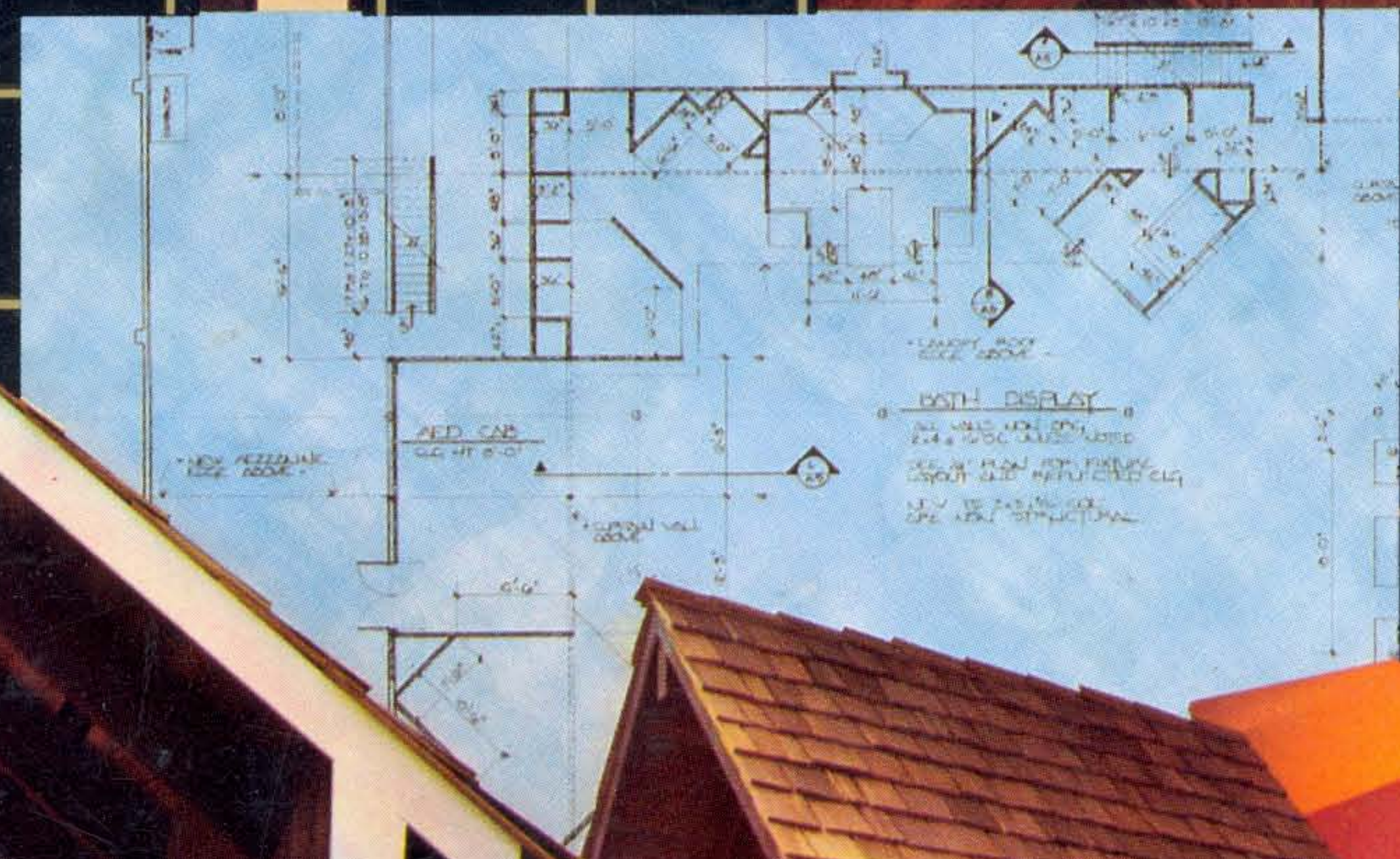


ANNUAL REPORTS
PAY'n PAK Stores, Inc 1983
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PAY'n PAK

ELECTRIC & PLUMBING
BUILDING MATERIALS

ANNUAL REPORT
FISCAL 1983



BUSINESS ADMINISTRATION
LIBRARY
UNIVERSITY OF WASHINGTON

REPORT TO SHAREHOLDERS

Fiscal 1983 was not the type of year that management and shareholders of Pay 'N Pak have become accustomed to. While revenues for the year were \$187,337,902, a slight increase of 4% from \$180,973,899 last year, net income was \$6,368,044 compared to \$7,198,966 in fiscal 1982. Per share, this was \$1.30 on the shares then outstanding as compared to \$1.48 per share the previous year, a decrease of 12%.

There are two main reasons why earnings were down. First was management's decision to close out its auto and sporting goods departments. These accounted for approximately 9% of the total sales volume of the chain. Anytime you give up that kind of volume and closeout the merchandise at discounted prices, you are going to be hurt profit-wise. Auto and sporting goods were only carried in 11 of the company's largest stores, and these are being converted into a super-store format. In addition to Pay 'N Pak's regular product mix, they will carry garden supplies, lumber, mouldings, insulation, an expanded door center, roofing, formica and much more.

The second reason was management's decision to acquire the store equipment and inventories of the six store Bonanza Building Centers in the fourth quarter of this year. The six stores are located in the very desirable San

Jose, California area just south of San Francisco. All the stores are in good, high-traffic locations. At the time of acquisition, the Bonanza chain was doing about \$15 million in sales volume on an annualized basis and was losing money. Your management believes that by converting these stores to the new super-store format mentioned above, it can substantially increase sales and turn the operation into a very profitable addition to your company's business. Management plans to put in a distribution center in the general area, and add stores in Northern California as rapidly as possible. The conversion of Bonanza into the Pay 'N Pak format is costly. We have gotten rid of unwanted merchandise at substantially discounted prices and we have lost volume while remodeling and re-stocking the stores.

Thus, you can see that our disappointing earnings are due basically to two management decisions that should benefit the company long-term. We are happy to report that the stores that have been converted into the new format (without auto and sporting goods) are showing year to year sales gains averaging 28%, along with substantially higher profit margins. This program covering the 11 stores will be completed in April, 1983. The Bonanza store conversion should be complete in

November, 1983, and we are looking forward to a nice earnings increase commencing in the second half of fiscal 1984.

Your management, because of the success of the super-store format, is going to remerchandise all stores by extending gondola height and thus be able to offer basically the same product mix throughout the chain. This project should be completed by fiscal 1984 year-end.

Besides the Bonanza acquisition, we opened new stores in Sioux City, Iowa; Rancho Cordova, California (the 5th store in the Sacramento Market); Scottsbluff, Nebraska; our 7th store in the Portland, Oregon Market; and one in Carson City, Nevada; for a total expansion of 293,564 square feet, an increase of 15%.

It should be pointed out that with Bonanza, your company now has 14 stores in Northern California. The San Francisco Bay Area is the third largest retail building and hardware market in the United States, exceeded only by Los Angeles and Chicago.

Continuing our policy of increasing dividends as warranted by business conditions, your company declared a 3 for 2 stock split and increased the cash dividend. The stock split and cash dividend of \$.14 per share were paid to shareholders on April 28



TEN YEAR SUMMARY OF GROWTH HIGHLIGHTS

Years ended February 28 or 29

1983

1982

1981

1980

1979

1978

1977

1976

1975

1974

OPERATIONS

Revenues	\$187,337,902	\$180,973,899	\$151,765,190	\$138,361,294	\$117,688,090	\$98,051,888	\$80,642,749	\$73,279,952	\$61,470,839	\$51,893,886
Income before income taxes	11,085,044	13,048,796	11,575,328	11,470,982	10,199,489	7,882,339	5,463,526	4,604,566	4,070,713	3,437,538
Net income	6,368,044	7,198,966	6,448,801	6,312,882	5,402,926	4,006,465 (2)	2,871,128	2,429,974	2,113,438	1,763,378

COMMON STOCK

Average number of common shares	4,884,929	4,868,976	4,868,976	4,868,976	4,459,327	4,248,577	4,248,577	4,384,743	4,411,976	4,411,976
Net income per common share(3)	\$1.30	\$1.48	\$1.32	\$1.30	\$1.21	\$.94 (2)	\$.68	\$.55	\$.48	\$.40
Stock dividends and stock splits	10%			20%	33 1/3%	50%	10%	10%		
Cash dividend paid per common share(3)	\$.76	\$.691	\$.618	\$.545	\$.455	\$.313	\$.205	\$.159	\$.11	\$.078

FINANCIAL POSITION (End of year)

Total assets	\$119,530,833	\$ 97,799,523	\$ 90,273,374	\$ 81,901,914	\$ 70,313,715	\$50,483,429	\$45,833,216	\$39,126,568	\$33,155,258	\$29,730,370
Stockholders' equity	\$ 47,430,094	\$ 40,162,336	\$ 36,213,472	\$ 32,224,484	\$ 28,227,556	\$16,446,885	\$13,566,305	\$11,616,885	\$12,081,360	\$10,451,328
Return on stockholders' equity	15.9%	19.9%	20.0%	22.4%	32.9%	29.5%	24.7%	20.1%	20.2%	19.5%
Shares of common stock outstanding (end of year)	5,101,887	4,868,976	4,868,976	4,868,976	4,868,976	4,248,577	4,248,577	4,248,577	4,411,976	4,411,976
Net book value per share	\$9.30	\$8.25	\$7.44	\$6.72 (1)	\$6.01 (1)	\$4.12 (1)	\$3.45 (1)	\$3.02 (1)	\$2.74	\$2.37
Long-term debt	\$ 34,879,056	\$ 26,470,343	\$ 27,978,640	\$ 28,680,119	\$ 23,848,328	\$18,467,381	\$19,124,915	\$17,721,561	\$12,518,834	\$12,070,882

STORES IN OPERATION

Number of stores open	98	88	84	78	70	65	60	55	50	44
Number of stores sold or closed	1	0	0	0	1	0	0	3	1	1
Stores replaced with new stores	0	0	0	1	0	1	2	2	0	3
Number of states in which we operated	16	15	15	15	14	13	13	11	11	11
Square footage of stores	2,167,610	1,890,773	1,811,532	1,688,494	1,496,787	1,365,182	1,260,769	1,144,847	1,030,808	890,527
Average square footage per store	22,118	21,486	21,566	21,647	21,383	21,003	21,013	20,815	20,616	20,239
Average annual inventory in stores	\$ 35,484,794	\$ 36,246,814	\$ 31,418,743	\$ 28,609,679	\$ 23,302,096	\$20,226,001	\$17,951,974	\$14,814,718	\$13,603,679	\$13,714,778
Average annual inventory total (includes warehouses)	\$ 54,174,588	\$ 53,429,386	\$ 43,723,548	\$ 39,143,118	\$ 31,253,285	\$24,616,742	\$21,007,255	\$16,846,580	\$14,825,123	\$14,723,192

STORE AVERAGES

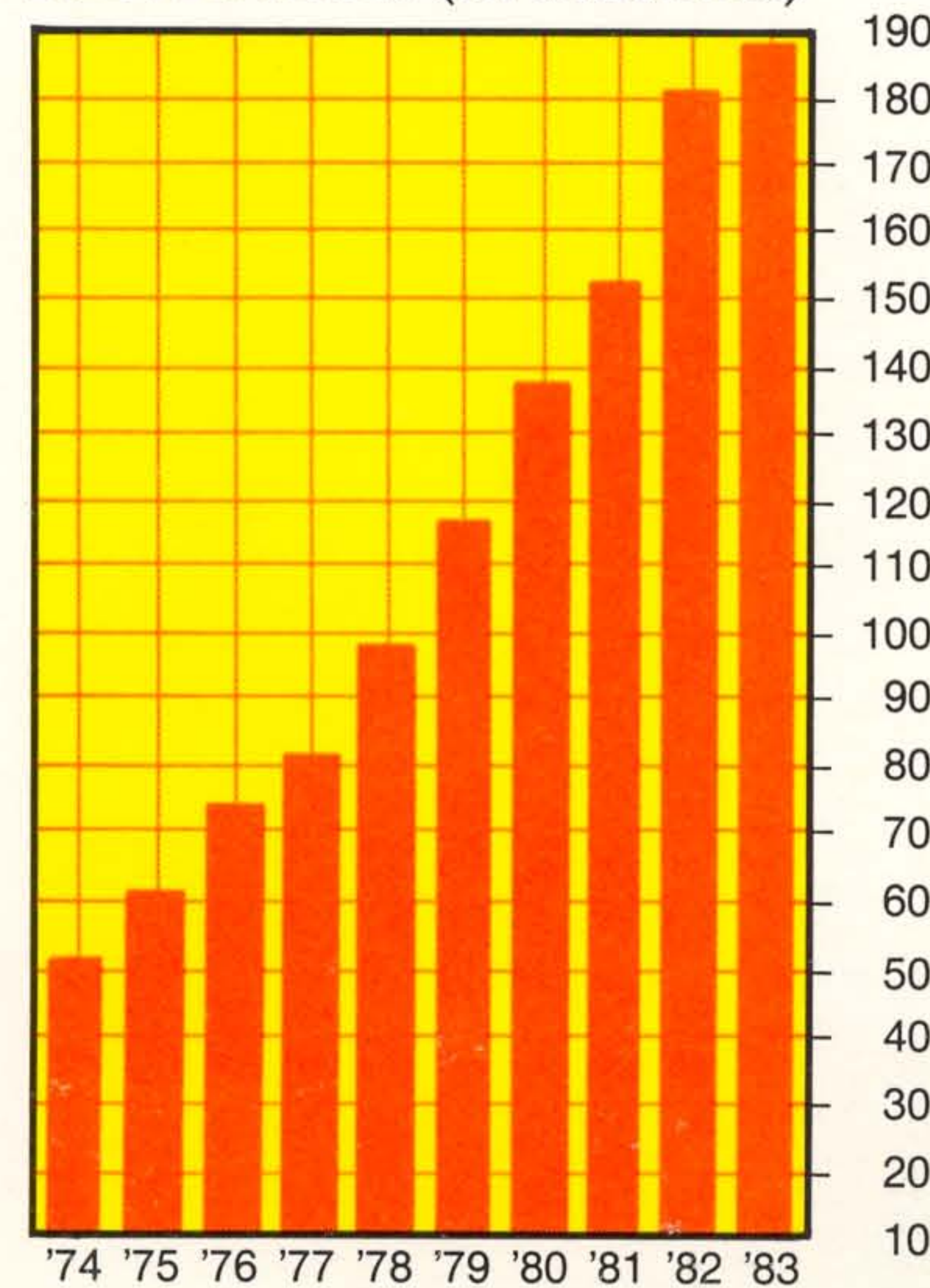
Average sales per store	\$ 2,009,065	\$ 2,049,849	\$ 1,805,760	\$ 1,767,908	\$ 1,676,308	\$ 1,507,697	\$ 1,343,207	\$ 1,331,308	\$ 1,227,593	\$ 1,178,003
Number of customers served	7,311,417	6,941,182	6,415,206	5,928,176	5,468,777	4,979,781	4,419,596	4,104,371	3,647,036	3,251,000
Average customer purchase	\$25.60	\$25.99	\$23.64	\$23.26	\$21.52	\$19.69	\$18.25	\$17.85	\$16.86	\$15.96
Sales per square foot	\$92.73	\$95.40	\$88.73	\$81.67	\$78.63	\$71.82	\$63.96	\$64.01	\$59.63	\$58.27
Sales per full time employee (end of year)	\$ 158,520	\$ 151,331	\$ 138,650	\$ 128,635	\$ 113,489	\$ 115,084	\$ 108,536	\$ 103,502	\$ 88,320	\$ 91,523

- (1) After giving effect to shares held by ESOT which had not been allocated to employee accounts.
(2) Net income in 1978 includes a net reduction of \$191,337 (\$.05 per share) due to a change in the method of accounting for pre-opening costs to expensing them as incurred rather than amortizing them.
(3) Restated for stock dividends and stock splits in fiscal years 1983, 1980, 1979, 1978, 1977 and 1976.

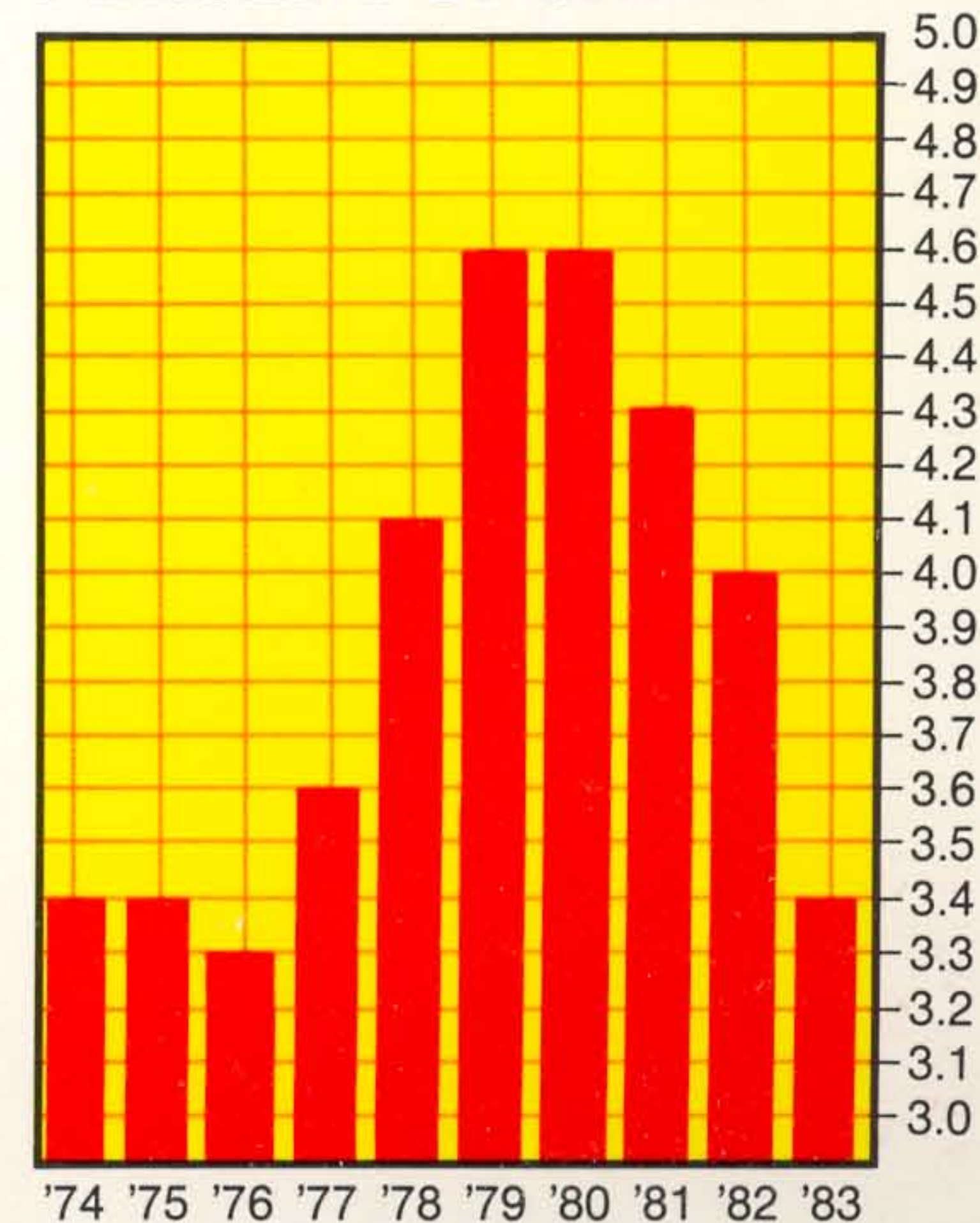
After giving retroactive effect to the three-for-two stock split issued to shareholders on April 28, 1983.

Average number of common shares	7,327,392	7,303,464	7,303,464	7,303,464	6,688,990	6,372,865	6,372,865	6,577,114	6,617,964	6,617,964
Net income per common share	\$.87	\$.99	\$.88	\$.86	\$.81	\$.59	\$.42	\$.36	\$.32	\$.27
Cash dividend paid per common share	\$.507	\$.461	\$.412	\$.363	\$.299	\$.209	\$.137	\$.106	\$.073	\$.052
Shares of common stock outstanding	7,652,830	7,303,464	7,303,464	7,303,464	7,303,464	6,372,865	6,372,865	6,372,865	6,617,964	6,617,964
Net book value per share	\$6.20	\$5.50	\$4.96	\$4.48 (1)	\$4.00 (1)	\$2.74 (1)	\$2.31 (1)	\$2.01 (1)	\$1.83	\$1.58

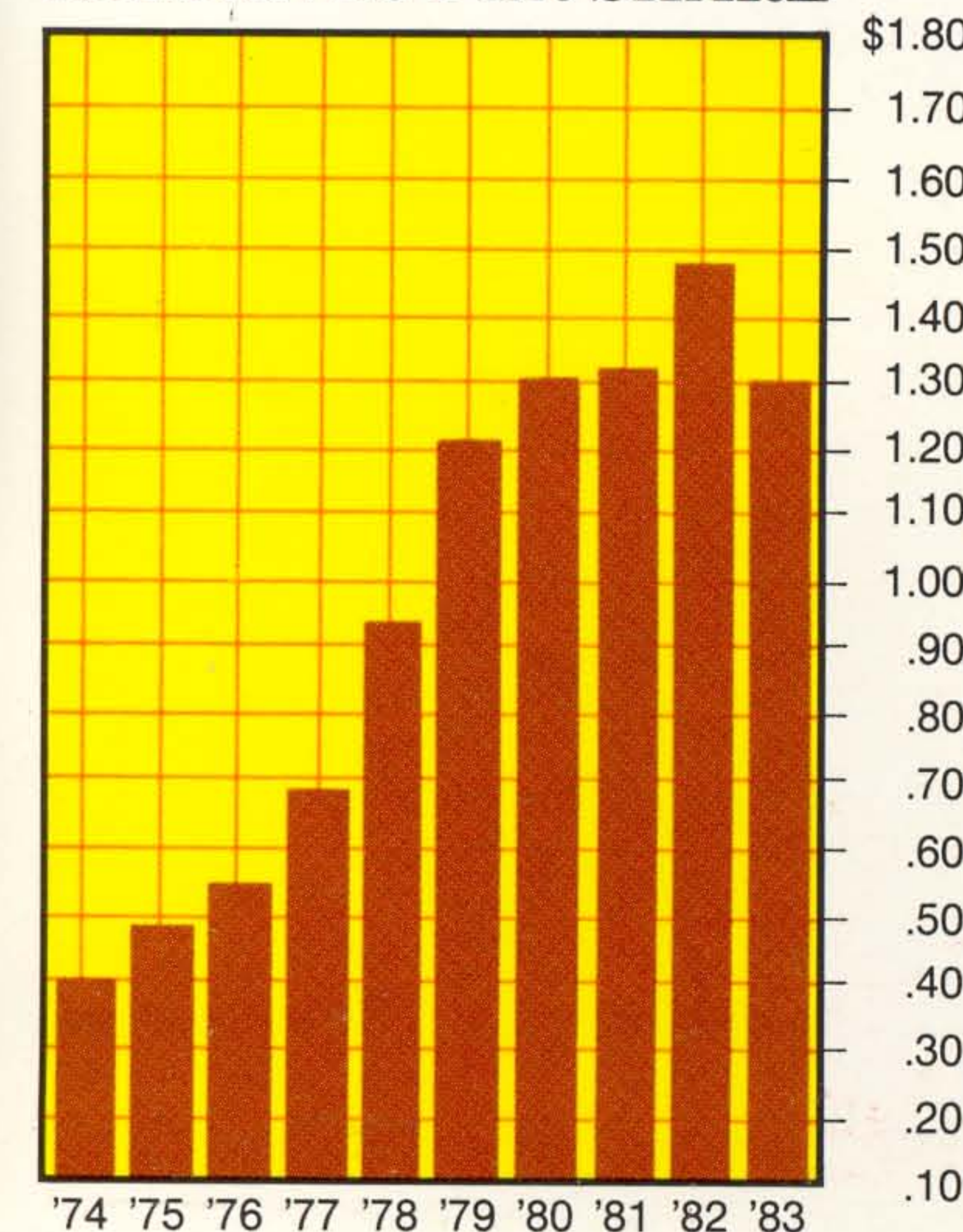
REVENUES (in millions)



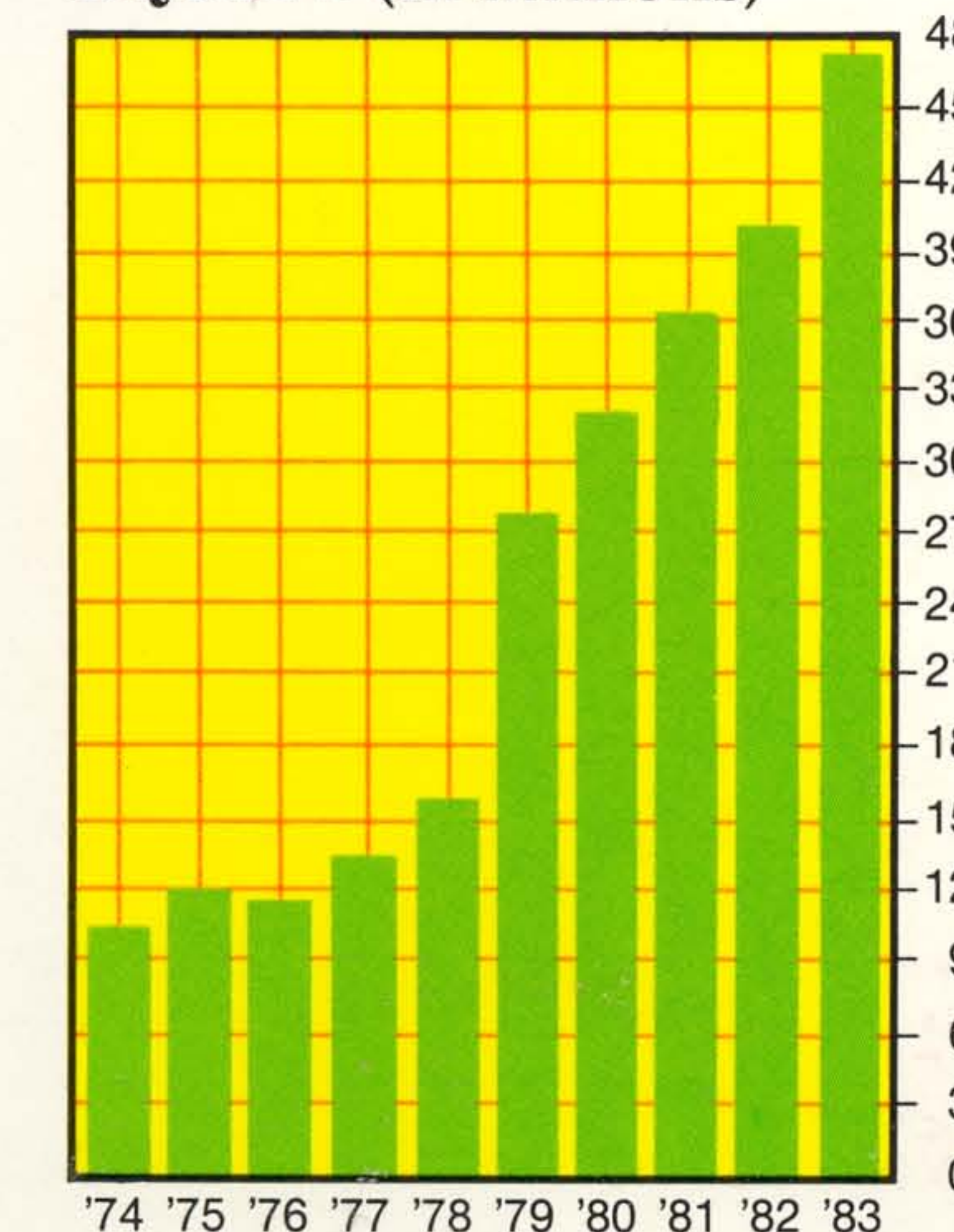
NET INCOME AS A PERCENT OF SALES



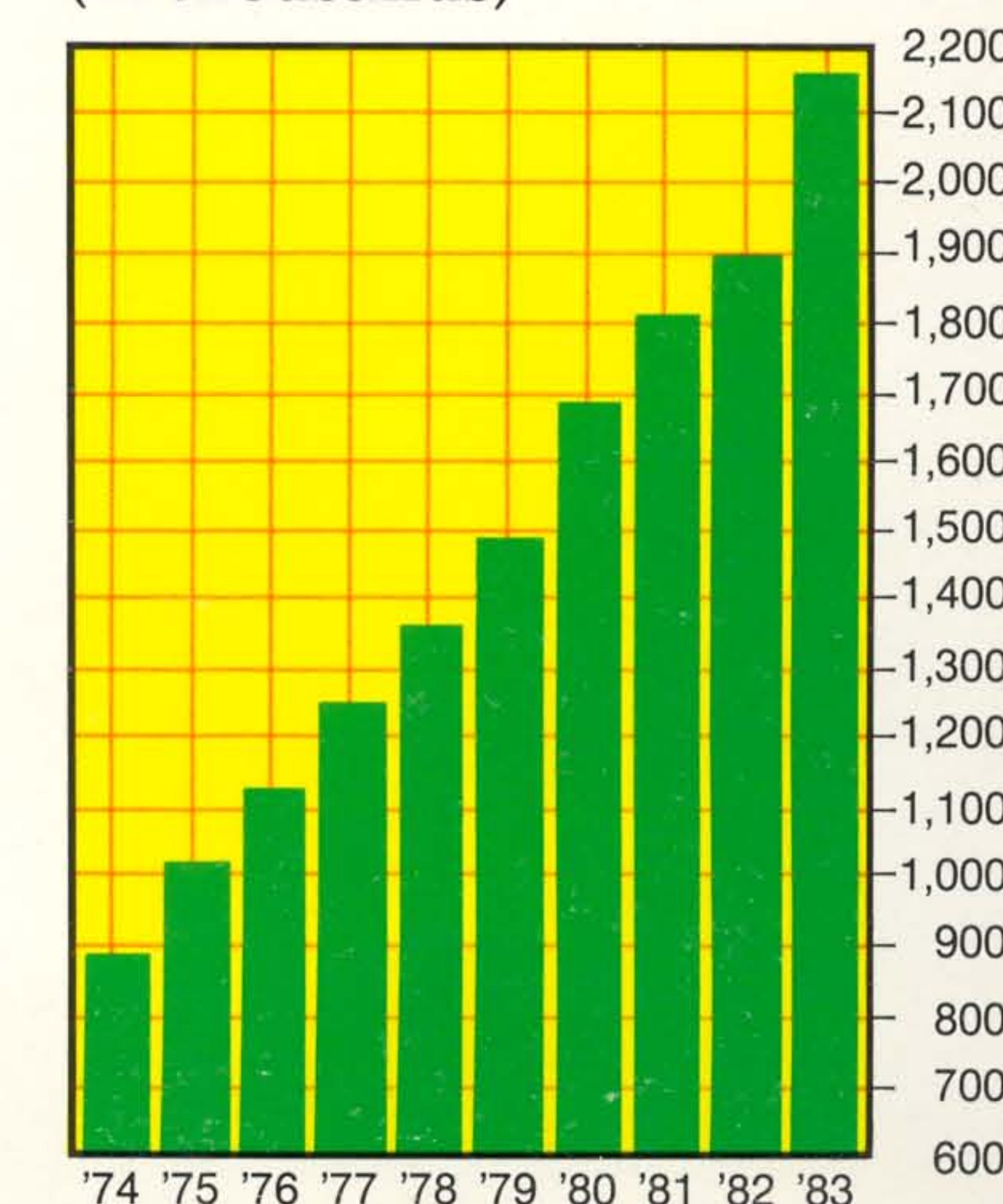
EARNINGS PER SHARE



STOCKHOLDERS' EQUITY (in millions)



STORES SQUARE FOOTAGE (in thousands)



and resulted in an effective cash dividend increase of 10%. This ability to continue increasing the dividend in spite of a down year in earnings reflects the financial strength of the company. We are in a good business in times of adversity and despite the disappointing results of the most recent year, our return on equity remained an impressive 15.9%.

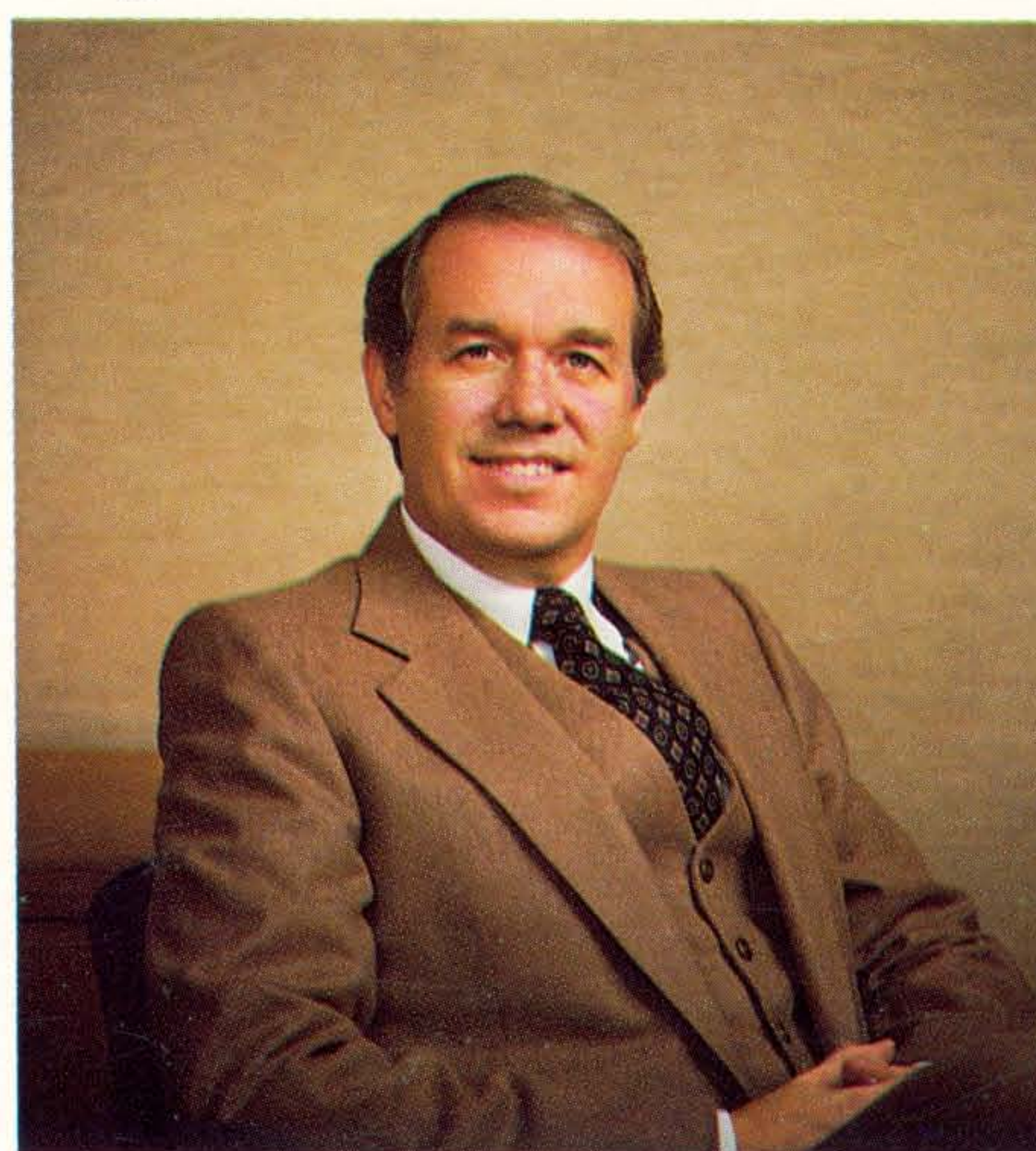
You should once again be brought up to date on our Employee Stock Ownership Plan. All employees become members of the Plan after 3 years of service, and then receive up to \$3,000 worth of company stock annually, completely paid for by the company, and held in trust until the employee retires. The ESOT, as the plan is called, now owns more than 11% of the company's stock and is the single largest shareholder. All dividends are also re-invested in Pay 'N Pak stock. In the past fiscal year, the ESOT bought 85,000 shares of company stock valued at \$1,187,125 on the open market, and this will increase every year as more employees join the plan. When employees are stockholders, they have far more interest in doing a superior job and being productive.

Management thanks the people of Pay 'N Pak for their continuing fine effort on behalf of the company and thanks the company's shareholders for their continuing support.



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

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



Monte A. Leen, *Executive Vice President*



Halvor Knudtzon, Jr., *Secretary-Treasurer*



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



Woodrow C. Button, *Former Vice Chairman, Old National Bank, Spokane, WA*

PAY^NPAK

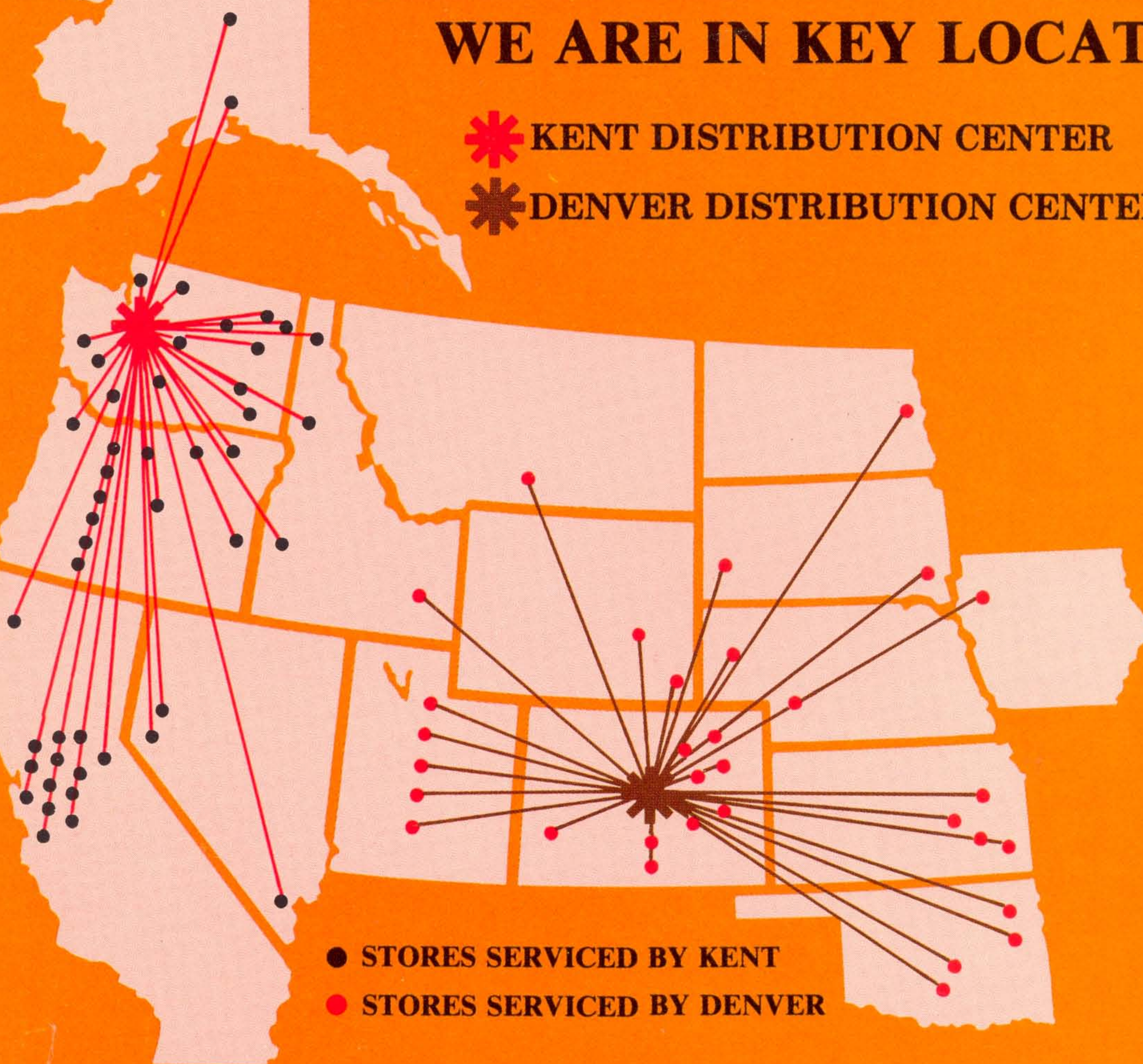
WE ARE IN KEY LOCATIONS



KENT DISTRIBUTION CENTER



DENVER DISTRIBUTION CENTER



● STORES SERVICED BY KENT

● STORES SERVICED BY DENVER

ALASKA

- Anchorage
- Fairbanks

CALIFORNIA

- Campbell
- Eureka
- Newark
- Rancho Cordova
- Redding
- Roseville
- Sacramento (3)
- Santa Clara
- San Jose (2)
- Sunnyvale
- Yuba City

COLORADO

- Aurora
- Colorado Springs
- Denver (3)
- Ft. Collins
- Grand Junction
- Pueblo
- Greeley

IDAHO

- Boise

- Coeur d'Alene

- Lewiston
- Pocatello

IOWA

- Sioux City

KANSAS

- Hutchinson
- Topeka
- Wichita (2)

MONTANA

- Billings

NEBRASKA

- North Platte
- Scottsbluff

NEVADA

- Carson City
- Las Vegas
- Reno

NORTH DAKOTA

- Grand Forks

OKLAHOMA

- Oklahoma City (2)
- Tulsa (2)

OREGON

- Albany
- Beaverton
- Eugene
- Milwaukie
- Ontario
- Portland (4)
- Salem
- Bend
- Medford
- Pendleton

SOUTH DAKOTA

- Rapid City
- Sioux Falls

UTAH

- Ogden
- Sandy
- Salt Lake City
- Granger
- Woods Cross

WASHINGTON

- Aberdeen
- Bellevue
- Bellingham
- Bremerton

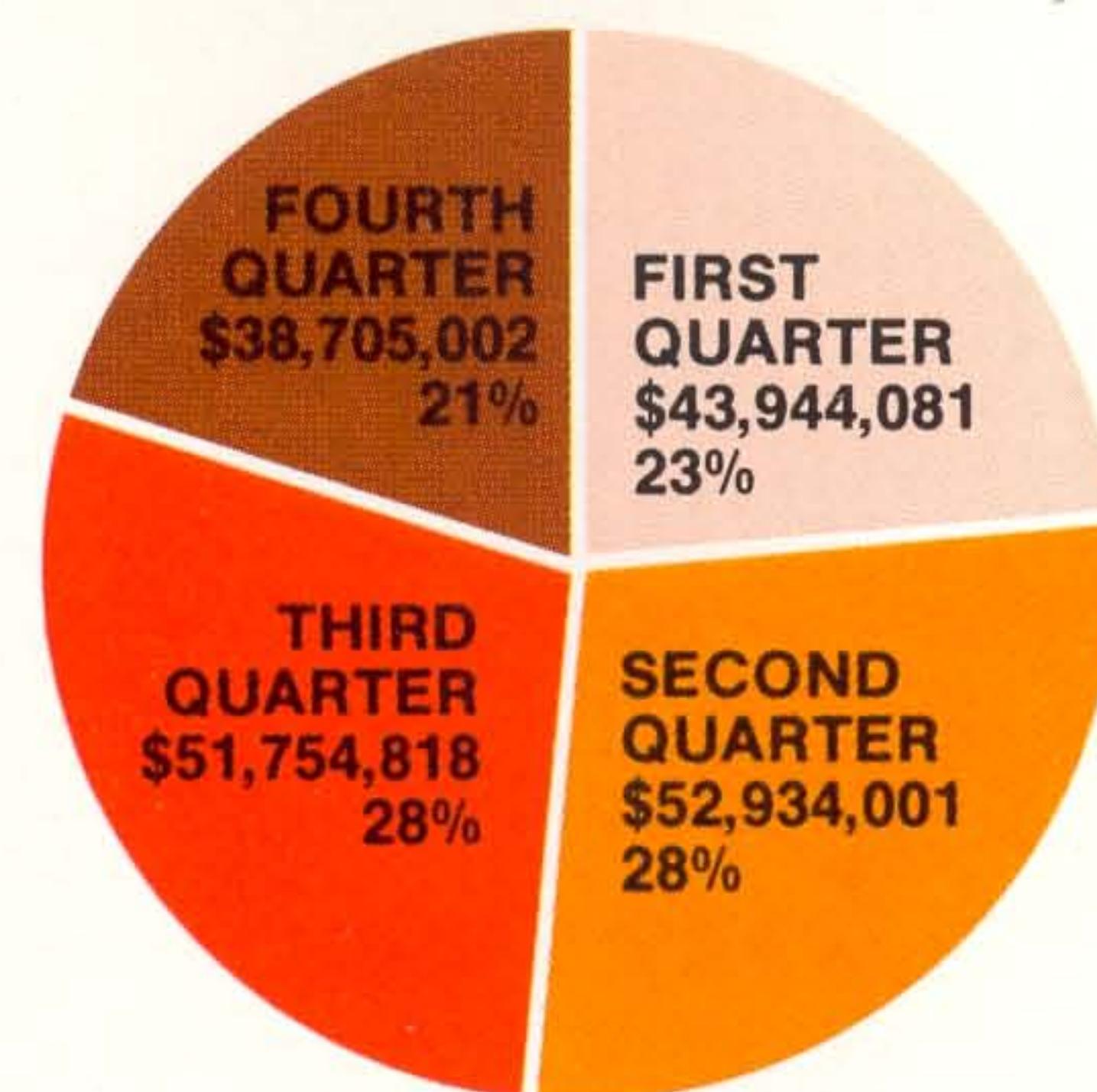
- Everett

- Federal Way
- Kennewick
- Kent
- Longview
- Lynnwood
- Marysville
- Moses Lake
- Mt. Vernon
- Olympia
- Puyallup
- Renton
- Seattle (3)
- Spanaway
- Spokane (2)
- Tacoma (2)
- Vancouver
- Walla Walla
- Wenatchee
- White Center
- Yakima
- Bothell
- Burien

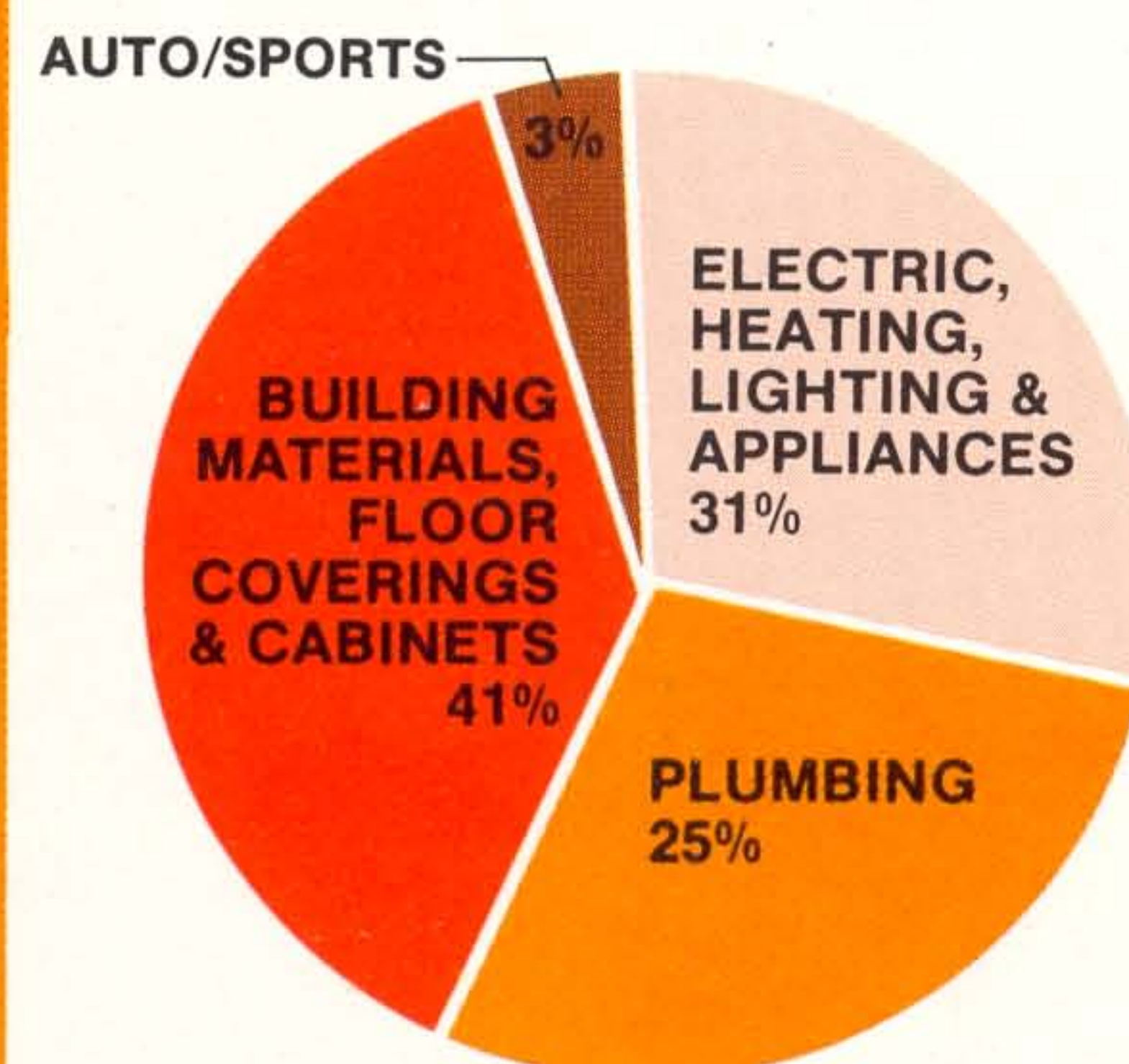
WYOMING

- Casper
- Cheyenne

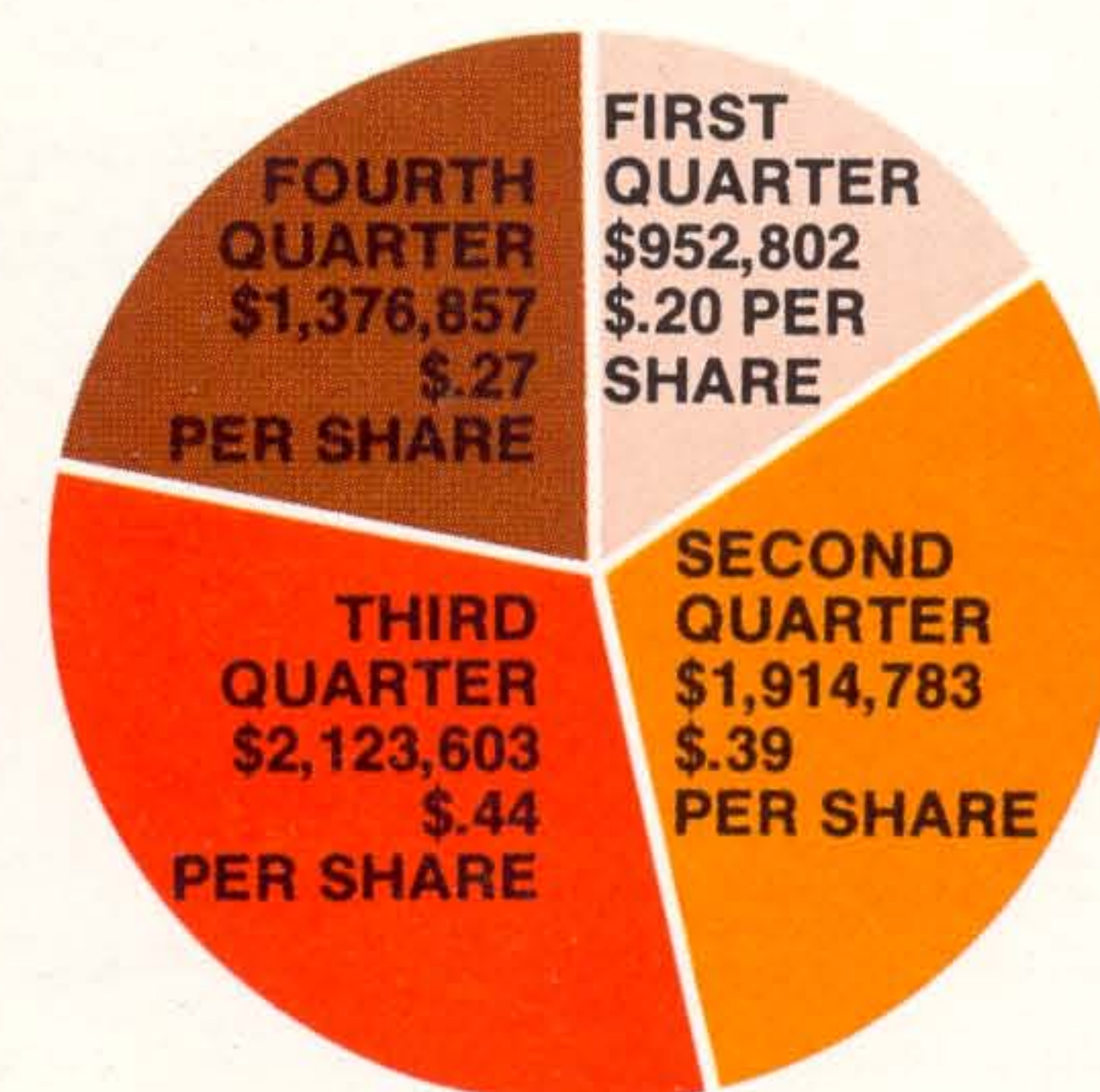
1983 REVENUES BY QUARTER



1983 SALES BY CATEGORY



1983 EARNINGS BY QUARTER



A CHANGE FOR THE FUTURE

Innovative changes were made during this fiscal year to stores which formerly carried automotive and sporting goods. We expanded our kitchen and bath displays, enlarged the door display area, added building material products which include dimensional lumber, mouldings, plywood, sheathing, roof materials, lawn and garden products, and expanded our hardware and tools section which will make these Pay 'N Pak stores

more complete home improvement centers. More variety and depth has been added to existing product lines allowing Pay 'N Pak to continue to specialize heavily in electrical and plumbing supplies.

Customer reaction after the stores were remodeled and remerchandised resulted in average sales increases of 28% over the previous year and we decided we should remerchandise all of our existing stores. Our

standard 54 inches high store fixtures were extended to 66 inches to 84 inches depending on their location in the store. By raising the height of these fixtures we were able to gain 30% in square feet of merchandising area enabling us to increase our selection of merchandise.

New exterior colors and graphics have also been initiated. The photographs on the front cover and this page illustrate some of the changes.



MARKET AND DIVIDEND INFORMATION

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

The 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 therein.

The stock of Pay 'N Pak Stores, Inc. is traded and listed on the New York Stock Exchange (NYSE). At the time that the 10-K was filed, the stock had not been listed on the NYSE but was traded actively in the over-the-counter (OTC) market. Prices are now quoted on the NYSE and published daily in the financial pages of many daily newspapers. As of May 1, 1983, there were approximately 2,268 holders of record of the Company's common stock.

The range of bid high and low quotations of the Company's stock during each quarter of the last two fiscal years is shown in Item 5 of the 10-K. The quarterly cash dividends paid by the Company are also shown for each quarter of the last two fiscal years in Item 5 of the 10-K.

Banks

Peoples National Bank of Washington
Seattle, Washington

Old National Bank of Washington
Spokane, Washington

Transfer Agent and Registrar

Security Pacific National Bank
Los Angeles, California

Legal Counsel

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

Auditors

Arthur Young & Company
Seattle, Washington

Notice of Annual Meeting of Stockholders

The annual meeting of stockholders of Pay 'N Pak Stores, Inc. will be held on June 21, 1983, at 11 o'clock a.m., at the Marriott Hotel, 3201 South 176th St., Seattle, Washington.

FINANCIAL STATEMENTS

Responsibility for Financial Statements

The accompanying balance sheets of Pay 'N Pak Stores, Inc. at February 28, 1983 and 1982 and the related statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended February 28, 1983, were prepared by management in conformance with generally accepted accounting principles appropriate in the circumstances.

The management of Pay 'N Pak Stores, Inc. is responsible for the integrity and objectivity of the financial statements, which are presented on the accrual basis of accounting and, accordingly, include some amounts based upon judgment. Other financial information in the annual report is consistent with that in the financial statements. The accounting plan and related system of internal controls are designed to assure that the books and records reflect the transactions of the Company, in accordance with established policies and procedures as implemented by qualified personnel.

The board of directors monitors the financial and accounting operations of the Company, including the review and discussion of periodic financial statements and the basis of engagement and report of independent public accountants.

Arthur Young & Company, independent public accountants, have examined the above mentioned financial statements of Pay 'N Pak Stores, Inc. and their report is included herein. The auditors met with members of the audit committee of the board of directors to discuss the results of their examination, and were afforded an opportunity to present their opinions in the absence of management personnel with respect to the adequacy of internal controls and the quality of financial reporting of the Company.



David J. Heerensperger
Chairman of the Board
Chief Executive Officer

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, 1983
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 98032
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 _____

Aggregate market value of common stock held by nonaffiliates at April 7, 1983-\$101,160,050.
Common stock outstanding at April 7, 1983 - 5,101,887 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy statement to be filed in connection with Annual Meeting of Shareholders to be held on June 21, 1983, is incorporated into Part III.

CONTENTS

Item No.		Page
PART I:		
Item 1.	Business	2
Item 2.	Properties	6
Item 3.	Legal Proceedings	7
Item 4.	Submission of Matters to a Vote of Security Holders	7
Item 10.	Executive Officers of the Company	7
PART II:		
Item 5.	Market for the Company's Common Equity and Related Stockholder Matters	8
Item 6.	Selected Financial Data	8
Item 7.	Management's Discussion and Analysis of Results of Operations and Financial Condition	9
Item 8.	Financial Statements and Supplementary Data	10
Item 9.	Disagreements on Accounting and Financial Disclosure	10
PART III:		
Item 10.	Directors and Executive Officers of the Company, except information regarding executive officers, is incorporated by reference from the Company's proxy statement	21
Item 11.	Management Remuneration and Transactions is incorporated by reference from the company's proxy statement	21
Item 12.	Security Ownership of Certain Beneficial Owners and Management is incorporated by reference from the company's proxy statement	21
PART IV:		
Item 13.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	21

PART I

ITEM I - BUSINESS

(a) *General development of business.* Pay 'N Pak Stores, Inc. (the "Company") was incorporated in 1961 under the laws of the State of Washington, as the successor to a partnership formed in 1953 to engage in the retail sale of home improvement products, principally electric and plumbing supplies. The Company in its present form evolved from a merger in 1969 of three groups of similar stores in adjacent geographic areas. Immediately after the merger, the Company had 22 stores in three western states, Washington, California and Colorado. Following the merger, the Company undertook a store expansion program and also added auto parts and supplies and sporting goods to its lines of merchandise in 11 of its larger stores. During the past fiscal year ended February 28, 1983, the Company opened or acquired eleven new stores and currently operates 98 stores in 16 states, all west of the Mississippi River, although close to half of the stores are located in the Pacific Northwest, with 31 stores in Washington and 13 stores in Oregon.

ITEM I - Business, continued

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

(c) (1) (i) *Description of business.* The Company caters to the do-it-yourself home improvement market. Home improvement products include electrical and plumbing supplies, building materials, and cabinets and built-in appliances. For several years the Company operated sporting goods and automotive parts and accessories departments in eleven stores but during the past fiscal year these departments were phased out to provide additional space for home improvement products. All but three stores are operated under the name "Pay 'N Pak". Three stores located in Idaho and Oregon are operated under the name "Eagle Electric & Plumbing Supply". The Company's sole method of distribution of merchandise to customers is through sales at its retail stores, all of which are operated by the Company.

The Company's marketing efforts are primarily directed toward homeowners and other do-it-yourself customers. The Company estimates that over 98% of sales of home improvement products were made to do-it-yourself customers in fiscal 1983, with professional builders and others accounting for less than 2%.

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

	1983	1982	1981	1980	1979
Electrical	31%	31%	32%	33%	31%
Plumbing	25	23	24	24	25
Building Materials	41	37	34	33	33
Automotive and Sporting Goods . . .	3	9	10	10	11
Total	100%	100%	100%	100%	100%

The Company uses modern merchandising and marketing techniques in the operation of its retail stores. Store lay-out, merchandise organization and merchandise signs are designed by the Company's corporate staff and are essentially consistent throughout its stores. Merchandise is conveniently arranged and displayed in well-lighted stores, with emphasis placed on displays which illustrate how the product will look in the customer's own home. Many brand name products are carried by the stores, particularly where the Company believes such brand names are recognized by the customer as indicative of quality and reliability. The Company also carries private label merchandise, some of which is the manufacturers' standard merchandise and some of which is designed and manufactured to the Company's specifications. The Company attempts to charge competitive prices with respect to the merchandise sold through its stores, particularly on high volume, commodity products. Such pricing is facilitated by the Company's ability to purchase certain products in volume directly from manufacturers. Sales are predominantly on a cash and carry basis, which includes sales made through the use of bank credit cards by customers. To a very limited extent, goods are also sold under installment sales contracts which are in turn sold to finance companies on a nonrecourse basis. The Company estimates that during fiscal 1983, sales on which it directly extended credit accounted for less than 1% of sales. The Company maintains a liberal merchandise return policy, with full refunds given under most circumstances to customers who return products.

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

During the fiscal year ended February 28, 1983, the Company opened new stores in Sioux City, Iowa; Rancho Cordova, California; Scottsbluff, Nebraska; Portland, Oregon (its 7th store in that area); and Carson City, Nevada. The company also acquired six stores in the San Jose, California area in January, 1983, for stock and cash. Two of these stores are located in San Jose and the other four are in Santa Clara, Sunnyvale, Campbell and Newark, California.

ITEM I - Business, continued

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

	Years Ended February 28 or 29,				
	1983	1982	1981	1980	1979
Stores in operation at beginning of year	88	84	78	70	65
New stores opened or acquired . .	11	4	6	9	7
Stores replaced by new stores . . .				(1)	(1)
Stores sold or closed	(1)				(1)
Stores in operation at end of year	98	88	84	78	70

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

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

The Company has entered into leases or plans to open new stores later in fiscal 1984 in Seattle, Washington; Chico, California; Grand Island, Nebraska; Salt Lake City, Utah; and Modesto, California; as well as replacing its Eugene, Oregon store with a new store that will have twice as many square feet as the previous store.

The Company also expects to open an additional two or more stores in fiscal 1984 if favorable locations and lease terms can be found and negotiated.

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

(iii) Raw materials. The Company buys its merchandise from several hundred independent suppliers, including manufacturers and importers, none of which accounts for more than 5% of the Company's purchases.

Approximately one-fifth of the merchandise is shipped by suppliers directly to the Company's stores. The Company also warehouses merchandise and supplies its stores through two central warehouse locations, an aggregate of 231,938 square feet in Kent, Washington, and an aggregate of 118,265 square feet in Denver, Colorado. The warehouse in Denver, Colorado, services the Company's 32 stores located in Colorado, Kansas, Iowa, Nebraska, Montana, Oklahoma, South Dakota, North Dakota, Utah, Idaho and Wyoming and the Kent, Washington location services the remainder.

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

(v) Seasonal business. No material portion of the Company's business is seasonal, except to the extent that sales of home improvement products tend to be slightly lower during the winter season.

ITEM I - Business, continued

(vi) *Working capital items.* The Company attempts to carry sufficient amounts of inventory in stock to meet customer demand and to allow sufficient delivery time for new orders from the factories. The Company engages in volume buying direct from factories as much as possible not only to obtain the benefit of lower unit prices, but also in anticipation of potential shortages and inflationary price increases. This helps to assure the Company of a continuous allotment of goods from suppliers and sometimes results in the Company carrying significant amounts of inventory.

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

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

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

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

(x) *Competitive conditions.* The retail sales business engaged in by the Company is highly competitive. Competition is based primarily on breadth of product line, service, advertising, price and convenience of location. The Company competes with numerous retail organizations, including integrated department stores such as Sears and Montgomery Ward, home improvement centers and other building materials retailers, and, to a lesser extent, large and small hardware and lumber stores. The Company's competitors, some of which have substantially greater financial resources, are continually expanding and opening new stores in market areas in which the Company has existing stores as well as in new market areas in which the Company plans to expand. Because of the variety of products sold by the Company and the number and variety of its competitors, it is virtually impossible to determine a competitive position for the company.

(2) (i) *Research and development activities.* The Company has engaged in research and development activities relating to the improvement of services to its customers, through the development of product knowledge training films, a Retail Selling Skills program, the holding of training seminars, and a 40-foot mobile training bus, all of which are designed to constantly update product knowledge and selling skills. The goal of the 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 \$332,769 in 1983, \$322,136 in 1982 and \$275,380 in 1981.

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

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

(iv) *Number of employees.* The Company currently employs approximately 1,264 full-time persons and 79 part-time persons.

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

ITEM 2 - Properties

Of the Company's 98 stores, 31 are located in the State of Washington, 13 in Oregon, 14 in California, 3 in Nevada, 4 in Idaho, 1 in Montana, 5 in Utah, 9 in Colorado, 4 in Kansas, 4 in Oklahoma, 2 in Alaska, 2 in Wyoming, 2 in South Dakota, 1 in North Dakota, 2 in Nebraska and 1 in Iowa. All of the Company's stores except ten are leased under leases expiring at various times between June 30, 1983 and February 26, 2012. Many of these leases contain options to renew. Operations of the Company are directed from its head office in Kent, Washington, a Seattle suburb, where all administrative functions, including accounting, merchandising, purchasing and advertising, are performed. The head office is leased under a lease expiring in 1995. The Company also leases central warehouse space in Kent, Washington, under leases that expire in 1985. In addition, the Company also leases regional warehouse space in Denver, Colorado, under leases that expire in 1987 and from which the Company's midwest merchandising is conducted. These leases contain options to renew.

In addition to the properties and buildings used in the Company's daily business operations, the Company owns approximately 18 acres in Spokane, Washington, and 20 acres in Kent, Washington.

The Company presently owns its store properties in Fairbanks, Alaska; Pocatello, Idaho; and Casper, Wyoming. The Company obtained long-term mortgage financing on these properties during fiscal year 1977. The Company also presently owns its store properties in Fort Collins, Colorado; North Platte, Nebraska; Kent, Aberdeen and Bothell, Washington; and two stores in San Jose, California. None of these properties are presently subject to any mortgages or other encumbrances except the two San Jose stores. In 1982, the Company sold and leased back its Federal Way, Washington store under a 20 year lease that contains options to renew.

All of the Company's buildings are of concrete masonry construction except for three stores, two of which are of frame construction and the other is a steel building. Since 1969, the Company has replaced 14 older, smaller stores with larger, new stores. The buildings contain all of the fixtures and improvements which the Company believes are necessary in its business. Many of the Company's present stores were formerly supermarkets, as their size, structure and location made them easy and appropriate to convert to Pay 'N Pak stores. Adequate off-street parking is provided adjacent to all stores.

ITEM 3 - Legal Proceedings

None

ITEM 4 - Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of the Company's fiscal year covered by this report.

ITEM 10-Executive Officers of the Company

<u>Name</u>	<u>Age</u>	<u>Positions and Offices</u>
David J. Heerensperger	46	Chairman of the Board and Chief Executive Officer; Director
Jerry L. Marlow	47	President and Chief Operating Officer; Director
Halvor Knudtzon, Jr.	56	Secretary-Treasurer; Director
Monte A. Leen	40	Executive Vice President; Director
Victor W. Crosswhite	46	Vice President-Purchasing
Peter W. Gallina	47	Vice President-Real Estate and Store Development
Calvin E. Karbowski	45	Vice President-Distribution

The term of office of each of the above officers is until the next annual meeting of the Board of Directors of the Company following the annual meeting of shareholders held on the third Tuesday in June of each year. Mr. Heerensperger has served as Chairman of the Board since February 1970. Mr. Knudtzon has served as Secretary-Treasurer since August 1970. Mr. Marlow and Mr. Gallina have served in their respective offices since December 1977. Mr. Crosswhite and Mr. Karbowski have served in their respective offices since February 1980, and Mr. Leen since March 1981. There are no arrangements or understandings between any of the above officers and any other person pursuant to which he was selected as an officer.

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

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

All of the above officers have been employed by the Company during the past five years. David J. Heerensperger has served the Company as Chairman of the Board and Chief Executive Officer. Halvor Knudtzon Jr., has served the Company as Secretary-Treasurer, and prior to September 1982, was also Controller. Jerry L. Marlow has served the Company as President and Chief Operating Officer. Victor W. Crosswhite, prior to his election as Vice President-Purchasing in February 1980, served the Company as Vice President-Midwest Merchandising. Peter W. Gallina has served the Company as Vice President-Real Estate and Store Development. Calvin E. Karbowski, prior to his election as Vice President-Distribution in February 1980, served the Company as manager of its Kent warehouse. Monte A. Leen, prior to his election as Executive Vice President in March 1981, served the Company as Vice President-Merchandising from February 1980, and prior thereto was a purchasing agent for electrical and lighting supplies and appliances.

Part II

ITEM 5- Market for the Company's Common Equity and Related Stockholder Matters

The stock of Pay 'N Pak Stores, Inc. is traded actively in the over-the-counter (OTC) market. Prices are quoted on NASDAQ and published daily in the financial pages of many daily newspapers. As of April 7, 1983, there were approximately 2,268 holders of record of the Company's common stock.

The range of bid high and low quotations of the Company's stock during each quarter of the last two fiscal years is shown below. The quarterly cash dividends paid by the Company are also shown for each quarter of the last two fiscal years. Both have been adjusted to reflect a 50% stock dividend to be paid on April 28, 1983.

NASDAQ Symbol PAYP

Quarterly High and Low Bid Prices

(Asked prices are approximately 1/2 point more)

Years ended February 28	1983	1982
1st quarter	\$10 1/2- 8 3/8	\$10 1/8-8
2nd quarter	\$ 9 5/8- 7 3/4	\$11 -9
3rd quarter	\$13 7/8- 9 1/8	\$ 9 3/8-8
4th quarter	\$15 7/8-12 3/4	\$ 9 3/8-8 1/8

Quarterly Dividends

Years ended February 28	1983	1982
1st quarter	\$.127	\$.115
2nd quarter	\$.127	\$.115
3rd quarter	\$.127	\$.115
4th quarter	\$.127	\$.115

ITEM 6 - Selected Financial Data

Dollar amounts in thousands except per share data.

	Years Ended February 28 or 29,				
	1983	1982	1981	1980	1979
Operating results:					
Net sales	\$187,172	\$180,387	\$151,684	\$137,897	\$117,342
Income before					
income taxes	\$ 11,085	\$ 13,049	\$ 11,575	\$ 11,471	\$ 10,199
Net income	\$ 6,368	\$ 7,199	\$ 6,449	\$ 6,313	\$ 5,403
Net income per common					
share(1):					
Before 1984					
stock split	\$1.30	\$1.48	\$1.32	\$1.30	\$1.21
After 1984					
stock split	\$.87	\$.99	\$.88	\$.86	\$.81
Cash dividends paid					
per common share(1):					
Before 1984					
stock split	\$.76	\$.691	\$.618	\$.545	\$.455
After 1984					
stock split	\$.507	\$.461	\$.412	\$.363	\$.299
At year-end:					
Total assets	\$119,531	\$ 97,800	\$ 90,273	\$ 81,902	\$ 70,314
Long-term debt	\$ 34,879	\$ 26,470	\$ 27,979	\$ 28,680	\$ 23,848

(1) See Note 1(h) in the Notes to Financial Statements in Item 8.

ITEM 7 - Management's discussion and analysis of results of operations and financial condition

Results of operations

From fiscal 1981 to 1982 revenues increased from \$151.8 million to \$181.0 million, an increase of 19.2%. From fiscal 1982 to 1983 revenues increased from \$181.0 million to \$187.3 million, an increase of 3.5%. The small increase in fiscal 1983 was primarily the result of the closeout of the automotive and sporting goods departments during the year, followed by the remodeling and remerchandising of these stores. Auto and sports represented 9% of the Company's sales during fiscal 1982. Sales volume in these stores was hampered during the period of remodeling and remerchandising which comprised a substantial portion of fiscal 1983. The increases in revenues are generally attributable to new stores opened during the periods, increased volume in existing stores and, to a lesser extent, price increases. For information regarding numbers of new stores opened in each of the last five fiscal years, see "Business".

Increases, or decreases, in store revenues during the three-year period were attributable to the following:

	<u>1981 to 1982</u>	<u>1982 to 1983</u>
	(In thousands)	
Net sales of stores opened during fiscal year*	\$ 3,330	\$ 5,935
Increase in net sales over the preceding year of stores in their first full fiscal year of operation . . .	4,341	1,711
Increase in net sales over the preceding year of stores open for over two fiscal years	21,032	8,982**
Decrease in net sales due to closure of automotive and sporting goods departments	--	(9,842)
	<u>\$28,703</u>	<u>\$ 6,786</u>

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

**Increase in net sales excluding automotive and sporting goods departments.

From fiscal 1981 to 1982 cost of sales and selling and administrative expense generally increased in proportion to the increase in revenues. From fiscal 1982 to 1983 cost of sales and selling and administrative expense increased as a percentage of sales as a result of opening eleven new stores and incurring the higher cost of sales typically associated with new stores as well as the related preopening costs. Rent and depreciation have increased throughout the period, primarily as a result of new store openings. From fiscal 1981 to 1982 short-term interest increased primarily as a result of interest rate increases and increased short-term borrowings. From fiscal 1982 to 1983 short-term interest decreased from \$1,870,000 to \$993,000 as a result of decreasing the average amount of notes outstanding by \$2,800,000 and a decrease in interest rates.

ITEM 7 - Management's discussion and analysis of results of operations and financial condition, continued

The Company's effective income tax rates for the three fiscal years were as follows: 1981-44.3%, 1982-44.8%, 1983-42.6%. The fluctuations were primarily due to variations in the amount of investment tax credit available in the respective periods.

Net income increased 11.6% from 1981 to 1982. Of this increase, approximately 6% was due to the one-time sale of an option to purchase an aircraft. Net income decreased 11.5% from 1982 to 1983. Of this decrease, approximately 5% was due to the option in 1982. The remainder of the decrease was due to the closeout of the automotive and sporting goods departments in eleven stores, together with the costs of remodeling such stores, and the expense associated with the purchase of assets, remerchandising and staffing of six stores located in Northern California acquired in January 1983.

Liquidity

The Company's principal sources of liquidity are internally generated cash flow, which increased from \$5,704,000 in fiscal 1981 to \$7,303,000 in fiscal 1983, and \$31 million of bank lines, revolving credit agreement and letter of credit arrangements. At February 28, 1983 the Company has available unused lines-of-credit for working capital and letter of credit purchases of \$12,435,000.

Capital resources

Capital expenditures were \$7.0 million in 1981, \$6.8 million in 1982 and \$14.8 million in 1983, aggregating \$28.6 million for the three year period. The major portion of the expenditures was for the costs of facilities, furnishings and equipment for 21 new retail outlets opened during the three-year period, of which 11 were opened in 1983. In addition, the Company remodeled the facility housing its corporate offices and shopping mall during fiscal 1981.

As of February 28, 1983, the Company's commitments for capital expenditures consisted primarily of payments due under capitalized leases.

ITEM 8 - Financial statements and supplementary data

	<u>Page</u>
Report of certified public accountants	11
Balance sheets	12-13
Statements of income	14
Statements of stockholders' equity	15
Statements of changes in financial position	16
Notes to financial statements	17-20

ITEM 9-Disagreements on Accounting and Financial Disclosure

None.

PAY 'N PAK STORES, INC.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

We have examined the accompanying financial statements of Pay 'N Pak Stores, Inc. listed in the index to financial statements and financial statement schedules in Item 13(a). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements listed in the index to financial statements and financial statement schedules in Item 13(a) present fairly the financial position of Pay 'N Pak Stores, Inc. at February 28, 1983 and 1982, and the results of operations and changes in financial position for each of the three years in the period ended February 28, 1983, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Seattle, Washington
March 30, 1983

PAY 'N PAK STORES, INC.

BALANCE SHEETS

February 28, 1983 and 1982

ASSETS		
	<u>1983</u>	<u>1982</u>
Current assets:		
Cash	\$ 2,225,090	\$ 780,264
Receivables, less allowance of \$53,000 (\$40,490 in 1982) for doubtful accounts	1,442,160	1,405,490
Merchandise inventories (Note 1(b))	65,038,335	53,951,569
Prepaid expenses	<u>1,244,621</u>	<u>872,257</u>
Total current assets	69,950,206	57,009,580
Property, plant and equipment, at cost (Notes 1(c), 1(g), 2,3 and 6):		
Land	2,528,619	2,149,996
Buildings	10,480,255	8,071,130
Leasehold rights and improvements	29,445,933	25,386,382
Store equipment	20,868,670	15,297,326
Transportation equipment	3,581,377	2,840,506
Construction in progress	<u>675,612</u>	<u>876,915</u>
	67,580,466	54,622,255
Less accumulated depreciation and amortization	<u>20,661,765</u>	<u>16,661,133</u>
	46,918,701	37,961,122
Properties held for development and/or investment	<u>2,312,825</u>	<u>2,219,334</u>
Net property, plant and equipment	49,231,526	40,180,456
Deferred income taxes (Note 1(e))	74,699	372,699
Other assets (Note 1(d))	<u>274,402</u>	<u>236,788</u>
	<u>\$119,530,833</u>	<u>\$ 97,799,523</u>

PAY 'N PAK STORES, INC.

BALANCE SHEETS

February 28, 1983 and 1982

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>1983</u>	<u>1982</u>
Current liabilities:		
Payable to bank	\$ --	\$ 1,259,776
Bankers acceptances (Note 3)	4,000,000	6,000,000
Notes payable (Note 3)	5,000,000	4,000,000
Accounts payable	19,634,976	12,726,262
Income taxes (Notes 1(e) and 5)	714,547	814,571
Deferred income tax (Note 1(e))	--	140,000
Accrued liabilities:		
Payroll and profit sharing	3,265,092	2,624,716
Taxes, other than income	1,694,958	1,414,285
Interest and other	547,968	587,952
	5,508,018	4,626,953
Long-term debt due within one year (Note 3)	2,182,950	1,508,175
Total current liabilities	37,040,491	31,075,737
Long-term debt (Note 3)	34,879,056	26,470,343
Deferred income (Note 1(c))	181,192	91,107
Commitments (Note 6)		
Stockholders' equity:		
Preferred stock, without par value, 1,000,000 shares authorized, none issued		
Common stock, \$.10 par value, 10,000,000 shares authorized, 7,652,830 (4,868,976 in 1982) shares issued (Note 1(h))	765,283	486,897
Capital in excess of par value	25,760,322	21,438,708
Retained earnings (Note 3)	20,904,489	18,236,731
Total stockholders' equity	47,430,094	40,162,336
	<u>\$119,530,833</u>	<u>\$97,799,523</u>

PAY 'N PAK STORES, INC.
STATEMENTS OF INCOME
Years ended February 28, 1983, 1982 and 1981

	<u>1983</u>	<u>1982</u>	<u>1981</u>
Revenues:			
Net sales	\$187,172,289	\$180,386,746	\$151,683,806
Interest	21,406	37,885	75,314
Rentals and other	144,207	549,268	6,070
	<u>187,337,902</u>	<u>180,973,899</u>	<u>151,765,190</u>
Costs and expenses:			
Cost of sales	119,099,470	113,867,643	96,108,502
Selling and administrative	45,499,237	42,560,877	35,012,098
Rent	3,088,705	2,605,832	1,977,104
Depreciation	4,570,289	3,903,145	3,394,021
Interest on long-term debt	3,001,816	3,117,427	3,080,207
Other interest	993,341	1,870,179	617,930
	<u>176,252,858</u>	<u>167,925,103</u>	<u>140,189,862</u>
Income before income taxes	11,085,044	13,048,796	11,575,328
Provision for income taxes (Notes 1(e) and 5)	4,717,000	5,849,830	5,126,527
Net income	<u>\$ 6,368,044</u>	<u>\$ 7,198,966</u>	<u>\$ 6,448,801</u>
Before 1984 stock split:			
Per common share (Note 1(h)):			
Net income	<u>\$1.30</u>	<u>\$1.48</u>	<u>\$1.32</u>
Cash dividends paid	<u>\$.76</u>	<u>\$.691</u>	<u>\$.618</u>
After 1984 stock split:			
Per common share (Note 1(h)):			
Net income	<u>\$.87</u>	<u>\$.99</u>	<u>\$.88</u>
Cash dividends paid	<u>\$.507</u>	<u>\$.461</u>	<u>\$.412</u>

See accompanying notes.

PAY 'N PAK STORES, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended February 28, 1983, 1982 and 1981

	<u>Common stock</u>	<u>Capital in excess of par value</u>	<u>Retained earnings</u>	<u>Deferred employee benefits</u>	<u>Total</u>
Balance, March 1, 1980	\$442,634	\$15,064,778	\$17,381,090	\$(664,018)	\$32,224,484
Net income			6,448,801		6,448,801
Cash dividends			(3,009,913)		(3,009,913)
Amortization of deferred employee benefits				550,100	550,100
Balance, February 28, 1981	<u>442,634</u>	<u>15,064,778</u>	<u>20,819,978</u>	<u>(113,918)</u>	<u>36,213,472</u>
Net income			7,198,966		7,198,966
Cash dividends			(3,364,020)		(3,364,020)
10% stock dividend at fair market value at date of declaration (Note 1(h))	44,263	6,373,930	(6,418,193)		
Amortization of deferred employee benefits				113,918	113,918
Balance, February 28, 1982	<u>486,897</u>	<u>21,438,708</u>	<u>18,236,731</u>	<u>--</u>	<u>40,162,336</u>
Net income			6,368,044		6,368,044
Cash dividends			(3,700,286)		(3,700,286)
Issuance of 232,911 shares of common stock (Note 2)	23,291	4,576,709			4,600,000
Three-for-two stock split at par value (2,550,943 shares) (Note 1(h))	<u>255,095</u>	<u>(255,095)</u>			
Balance, February 28, 1983 (Note 3)	<u>\$765,283</u>	<u>\$25,760,322</u>	<u>\$20,904,489</u>	<u>\$ --</u>	<u>\$47,430,094</u>

See accompanying notes.

PAY 'N PAK STORES, INC.
STATEMENTS OF CHANGES IN FINANCIAL POSITION
Years ended February 28, 1983, 1982 and 1981

	<u>1983</u>	<u>1982</u>	<u>1981</u>
Operating activities:			
Net income	\$ 6,368,044	\$ 7,198,966	\$ 6,448,801
Charges (credits) to earnings not affecting cash:			
Depreciation and amortization	4,597,668	3,923,239	3,409,984
Deferred income taxes	298,000	105,000	140,000
Gain on sale of assets	(14,407)	(77,970)	--
Increase in working capital (excluding cash and borrowings)	(3,946,045)	(1,930,724)	(4,294,972)
Cash provided from operations	7,303,260	9,218,511	5,703,813
Additions to property, plant and equipment	(14,809,740)	(6,787,745)	(7,022,724)
Other	(64,993)	--	(25,830)
Increase (decrease) in cash before financing activities	(7,571,473)	2,430,766	(1,344,741)
Financing activities:			
Increase (decrease) in short-term borrowings	(2,259,776)	2,259,776	2,750,000
Increase (decrease) in long-term debt (including current portion)	9,083,488	(1,413,007)	340,365
Issuance of common stock	4,600,000	--	--
Proceeds from sale of assets and sale and leaseback of properties	1,292,873	765,265	207,610
Cash dividends paid	(3,700,286)	(3,364,020)	(3,009,913)
Cash provided from (used by) financing activities	9,016,299	(1,751,986)	288,062
Increase (decrease) in cash	1,444,826	678,780	(1,056,679)
Cash, beginning of year	780,264	101,484	1,158,163
Cash, end of year	<u>\$ 2,225,090</u>	<u>\$ 780,264</u>	<u>\$ 101,484</u>
Detail of changes in working capital (excluding cash and borrowings):			
Receivables	\$ 36,670	\$ 649,228	\$ (200,937)
Merchandise inventories	11,086,766	4,341,188	6,195,177
Prepaid expenses	372,364	(208,394)	149,803
Accounts payable	(6,908,714)	(911,835)	(1,986,369)
Income taxes	100,024	(679,771)	550,413
Deferred income tax	140,000	(140,000)	--
Accrued liabilities	(881,065)	(1,119,692)	(413,115)
Increase in working capital (excluding cash and borrowings)	<u>\$ 3,946,045</u>	<u>\$ 1,930,724</u>	<u>\$ 4,294,972</u>

See accompanying notes

PAY 'N PAK STORES, INC.
NOTES TO FINANCIAL STATEMENTS
February 28, 1983, 1982 and 1981

1. Description of the Company and significant accounting policies

The Company is engaged in retail selling of home improvement products, including electrical products, plumbing supplies, building materials, cabinets and built-in appliances.

(a) **Presentation**-The financial statements for prior years included the accounts of the parent company and its subsidiaries. During fiscal year 1983, assets and liabilities of the subsidiaries were transferred to the parent company.

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

(c) **Property, plant and equipment**-Depreciation of property, plant and equipment is provided principally on the straight-line method. Estimated useful lives are as follows: buildings-40 years; leasehold rights and improvements-the lesser of 10 to 20 years or life of the lease (principally 15 to 25 years) and equipment-3 to 10 years.

When assets are sold and leased back the gain/loss is deferred and credited/charged to income over the period of the lease.

(d) **Investment in acquired stores**-Costs of acquired stores in excess of amounts assigned to net assets at dates of acquisition are amortized on the straight-line method over a twenty-five year period. The unamortized balance of \$147,810 at February 28, 1983 (\$162,822 at February 28, 1982) is included in other assets.

(e) **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 statement and income tax purposes (See Note 5).

Investment tax credits are deducted from the federal income tax provision using the flow-through method.

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

(g) **Interest capitalization**-The Company capitalizes interest incurred related to the construction of property, plant and equipment. Interest costs of \$135,354, \$109,727 and \$151,248 were capitalized in fiscal years 1983, 1982 and 1981, respectively. Total interest costs for the three years were \$4,130,511, \$5,097,333 and \$3,849,385, respectively.

(h) **Per share data**-Per common share amounts were determined on the number of shares outstanding during each period after giving retroactive effect to a 10% stock dividend declared in 1983.

A three-for-two stock split was declared on March 4, 1983 which is issuable on April 28, 1983 to stockholders of record as of April 6, 1983. The stock split increases the number of shares outstanding from 5,101,887 to 7,652,830. The stock split has been given retroactive effect in the balance sheet at February 28, 1983 and the statement of stockholders' equity for the year then ended. Per common share amounts have been presented in the statement of income and notes to financial statements both before and after the stock split.

(i) **Reclassifications** - The format of the statement of changes in financial position was changed for fiscal 1983. Prior years have been changed to be consistent with the current format. Certain other amounts for 1982 have been reclassified to conform with the 1983 presentation.

PAY 'N PAK STORES, INC.
NOTES TO FINANCIAL STATEMENTS
February 28, 1983, 1982 and 1981

2. Issuance of common stock

On February 4, 1983 the Company issued 232,911 shares of its common stock at \$19.75 per share and paid cash of \$1,871,575 to acquire the store equipment and inventories of six stores in Northern California as well as the land and buildings for two of the stores. The Company also assumed mortgage notes related to the land and buildings with outstanding principal balances totaling \$1,686,674.

3. Bank credit arrangements and long-term debt

Notes payable at February 28, 1983 and 1982 consist of the following:

	<u>1983</u>	<u>1982</u>
Note payable to bank	\$5,000,000	\$ --
Note payable to insurance company	--	4,000,000
	<u>\$5,000,000</u>	<u>\$4,000,000</u>

Weighted average interest rate for note payable and bankers acceptances at February 28, 1983 are 9.1% and 9.2%, respectively.

At February 28, 1983, the Company has available unused lines-of-credit for working capital and letter of credit purchases of \$12,435,000 under agreements with banks, which expire from April 1, 1983 to June 30, 1984. The agreement which expires on April 1 has been orally extended by the bank for another year. Interest on borrowings under these agreements is charged at prime rate or less. The Company is charged a commitment fee of 3/8 to 1/2 of one percent per annum on the unused balance of certain lines-of-credit.

In November, 1981, the Company entered into a \$10,000,000 revolving line-of-credit agreement with an insurance company at an interest rate based on the insurance company's ninety-day commercial paper rate. The agreement expires on October 31, 1983 at which time the Company has the option to convert any outstanding borrowings into a term loan. It is management's intent to exercise this option and convert borrowings under this agreement (which aggregated \$7,000,000 at February 28, 1983) to a term loan at that time.

Long-term debt outstanding at February 28, 1983 and 1982 is shown on the following summary:

	<u>1983</u>	<u>1982</u>
9¾% note payable to insurance company, due \$1,075,000 annually to 1994, plus interest	\$12,900,000	\$13,975,000
Revolving line-of-credit to be refinanced, due \$583,100 quarterly beginning February 1984 to 1987, plus interest	7,000,000	--
8-1¼% to 9-7/8% mortgage notes payable, due \$390,360 annually including interest to 2002; notes with a balance of \$1,874,277 are subject to call by holders in 1992	3,560,951	1,897,554
7% to 15% (average 7.7%) contracts and notes payable, due \$26,595 including interest in 1984 and reduced amounts annually to 1989	116,617	150,099
Capitalized lease obligations (\$32,787,224), less imputed interest (\$19,302,786) payable approximately \$1,976,000 per year including imputed interest, weighted average 12.18%, final payment in February 2012	13,484,438	11,955,865
	37,062,006	27,978,518
Less amounts due within one year	2,182,950	1,508,175
	<u>\$34,879,056</u>	<u>\$26,470,343</u>

Payments on the principal of long-term debt and capitalized lease obligations for the four years ending February 29, 1988 are required as follows: 1985-\$3,971,000; 1986-\$3,969,000; 1987-\$3,466,000 and 1988-\$1,778,000.

The loan agreement covering the 9¾% note payable to insurance company contains, among other matters, restrictions on the payment of cash dividends and redemption or reacquisition of the Company's stock. At February 28, 1983, retained earnings of approximately \$3,797,000 was not restricted.

Operating plant and equipment having a net book value of \$5,777,530 at February 28, 1983 are pledged as collateral for the mortgage notes and contracts payable.

PAY 'N PAK STORES, INC.
NOTES TO FINANCIAL STATEMENTS
February 28, 1983, 1982 and 1981

4. Employee benefit plan

After three years of employment, all employees participate in the Company's Employee Stock Ownership Plan. The Company contributes 10% of an employee's eligible gross salary, with a maximum contribution of \$3,000 per employee. In 1981, the maximum contribution per employee was \$2,000. Total contribution was \$1,179,667, \$949,721 and \$595,948 for fiscal years 1983, 1982 and 1981, respectively.

The Employee Stock Ownership Trust (ESOT) borrowed \$1,656,732 from a bank in 1976 to acquire 397,615 shares of the Company's common stock. This loan was paid in full during fiscal year 1982. The obligation of the ESOT had been guaranteed by the Company; therefore, the unpaid balance of the loan at February 28, 1981 was reflected in the balance sheet as a liability and an equal amount, representing deferred employee benefits was recorded as a deduction from stockholders' equity.

5. Income Taxes

The provision for income taxes is comprised of the following:

	Year ended February 28,		
	1983	1982	1981
Current federal income tax:			
Provision	\$4,812,861	\$5,491,253	\$5,026,314
Investment tax credit	(538,861)	(250,000)	(354,299)
	4,274,000	5,241,253	4,672,015
State income taxes	285,000	363,577	314,512
Deferred income taxes	158,000	245,000	140,000
	<u>\$4,717,000</u>	<u>\$5,849,830</u>	<u>\$5,126,527</u>

The effective tax rate differs from the statutory federal income tax rate due primarily to the effect of the investment tax credit, state income taxes and a capital gain in 1982.

Deferred taxes result from the federal and state income tax effects of the following timing differences:

	1983	1982	1981
Depreciation deducted for tax in excess of book expense	\$316,025	\$217,177	\$166,884
Leasehold rights amortization and related interest expense for book in excess of rental expense deducted for tax ..	(122,114)	(141,534)	(119,433)
Pre-opening and interest expense deducted for tax in excess of book expense and other items	(35,911)	169,357	92,549
	<u>\$158,000</u>	<u>\$245,000</u>	<u>\$140,000</u>

PAY 'N PAK STORES, INC.
NOTES TO FINANCIAL STATEMENTS
February 28, 1983, 1982 and 1981

6. Leases

The Company leases substantially all retail store facilities and both of its warehouses. Certain of these leases have been capitalized (See Note 3). Leasehold rights and improvements included \$15,817,332 (\$13,908,091 at February 28, 1982) for capitalized leases for retail stores, one warehouse and computer equipment and accumulated depreciation and amortization includes \$5,537,123 (\$4,851,844 at February 28, 1982) applicable thereto.

Most lease arrangements provide for minimum rental payments on the basis of lapse of time, with certain leases providing for additional percentage rentals based on individual stores' annual sales in excess of a specified amount. The Company has options to renew most leases for three to five year periods at agreed amounts. In some cases, rent is subject to renegotiation in the event the Company exercises its option to renew. There are no existing options to purchase leased property.

Rental expense for operating leases, except those with terms of a year or less, was \$3,255,739, \$2,784,809 and \$2,107,671 for fiscal years 1983, 1982 and 1981, respectively. Included in expense for each of the three years was percentage rental of \$283,992, \$252,361 and \$150,447, respectively.

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

Year ending February 28 or 29	
1984	\$ 2,911,226
1985	2,905,401
1986	2,471,798
1987	2,438,124
1988	2,235,544
Later years	<u>21,613,776</u>
	<u>\$34,575,869</u>

7. Quarterly financial data (unaudited)

	Quarter ended			
	May 31	Aug. 31	Nov. 30	Feb. 28
	(000's omitted, except per share amounts)			
1983				
Revenues	\$43,944	\$52,934	\$51,755	\$38,705
Gross profit on sales	\$16,040	\$18,851	\$18,089	\$15,093
Net income	\$ 953	\$ 1,914	\$ 2,124	\$ 1,377
Net income per share:				
Before 1984 stock split	<u>\$.20</u>	<u>\$.39</u>	<u>\$.44</u>	<u>\$.27</u>
After 1984 stock split	<u>\$.13</u>	<u>\$.26</u>	<u>\$.29</u>	<u>\$.19</u>
1982				
Revenues	\$41,520	\$49,319	\$51,699	\$38,436
Gross profit on sales	\$15,327	\$18,034	\$19,405	\$13,752
Net income	\$ 1,487	\$ 1,859	\$ 2,079	\$ 1,774
Net income per share:				
Before 1984 stock split	<u>\$.31</u>	<u>\$.38</u>	<u>\$.43</u>	<u>\$.36</u>
After 1984 stock split	<u>\$.20</u>	<u>\$.26</u>	<u>\$.29</u>	<u>\$.24</u>

PART III

Item 10 - Directors and Executive Officers of the Company

Incorporated by reference from the definitive proxy statement to be filed with the Securities and Exchange Commission, except information regarding executive officers which appears under Part I, on page 7.

Item 11 - Management Remuneration and Transactions

Incorporated by reference from the definitive proxy statement to be filed with the Securities and Exchange Commission.

Item 12 - Security Ownership of Certain Beneficial Owners and Management

Incorporated by reference from the definitive proxy statement to be filed with the Securities and Exchange Commission.

PART IV

Item 13 - Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) *Financial Statements.*

The financial statements and schedules listed in the accompanying index to financial statements and financial statement schedules are filed as part of the Annual Report on Form 10-K.

(b) *Exhibits.* See page 27 for index to exhibits.

(c) *Reports on Form 8-K.* No reports on Form 8-K were filed during the last quarter of the period covered by this report.

PAY 'N PAK STORES, INC.
INDEX TO FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES
(Item 13(a))

	Page
Balance sheets at February 28, 1983 and 1982	12-13
Statements of income for each of the three years in the period ended February 28, 1983	14
Statements of stockholders' equity for each of the three years in the period ended February 28, 1983	15
Statements of changes in financial position for each of the three years in the period ended February 28, 1983	16
Notes to financial statements	17-20
Schedules for each of the three years in the period ended February 28, 1983	
V - Property, plant and equipment	23
VI - Accumulated depreciation of property, plant and equipment	24
VIII - Valuation and qualifying accounts	25
IX - Short-term borrowings	25
X - Supplementary income statement information	25

PAY 'N PAK STORES, INC.
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
Years ended February 28, 1983, 1982 and 1981

	Balance at beginning of year	Additions, transfers at cost	Retirements or sales	Balance at end of year
1983:				
Land	\$ 2,149,996	\$ 915,968	\$ 537,345	\$ 2,528,619
Buildings	8,071,130	3,093,408	684,283	10,480,255
Leasehold rights and improvements	25,386,382	4,119,657	60,106	29,445,933
Store equipment	15,297,326	5,995,453	424,109	20,868,670
Transportation equipment	2,840,506	793,066	52,195	3,581,377
Construction in progress	876,915	(201,303)	--	675,612
	<u>54,622,255</u>	<u>14,716,249</u>	<u>1,758,038</u>	<u>67,580,466</u>
Properties held for development and/or investment	<u>2,219,334</u>	<u>93,491</u>	<u>--</u>	<u>2,312,825</u>
	<u>\$56,841,589</u>	<u>\$14,809,740</u>	<u>\$ 1,758,038</u>	<u>\$69,893,291</u>
1982:				
Land	\$ 2,149,996	\$ --	\$ --	\$ 2,149,996
Buildings	8,067,913	3,217	--	8,071,130
Leasehold rights and improvements	24,409,577	1,037,696	60,891	25,386,382
Store equipment	12,883,421	2,413,905	--	15,297,326
Transportation equipment	2,096,706	1,442,780	698,980	2,840,506
Construction in progress	233,087	643,828	--	876,915
	<u>49,840,700</u>	<u>5,541,426</u>	<u>759,871</u>	<u>54,622,255</u>
Properties held for development and/or investment	<u>1,262,051</u>	<u>1,246,319</u>	<u>289,036</u>	<u>2,219,334</u>
	<u>\$51,102,751</u>	<u>\$ 6,787,745</u>	<u>\$ 1,048,907</u>	<u>\$56,841,589</u>
1981:				
Land	\$ 1,899,977	\$ 250,019	\$ --	\$ 2,149,996
Buildings	5,228,058	2,839,855	--	8,067,913
Leasehold rights and improvements	20,461,758	4,025,941	78,122	24,409,577
Store equipment	10,809,886	3,065,580	992,045	12,883,421
Transportation equipment	1,405,140	694,778	3,212	2,096,706
Construction in progress	3,836,517	(3,603,430)	--	233,087
	<u>43,641,336</u>	<u>7,272,743</u>	<u>1,073,379</u>	<u>49,840,700</u>
Properties held for development and/or investment	<u>1,669,680</u>	<u>(250,019)</u>	<u>157,610</u>	<u>1,262,051</u>
	<u>\$45,311,016</u>	<u>\$ 7,022,724</u>	<u>\$ 1,230,989</u>	<u>\$51,102,751</u>

PAY 'N PAK STORES, INC.
SCHEDULE VI - ACCUMULATED DEPRECIATION OF
PROPERTY, PLANT AND EQUIPMENT
Years ended February 28, 1983, 1982 and 1981

Description	Balance at beginning of year	Additions, charged to income	Retirements or sales	Balance at end of year
1983:				
Buildings	\$ 685,866	\$ 212,766	\$ 42,767	\$ 855,865
Leasehold rights and improvements	8,376,833	1,706,598	59,174	10,024,257
Store equipment	6,876,411	2,215,087	415,521	8,675,977
Transportation equipment	722,023	435,838	52,195	1,105,666
	<u>\$16,661,133</u>	<u>\$4,570,289</u>	<u>\$ 569,657</u>	<u>\$20,661,765</u>
1982:				
Buildings	\$ 477,192	\$ 208,674	\$ --	\$ 685,866
Leasehold rights and improvements	6,959,497	1,478,227	60,891	8,376,833
Store equipment	4,982,910	1,893,501	--	6,876,411
Transportation equipment	700,001	322,743	300,721	722,023
	<u>\$13,119,600</u>	<u>\$3,903,145</u>	<u>\$ 361,612</u>	<u>\$16,661,133</u>
1981:				
Buildings	\$ 275,253	\$ 201,939	\$ --	\$ 477,192
Leasehold rights and improvements	5,746,959	1,290,660	78,122	6,959,497
Store equipment	4,293,408	1,631,547	942,045	4,982,910
Transportation equipment	433,338	269,875	3,212	700,001
	<u>\$10,748,958</u>	<u>\$3,394,021</u>	<u>\$1,023,379</u>	<u>\$13,119,600</u>

PAY 'N PAK STORES, INC.
SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
Years ended February 28, 1983, 1982 and 1981

	<u>Balance at beginning of year</u>	<u>Additions, charged to income</u>	<u>Deductions*</u>	<u>Balance at end of year</u>
Allowance for doubtful accounts deducted from the asset to which it applies:				
1983	\$40,490	\$164,039	\$151,529	\$53,000
1982	\$50,000	\$168,318	\$177,828	\$40,490
1981	\$50,000	\$111,591	\$111,591	\$50,000

* Represents accounts written off against the reserve.

PAY 'N PAK STORES, INC.
SCHEDULE IX - SHORT-TERM BORROWINGS
Years ended February 28, 1983, 1982 and 1981

	<u>Balance at end of year</u>	<u>Weighted average interest rate</u>	<u>Maximum amount outstanding at any month- end during the year</u>	<u>Average amount outstanding during the year</u>	<u>Weighted average interest rate during the year</u>
Notes payable to banks:					
1983	\$5,000,000	9.1%	\$ 8,600,000	\$3,202,466	12.8%
1982	\$ --	-- %	\$13,650,000	\$7,372,466	19.0%
1981	\$9,000,000	19.1%	\$ 9,000,000	\$5,135,000	14.5%
Note payable to insurance company:					
1983	\$ --	-- %	\$ 7,000,000	\$2,097,808	15.6%
1982	\$4,000,000	17.6%	\$10,000,000	\$1,830,137	17.6%
Bankers acceptances:					
1983	\$4,000,000	9.2%	\$ 5,000,000	\$2,427,397	12.0%
1982	\$6,000,000	13.5%	\$ 6,000,000	\$1,372,603	16.8%

Notes payable to banks represent obligations payable under several credit agreements to various banks.

There were no bankers acceptances or short-term notes payable to insurance company in 1981.

The average amount outstanding for each period was computed by averaging the daily balances during the year. The weighted average interest rate for each period was computed by dividing interest incurred by the average amount outstanding.

PAY 'N PAK STORES, INC.
SCHEDULE X - SUPPLEMENTARY INCOME STATEMENT INFORMATION
Years ended February 28, 1983, 1982 and 1981

	<u>Charged to costs and expenses</u>		
	<u>1983</u>	<u>1982</u>	<u>1981</u>
Other taxes	\$1,188,730	\$1,002,749	\$1,183,427
Advertising costs	\$6,577,981	\$6,515,478	\$5,123,367

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PAY 'N PAK STORES, INC. (Registrant)

By



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

Dated: April 14, 1983

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Company in the capacities and on the dates indicated.

PAY 'N PAK STORES, INC. (Registrant)

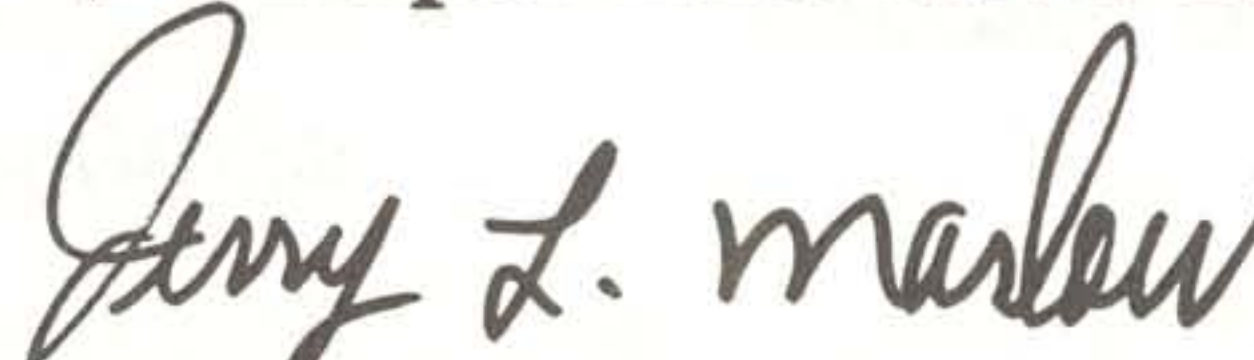
By



**David J. Heerensperger
Director and Chairman
of the Board
(Principal Executive Officer)**

Dated: April 14, 1983

By



**Jerry L. Marlow
Director and President**

Dated: April 14, 1983

By



**Halvor Knudtzon, Jr.
Director and Secretary-Treasurer
(Principal Financial and
Accounting Officer)**

Dated: April 14, 1983

By



**Monte A. Leen
Director and Executive
Vice-President**

Dated: April 14, 1983

Majority of Board of Directors

EXHIBIT INDEX

- (3) Restated Articles of Incorporation as amended and Bylaws are incorporated by reference from the Registrant's Form 10-K filed for the fiscal year ended February 28, 1981.
- (4) Credit Agreement with PruLease, Inc. dated November 20, 1981 and amendments to Note Agreement with The Prudential Insurance Company of America dated August 15, 1979, are incorporated by reference from the Registrant's Form 10-K filed for the fiscal year ended February 28, 1982.
- (22) Subsidiaries of the Registrant are incorporated by reference from the Registrant's Form 10-K filed for the fiscal year ended February 28, 1981.

Copies of the above exhibits may be obtained from the Securities and Exchange Commission or the Registrant by written request.

APR 2 6 1984 50
MAY 5 1984
SEP 1 3 1986 RETD
JUN 8 1986
JUN 1 1 1986
JUN 1 8 1986 RETD
AUG 10 1986
AUG 1 1986
AUG 2 3 1986
SEP 1 1986