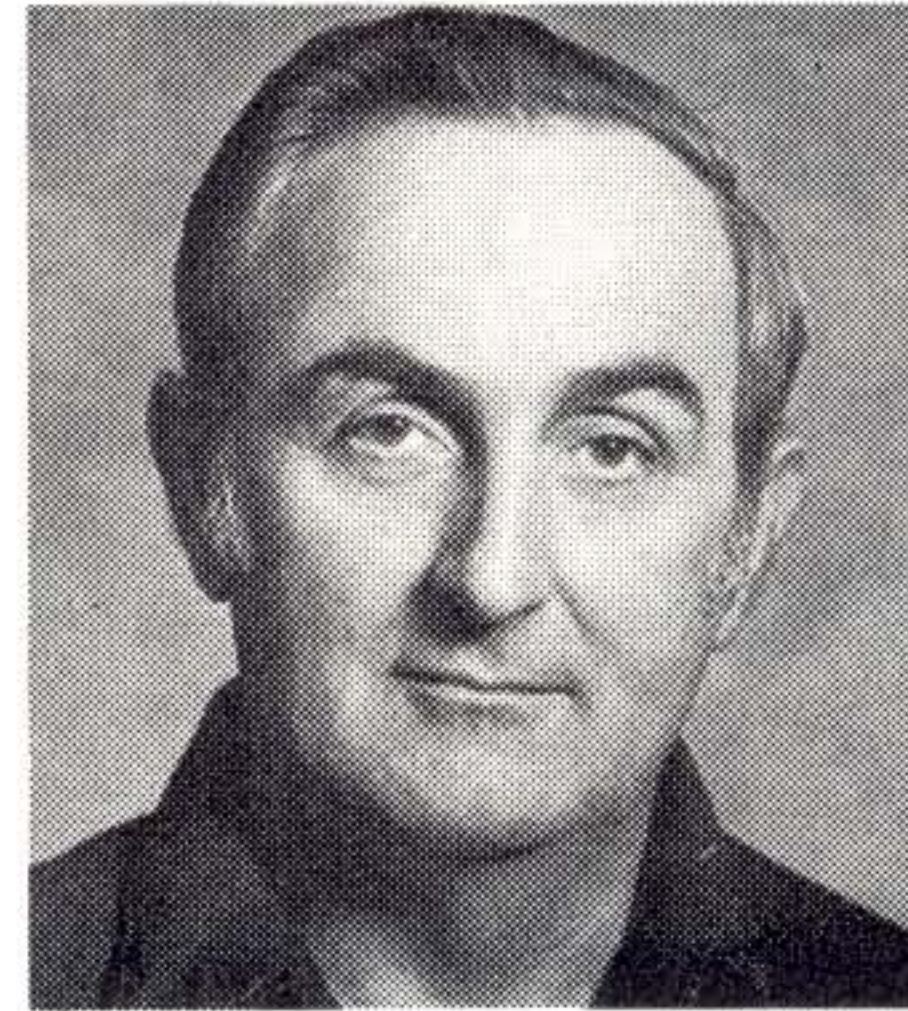
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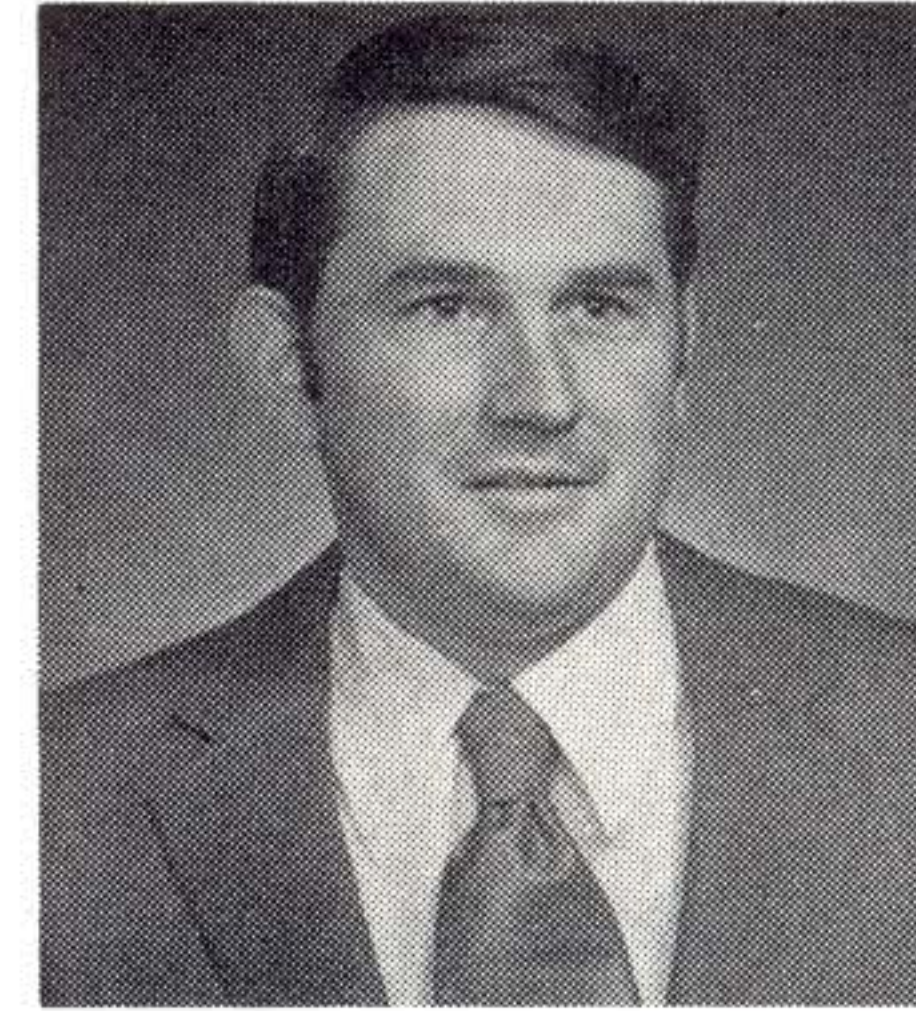
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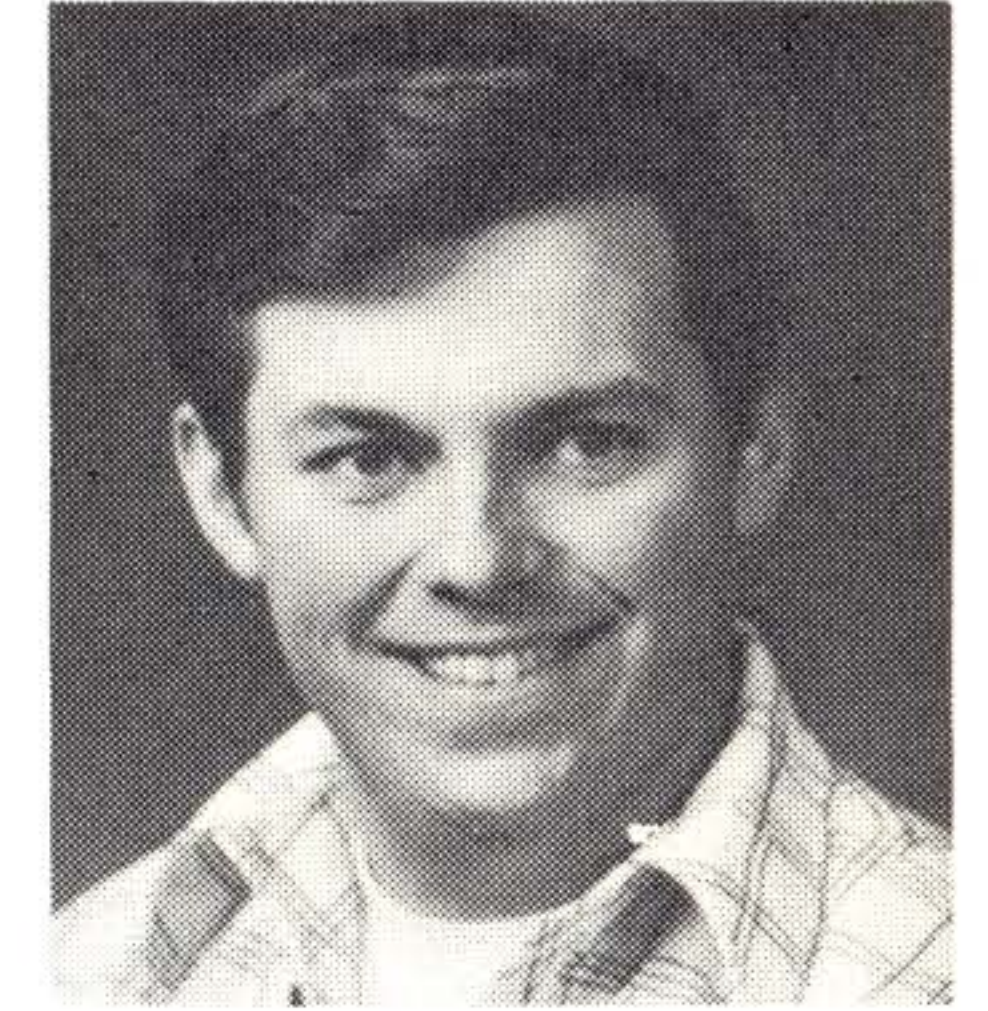
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Ken Belles
Albany, Or.



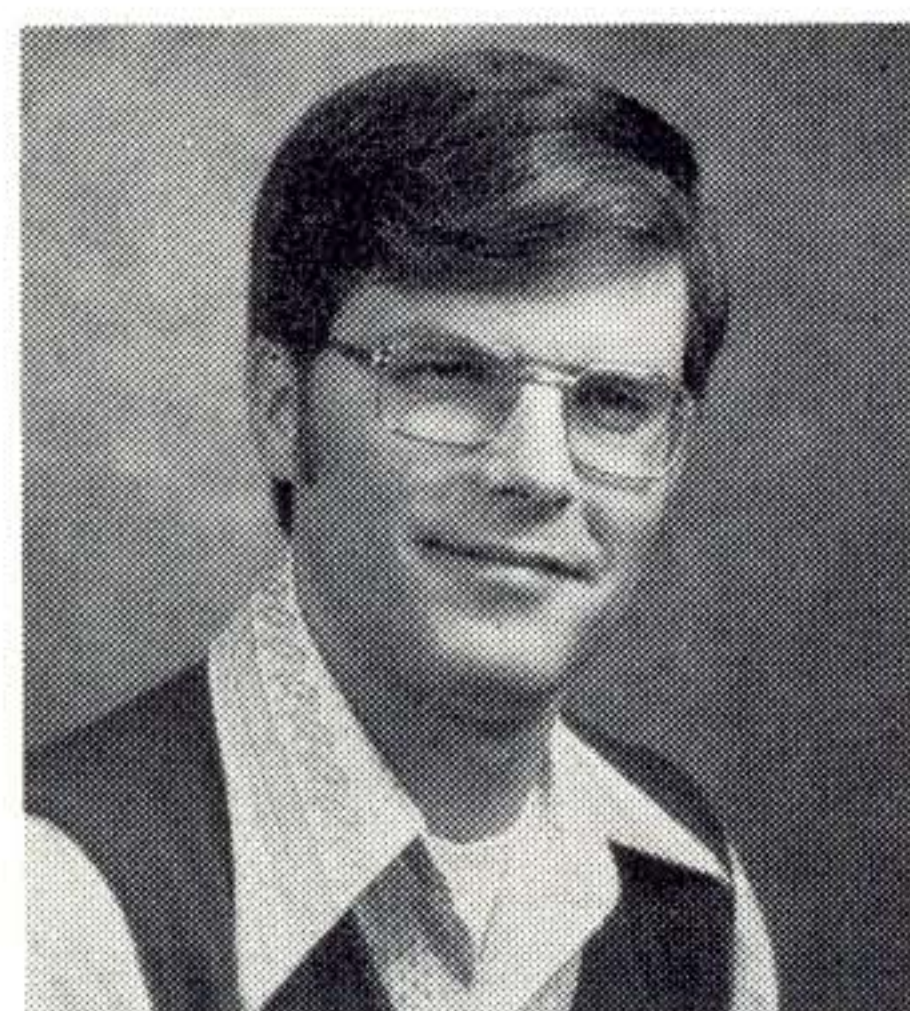
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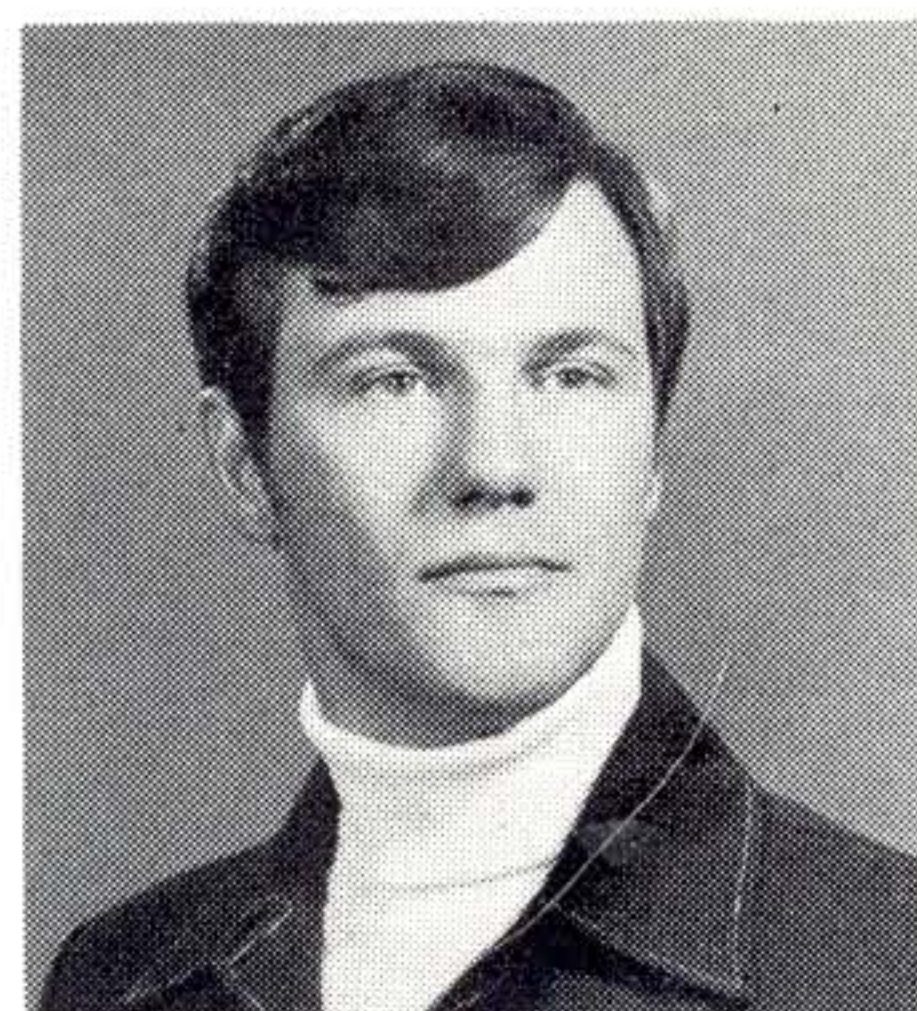
Fred Playle
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Jack Eckhaus
Kent, Wa.



Roger Peterson
Walla Walla, Wa.



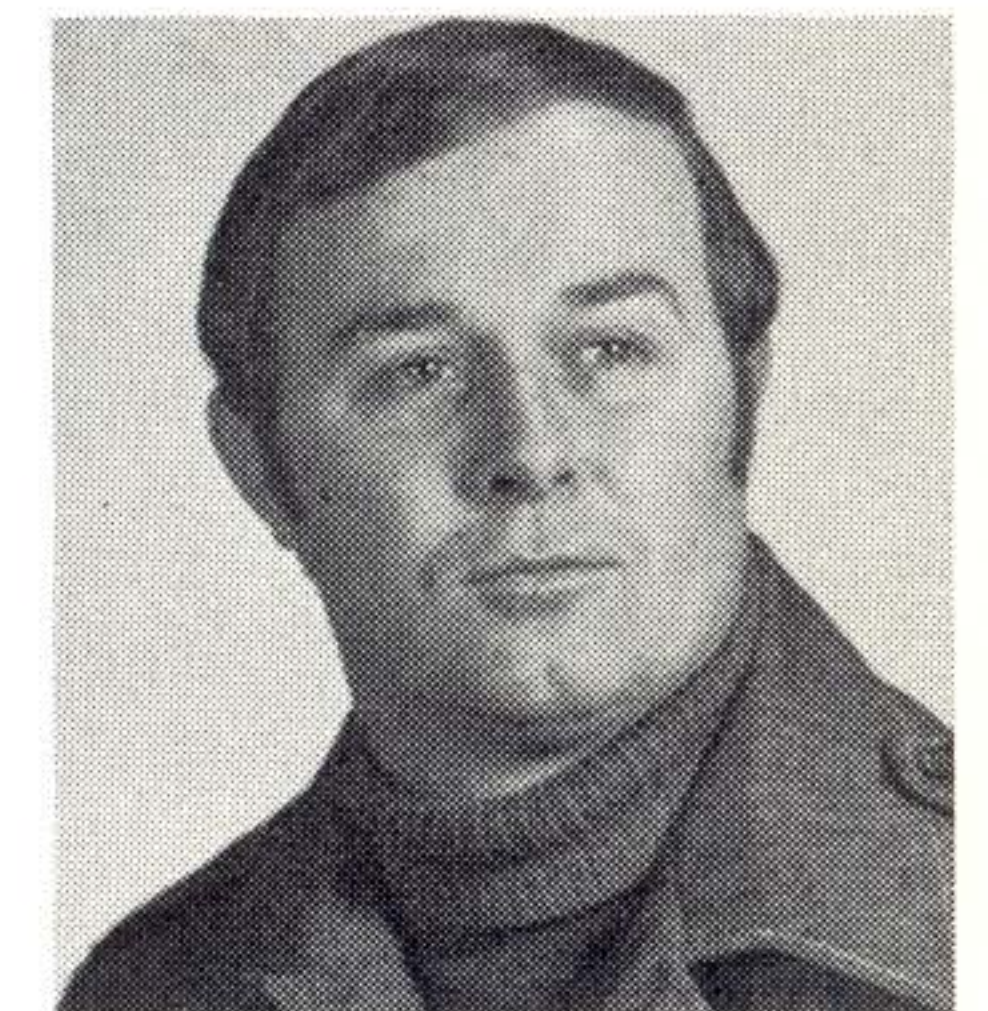
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Ted Lewis
Tulsa, Ok.

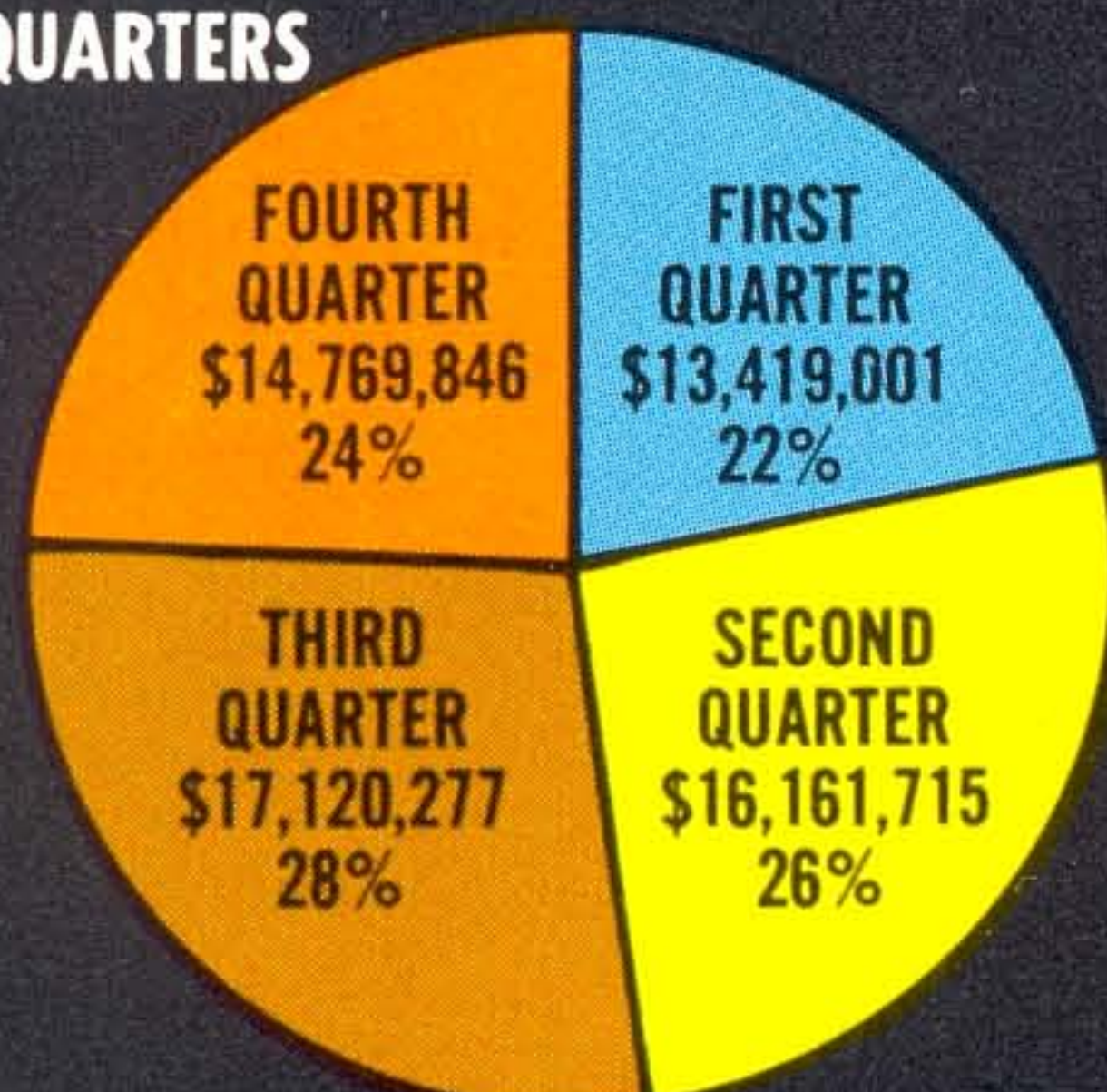


Chuck Pfaff
Las Vegas, Nv.

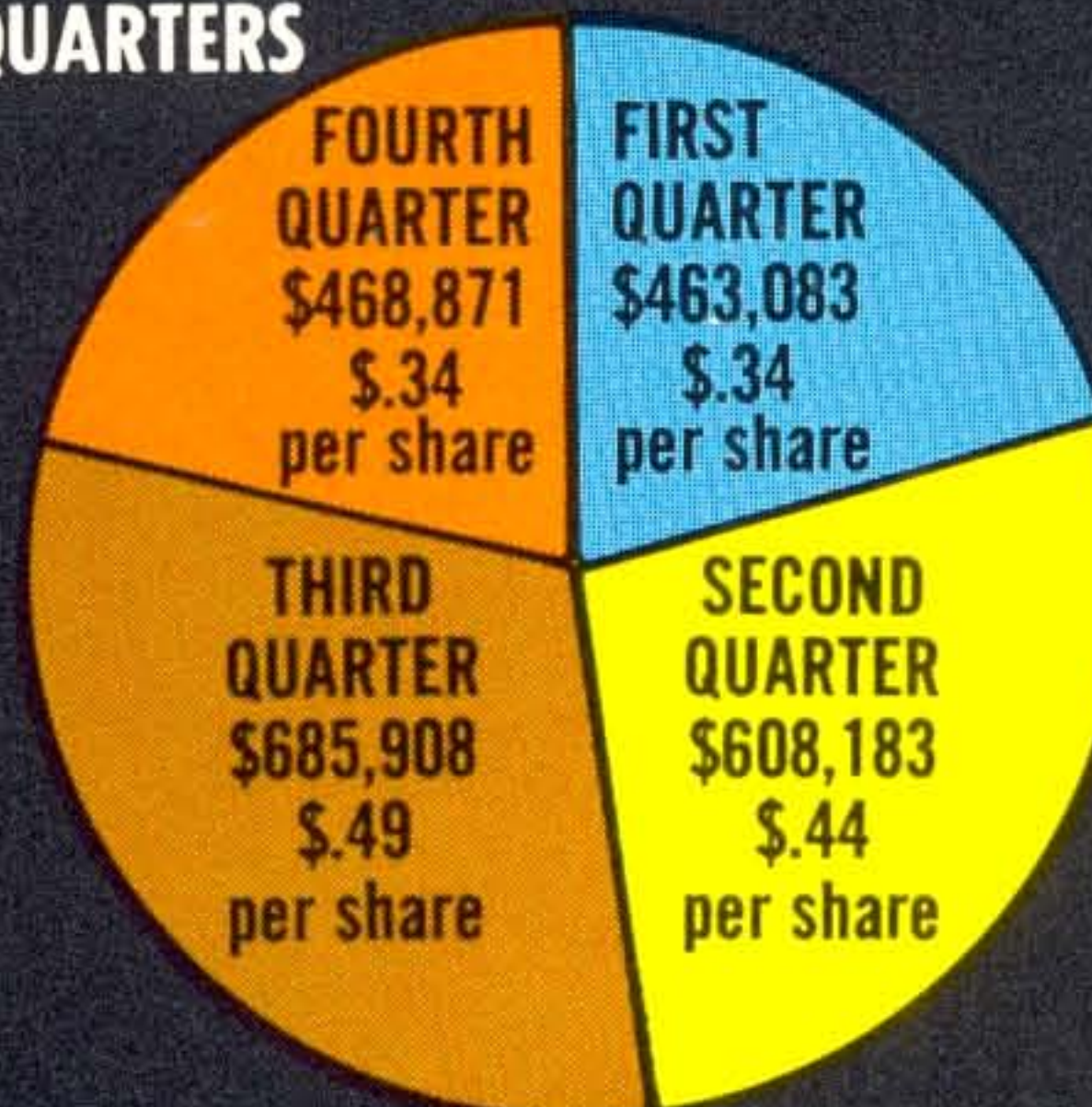


Dave Collins
Colorado Springs, Co.

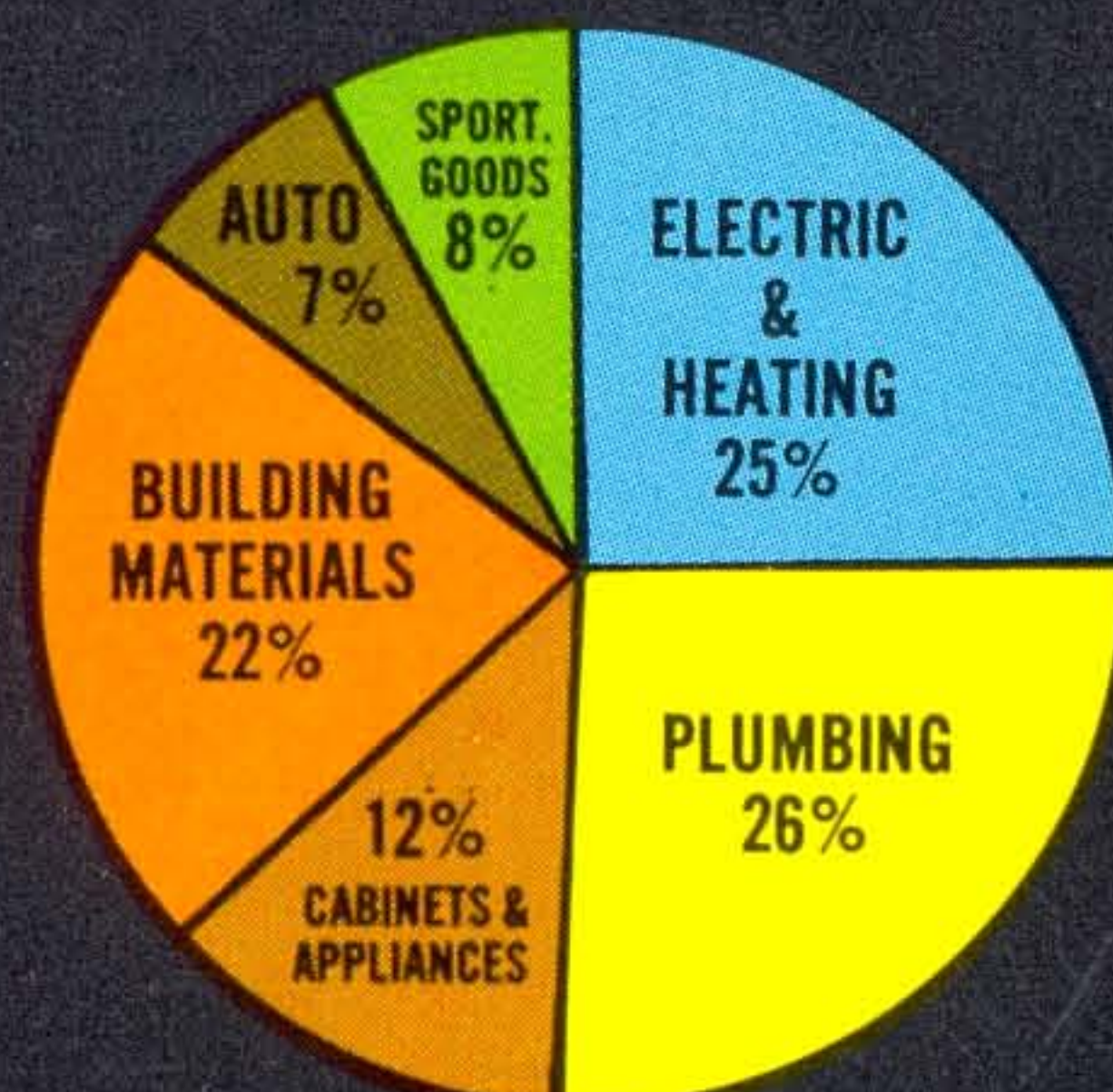
1975 REVENUES BY QUARTERS



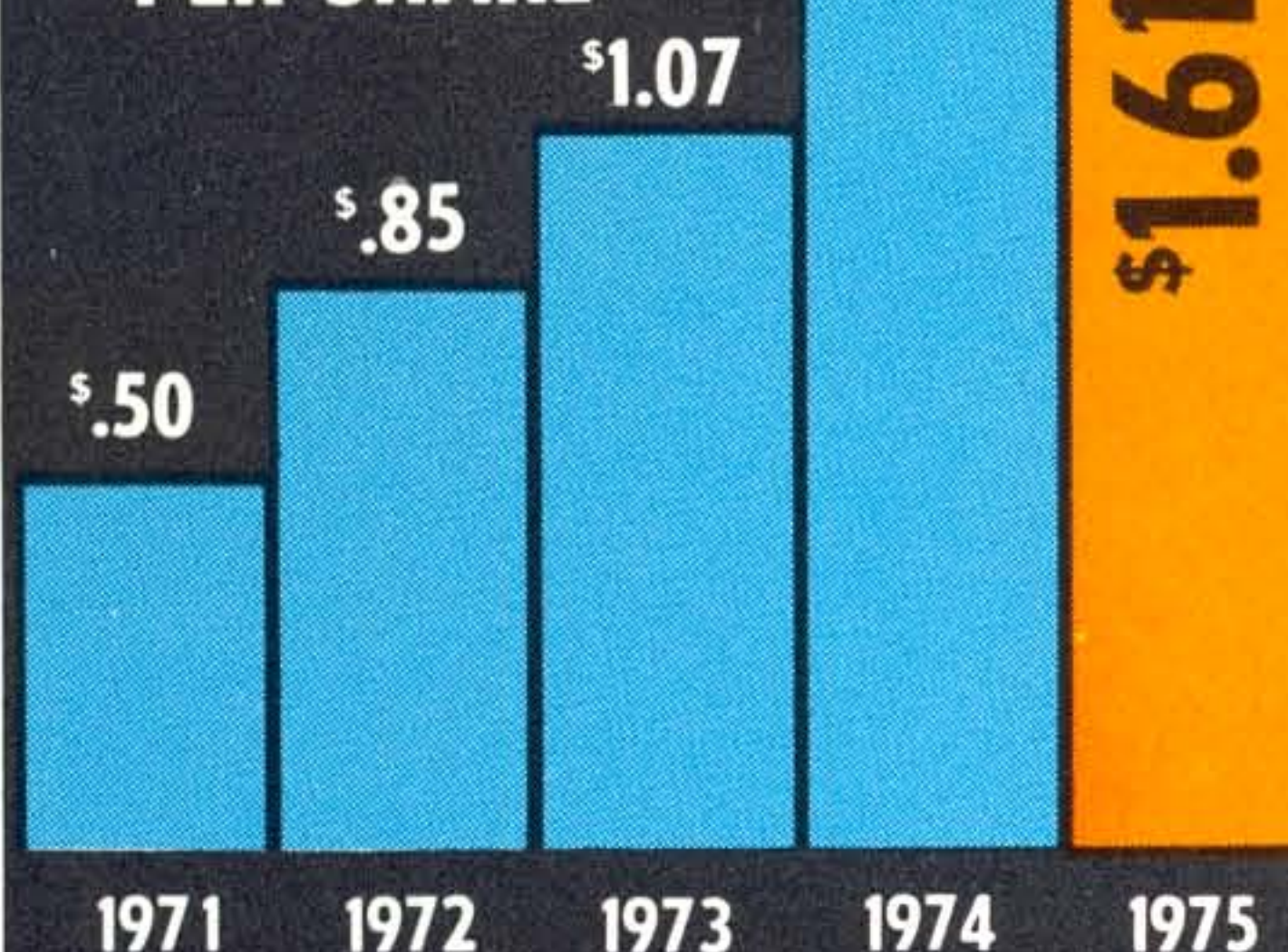
1975 EARNINGS BY QUARTERS



1975 SALES PERCENTAGES BY MERCHANDISE CATEGORY



EARNINGS PER SHARE



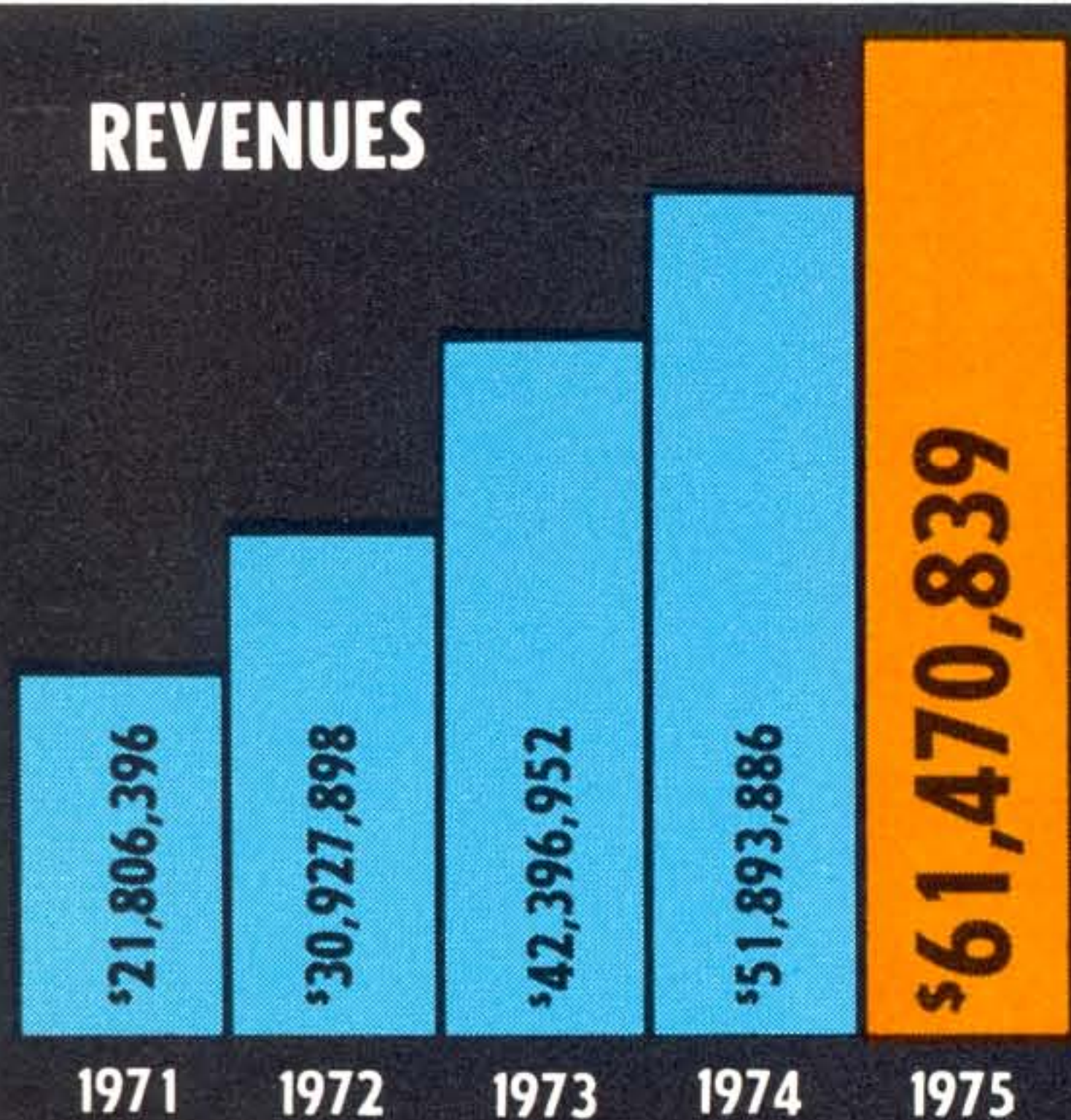
FIVE YEAR GROWTH HIGHLIGHTS

Year Ended February 28 or 29

	1975	1974	1973	1972	1971
Revenues	\$61,470,839	\$51,893,886	\$42,396,952	\$30,927,898	\$21,806,396
Income before federal and state tax	\$ 4,285,203	\$ 3,619,206	\$ 2,940,394	\$ 2,168,175	\$ 1,495,528
Income from continuing operations	\$ 2,226,045	\$ 1,857,300	\$ 1,459,801	\$ 1,132,312	\$ 762,532
(Loss) from discontinued operations					\$ (98,692)
Net income	\$ 2,226,045	\$ 1,857,300	\$ 1,459,801	\$ 1,132,312	\$ 663,840
Average number of common shares	1,381,159	1,381,159	1,368,576	1,338,409	1,330,742
Per common share:					
Net income	\$1.61	\$1.34	\$1.07	\$0.85	\$0.50
Cash dividends paid	\$.35	\$.25	\$0.155	\$0.15	\$0.15
*Average number of common shares	* 1,519,275	* 1,519,275	* 1,505,434	* 1,472,250	* 1,463,816
Net income per common share	* \$1.47	* \$1.22	* \$.97	* \$.77	* \$.45
Cash dividends paid per common share	* \$0.318	* \$0.227	* \$0.141	* \$0.136	* \$0.136
Financial position at end of year:					
Total assets	\$26,003,356	\$23,278,072	\$21,407,344	\$16,640,230	\$11,169,578
Stockholders' equity	\$12,439,968	\$10,697,329	\$ 9,185,319	\$ 7,786,334	\$ 6,587,708
Shares of common stock outstanding	1,381,159	1,381,159	1,381,159	1,353,409	1,330,909
Net asset amount per share	\$9.01	\$7.75	\$6.65	\$5.75	\$4.95
*Shares of common stock outstanding	* 1,519,275	* 1,519,275	* 1,519,275	* 1,488,750	* 1,464,000
Net asset amount per share	* \$8.19	* \$7.04	* \$6.05	* \$5.23	* \$4.50
Number of stores open	54	48	44	40	36
Number of customers served	3,647,036	3,251,000	2,849,000	N/A	N/A
Average customer purchase	\$16.83	\$15.94	\$14.86	N/A	N/A
Number of states in which we operated	11	11	11	8	6
Square footage of stores	1,030,808	890,529	783,588	584,380	465,180
Sales per square foot	\$59.55	\$58.20	\$54.02	\$52.78	\$46.53
Average square footage per store	19,089	18,553	17,808	14,609	12,921
Average annual inventory (in stores)	\$13,603,679	\$13,714,778	\$10,645,251	\$ 7,172,653	\$ 4,118,310

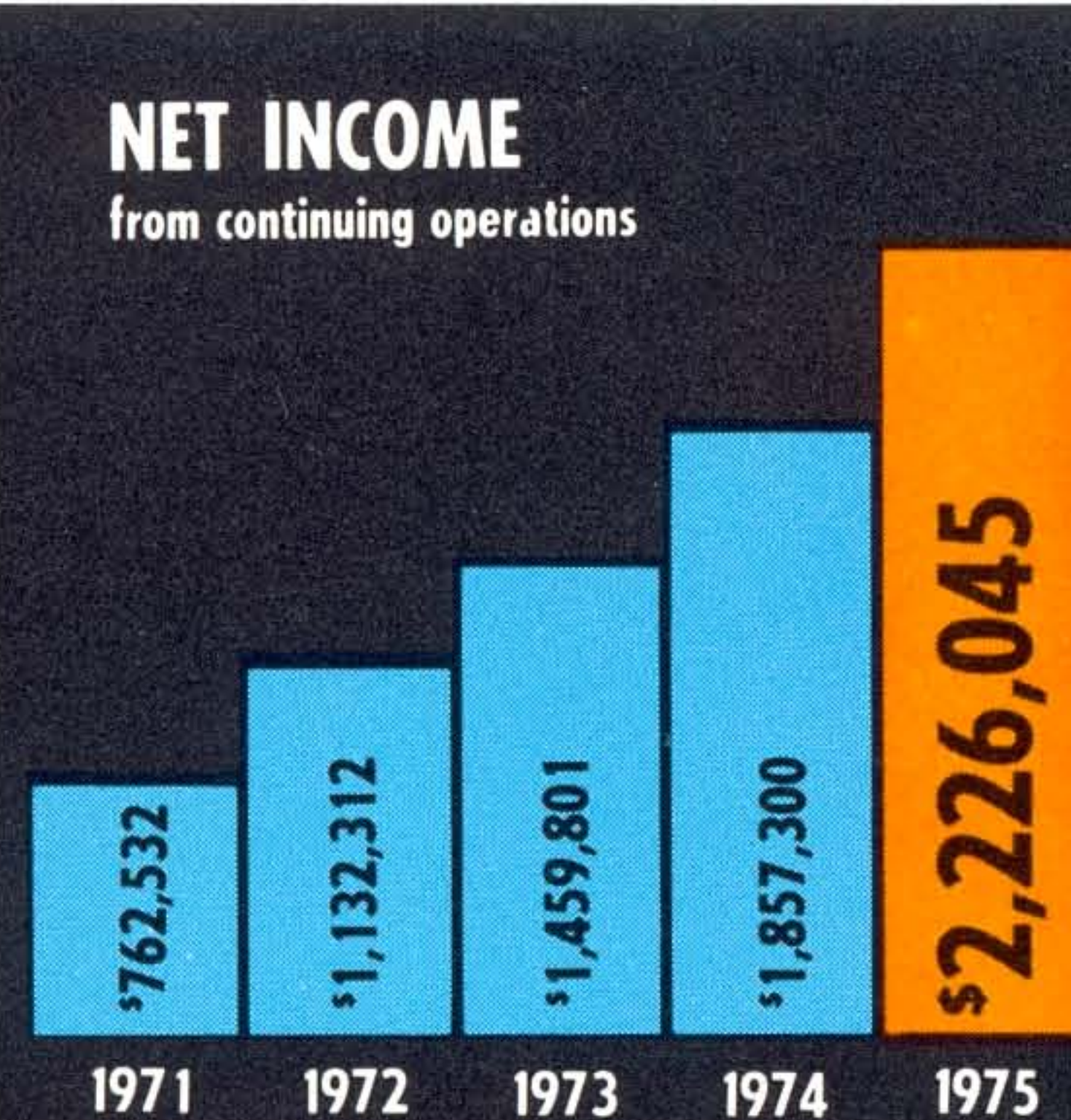
N/A — Not available

REVENUES

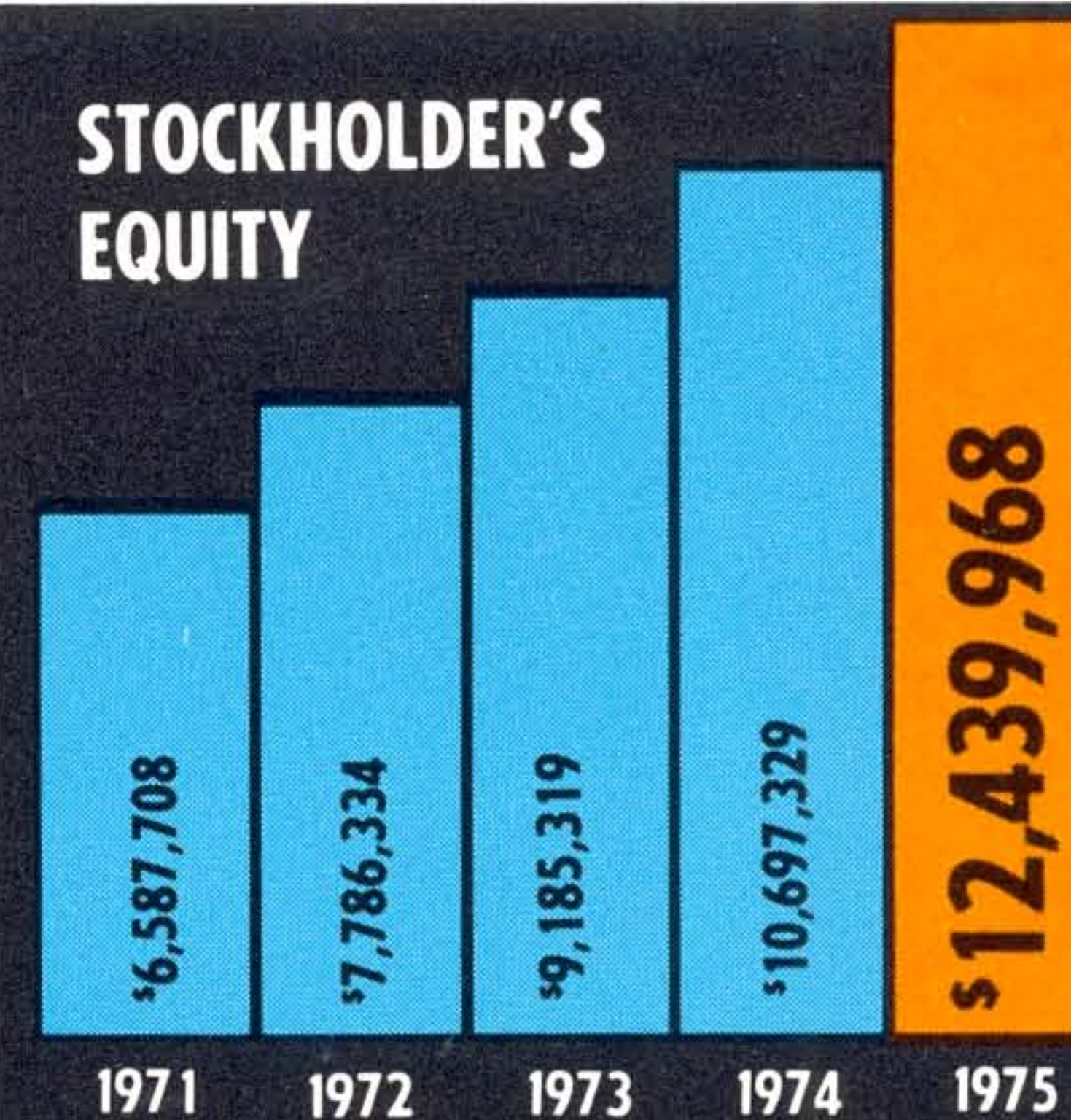


NET INCOME

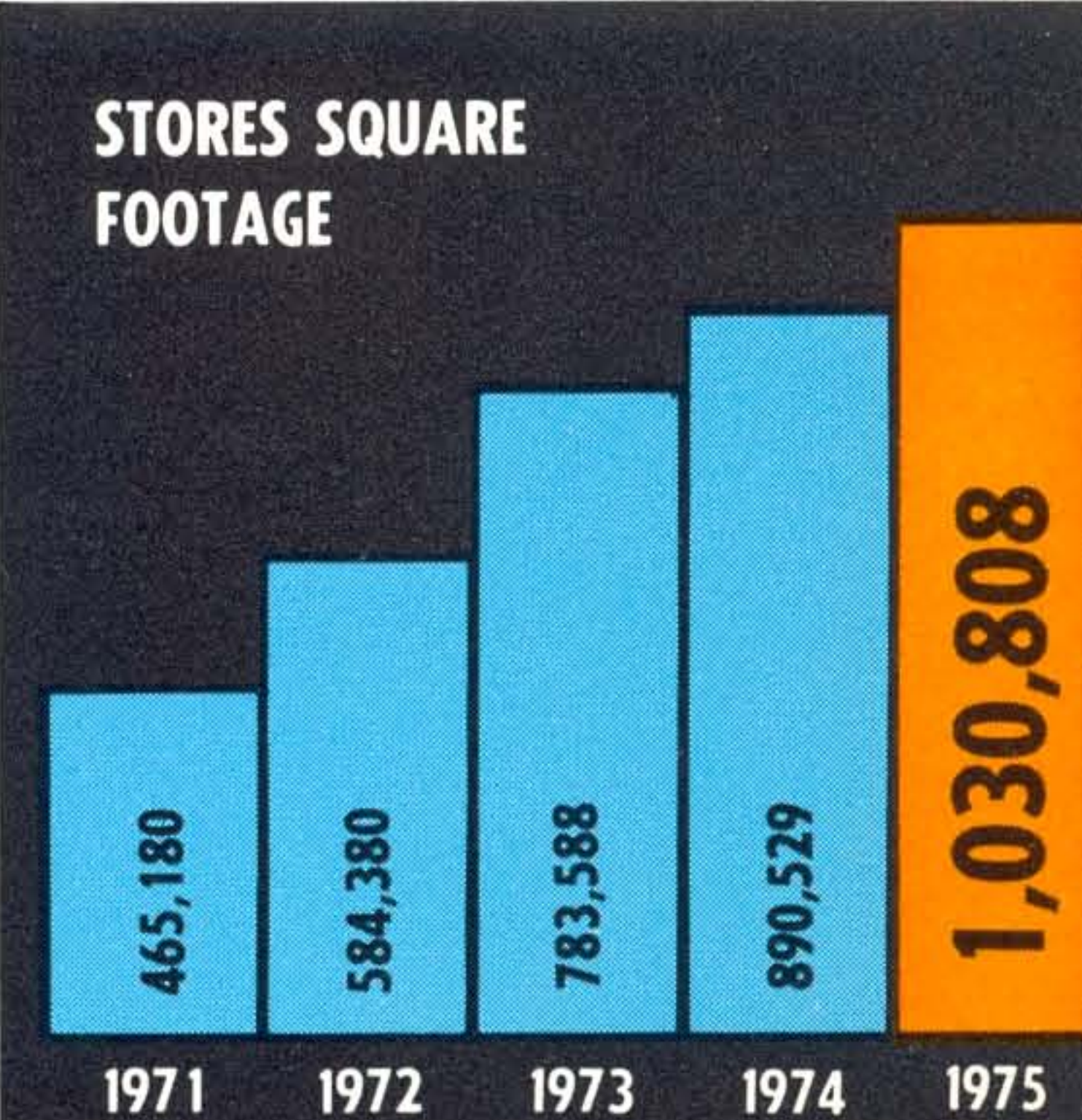
from continuing operations



STOCKHOLDER'S EQUITY



STORES SQUARE FOOTAGE



*After giving retroactive effect to 10% stock dividend declared on March 13, 1975 payable May 7, 1975 to shareholders of record on April 15, 1975.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

Form 10-K

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

For the fiscal year ended February 28, 1975

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

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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(b) Exhibits	

Part II:

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

Item 1—Business, continued

sporting goods stores. Some of these competitors have substantially greater financial resources and more complete product warranties than the Company. The Company's competitors are continually expanding and opening new stores in market areas in which the Company has existing stores as well as in new market areas in which the Company plans to expand. Because of the variety of products sold by the Company and the number and variety of its competitors, it is virtually impossible to determine a competitive position for the Company.

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

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

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

(4) The Company buys its merchandise from several hundred independent suppliers, no one of which supplies a significant portion of the products sold by the Company. It is estimated that no supplier provides more than 7% of the Company's merchandise. The Company sells most of its goods on a cash and carry basis and to a limited extent under installment sales contracts that are sold to finance companies, and attempts to carry sufficient amounts of inventory on stock to meet customer demand and to allow sufficient delivery time for new orders from the factories. The Company maintains a 74,500 square foot central warehouse in Kent, Washington, where it stores certain items only, and does very little other warehousing. The Company engages in volume buying direct from factories as much as possible to obtain the benefits of lower unit prices, as well as in anticipation of potential shortages and inflationary price increases. This helps to assure the Company of a continuous allotment of goods from suppliers and sometimes results in the Company carrying significant amounts of inventory for the above-described purposes.

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

(6) The Company has incurred research expenses relating to the improvement of services to its customers, through the development of product knowledge training films, a Retail Selling Skills program, and the holding of training seminars, all of which are designed to constantly update product knowledge and selling skills. The goal of this program is to have the Company's sales people completely qualified to explain to customers how to install or use all of the products that the Company sells. The amount spent by the Company on such activities during each of the last two fiscal years is estimated at approximately \$106,000 and \$104,000, respectively.

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

(8) The Company currently employs approximately 750 persons.

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

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

Item 1—Business, continued

(2) Information as to classes of similar products or services. The following table sets forth the approximate percentage contribution to net sales during the Registrant's last five fiscal years ended February 28, 1975, for each class of similar products which contributed 10% or more to total sales and revenues in either of the last two fiscal years.

	Net Sales				
	Year ended February 28 or 29				
	1975	1974	1973	1972	1971
Home improvement products	85%	85%	85%	88%	91%

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

Item 2 — Summary of operations

The following consolidated statements of income, retained earnings and capital in excess of par value of Pay 'N Pak Stores, Inc. for the five years ended February 28, 1975, have been examined by Arthur Young & Company, certified public accountants, whose report with respect thereto appears elsewhere in this Form 10-K. The statements should be read in conjunction with the other financial statements appearing elsewhere herein.

CONSOLIDATED STATEMENT OF INCOME

	Year ended February 28 or 29				
	1971	1972	1973	1974	1975
Revenues:					
Net Sales.....	\$21,646,673	\$30,844,478	\$42,332,166	\$51,832,114	\$61,379,628
Franchise fees and royalties (a).....	57,626	13,579	9,440	4,283	
Interest.....	22,615	9,629	1,022	5,949	61,633
Rentals.....	79,482	60,212	54,324	51,540	29,578
	<u>21,806,396</u>	<u>30,927,898</u>	<u>42,396,952</u>	<u>51,893,886</u>	<u>61,470,839</u>
Costs and expenses:					
Cost of sales (b).....	13,896,941	20,048,868	27,475,369	33,588,811	40,190,618
Selling and administrative ..	5,426,422	7,386,837	9,887,724	11,779,911	13,913,074
Rent.....	630,696	806,276	1,268,961	1,594,893	1,797,397
Depreciation.....	275,849	400,794	549,018	793,170	806,028
Interest on long-term debt ..	67,514	51,521	50,906	289,294	461,886
Other interest.....	13,446	65,427	224,580	228,601	16,633
	<u>20,310,868</u>	<u>28,759,723</u>	<u>39,456,558</u>	<u>48,274,680</u>	<u>57,185,636</u>
Income before income taxes ..	1,495,528	2,168,175	2,940,394	3,619,206	4,285,203
Provision (credit) for income taxes (c):					
Current.....	776,895	1,026,583	1,464,545	1,746,689	2,006,123
Deferred.....	(52,887)	(3,204)	1,749	1,749	30,945
	<u>724,008</u>	<u>1,023,379</u>	<u>1,466,294</u>	<u>1,748,438</u>	<u>2,037,068</u>
	771,520	1,144,796	1,474,100	1,870,768	2,248,135
Minority interest.....	8,988	12,484	14,299	13,468	22,090
Income from continuing operations.....	762,532	1,132,312	1,459,801	1,857,300	2,226,045
(Loss) from discontinued operations (d).....	(98,692)				
Net income.....	<u>\$ 663,840</u>	<u>\$ 1,132,312</u>	<u>\$ 1,459,801</u>	<u>\$ 1,857,300</u>	<u>\$ 2,226,045</u>
Average number of shares — after stock dividend (e).....	<u>1,463,816</u>	<u>1,472,250</u>	<u>1,505,434</u>	<u>1,519,275</u>	<u>1,519,275</u>
Net income per common share (e):					
Before stock dividend.....	<u>\$.50</u>	<u>\$.85</u>	<u>\$1.07</u>	<u>\$1.34</u>	<u>\$1.61</u>
After stock dividend.....	<u>\$.45</u>	<u>\$.77</u>	<u>\$.97</u>	<u>\$1.22</u>	<u>\$1.47</u>
Cash dividends paid per common share (f):					
Before stock dividend.....	<u>\$.15</u>	<u>\$.15</u>	<u>\$1.55</u>	<u>\$.25</u>	<u>\$.35</u>
After stock dividend.....	<u>\$1.36</u>	<u>\$1.36</u>	<u>\$1.41</u>	<u>\$1.227</u>	<u>\$1.318</u>

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

Item 2—Summary of operations, continued

Notes to consolidated statement of income

(a) Beginning in 1970 the Company adopted the policy of including sales of franchises in income as the cash therefrom is collected. During 1970, a franchise was sold for \$25,000 of which \$10,000, \$2,467, \$8,840 and \$3,693 was collected in 1971, 1972, 1973 and 1974, respectively. See "Item 1(a)—Business" for information regarding the Company's discontinuance of the franchise program.

(b) 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, 1970 — \$3,650,485; February 28, 1971 — \$5,064,665; February 29, 1972 — \$9,561,249; February 28, 1973 — \$13,925,388; February 28, 1974 — \$15,273,351 and February 28, 1975 — \$15,460,230.

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

	Year ended February 28 or 29,				
	1971	1972	1973	1974	1975
Current federal income tax	\$ 750,831	\$1,033,339	\$1,420,122	\$1,696,728	\$1,956,954
Investment tax credit	(416)	(45,081)	(40,956)	(54,045)	(75,167)
Deferred income tax	(52,887)	(3,204)	1,749	1,749	30,945
State income taxes	26,480	38,325	85,379	104,006	124,336
	<u>\$ 724,008</u>	<u>\$1,023,379</u>	<u>\$1,466,294</u>	<u>\$1,748,438</u>	<u>\$2,037,068</u>

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

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

	Year ended February 28 or 29,				
	1971	1972	1973	1974	1975
Gain on sale and leaseback of properties deferred for financial statement purposes	\$ (38,879)	\$ (4,840)	\$	\$	\$
Accelerated depreciation for tax purposes in excess of the straight-line method for book purposes	(15,467)				58,179
Airplane repair costs deducted for tax purposes in the year paid					(28,983)
Amortization of deferred gain on sale and leaseback of properties	1,459	1,636	1,749	1,749	1,749
	<u>\$ (52,887)</u>	<u>\$ (3,204)</u>	<u>\$ 1,749</u>	<u>\$ 1,749</u>	<u>\$ 30,945</u>

All unamortized research and development costs were written off for financial statement purposes in 1971 (See Note (d)). The gain on the sale of buildings sold and leased back and the applicable deferred federal income tax are being amortized to income over the twenty-five year life of the leases.

Item 2 — Summary of operations, continued

Notes to consolidated statement of income

- (d) Included in the loss on discontinued operations are the net sales applicable to the 601 Modular Housing Division (which began operations in fiscal 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.
- (e) Common share amounts represent the weighted average of such shares outstanding during each period. Net income per common share in 1971 includes a loss of \$.07 per share from discontinued operations. Net income per common share — after stock dividend gives retroactive effect to the 10% stock dividend declared March 13, 1975. The dilutive effect of stock options was not material in any year.
- (f) Cash dividends paid per common share — after stock dividend are stated at amounts after giving retroactive effect to the 10% stock dividend declared March 13, 1975. See Note 2 of Notes to Consolidated Financial Statements for restrictions on the payment of cash dividends.

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

Net sales in 1975 and 1974 increased over the 1974 and 1973 levels by approximately \$9,500,000 each year or 18.4% and 22.4% respectively. These increases were attributable to the following:

	Increase in 1975 over 1974		Increase in 1974 over 1973	
	Amount	%	Amount	%
	(In thousands, except %)			
Net sales of stores opened during the year.....	\$2,922	31	\$2,718	28
Increase in net sales over the preceding year of stores in their first full year of operation.....	2,329	24	1,973	21
Increase in net sales of stores opened for over 2 years.....	4,297	45	4,809	51
	<u>\$9,548</u>	<u>100</u>	<u>\$9,500</u>	<u>100</u>

Interest revenue increased in 1975 as a result of investment of excess funds in short-term securities.

Cost of sales and selling and administrative expense increased due primarily to the increased number of stores and increased sales volume.

Rent expense increased due principally to new store additions.

Depreciation expense increased in 1974 over 1973 due primarily to new store expansion and the modernization of existing stores.

Interest on long-term debt increased in 1974 and 1975 due primarily to the \$5,000,000 borrowed from Prudential Insurance Company of America in August, 1973. Other interest declined in 1975 as a result of the above new long-term financing and because of a reduction of inventory levels resulting in reduced short-term borrowing requirements.

Item 2 — Summary of operations, continued

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended February 28 or 29,				
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Balance at beginning of year	\$2,617,740	\$3,081,944	\$4,011,245	\$5,258,486	\$6,770,496
Add (deduct):					
Net income	663,840	1,132,312	1,459,801	1,857,300	2,223,045
Cash dividends paid	(199,636)	(203,011)	(212,560)	(345,290)	(483,406)
Balance at February 28 or 29 (a)	<u>\$3,081,944</u>	<u>\$4,011,245</u>	<u>\$5,258,486</u>	<u>\$6,770,496</u>	<u>\$8,513,135</u>

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

CONSOLIDATED STATEMENT OF CAPITAL IN EXCESS OF PAR VALUE

	Year ended February 28 or 29,				
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Balance at beginning of year	\$3,371,773	\$3,372,673	\$3,639,748	\$3,788,717	\$3,788,717
Add (deduct):					
Excess of proceeds over par value of shares issued upon exercise of stock options	1,460	267,075	147,112		
Expenses applicable to prior year registration of shares	(560)		(5,643)		
Purchase of minority interest in subsidiary			7,500		
Balance at February 28 or 29	<u>\$3,372,673</u>	<u>\$3,639,748</u>	<u>\$3,788,717</u>	<u>\$3,788,717</u>	<u>\$3,788,717</u>

Item 3 — Properties

The following table sets forth information relating to operating properties occupied by or under lease to the Company on April 15, 1975.

<u>Location</u>	<u>Square Footage (1)</u>	<u>Lease Termination Date (2)</u>	<u>Annual Rental (3)</u>
1209 South Central Kent, Washington (4)	62,000	July 1995	\$99,000
8626 South 212th Kent, Washington (5)	54,000 20,500	July 1983 Nov. 1979	\$35,640 \$20,916
5240 SE 82nd Portland, Oregon	50,000	Oct. 1996	\$84,075 (6)
1770 W. Northern Lights Boulevard Anchorage, Alaska	45,500	Dec. 1996	\$84,000
13501 Aurora Avenue N. Seattle, Washington	40,000	March 1995	\$94,050 (6)
15301 NE 24th Bellevue, Washington	34,560	June 1998	\$66,355 (6)
12606 E. Sprague Avenue Spokane, Washington	35,944	Jan. 2000	\$69,120 (6)
1729 South First St. Yakima, Washington	33,950	Dec. 1997	\$45,900 (6)
3121 South 38th Tacoma, Washington	32,800	March 1997	\$76,200 (6)
416 East Main Street Walla Walla, Washington	32,100	March 1988	\$21,600
10000 East Colfax Aurora, Colorado	26,000	Nov. 1979	\$36,000
3750 South State Street Salt Lake City, Utah	25,926	March 1984	\$45,937
2809 North Avenue, Grand Junction, Colorado	25,950	Nov. 1982	\$37,485 (6)
7365 SW Barbur Blvd. Portland, Oregon	25,000	May 1983	\$24,000 (6)
301 West Boone Spokane, Washington	24,000	Jan. 1977	\$42,000
1119 N. Circle Drive Colorado Springs, Colo.	23,556	Oct. 1989	\$46,500 (6)

Item 3 — Properties, continued

<u>Location</u>	<u>Square Footage (1)</u>	<u>Lease Termination Date (2)</u>	<u>Annual Rental (3)</u>
1401 Decatur Blvd. Las Vegas, Nevada	22,750	May 1984	\$32,400 (6)
3100 N. & S. Highway Lewiston, Idaho	22,384	Sept. 1987	\$24,000
7150 Pecos Denver, Colorado	22,000	Aug. 1989	\$26,400 (6)
2951 Airport Way Fairbanks, Alaska	24,000	N/A (7)	N/A (7)
1333 Riverside Drive Mt. Vernon, Washington	20,000	Oct. 1983	\$16,800
2360 Mendocino Ave. Santa Rosa, California	19,620	Aug. 1997	\$25,650
1525 South Broadway Wichita, Kansas	19,400	Sept. 1981	\$24,700
18625 SE McLoughlin Blvd. Milwaukie, Oregon	19,361	April 1992	\$24,375
Harding Plaza Shopping Center Roseville, California	19,200	1995 (8)	\$38,400
10847 E. Marginal Way Seattle, Washington	19,000	Aug. 1981	\$15,000
66 Admiral Callaghan Lane Vallejo, California	19,000	March 1988	\$25,080
3206 South Harvard Tulsa, Oklahoma	18,705	March 1988	\$32,608
4701 South Shields Oklahoma City, Oklahoma	18,342	Sept. 1992	\$34,839
2945 Liberty Road South Salem, Oregon	18,000	Nov. 1982	\$21,080 (6)
511 W. 29th Street Pueblo, Colorado	17,396	Aug. 1981	\$19,300
4641 Florin Road Sacramento, California	17,300	Feb. 1990	\$25,400 (6)
21st and Harrison Sts. Ogden, Utah	16,704	Nov. 1991	\$32,997 (6)
2344 N. MacArthur Blvd. Oklahoma City, Oklahoma	16,379	Sept. 1992	\$35,400

Item 3 – Properties, continued

<u>Location</u>	<u>Square Footage (1)</u>	<u>Lease Termination Date (2)</u>	<u>Annual Rental (3)</u>
2311 James Street Bellingham, Washington	16,280	July, 1977	\$13,376
1642 Navy Yard Hwy. Bremerton, Washington	16,200	Sept. 1988	\$24,488
901 Howe Avenue Sacramento, California	15,300	May, 1978	\$18,000
6308 Evergreen Way Everett, Washington	15,130	April 1993	\$24,000
18815 Aurora Avenue N. Seattle, Washington	15,000	May 1977	\$15,600 (6)
801 West Fifth Reno, Nevada	14,300	Sept. 1978	\$33,000
717 Colusa Highway Yuba City, California	14,154	May 1989	\$26,760
1447 North Lewis Tulsa, Oklahoma	13,892	Nov. 1981	\$17,400 (6)
10210 16th Ave. SW Seattle (White Center) Washington	14,019	May 1984	\$23,400 (6)
2135 Grand Avenue Billings, Montana	13,500	Aug. 1980	\$21,120
116 N. Morain Street Kennewick, Washington	12,800	Dec. 1978	\$14,400 (6)
223 West Boone Spokane, Washington	12,500	Jan. 1977	\$27,000
211 North Elder Moses Lake, Washington	12,500	March 1977	\$15,600
16421 Redmond Way Redmond, Washington	12,500	May 1976	\$10,800
505 South Plum Olympia, Washington	12,460	Dec. 1997	\$42,750 (6)
1002 Vandercook Way Longview, Washington	12,000	Dec. 1975	\$12,900
1333 7th West Eugene, Oregon	10,200	Sept. 1983	\$18,180

Item 3 — Properties, continued

<u>Location</u>	<u>Square Footage (1)</u>	<u>Lease Termination Date (2)</u>	<u>Annual Rental (3)</u>
1615 Placer Street Redding, California	7,600	June 1975	\$10,200
2210 E. Pacific Albany, Oregon	7,500	March 1979	\$10,200
708 S. Wenatchee Ave. Wenatchee, Washington	6,400	Jan. 1981	\$ 6,600

- (1) Approximate total store selling and storage space.
- (2) Some of the leases contain options to renew.
- (3) Does not include certain future escalation adjustments, or property taxes, insurance and maintenance costs or increases in such costs which under certain leases are payable by the Company.
- (4) Contains administrative head office of the Company and a shopping mall.
- (5) Warehouse space only. There are two separate leases covering adjacent space in the same building, one terminating in July, 1983, and the other in November, 1979.
- (6) Minimum rental. The following leases provide for rent based on a percentage of gross sales as follows:

13501 Aurora Avenue N., Seattle, Washington — 2%;

18815 Aurora Avenue N., Seattle, Washington — 1¾%;

116 N. Morain St., Kennewick, Washington — 2%.

The following leases provide for additional rent to the extent gross sales exceed the amount indicated:

5240 SE 82nd, Portland, Oregon — 2% (\$4,000,000);

7365 SW Barbur Blvd., Portland, Oregon — 2% (\$1,200,000);

4641 Florin Road, Sacramento, California — 2% (\$879,888);

2945 Liberty Road S., Salem, Oregon — 2% (\$702,667);

1729 S. First Street, Yakima, Washington — 2% (\$4,000,000);

3121 South 38th, Tacoma, Washington — 2¼% (\$3,338,000);

505 South Plum, Olympia, Washington — 2% (\$1,500,000);

1447 North Lewis, Tulsa, Oklahoma — 2% (\$4,000,000);

15301 NE 24th, Bellevue, Washington — 2% (\$4,000,000);

12606 E. Sprague Avenue, Spokane, Washington — 2% (\$4,000,000);

10210 16th Ave. SW, Seattle (White Center), Washington — 2% (\$1,500,000);

717 Colusa Highway, Yuba City, California — 2% (\$1,338,000);

1119 N. Circle Drive, Colorado Springs, Colorado — 2% (\$1,500,000);

7150 Pecos, Denver, Colorado — 2% (\$1,500,000);

2908 North Ave., Grand Junction, Colorado — 2% (\$1,750,000); and

21st and Harrison St., Ogden, Utah — 2% (\$1,500,000).

The lease at 1401 Decatur Boulevard, Las Vegas, Nevada, provides for additional rent to the extent that 1¼% of gross sales exceeds the total of \$32,400 minimum rental and common facilities maintenance payments by the Company.

Item 3 — Properties, continued

- (7) Owned by the Company and subject to a deed of trust having an unpaid principal balance of \$109,978 on April 15, 1975.
- (8) Term of the lease commences upon completion by Lessor of construction of store building. The Company may cancel the lease if construction is not completed within a designated time.

In addition to the properties and buildings used and to be used in the Company's daily business operations on April 15, 1975, the Company owns approximately six acres in Tacoma, Washington, eighteen acres in Spokane, Washington, five acres adjacent to its store located at 10847 E. Marginal Way, Seattle, Washington, four acres adjacent to its Kent Mall, six lots adjacent to its Denver, Colorado store, one acre in Longview, Washington, and an acre and a half in Pocatello, Idaho. The properties described in this paragraph were acquired at a cost of \$1,200,442 and were subject to mortgages, deeds of trust and real estate contracts in the aggregate unpaid principal amount of \$407,299 as of April 15, 1975. These properties are either being developed for new stores or held for investment and possible future expansion.

The Company completed construction of a new store in Fairbanks, Alaska, in January of 1975 and is constructing new store buildings on the above described parcels at Longview, Washington, and Pocatello, Idaho, to be opened later this year. The Company also plans to eventually construct a new administrative head office building on the above described property adjacent to its Kent Mall, but has no definite schedule or timetable at this time insofar as the commencement of construction is concerned. The Company expects to finance construction of these facilities out of its normal working capital, and upon completion of construction will attempt to obtain mortgage financing on these properties. The Company plans to eventually sell and lease back these properties but intends to wait until such time as interest rates become lower so as to make such transactions more favorable to the Company.

All of the Company's buildings are of concrete or concrete block construction except for two stores, which are of frame construction. The Company has replaced and modernized most of its older, smaller stores during the past few years with larger new stores. The Company's replacement program is largely completed and only two of the new stores planned for 1975 are replacement stores. The buildings contain all of the trade fixtures and improvements which the Company believes are necessary in its business. Adequate off-street parking is provided adjacent to all stores.

Item 4 — Parents and Subsidiaries

There are no parents of the Company. Following is a list setting forth the Company and its subsidiaries as of April 15, 1975:

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

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 Registrant. All of the above listed subsidiaries are included in consolidated financial statements of the Company.

During the Company's fiscal year ended February 28, 1975, the Company purchased the 25% minority interest in its 75% owned subsidiary, Pay 'N Pak Bremerton, Inc., a Washington corporation, and merged this subsidiary into the Registrant, effective February 28, 1975.

Item 5 – Legal Proceedings

None.

Item 6 – Increases and Decreases in Outstanding Securities

None during the fiscal year ended February 28, 1975. The Company's common stock was increased from 1,381,159 shares to 1,519,275 shares, an increase of 138,116 shares on May 7, 1975 the date of distribution of a 10% stock dividend declared on March 13, 1975.

Item 7 – Approximate Number of Equity Security Holders

As of April 15, 1975 there were 1219 holders of record of the Company's common stock.

Item 8 – Executive Officers of the Registrant

(a)

<u>Name</u>	<u>Age</u>	<u>Positions and Offices</u>
David J. Heerensperger	38	Chairman of the Board and Chief Executive Officer; Director
John M. Headley	41	President and Chief Operating Officer; Director
Halvor Knudtson, Jr.	48	Secretary-Treasurer and Controller; Director
Harold F. Bacon	58	Vice President—Merchandising; Assistant to the Chairman of the Board
Monte A. Leen	32	Vice President—Operations; Assistant to the President

There are no family relationships among the above officers. Each of the above officers are elected annually by the Board of Directors of the Registrant following the annual meeting of shareholders held on the third Tuesday in June of each year. Mr. Heerensperger and Mr. Headley have served as Chairman of the Board and President, respectively, since February, 1970. Mr. Knudtson has served as secretary-Treasurer since August, 1970. Mr. Bacon has served as Vice President since June, 1971, and Mr. Leen has served as Vice President since September, 1974. There are no arrangements or understandings between any of the above officers and any other person pursuant to which he was selected as an officer.

(b) During the past five years David J. Heerensperger has served the Registrant as Chairman of the Board. John M. Headley, during the same period of time, has served the Registrant as President. Halvor Kundtson, Jr. has served the Registrant as Controller during the same period of time and as Secretary-Treasurer since August, 1970. Harold F. Bacon has served the Registrant as Vice President—Merchandising and Assistant to the Chairman of the Board since September, 1974, and was first elected a Vice President in June, 1971, having also served during the past five years as Advertising and Public Relations Director for the Registrant. Monte A. Leen, prior to his election as Vice President—Operations and Assistant to the President in September, 1974, served the Registrant during the remainder of the past five years as a District Manager.

Item 9 – Indemnification of Directors and Officers

The general effect of Section VIII of the Registrant's By-Laws 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

Item 9 — Indemnification of Directors and Officers, continued

director in connection with a civil or criminal proceeding, provided the officer or director has acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his conduct was unlawful. The statute also authorizes a corporation to purchase and maintain officers' and directors' liability insurance against any liability asserted against such persons by reason of their position with the Company.

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

Item 10—Financial Statements and Exhibits Filed

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

(b) Exhibits.

(1) Computation of weighted average shares of common and common equivalent shares used in calculating primary earnings per share and computation of fully-diluted earnings per common and common equivalent share for the five years ended February 28, 1975.

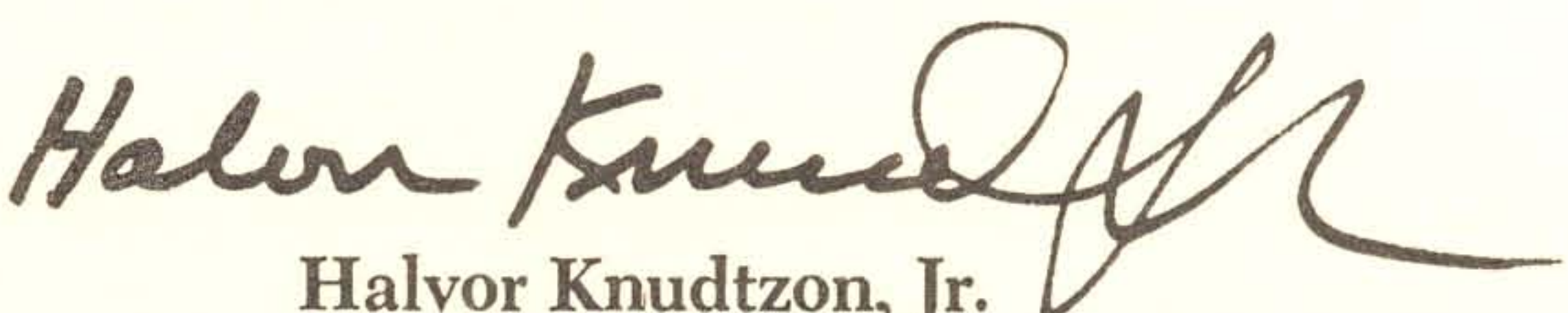
PART II

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

SIGNATURE

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

PAY 'N PAK STORES, INC. (Registrant)

By 
Halvor Knudtzon, Jr.
Treasurer

Dated: May 19, 1975

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

Consolidated balance sheet — February 28, 1975 and 1974

Consolidated statements of income, retained earnings and capital in excess of par value
for the five years ended February 28, 1975 (Included in Item 2)

Consolidated statement of changes in financial position for the five years ended
February 28, 1975.

Notes to consolidated financial statements

Schedules for the years ended February 28, 1975 and 1974:

V — Property, plant and equipment

VI — Accumulated depreciation of
property, plant and equipment

VII — Intangible assets

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.

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 examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements listed in the accompanying index to financial statements present fairly the consolidated financial position of Pay 'N Pak Stores, Inc. at February 28, 1975 and 1974, the consolidated results of its operations and the consolidated changes in financial position for the five years ended February 28, 1975, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Seattle, Washington
March 25, 1975

ARTHUR YOUNG & COMPANY

PAY 'N PAK STORES, INC.
CONSOLIDATED BALANCE SHEET
February 28, 1975 and 1974

<u>ASSETS</u>		
	<u>1975</u>	<u>1974</u>
Current assets:		
Cash.....	\$ 133,895	\$ 571,380
Trade note and accounts receivable, less allowance of \$58,943 (\$36,943 in 1974) for doubtful accounts (Schedule XII).....	418,443	277,455
Merchandise inventories, at the lower of cost (first-in, first-out) or market.....	15,460,230	15,273,351
Prepaid expenses.....	579,713	454,347
Total current assets.....	16,592,281	16,576,533
Other assets:		
Note receivable.....	245,201	
Deferred federal and state income taxes (Note 1(f)).....	6,374	37,319
Pre-opening costs and other (Note 1(d)).....	175,377	126,790
Non-competition agreements (Note 1(e)).....	14,410	72,763
Total other assets.....	441,362	236,872
Property, plant and equipment, at cost (Notes 1(b) and 2) (Schedule V):		
Land.....	366,700	195,700
Buildings.....	995,012	233,634
Leasehold improvements.....	3,015,832	2,710,187
Store equipment.....	4,188,763	3,055,102
Transportation equipment.....	222,323	171,953
Construction in progress.....	756,432	1,696
	9,545,062	6,368,272
Less accumulated depreciation and amortization (Schedule VI).....	2,127,849	1,627,805
	7,417,213	4,740,467
Properties held for development and/or investment.....	1,230,442	1,384,442
Net property, plant and equipment.....	8,647,655	6,124,909
Cost of investment in subsidiaries and acquired stores in excess of amounts assigned to net assets at dates of acquisition, less amortization (Note 1(c)) (Schedule VII).....	322,058	339,758
	<u>\$26,003,356</u>	<u>\$23,278,072</u>

See accompanying notes.

PAY 'N PAK STORES, INC.
CONSOLIDATED BALANCE SHEET

February 28, 1975 and 1974

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>1975</u>	<u>1974</u>
Current liabilities:		
Notes payable to bank (Note 2).....	\$ 550,000	\$ 665,000
Accounts payable.....	5,846,361	4,580,584
Federal and state income taxes.....	484,708	454,578
Accrued liabilities:		
Payroll and profit sharing.....	467,017	386,175
Taxes, other than income.....	551,276	446,462
Interest and other.....	99,521	89,304
	<u>1,117,814</u>	<u>921,941</u>
Long-term debt due within one year.....	417,026	393,817
Total current liabilities.....	<u>8,415,909</u>	<u>7,015,920</u>
Long-term debt (Note 2).....	5,008,324	5,372,583
Deferred income (Note 1(b)).....	139,155	146,019
Minority interest in subsidiary (Note 1(a)).....		46,221
Commitments (Note 4)		
Stockholders' equity (Notes 2 and 3):		
Preferred stock, without par value, 1,000,000 shares authorized, none issued		
Common stock, \$.10 par value 2,000,000 shares authorized, 1,381,159 shares issued.....	138,116	138,116
Capital in excess of par value.....	3,788,717	3,788,717
Retained earnings.....	8,513,135	6,770,496
Total stockholders' equity.....	<u>12,439,968</u>	<u>10,697,329</u>
	<u>\$26,003,356</u>	<u>\$23,278,072</u>

See accompanying notes.

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

	Year ended February 28 or 29				
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Source of funds:					
Net income.....	\$ 663,840	\$1,132,312	\$1,459,801	\$1,857,300	\$ 2,226,045
Charges (credits) against income not involving working capital:					
Depreciation and amortization.....	400,604	611,619	865,571	1,065,709	1,211,434
Deferred federal income tax.....	(109,305)	(3,204)	1,749	1,749	30,945
Minority interest.....	8,988	12,484	14,299	13,468	22,090
Net asset amount of land and equipment sold or retired.....	24,394	48,979	44,495	51,956	60,877
Write-off of unamortized research and development costs.....	95,638				
Working capital provided from operations.....	1,084,159	1,802,190	2,385,915	2,990,182	3,551,391
Increase in long-term debt.....	387,331	115,375	22,000	5,166,000	54,000
Exercise of stock options to purchase common stock.....	1,500	269,325	149,887		
Proceeds from sale; or sale and leaseback of properties.....	977,331	2,311,588	430,971	356,780	145,661
	<u>2,450,321</u>	<u>4,498,478</u>	<u>2,988,773</u>	<u>8,512,962</u>	<u>3,751,052</u>
Application of funds:					
Additions to property, plant and equipment.....	1,504,769	3,214,930	1,483,195	2,157,172	3,535,312
Cash dividends paid.....	199,636	203,011	212,560	345,290	483,406
Reduction of long-term debt.....	244,933	339,942	69,882	395,392	418,259
Cost of investment in subsidiary and acquired stores in excess of amounts assigned to net assets.....	110,949	22,450	92,604		
Non-competition agreement.....	326,250	(47,170)	22,000		
Pre-opening costs and other.....	94,323	291,400	260,781	173,490	389,804
Increase (decrease) in notes receivable.....	(88,676)				245,201
Purchase of minority interest in subsidiary.....			(7,500)		63,311
	<u>2,392,184</u>	<u>4,024,563</u>	<u>2,133,522</u>	<u>3,071,344</u>	<u>5,135,293</u>
Increase (decrease) in working capital.....	<u>\$ 58,137</u>	<u>\$ 473,915</u>	<u>\$ 855,251</u>	<u>\$5,441,618</u>	<u>\$ (1,384,241)</u>
For the increase (decrease) in the elements of working capital, see below:					
Cash and treasury bills.....	\$ (359,886)	\$ (213,032)	\$ 161,374	\$ (24,441)	\$ (437,485)
Receivables.....	(130,413)	534,476	(331,822)	(172,537)	140,988
Merchandise inventories.....	1,414,180	4,496,584	4,364,139	1,347,963	186,879
Prepaid expenses.....	96,269	136,896	95,198	(52,273)	125,366
Property held for sale/store under construction.....	(694,918)				
Notes payable.....	(247,193)	(3,425,000)	(1,600,000)	4,985,000	115,000
Accounts payable.....	(235,033)	(1,066,763)	(1,679,890)	(86,029)	(1,265,777)
Federal and state income taxes.....	(67,028)	3,543	(3,951)	(46,723)	(30,130)
Accrued liabilities.....	(228,737)	(128,069)	(142,642)	(185,390)	(195,873)
Mortgage notes payable on property held for sale.....	569,929				
Long-term debt due within one year.....	(59,033)	135,280	(7,155)	(323,952)	(23,209)
Increase (decrease) in working capital.....	<u>\$ 58,137</u>	<u>\$ 473,915</u>	<u>\$ 855,251</u>	<u>\$5,441,618</u>	<u>\$ (1,384,241)</u>

See accompanying notes.

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 28, 1975 and 1974

1. Basis of presentation and significant accounting policies

(a) **Consolidation** — The financial statements consolidate the accounts of the parent company and its subsidiaries. At December 31, 1974, the Company purchased the minority interest in a subsidiary for its net book amount and merged the subsidiary into the parent company at February 28, 1975.

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

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

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

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

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

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

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

(g) **Per share information** — Common share amounts were determined on the weighted average number of such shares outstanding after giving retroactive effect to the 10% stock dividend declared March 13, 1975. The dilutive effect of stock options was not material.

2. Short-term and long-term debt

Short-term loans from a bank under a \$4,000,000 informal line-of-credit, expiring June 30, 1975, totaled \$550,000 at February 28, 1975, represented by an unsecured 90-day 9% note. 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 28, 1975 was \$550,000 (\$6,700,000 in 1974), the approximate average daily amount of such borrowings was \$54,000 (\$2,800,000 in 1974), and the weighted daily average interest rate was 11.6% (7.8% in 1974).

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
February 28, 1975 and 1974

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

Long-term debt outstanding at February 28, 1975 and 1974 is shown in the following summary.

	<u>1975</u>	<u>1974</u>
8½% note payable to insurance company, due \$300,000 annually to 1983 and \$400,000 annually to 1988, plus interest	\$4,700,000	\$5,000,000
6¼% note payable to insurance company, due \$25,000 annually plus interest on September 1, and \$50,000 in 1976	75,000	100,000
6½% — 8% real estate contracts, due annually including interest, \$111,000 to 1979, \$55,000 to 1982, and reduced amounts to 1989	549,817	551,752
6½% mortgage note payable, due \$15,738 annually including interest to 1982	87,333	97,048
Non-competition agreement, due \$4,400 annually to 1978	13,200	17,600
	<u>5,425,350</u>	<u>5,766,400</u>
Less long-term debt due within one year	417,026	393,817
	<u>\$5,008,324</u>	<u>\$5,372,583</u>

Property at a cost of \$1,079,195 is pledged as collateral for the real estate contracts and mortgage note payable.

The loan agreements covering the notes payable to the insurance company provide, 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 28, 1975, retained earnings of \$1,715,000 was not restricted. Other provisions require that working capital of \$7,500,000 must be maintained and that current unsecured debt may not exceed \$4,000,000.

Payments on the principal of long-term debt for the four years ending February 29, 1980 are required as follows: 1977 — \$444,000; 1978 — \$399,000; 1979 — \$376,000; 1980 — \$350,000.

3. Stock options

A five-year non-transferable option to purchase 3,750 shares of common stock which became exercisable in 1974 at \$13.44 per share (aggregate \$50,400) was outstanding at February 28, 1974 and expired September 25, 1974. The market value at the date the option became exercisable was \$15.25 per share (aggregate \$57,188).

There were no options exercised during the two years ended February 28, 1975 nor were there any options outstanding at February 28, 1975.

Upon exercise of options, the excess of the proceeds over the par value of the shares issued is credited to capital in excess of par value. No charges are made against income in accounting for options.

4. Commitments

The Company leases substantially all retail store facilities. Rent expense during the years ended February 28, 1975 and 1974 was as follows:

	<u>1975</u>	<u>1974</u>
Operating leases	\$ 725,793	\$ 733,840
Non-capitalized financing leases	1,071,604	861,053
	<u>\$1,797,397</u>	<u>\$1,594,893</u>

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, continued
February 28, 1975 and 1974

4. Commitments, continued

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

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

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

<u>Year</u>	<u>Total commitment</u> (000's omitted)	<u>Applicable to non-capitalized financing leases</u>
1976	\$1,664	\$1,088
1977	\$1,664	\$1,088
1978	\$1,573	\$1,088
1979	\$1,517	\$1,090
1980	\$1,438	\$1,090
1981-1985	\$6,286	\$5,398
1986-1990	\$5,206	\$4,895
1991-1995	\$4,008	\$3,816
1996-2000	\$1,303	\$1,065

In addition, the Company leases an airplane at approximately \$115,000 per year to 1980; such rentals are subject to fluctuations in the annual prime interest rate.

Present values of minimum lease commitments for non-capitalized financing leases aggregate \$9,077,000 and \$7,822,000 at February 28, 1975 and 1974, respectively.

If all non-capitalized financing leases were capitalized, related assets were amortized on a straight-line basis over estimated useful lives of 15-25 years and interest cost was accrued on the basis of the outstanding lease liability, the impact on net income for the years ended February 28, 1975 and 1974 would be as follows:

Pro-forma adjustments:	<u>1975</u>	<u>1974</u>
Reduction of rental expense	\$ (882,000)	\$ (720,000)
Increase in amortization expense	391,000	306,000
Increase in interest expense	720,000	614,000
Income tax effects	(110,000)	(96,000)
Pro-forma decrease in net income	<u>\$ 119,000</u>	<u>\$ 104,000</u>

The interest rates used in discounting net lease commitments vary from 7% to 12%, which are similar to the rates implicit in the terms of sale and leaseback agreements negotiated by the Company. The weighted average interest rate was 9.1% and 8.8% at February 28, 1975 and 1974, respectively.

PAY 'N PAK STORES, INC.
SCHEDULE V – PROPERTY, PLANT AND EQUIPMENT
Years ended February 28, 1975 and 1974

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions at cost</u>	<u>Retirements or sales</u>	<u>Balance at close of period</u>
1974:				
Land.....	\$ 158,500	\$ 37,200	\$	\$ 195,700
Buildings.....	195,277	38,357		233,634
Leasehold improvements.....	1,595,177	1,223,855	108,845	2,710,187
Store equipment.....	2,566,159	745,466	256,523	3,055,102
Transportation equipment.....	329,498	135,623	293,168	171,953
Construction in progress.....	314,051	(312,355)		1,696
	<u>5,158,662</u>	<u>1,868,146</u>	<u>658,536</u>	<u>6,368,272</u>
Properties held for development and/or investment.....	1,289,074	289,026	193,658	1,384,442
	<u>\$ 6,447,736</u>	<u>\$ 2,157,172</u>	<u>\$ 852,194</u>	<u>\$ 7,752,714</u>
1975:				
Land.....	\$ 195,700	\$ 171,000	\$	\$ 366,700
Buildings.....	233,634	761,378		995,012
Leasehold improvements.....	2,710,187	564,175	258,530	3,015,832
Store equipment.....	3,055,102	1,328,353	194,692	4,188,763
Transportation equipment.....	171,953	51,670	1,300	222,323
Construction in progress.....	1,696	754,736		756,432
	<u>6,368,272</u>	<u>3,631,312</u>	<u>454,522</u>	<u>9,545,062</u>
Properties held for development and/or investment.....	1,384,442	(96,000)	58,000	1,230,442
	<u>\$ 7,752,714</u>	<u>\$ 3,535,312</u>	<u>\$ 512,522</u>	<u>\$10,775,504</u>

**SCHEDULE VI – ACCUMULATED DEPRECIATION OF
PROPERTY, PLANT AND EQUIPMENT**
Years ended February 28, 1975 and 1974

<u>Description</u>	<u>Balance at beginning of period</u>	<u>Additions charged to income</u>	<u>Retirements or sales</u>	<u>Balance at close of period</u>
1974:				
Buildings.....	\$ 12,555	\$ 5,630	\$	\$ 18,185
Leasehold improvements.....	373,573	260,180	52,563	581,190
Store equipment.....	718,552	399,897	117,065	1,001,384
Transportation equipment.....	154,604	124,463	252,021	27,046
	<u>1,259,284</u>	<u>790,170</u>	<u>421,649</u>	<u>1,627,805</u>
Properties held for development and/or investment.....	8,971	3,000	11,971	
	<u>\$1,268,255</u>	<u>\$ 793,170</u>	<u>\$ 433,620</u>	<u>\$1,627,805</u>
1975:				
Buildings.....	\$ 18,185	\$ 8,352	\$	\$ 26,537
Leasehold improvements.....	581,190	294,714	166,177	709,727
Store equipment.....	1,001,384	469,094	138,707	1,331,771
Transportation equipment.....	27,046	33,868	1,100	59,814
	<u>\$1,627,805</u>	<u>\$ 806,028</u>	<u>\$ 305,984</u>	<u>\$2,127,849</u>

PAY 'N PAK STORES, INC.
SCHEDULE VII – INTANGIBLE ASSETS
Years ended February 28, 1975 and 1974

	<u>Balance at beginning of period</u>	<u>Amortization charged to income</u>	<u>Balance at close of period</u>
Cost of investment in subsidiaries and acquired stores in excess of amounts assigned to net assets at dates of acquisitions:			
1974.....	\$357,459	\$ 17,701	\$339,758
1975.....	\$339,758	\$ 17,700	\$322,058

SCHEDULE XII – RESERVES
Years ended February 28, 1975 and 1974

	<u>Balance at beginning of period</u>	<u>Additions charged to income</u>	<u>Deductions accounts written-off</u>	<u>Balance at close of period</u>
Allowance for doubtful accounts deducted from the asset to which it applies:				
1974.....	\$ 11,306	\$ 97,752	\$ 72,115	\$ 36,943
1975.....	\$ 36,943	\$ 77,288	\$ 55,288	\$ 58,943

SCHEDULE XVI – SUPPLEMENTARY INCOME STATEMENT INFORMATION

	<u>Charged to costs and expenses for years ended February 28</u>	
	<u>1974</u>	<u>1975</u>
Taxes other than taxes on income.....	\$ 835,153	\$1,067,831
Depreciation (Schedule VI).....	\$ 793,170	\$ 806,028
Rent – charged to:		
Rent.....	\$1,594,893	\$1,797,397
Selling and Administrative.....	213,466	245,421
	\$1,808,359	\$2,042,818
Advertising.....	\$2,017,350	\$2,356,569

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

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

Depreciation – Schedule VI.....	\$ 793,170	\$ 806,028
Amortization – Schedule VII.....	17,701	17,700
Amortization of deferred gain on sale and leaseback of properties – credited to rent expense.....	(6,864)	(6,864)
Amortization of non-competition agreements.....	63,362	58,353
Amortization of preopening costs.....	198,340	336,217
	\$1,065,709	\$1,211,434

PAY 'N PAK STORES, INC.

SCHEDULE OF COMPUTATION OF WEIGHTED AVERAGE SHARES
OF COMMON AND COMMON EQUIVALENT SHARES
USED IN CALCULATING PRIMARY EARNINGS PER SHARE

<u>Date</u>	<u>Year ended February 28 or 29</u>				
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Shares of common stock outstanding:					
Balance beginning of year (1).....	1,463,560	1,464,000	1,488,750	1,519,275	1,519,275
Options exercised:					
8-11-70 @ \$ 3.41 per share.....	440				
11-1-71 @ \$10.88 per share.....		24,750			
6-15-72 @ \$ 3.98 per share.....			8,800		
6-22-72 @ \$10.88 per share.....			4,125		
8-30-72 @ \$ 3.98 per share.....			8,800		
11-10-72 @ \$ 3.98 per share.....			8,800		
Balance end of year.....	<u>1,464,000</u>	<u>1,488,750</u>	<u>1,519,275</u>	<u>1,519,275</u>	<u>1,519,275</u>
Number of shares used to compute primary net income per share:					
Weighted average number of common shares outstanding	1,463,816	1,472,250	1,505,434	1,519,275	1,519,275
Common stock equivalent shares (2)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total.....	<u>1,463,816</u>	<u>1,472,250</u>	<u>1,505,434</u>	<u>1,519,275</u>	<u>1,519,275</u>

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

	Year ended February 28 or 29				
	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
Income from continuing operations.....	\$ 762,532	\$1,132,312	\$1,459,801	\$1,857,300	\$2,226,045
Loss from discontinued operations.....	(98,692)				
Net income.....	<u>\$ 663,840</u>	<u>\$1,132,312</u>	<u>\$1,459,801</u>	<u>\$1,857,300</u>	<u>\$2,226,045</u>
Common and common equivalent shares:					
Average shares outstanding during the year (1).....	1,463,816	1,472,250	1,505,434	1,519,275	1,519,275
Potentially dilutive shares which affect fully diluted earnings per share — issuable for stock options.....	<u>13,914</u>	<u>27,071</u>	<u>14,240</u>	<u>103</u>	<u>----</u>
Maximum potential shares included in computation of fully-diluted earnings per share.....	<u>1,477,730</u>	<u>1,499,321</u>	<u>1,519,674</u>	<u>1,519,378</u>	<u>1,519,275</u>
Fully-diluted earnings per share (1):					
Income from continuing operations.....	\$.52	\$.76	\$.96	\$1.22	\$1.47
Loss from discontinued operations.....	(.07)				
Net income.....	<u>\$.45</u>	<u>\$.76</u>	<u>\$.96</u>	<u>\$1.22</u>	<u>\$1.47</u>

The Consolidated Statement of Income does not include fully-diluted earnings per share data since as explained in Note (e), "the dilutive effect of stock options was not material in any year".

(1) After giving retroactive effect to 10% stock dividend declared March 13, 1975.

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

MARKET AND DIVIDEND INFORMATION

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

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

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

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

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

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
FISCAL 1975	High 9¾ – 10¼ Low 8¼ – 8¾	High 7¼ – 7¾ Low 6¾ – 6¾	High 7½ – 8 Low 5¾ – 6¾	High 12¼ – 12¾ Low 6¾ – 7¾
FISCAL 1974	High 14½ – 14¾ Low 10¾ – 11¼	High 14½ – 14¾ Low 10½ – 11½	High 15½ – 16½ Low 9 – 9½	High 19 – 19½ Low 8¾ – 9¾

QUARTERLY DIVIDENDS for each quarter in the last 2 fiscal years

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
FISCAL 1975	\$.08	\$.08	\$.09	\$.10
FISCAL 1974	\$.05	\$.06	\$.06	\$.08
FISCAL 1975	*\$.073	*\$.073	*\$.082	*\$.090
FISCAL 1974	*\$.045	*\$.055	*\$.054	*\$.073

*After giving retroactive effect to 10% stock dividend declared on March 13, 1975 payable May 7, 1975 to shareholders of record on April 15, 1975.

THIS POCKET PROVIDED FOR CONVENIENT FILING OF
SUBSEQUENT PAY 'N PAK QUARTERLY REPORTS
FOR FISCAL 1976