

**Pay 'N Pak
Annual Report
Fiscal 1984**

*A milestone
year for
the company*

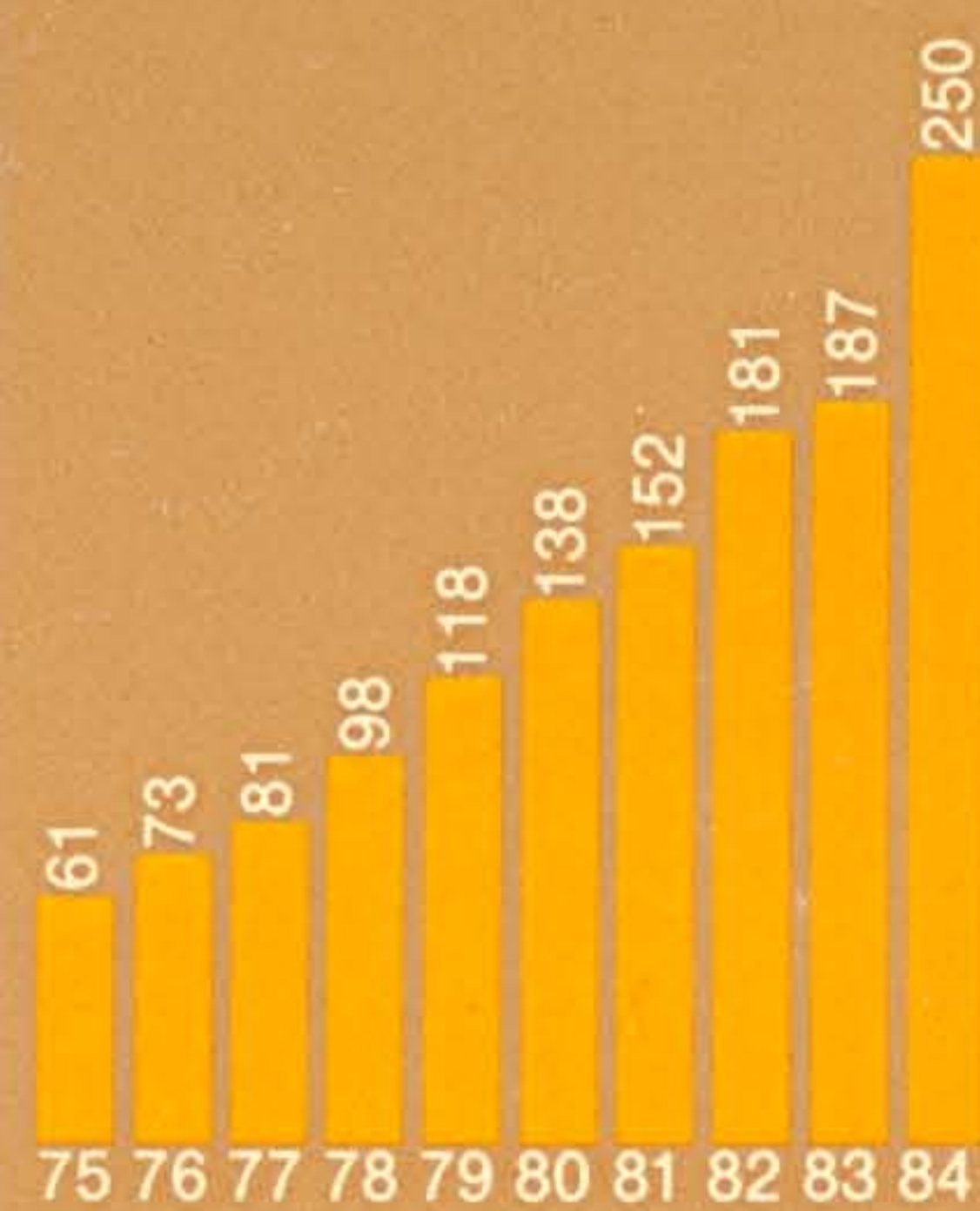
ANNUAL REPORT

ANNUAL REPORTS
PAY'n PAK Stores, Inc. 1984
Foster Business Library
University of Washington



About the company

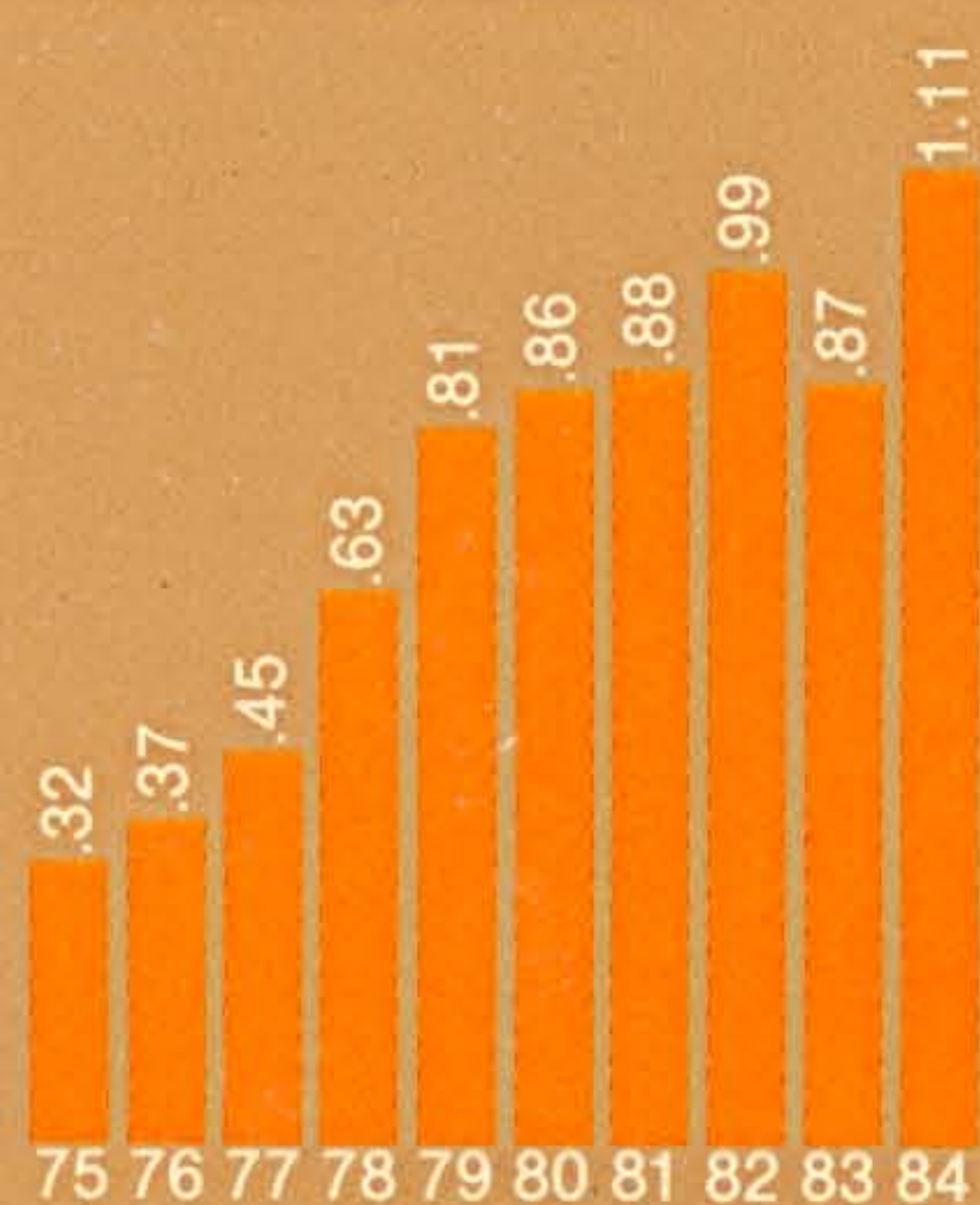
Pay 'N Pak operates 100 retail home centers and warehouse stores located in 16 states throughout the Western United States. Incorporated in 1961, the company specializes in the sale of electrical products, plumbing supplies and building materials to do-it-yourself home improvement and maintenance consumers.



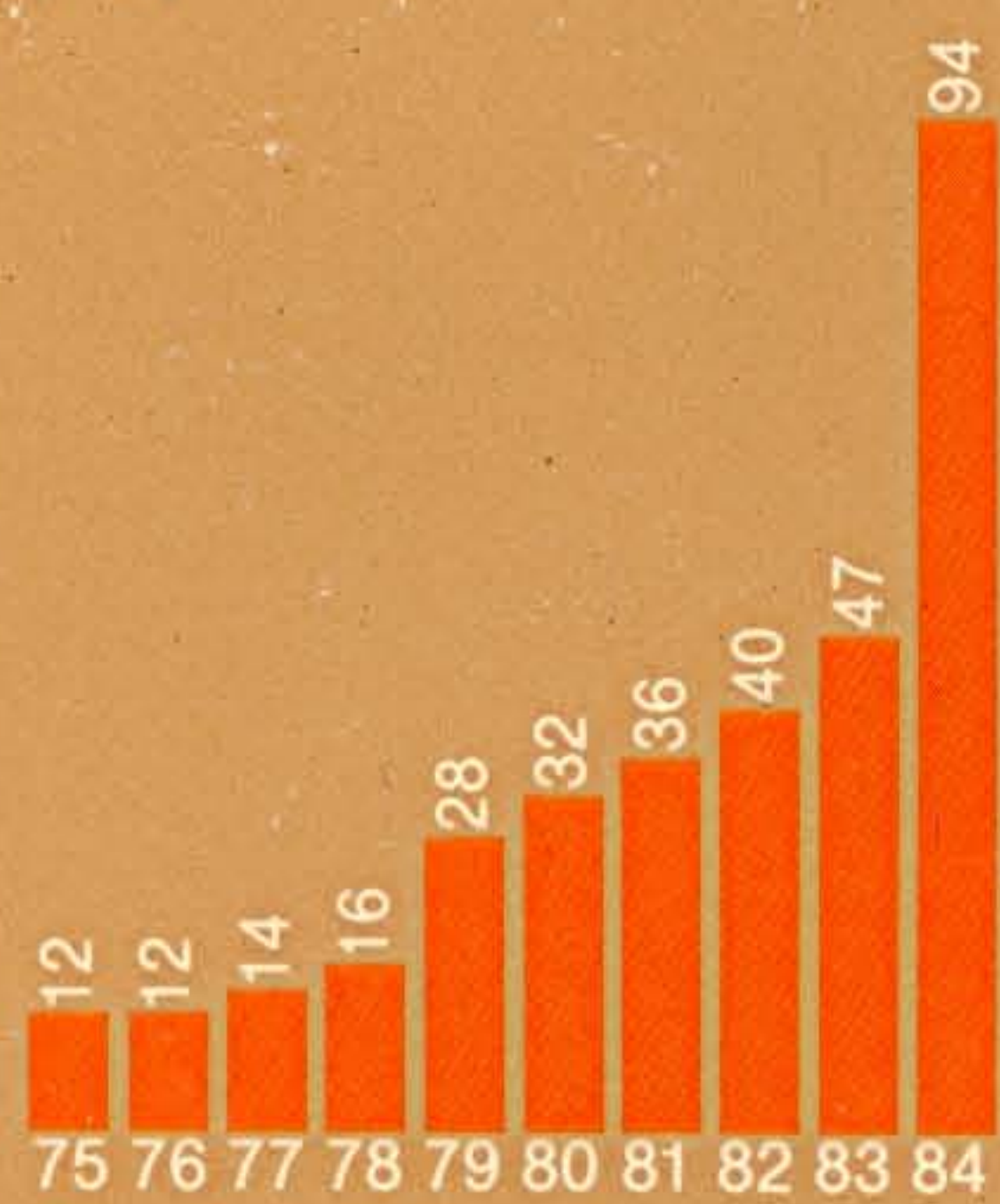
Revenues
(in \$ millions)



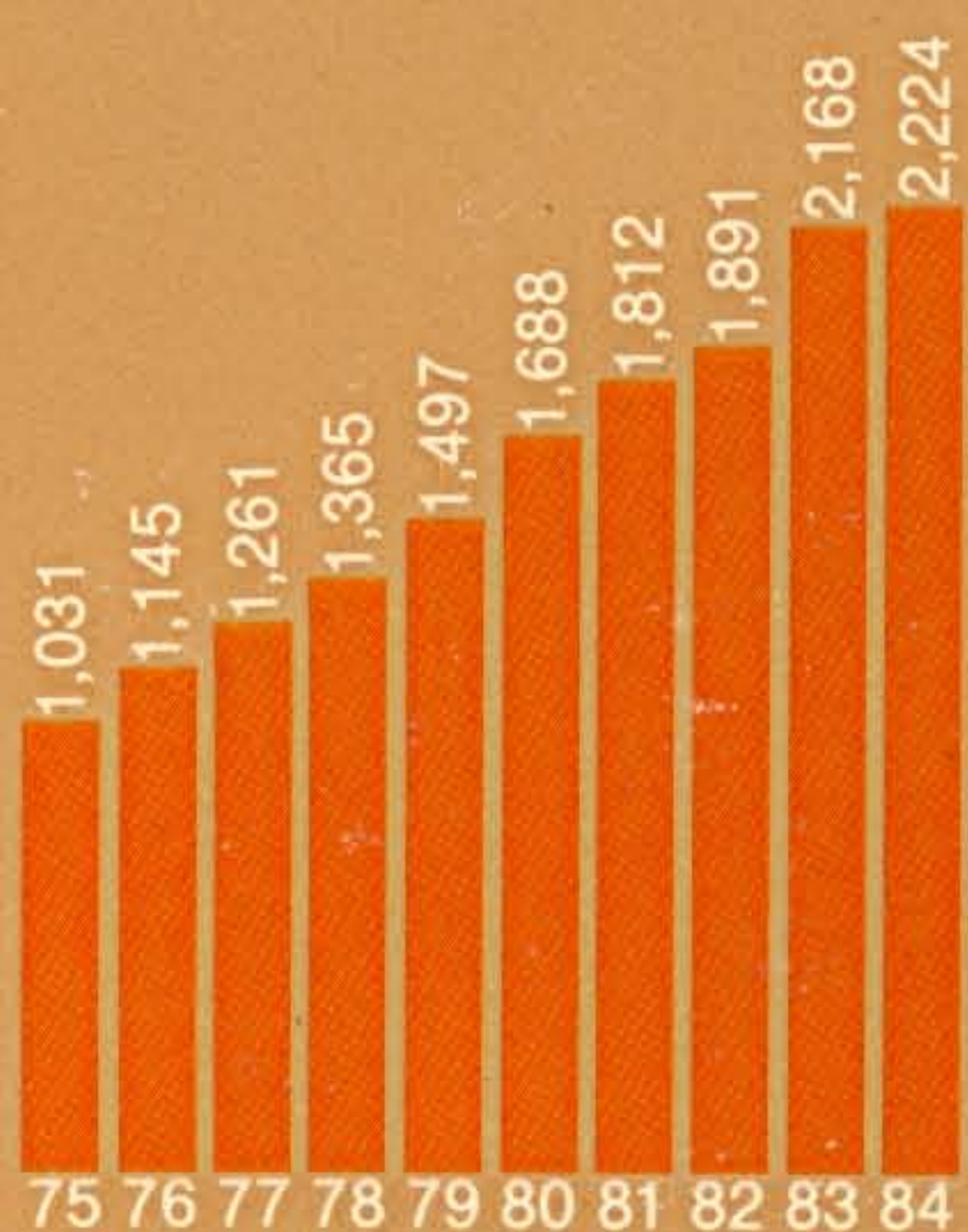
Net Income As A Percent Of Sales



Earnings Per Share
(in \$)



Stockholders' Equity
(in \$ millions)



Stores-Square Footage
(in thousands)

Contents

Financial highlights	1
Report to shareholders	2
Operations review	4
Store locations map	12
Corporate information	14

Financial
Highlights

Pay 'N Pak
Stores, Inc.

Fiscal years ended February 29 or 28

	1984	1983*	% Change
	(dollar amounts in thousands, except per share data)		
Revenues	\$250,040	\$187,338	+33
Income before income taxes	\$ 17,851	\$ 11,085	+61
Net income	\$ 10,025	\$ 6,368	+57
Per share of common stock:			
Net income	\$ 1.11	\$.87	+28
Dividends	\$.56	\$.507	+10
Weighted average number of shares outstanding	9,033	7,327	+23
Stockholder's equity	\$ 93,673	\$ 47,430	+97

Quarterly
Financial
Information
(Unaudited)

For the year ended February 29, 1984

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(dollar amounts in thousands, except per share data)			
Revenues	\$53,885	\$74,545	\$68,106	\$53,504
Gross profit on sales	19,967	25,312	25,359	20,892
Net income	1,568	3,092	3,126	2,239
Net income per share	.20	.33	.34	.23

For the year ended February 28, 1983

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(dollar amounts in thousands, except per share data)			
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*	.13	.26	.29	.19

Quarterly Low
and High Common
Stock Prices

For the fiscal years

	1984	1983*
First quarter	15 ¹ / ₈ - 22 ¹ / ₄	8 ³ / ₈ - 10 ¹ / ₂
Second quarter	16 ⁵ / ₈ - 24	7 ³ / ₄ - 9 ⁵ / ₈
Third quarter	16 - 20 ¹ / ₈	9 ¹ / ₈ - 13 ⁷ / ₈
Fourth quarter	14 ⁷ / ₈ - 20	12 ³ / ₄ - 15 ⁷ / ₈

*After giving retroactive effect to the 3-for-2 stock split issued to shareholders on April 28, 1983.

Report to Shareholders

Fiscal 1984 was a year of significant accomplishments for Pay 'N Pak.

On May 2 we joined more than 1500 of the nation's largest and most influential corporations on the New York Stock Exchange. Intended to broaden interest in our stock, as well as to provide other benefits, listing on the Big Board marks the achievement of a milestone for the company and our shareholders, who now have access to a dynamic auction marketplace.

Another highlight of fiscal 1984 was the achievement of our 13th consecutive year of increases in revenues, coupled with a strong growth in earnings over the previous year. Revenues for the year just ended were \$250,040,235, up 33 percent from \$187,337,902 in fiscal 1983. Earnings rose 57 percent to \$10,024,899, up from \$6,368,044 in fiscal 1983. Net income per share for fiscal 1984 was \$1.11 on the 9,033,023 shares outstanding, compared with \$.87 the prior year, an increase of 28 percent.

For the eleventh consecutive year your board of directors continued its policy of increasing dividends in accordance with earnings growth. Shareholders received quarterly cash dividends totaling \$.56 in fiscal 1984, compared with \$.507 the previous year. In addition, a 3-for-2 stock split was distributed to shareholders on April 28, 1983.

In May 1983 and January 1984 we successfully raised capital through new stock offerings of 1,650,000 and 700,000 shares, respectively. The May offering, which closely followed our New York Stock Exchange listing, resulted in net proceeds of \$29.4 million which the company used to eliminate short-term debt and help pay for the cost of remodeling and remerchandising existing stores.

The \$11.7 million received from the January offering was used to reduce our short-term debt and facilitate our warehouse-type store expansion program.

A project that began in fiscal 1983, the conversion of our 11 stores with automotive and sporting goods departments to our successful superstore format, was completed in fiscal 1984. The closure of these departments, which had previously accounted for about 9 percent of the chain's total sales, allowed us to add lumber, mouldings, insulation, roofing, formica, lawn and garden supplies, and an expanded door center, to our already extensive electrical, plumbing and building material products. This makes Pay 'N Pak more attractive to existing and potential customers who seek a complete, single-source home-improvement and maintenance center.

The success of these conversions led to the remerchandising of all our stores, a program that also was completed in fiscal 1984. Remerchandising included increases in gondola heights, which resulted in 32 percent more pegboard space. This cost-effective method of increasing retail footage rewarded us almost immediately with store for store (stores 3 years or older) sales gains averaging 25.7 percent.

Another program designed to anticipate the changing needs of the home-improvement consumer is the warehouse concept which was introduced in Pay 'N Pak stores this year.

This concept utilizes steel warehouse shelving to hold an entire store's inventory on the sales floor. Nothing is kept in a back room. Since the company's Kent, Washington prototype warehouse store was completed in October 1983, sales at that store have increased a dramatic 59 percent. Twelve stores are slated for conversion to the warehouse concept in fiscal 1985. Most of the new store expansion will be directed toward the greater San Francisco Bay Area. The largest completely new store to open as a warehouse will be in Honolulu, Hawaii, with 81,000 square feet of selling space. This store, which as of this writing is scheduled to open in May 1984, will also mark Pay 'N Pak's entry into the Hawaiian marketplace.

One of the keys to Pay 'N Pak's competitive pricing and depth of inventory is its regional distribution system. This past year we expanded that system by adding a 178,000 square foot distribution center in Hayward, California, to serve our growing Northern California market.

From the standpoint of top management depth your company is creating a new position—that of vice chairman. It will be filled by Marshall J. Weigel. Mr. Weigel, except for a short absence, has served on the company's board of directors since 1969. His knowledge of the company and his broad business and financial background make him ideally suited to fill this new position. In addition your board of directors elected Jerry D. Horn to the board in March 1984. Mr. Horn, age 46, is currently president of Thousand Trails, Inc., a highly successful public company headquartered in Seattle, Washington. He formerly was president of Recreational Equipment, Inc., a consumer owned sporting goods cooperative, and prior to that was with Sears, Roebuck & Company for twenty years. His retail and management skills make him a welcome addition to Pay 'N Pak.

We realize that much of the success of Pay 'N Pak is directly attributable to our employees. Without a loyal and knowledgeable

group of individuals working for and with our customers, Pay 'N Pak would not have the competitive edge that it does. That is why we believe so strongly in the value of our Employee Stock Ownership Plan. After three years of service all employees automatically become members of the Plan and receive up to \$3,000 worth of stock annually paid for by the company. This Plan currently holds 10 percent of the company's stock and is its single largest shareholder. Inasmuch as the stock given employees is purchased in the open market, the Plan will continuously increase its share of the company's outstanding stock.

We think you will agree that Pay 'N Pak has had a fine and productive year. The things that have been accomplished lay the groundwork for a bright future. We thank our employees and our shareholders for their continuing support over the years.

David J. Heerensperger

David J. Heerensperger
Chairman and
Chief Executive Officer

Jerry L. Marlow

Jerry L. Marlow
President and
Chief Operating Officer



David J. Heerensperger



Jerry L. Marlow

Innovative merchandising programs anticipate changing market

Over the years, Pay 'N Pak has taken pride in the company's ability to anticipate the changing needs of the home-improvement market. Our merchandising strategy and programs are integral to our ability to lead the industry in this area.

Our most recent merchandising development was the introduction of the high-volume, low-overhead warehouse concept in Pay 'N Pak stores this year. Warehouse merchandising allows us to broaden our already extensive product selection, as well as increase inventory levels throughout the stores. This no-frills concept utilizes traditional steel warehouse shelving throughout the retail sales floor, with inventory stacked to the ceiling and attention-grabbing displays at eye-level.

Since the Kent, Washington prototype store was converted to the warehouse concept in October 1983, sales in that store have increased 59 percent over the same period

Twenty high-volume, low-overhead warehouse stores will be in operation by May 1985.



last year. Of our largest stores, 12 are slated for conversion by the end of fiscal 1985. The chain's largest warehouse store is currently underway in a new market area for Pay 'N Pak, Honolulu, Hawaii, and is scheduled to open in late May. Other warehouse stores slated to open in fiscal 1985 include two in the San Francisco Bay Area and one in Modesto, California, which will bring our total number of warehouse outlets to 20.

During fiscal 1984 Pay 'N Pak completed a merchandising program that began in fiscal 1983. The company's 11 stores with automotive and sporting goods departments were converted to our successful "superstore" format. Closing these departments allowed us to add lawn and garden products and expand our existing lines of lumber, moulding, insulation, roofing, formica, paint and doors.

In addition, the company completed the remerchandising of all its stores, in which gondola heights were raised from 54 inches to 66 inches, and in some cases 84 inches. The resulting 32 percent increase in gondola pegboard footage has enabled us to add more than 4,000 new stock-keeping units.

By updating our product mix, and increasing our already extensive inventory, Pay 'N Pak has strengthened its market share. Our stores are now more complete home centers that offer one-stop shopping to customers with no time to waste.

The introduction of new store graphics is also appealing to customers. Updated paint

Warehouse merchandising increases product selection, inventory depth.



schemes and new pylon readerboard signs grace the exteriors of our stores while new, high-energy interior graphics aid in moving customers to their desired departments.

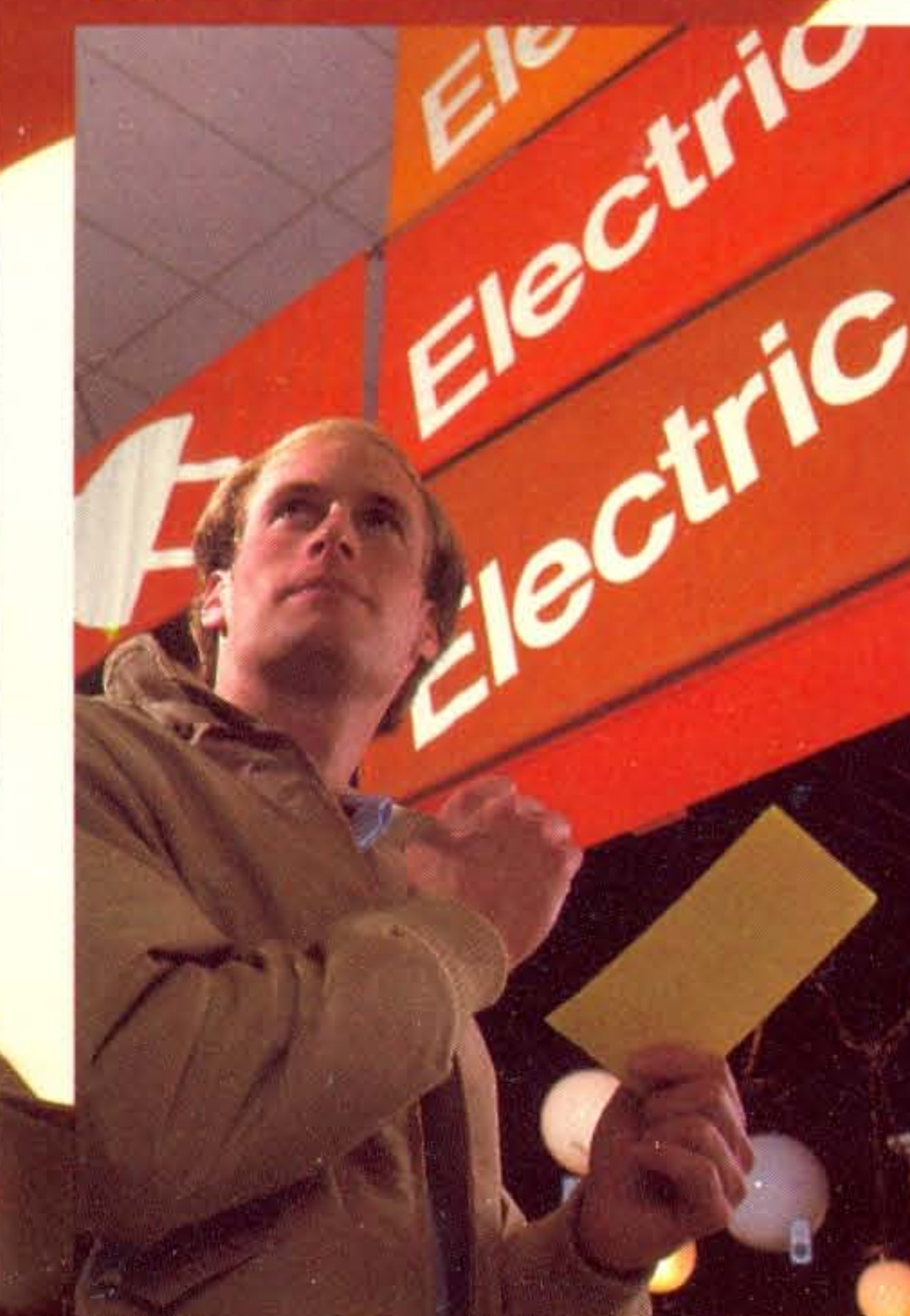
Feedback that we receive from customers on a continual basis indicates that our extensive kitchen and bathroom displays are extremely popular. In our four model kitchens and seven model bathrooms, customers are able to see how merchandise will look in their homes. As an added incentive to buy, all merchandise on display is available for immediate purchase.

Maintaining a single focus has been a key to the success of our merchandising strategy: sell high-quality products at competitive prices, while preserving healthy profit margins. To that end, we offer top brand names, such as Kohler, Waste King, Black & Decker and DuPont, as well as private label merchandise designed and built to our specifications. And we put our "won't be undersold" philosophy into practice, with aggressive, competitive pricing and a well-publicized policy that grants a 5 percent discount to customers who identify competing advertised merchandise priced lower than ours.

Our 11 model kitchens and bathrooms give customers helpful decorating ideas.



New bold store graphics quickly direct customers to our various departments.



Complementing our successful merchandising strategies is an aggressive marketing program that encompasses everything from store location to media advertising.

Experience has taught us that small and mid-size cities are lucrative locations for our stores as they tend to turn a profit more quickly than stores in larger locales. Another advantage is the need for less retail space in order to obtain a dominant market position—20,000 square feet, for example, in a city with a population of 50,000 to 70,000.

We also know that vacated supermarkets are optimum facilities for our stores. Leases tend to be longer term and less expensive than other options. Store openings are generally faster, usually occurring 90 to 120 days after signing the lease. Other important benefits are the established traffic flows and abundant parking that these sites offer.

We also realize the economic advantages of strategically developed advertising programs. In larger cities, several stores are grouped together for shared advertising economies, as well as market dominance. While in smaller cities, with single stores, advertising costs tend to be lower. This planning allows stores in both environments to run large newspaper ads weekly and produce tabloids quarterly.

To further augment our successful print advertising, we currently are utilizing television as another advertising medium.

For a company that dares to be innovative in its merchandising and marketing there are major benefits. Establishing a loyal customer base ahead of everyone else. And the company might not have to be as price-promotional, and therefore, can generate higher gross margins.

**Jeff Atkin,
Investment Analyst,
Cable, Howse & Ragen**

We have always known the importance—and potential benefits—of an inventive merchandising program. In five months we realized a 59% increase in sales in our first warehouse store over the same period last year.

**Monte Leen,
Executive Vice
President**

Inventory & distribution systems provide competitive strengths

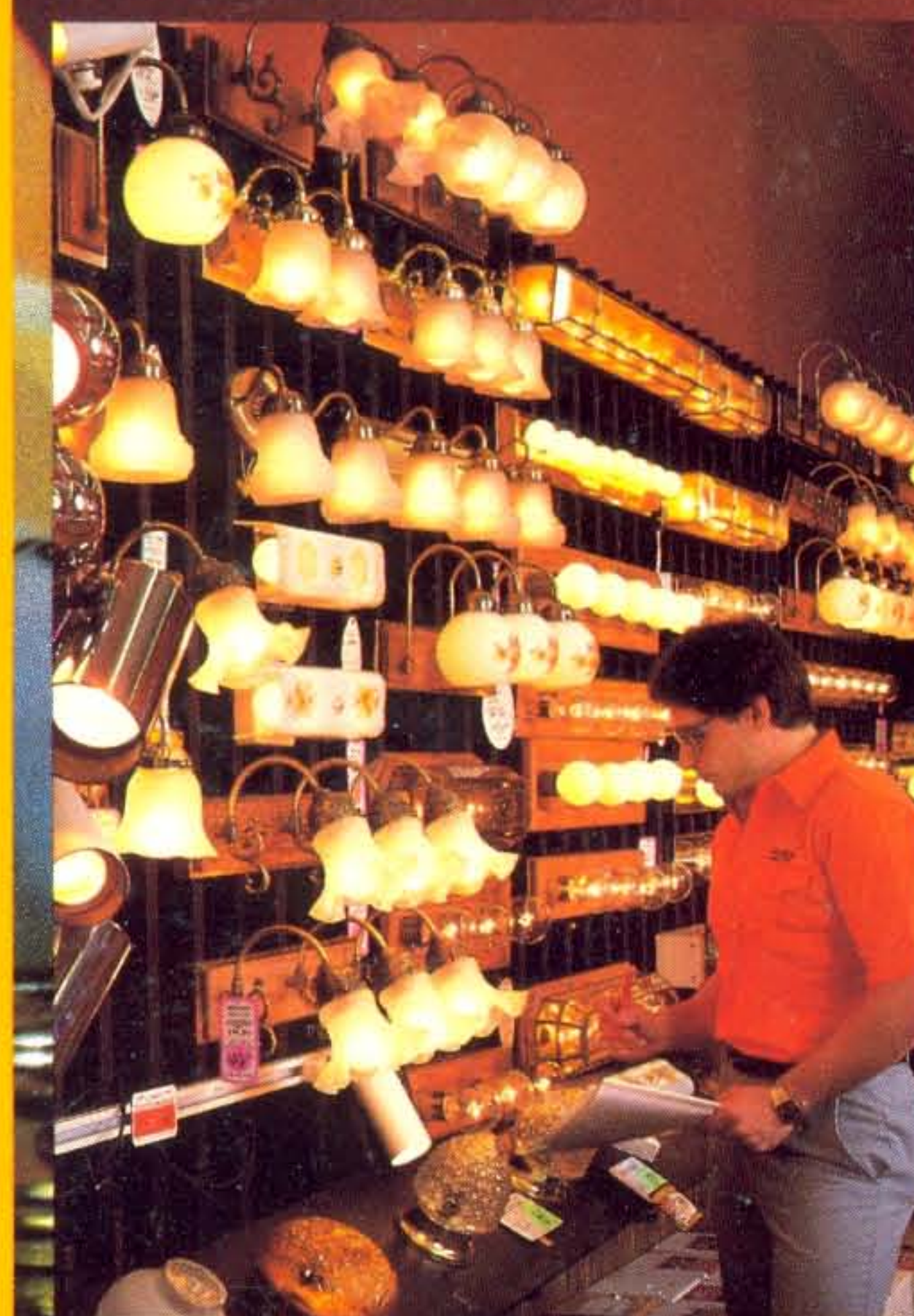
Integral to Pay 'N Pak's extensive in-store inventory is the company's regional distribution system. This system is the key to our success in meeting customer demands. In a recent national survey, home improvement consumers identified product availability as a primary factor governing their shopping choices.

Three strategically located distribution centers serve 100 stores throughout a wide geographic base. Store locations range from the Pacific Northwest and Alaska south to California and east to Iowa.

Currently, the 154,000 square-foot distribution center in Denver, Colorado serves 32 stores in the Midwest, while the 251,000 square feet of warehouse space in Kent, Washington serves 50 stores in the Northwest. Our Hayward, California facility, with 178,000 square feet, was brought into service this year and serves 18 stores in the fast-growing Northern California market.

More than 80 percent of our merchandise is shipped to our stores from the distribution centers on our own trucks. Stores receive

More than 600 lighting fixtures in every store give customers unlimited choices.



products on a weekly basis, which keeps the fluctuation in store inventory levels to a minimum. Rarely will a customer be told a store is out of a particular item.

The traditional method of purchasing electrical and plumbing merchandise is through a two-step distribution system. However, we purchase more than 90 percent of our products directly from the manufacturer and the majority of our orders consist of full truck-load shipments. Eliminating the middleman and buying in high volume allow us to discount merchandise, while maintaining enviable gross margins.

Although kitchen cabinets, electrical and plumbing products comprise more than 60 percent of the chain's sales, Pay 'N Pak stocks a complete selection of merchandise

Container-load quantities result in lower prices and higher profits.



for the do-it-yourselfer, including hardware, paint, roofing, insulation, and lawn and garden supplies. Not only does one-stop shopping provide a valuable service to the customer, the add-on items it encompasses are generally very profitable for the stores.

Pay 'N Pak stores carry a wide range of brands and models within most product lines. We offer over 50 styles of bathroom and kitchen faucets, and more than 600 styles of lighting fixtures. Within each product line we offer the consumer a wide selection of quality and feature levels, and all products on display are in stock for immediate purchase.

Our purchasing agents visit Asia several times each year and are constantly shopping for new items and better prices. They often purchase entire container loads to achieve significant price reductions.

We also realize the importance of maintaining high inventory levels within each store. Having products in stock that are on display increases the likelihood of a customer making an immediate purchase. It also increases

repeat business, because the customer knows Pay 'N Pak will have the merchandise in stock at a competitive price.

We know our strengths lie in electrical and plumbing supplies. At the same time, we are broadening our merchandise base to include adjunct items to these lines. And we are doing so without sacrificing inventory levels, as witnessed by the addition of our third distribution center, the remerchandising of our stores, and the introduction of the warehouse concept, which will increase our inventory advantage even further.

In effect, we are striving to become a single-source home-improvement center for our customers.

Most merchandise is shipped to our stores on our own trucks.



Many products are designed and manufactured to Pay 'N Pak specifications.

In a nation-wide survey of consumers who shop at home-improvement retail centers, inventory was cited as the number two complaint against the stores. More than 54% of the respondents complained about retailers being out of a particular item.

Building Supply News 1982

Pay 'N Pak doesn't like to issue "rain-checks" for out-of-stock merchandise, and we rarely have to. We're able to maintain extensive product inventory levels for several reasons. This benefits the customer and helps Pay 'N Pak by increasing sales and encouraging customer loyalty—and that's the bottom line.

**Cal Karbowski
Vice President,
Distribution**

Knowledgeable sales staff key to customer loyalty

Pay 'N Pak learned the value of well-trained salespeople long before industry research proved their importance. We know our people are a major competitive strength, and we work hard to maintain a leadership position within the industry. Ongoing customer feedback received throughout the Pay 'N Pak chain reinforces the high value consumers place on a salesperson's general knowledge and product familiarity.

Although the consumers in our marketplace are attracted by competitive prices, they're loyal to the stores that provide expert advice and instruction. In fiscal 1984 we spent more than \$1 million arming our employees with the knowledge necessary to assist customers with everything from selection to installation.

As the first company in the building supply industry to institute an inhouse training department, we currently have a staff of 10 full-time employees with responsibility for employee training programs.

Our training coach gives employees hands-on plumbing and electrical experience.



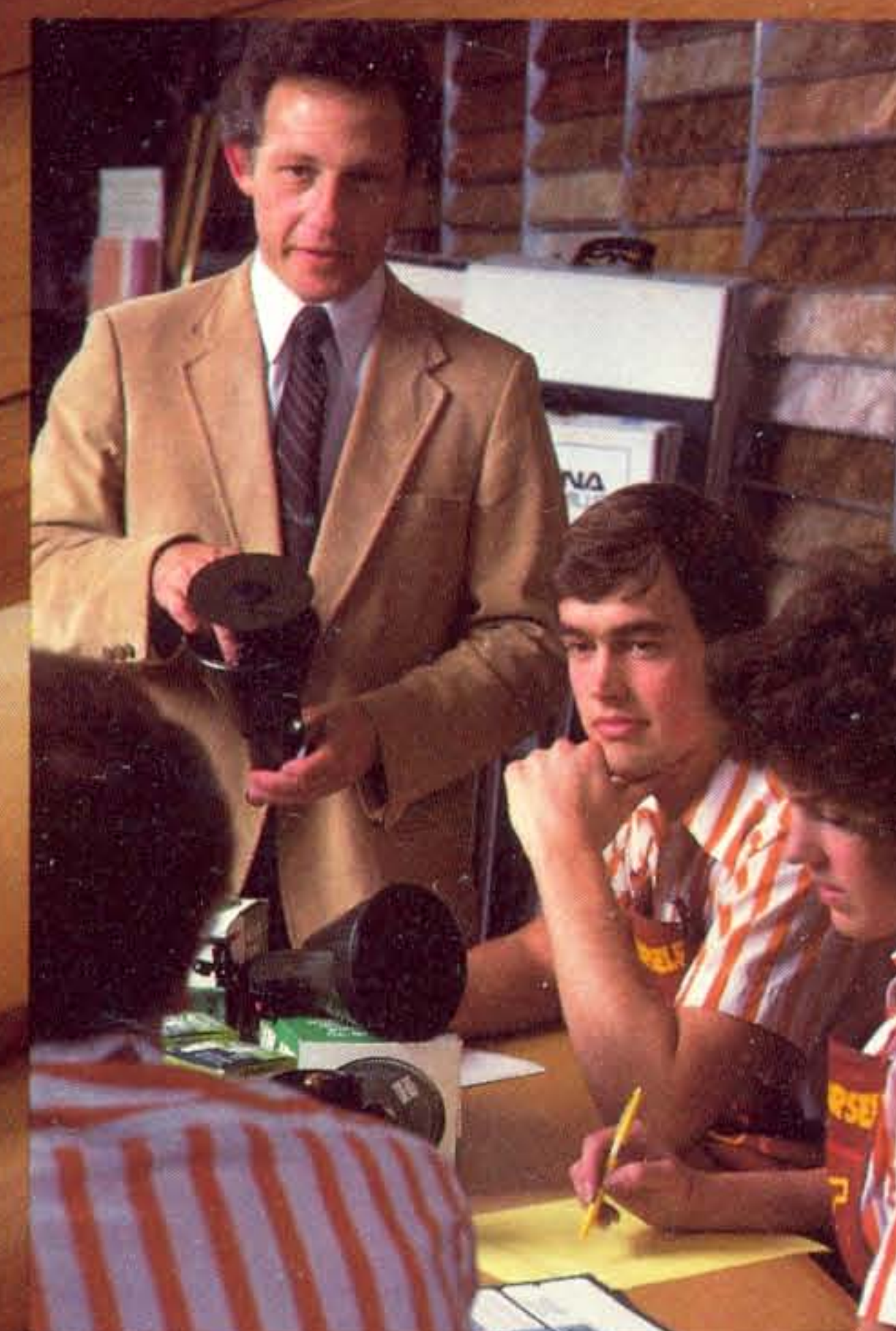
Customers rely on our salespeople for sound advice and expert instruction.



Training and testing are continuous throughout an employee's service with the company, and encompass everything from full knowledge of air-tight wood stoves to hands-on experience installing electrical wiring. We use several methods of instruction, including self-teaching film and video, a mobile training coach and in-store presentations by manufacturers' representatives. Each year our training department coordinates more than 60 meetings at each of our 100 stores.

Three times each year the company's mobile training coach visits each store, giving employees hands-on experience in all aspects of plumbing and electrical installation. This builds confidence in our employees, who in turn communicate that confidence to our customers.

Every month, manufacturers' representatives make presentations to store employees, building product knowledge. Presentations must follow Pay 'N Pak's training format and are screened by our training staff prior to store presentations. These presentations stress benefits to the customer, as well as features, and are supplemented with printed Product Profiles prepared by our training staff. Every store maintains an up-to-date reference manual that contains a profile on every product carried in that store and is always available for employee use.



Manufacturers' presentations increase employees' product knowledge and familiarity.

Always moving ahead with technology, Pay 'N Pak is currently updating the training libraries at each of its stores. Our more than 40 films are currently being converted to a self-teaching computerized video format that utilizes the state-of-the-art Panasonic Interactive system. This system allows individual employees to view instructional tapes that test the employees while they are viewing them.

As the employee progresses through the various sections in each tape, the individual's knowledge and comprehension are tested. Each test must be passed before the tape is continued. Test results, time required to complete each tape and other data are stored on computer for review and analysis by both the store manager and the training department.

Overseeing each store sales staff is a store manager who reports to one of 10 district managers. Our management structure

Our computerized video training system helps instruct and evaluate store employees.



ensures channels of communication remain open throughout the company and encourages entrepreneurship in every store manager. The head of each store has flexibility in ordering and buying merchandise, and provides valuable feedback for changes in merchandising mix, inventory depth and advertising methodology throughout the company.

The ongoing training that all employees receive benefits not only the individuals, but the company as well. Every current store manager, and over 90 percent of our staff members, including our senior executives, have come up through the company's ranks.

In addition to training, employee performance is rewarded with high wages, excellent benefits, sales and service awards and generous bonuses based on store sales and company profits. After three years of service, every full-time employee automatically becomes a member of the Employee Stock Ownership Plan, receiving up to \$3,000 worth of company stock annually. This stock is held in trust until the employee retires and is paid for entirely by the company. Currently, this Plan holds 10 percent of the company's stock and 48 percent of the company's employees are members.

Seventy-nine percent of the respondents to a national customer survey about do-it-yourself retailers cited too few knowledgeable salespeople as their primary complaint against home improvement stores.

Building Supply News 1982

We're proud of the fact that Pay 'N Pak pioneered sales staff training 12 years ago. We were—and still are—first in the industry. Our extensive in-store training is supplemented by hands-on experience in the company's mobile training coach and frequent presentations by manufacturers.

**George Smith
Vice President, Training**

Ten Year
Summary
of Growth
Highlights

Pay 'N Pak
Stores, Inc.

Years ended February 28 or 29

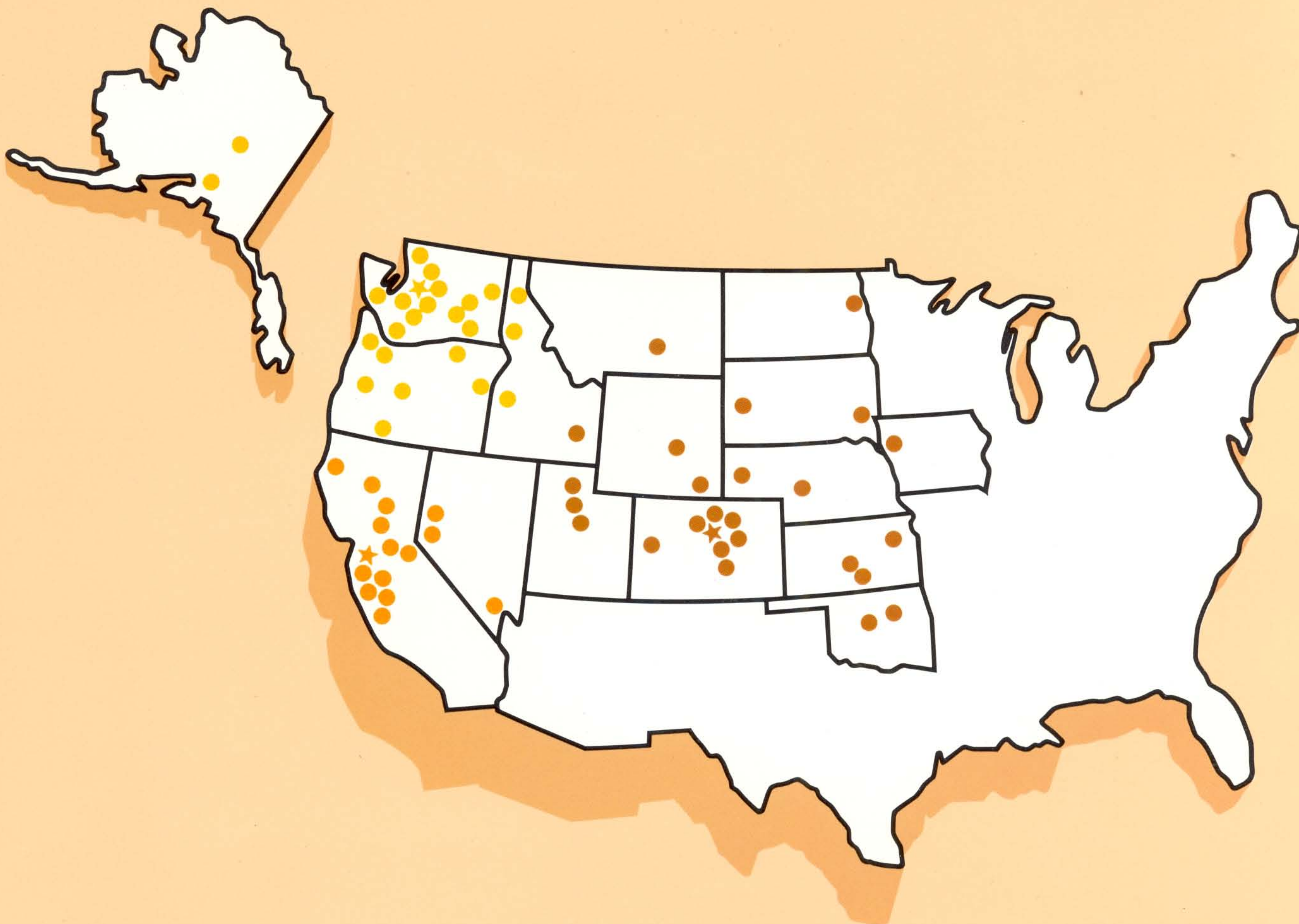
	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
Operations										
Revenues	\$250,040,235	\$187,337,902	\$180,973,899	\$151,765,190	\$138,361,294	\$117,688,090	\$98,051,888	\$80,642,749	\$73,279,952	\$61,470,839
Income before income taxes	\$ 17,850,899	\$ 11,085,044	\$ 13,048,796	\$ 11,575,328	\$ 11,470,982	\$ 10,199,489	\$ 7,882,339	\$ 5,463,526	\$ 4,604,566	\$ 4,070,713
Net income	\$ 10,024,899	\$ 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
Common Stock										
Average number of common shares	9,033,023	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
Net income per common share ³	\$1.11	\$.87	\$.99	\$. 88	\$.86	\$.81	\$.63 ²	\$.45	\$.37	\$.32
Stock dividends and stock splits	50%	10%	—	—	20%	33 1/3%	50%	10%	10%	—
Cash dividend paid per common share ³	\$.56	\$.507	\$.461	\$.412	\$.363	\$.299	\$.209	\$.137	\$.106	\$.073
Financial Position										
Total assets	\$164,480,626	\$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
Stockholders' equity	\$ 93,673,204	\$ 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
Return on stockholders' equity ⁴	13.2%	15.9%	19.9%	20.0%	22.4%	32.9%	29.5%	24.7%	20.1%	20.2%
Shares of common stock outstanding (end of year)	10,002,832	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
Net book value per share	\$9.36	\$6.20	\$5.50	\$4.96	\$4.48 ¹	\$4.00 ¹	\$2.74 ¹	\$2.31 ¹	\$2.01 ¹	\$1.83
Long-term debt	\$ 28,448,453	\$ 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
Stores In Operation										
Number of stores open	100	98	88	84	78	70	65	60	55	50
Number of stores sold or closed	0	1	0	0	0	1	0	0	3	1
Stores replaced with new stores	0	0	0	0	1	1	1	2	2	0
Number of states in which we operated	16	16	15	15	15	14	13	13	11	11
Square footage of stores	2,224,301	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
Average square footage per store	22,243	22,118	21,486	21,566	21,647	21,383	21,003	21,013	20,815	20,616
Average annual inventory in stores	\$ 50,463,747	\$ 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
Average annual inventory total (includes warehouses)	\$ 74,351,955	\$ 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
Store Averages										
Average sales per store	\$ 2,494,912	\$ 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
Number of customers served	10,104,727	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
Average customer purchase	\$ 24.69	\$25.60	\$25.99	\$23.64	\$23.26	\$21.52	\$19.69	\$18.25	\$17.85	\$16.86
Sales per square foot	\$112.17	\$92.73	\$95.40	\$88.73	\$81.67	\$78.63	\$71.82	\$63.96	\$64.01	\$59.63
Sales per full time employee (end of year)	\$ 167,331	\$ 158,520	\$ 151,331	\$ 138,650	\$ 128,635	\$ 113,489	\$ 115,084	\$ 108,536	\$ 103,502	\$ 88,320

¹After giving effect to shares held by ESOT which had not been allocated to employee accounts.
²Net income in 1978 includes a net reduction of \$191,337 (\$.03 per share) due to a change in the method of accounting for pre-opening costs to expensing them as incurred rather than amortizing them.
³Restated for stock dividends and stock splits in fiscal years 1984, 1983, 1980, 1979, 1978, 1977 and 1976.
⁴Computed using weighted average stockholders' equity in fiscal year 1984 and beginning of year stockholders' equity in prior years.

Our Locations

Legend

- ★ Distribution center
- Stores serviced by distribution center of same color



Stores serviced by Kent distribution center:

Alaska

Anchorage
Fairbanks

Idaho

Boise
Coeur d'Alene
Lewiston

Oregon

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

Washington

Aberdeen
Bellingham
Bothell
Bremerton
Everett
Federal Way
Kennewick
Kent
Longview
Lynnwood
Marysville
Moses Lake
Mt. Vernon
Olympia
Puyallup
Redmond
Renton
Seattle (6)
Spokane (2)
Tacoma (3)
Vancouver
Walla Walla
Wenatchee
Yakima

Stores serviced by Denver distribution center:

Colorado

Aurora
Colorado Springs
Denver (2)
Fort Collins
Grand Junction
Greeley
Pueblo
Wheat Ridge

Idaho

Pocatello

Iowa

Sioux City

Kansas

Hutchinson
Topeka
Wichita (2)

Montana

Billings

Nebraska

North Platte
Scottsbluff

North Dakota

Grand Forks

Oklahoma

Oklahoma City (2)
Tulsa (2)

South Dakota

Rapid City
Sioux Falls

Utah

Ogden
Orem
Salt Lake City
Sandy
Woods Cross

Wyoming

Casper
Cheyenne

Stores serviced by Hayward distribution center:

California

Campbell
Chico
Eureka
Newark
Rancho Cordova
Redding
Roseville

Sacramento (3)
San Jose (2)
Santa Clara
Sunnyvale
Yuba City

Nevada

Carson City
Las Vegas
Reno

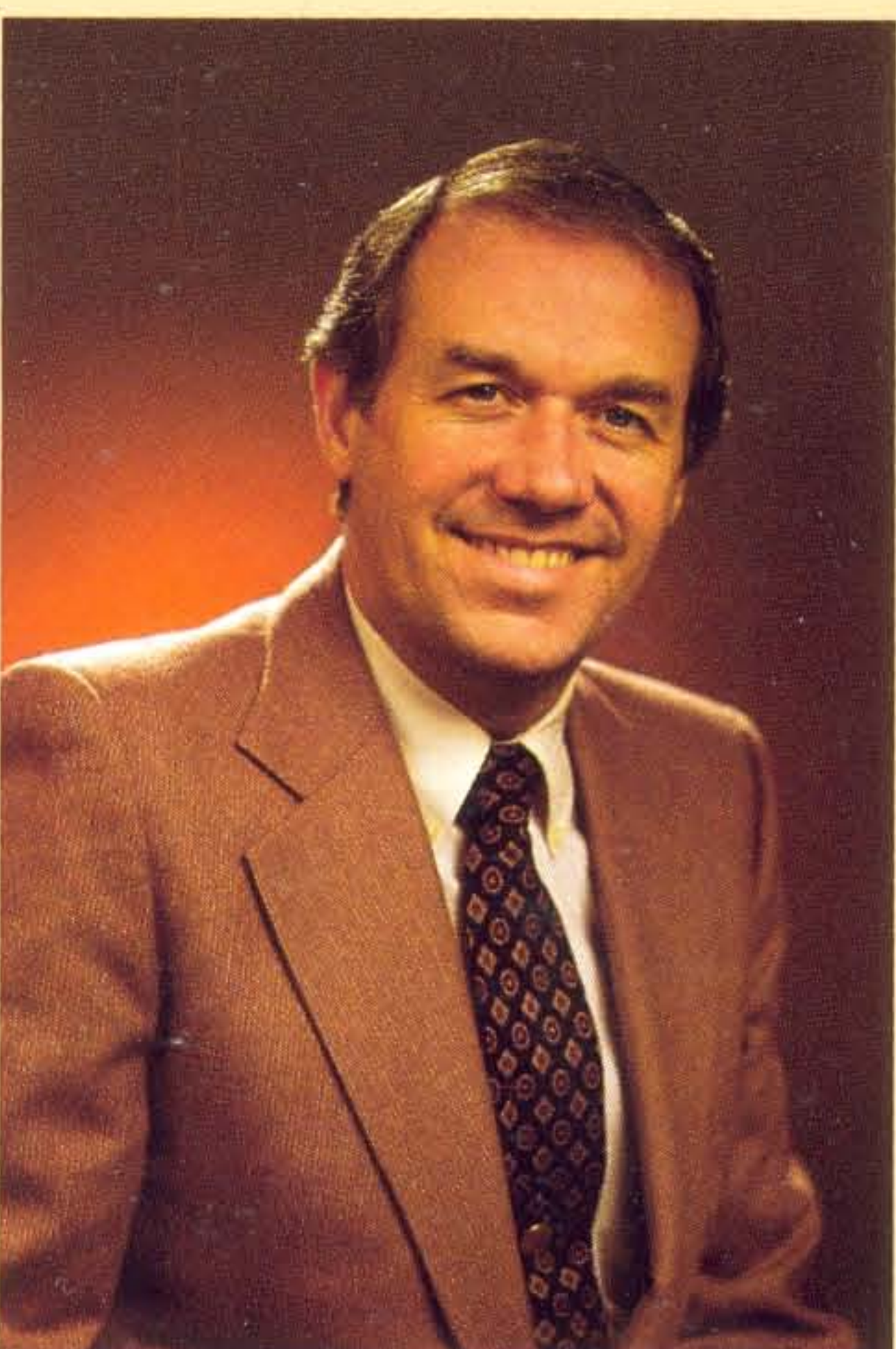
Directors



David J. Heerensperger



Jerry L. Marlow



Monte A. Leen



Halvor Knudtson, Jr.



Marshall J. Weigel



Woodrow C. Button

Board of Directors

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 Knudtson, Jr.
Secretary-Treasurer

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

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

Officers & District Managers

Officers

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 Knudtson, Jr.
Secretary-Treasurer

Victor W. Crosswhite
Vice President and Director of Purchasing

Peter W. Gallina
Vice President,
Real Estate and Store Development

Calvin E. Karbowski
Vice President,
Distribution

George E. Smith
Vice President,
Training

District Managers

Bud Brown
Midwest, South

John Coogan
Mountain

Warren Jones
Southwestern Washington

Gene Kasper
Midwest, North

Mel Kelley
Oregon, Alaska

Mike Mandick
Oregon, California

Larry Marlow
Eastern Washington,
Northern Idaho

Rick Noegel
California

John Schweitzer
California, Nevada

Wally Tesch
Western Washington

Corporate 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 common stock of Pay 'N Pak Stores, Inc. is listed and traded on the New York Stock Exchange (NYSE). As of April 2, 1984, there were approximately 2,627 holders of record of the Company's common stock.

The range of high and low closing bid quotations or the reported last sales prices of the Company's stock during each quarter of the last two fiscal years as reported by NASDAQ through April 29, 1983 and thereafter by the NYSE is provided. The over-the-counter quotations may reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent

actual transactions. 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 three-for-two stock split issued April 28, 1983.

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 19, 1984 at 11 o'clock a.m. at the Marriott Hotel, 3201 South 176th Street, Seattle, Washington.

Financial Statements


Responsibility for Financial Statements

The accompanying balance sheets of Pay 'N Pak Stores, Inc. at February 29, 1984 and February 28, 1983 and the related statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended February 29, 1984, 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 29, 1984
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
Common Stock

Name of each exchange
on which registered
New York Stock Exchange

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

None

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 2, 1984-\$116,456,370.

Common stock outstanding at April 2, 1984 - 10,002,832 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy statement to be filed in connection with Annual Meeting of Shareholders to be held on June 19, 1984, is incorporated into Part III.

CONTENTS

Item No.		Page
PART I:		
Item 1.	Business	3
Item 2.	Properties	7
Item 3.	Legal Proceedings	8
Item 4.	Submission of Matters to a Vote of Security Holders	8
	Executive Officers of the Company	8
PART II:		
Item 5.	Market for the Company's Common Equity and Related Stockholder Matters	9
Item 6.	Selected Financial Data	9
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 8.	Financial Statements and Supplementary Data	11
Item 9.	Disagreements on Accounting and Financial Disclosure	11
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	25
Item 11.	Executive Compensation is incorporated by reference from the Company's proxy statement	25
Item 12.	Security Ownership of Certain Beneficial Owners and Management is incorporated by reference from the Company's proxy statement	25
Item 13.	Certain Relationships and Related Transactions is incorporated by reference from the Company's proxy statement	25
PART IV:		
Item 14.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	31

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 29, 1984, the Company opened two new stores and currently operates 101 stores in 16 states, all west of the Mississippi River, although over half of the stores are located on the West Coast with 32 stores in Washington, 13 stores in Oregon and 16 stores in northern California.

ITEM I - Business, continued

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 1984, 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 29, 1984, the Company opened new stores in Seattle Washington (its 12th store in that area) and Chico, California. The company also converted its Kent, Washington store to a prototype warehouse concept store in October 1983, subsequently converted its Bellevue, Washington, and Anchorage, Alaska, stores to home improvement warehouses and, in March 1984, opened a new warehouse store in Modesto, California.

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

	Years Ended February 28 or 29,				
	1984	1983	1982	1981	1980
Stores in operation at beginning of year	98	88	84	78	70
New stores opened or acquired . .	2	11	4	6	9
Stores replaced by new stores . . .					(1)
Stores sold or closed		(1)			
Stores in operation at end of year	100	98	88	84	78

ITEM I - Business, continued

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 plans to open new warehouse concept stores later in fiscal 1985 in Honolulu, Hawaii, downtown San Francisco and South San Francisco and also plans to convert existing traditional stores to warehouse concept stores in Seattle, Washington; Eugene, Oregon; Casper, Wyoming; Fairbanks, Alaska; Grand Junction, Colorado; Billings Montana; Kennewick, Washington; and five stores in the San Jose, California area.

(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 three central warehouse locations, an aggregate of 252,000 square feet in Kent, Washington, an aggregate of 153,781 square feet in Denver, Colorado and 178,800 square feet in Hayward, California. 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, the Hayward warehouse services 18 stores in northern California and Nevada, 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.

(xi) *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 in-store training meetings, 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 three fiscal years is approximately \$358,274 in 1984, \$332,769 in 1983 and \$322,136 in 1982.

(xii) *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.

(xiii) *Number of employees.* The Company currently employs approximately 1,415 full-time persons and 152 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 101 stores, 32 are located in the State of Washington, 13 in Oregon, 16 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 nine are leased under leases expiring at various times between August 1984 and February 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. 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. In addition, the Company leases regional warehouse space in Hayward, California, under a lease that expires in August 1993. 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 and Aberdeen, Washington; and two stores in San Jose, California. The company also owns the property in Honolulu, Hawaii where it plans to open and operate a warehouse concept store in May 1984. None of these properties are presently subject to any mortgages or other encumbrances except the two San Jose stores.

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. 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.

Executive Officers of the Company

<u>Name</u>	<u>Age</u>	<u>Positions and Offices</u>
David J. Heerensperger	47	Chairman of the Board and Chief Executive Officer; Director
Marshall J. Weigel	63	Vice-Chairman of the Board; Director
Jerry L. Marlow	48	President and Chief Operating Officer; Director
Halvor Knudtzon, Jr.	57	Secretary-Treasurer; Director
Monte A. Leen	41	Executive Vice President; Director
Victor W. Crosswhite	47	Vice President-Purchasing
Peter W. Gallina	48	Vice President-Real Estate and Store Development
Calvin E. Karbowski	48	Vice President-Distribution
George E. Smith	48	Vice President-Training

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. Weigel was elected Vice-Chairman in March 1984. 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. Mr. Leen has served as Executive Vice-President since March 1981. Mr. Smith was elected a Vice-President in June 1983. 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 except Mr. Weigel 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. Mr. Weigel is a self-employed corporate finance specialist. 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. George E. Smith, prior to his election as Vice President-Training in June 1983, served the Company as director of its training department.

Part II

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

The common stock of Pay 'N Pak Stores, Inc. is listed and traded on the New York Stock Exchange (NYSE). As of April 2, 1984, there were approximately 2,627 holders of record of the Company's common stock.

The range of high and low closing bid quotations or the reported last sales prices of the Company's stock during each quarter of the last two fiscal years as reported by NASDAQ through April 29, 1983 and thereafter by the NYSE is shown below. The over-the-counter quotations may reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. 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 three-for-two stock split issued April 28, 1983.

NYSE Symbol: PNP

Quarterly High and Low Bid or Sales Prices

(Asked prices are approximately 1/2 point more)

Years ended February 28 or 29	1984	1983
1st quarter	\$22 1/4-15 1/8	\$10 1/2- 8 3/8
2nd quarter	\$24 -16 5/8	\$ 9 5/8- 7 3/4
3rd quarter	\$20 1/8-16	\$13 7/8- 9 1/8
4th quarter	\$20 -14 7/8	\$15 7/8-12 3/4

Quarterly Dividends

Years ended February 28 or 29	1984	1983
1st quarter	\$.14	\$.127
2nd quarter	\$.14	\$.127
3rd quarter	\$.14	\$.127
4th quarter	\$.14	\$.127

ITEM 6 - Selected Financial Data

In thousands, except per share data.

	Years Ended February 28 or 29,				
	1984	1983	1982	1981	1980
Operating results:					
Net sales	\$249,491	\$187,172	\$180,387	\$151,684	\$137,897
Income before					
income taxes	\$ 17,851	\$ 11,085	\$ 13,049	\$ 11,575	\$ 11,471
Net income	\$ 10,025	\$ 6,368	\$ 7,199	\$ 6,449	\$ 6,313
Per common share(1):					
Net income	\$1.11	\$.87	\$.99	\$.88	\$.86
Cash dividends	\$.56	\$.507	\$.461	\$.412	\$.363
At year-end:					
Total assets	\$164,481	\$119,531	\$ 97,800	\$ 90,273	\$ 81,902
Long-term debt	\$ 28,448	\$ 34,879	\$ 26,470	\$ 27,979	\$ 28,680

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

ITEM 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of operations

Net sales increased from \$187.2 million in fiscal 1983 to \$249.5 million in fiscal 1984, an increase of 33%. The increase in net sales is generally attributable to increased volume in existing stores, due to the completion of the Company's remerchandising program during fiscal year 1984, and to sales from eleven stores which were open for all of fiscal year 1984 and only a portion of fiscal year 1983. The remerchandising program consisted of increasing the height of the display racks accompanied by an increase in the number of stock keeping units in each store. In addition, the company converted three of its larger stores to warehouse concept stores in the latter part of fiscal 1984 (See Part I, Item 1(a) - "Description of Business"). Net sales increased from \$180.4 in fiscal 1982 to \$187.2 in fiscal 1983, an increase of 3.8%. Sales in fiscal 1983 were affected by the closeout of the automotive and sporting goods departments in 11 stores during that year, followed by the remodeling and remerchandising of these stores. Automotive and sporting goods represented 9% of the Company's sales during fiscal 1982. For information regarding numbers of new stores opened in each of the last five fiscal years, (See Part I, Item 1(c) - "Description of Business").

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

	<u>1983 to 1984</u>	<u>1982 to 1983</u>
	(In thousands)	
Net sales of stores opened during fiscal year	\$ 2,672	\$ 5,935
Increase in net sales over the preceding year of stores in their first full fiscal year of operation . . .	22,112	1,711
Increase in net sales over the preceding year of stores open for over two fiscal years*	37,535	8,982
Decrease in net sales due to closure of automotive and sporting goods departments	--	(9,842)
	<u>\$62,319</u>	<u>\$ 6,786</u>

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

Interest income increased from \$21,406 for fiscal 1983 to \$343,577 for fiscal 1984, primarily due to increased investment in short-term instruments of certain proceeds of the two public stock offerings. (See "Liquidity and Capital Resources" next page).

Cost of sales generally increased in proportion to the increases in sales in each of the periods. From fiscal 1983 to fiscal 1984 selling and administrative expense increased in proportion to the increases in sales as compared to the larger percentage increase from fiscal 1982 to fiscal 1983 when 11 new stores were opened or acquired. Rent and depreciation have increased throughout the period, primarily as a result of opening a new distribution center, increasing leased space at the other distribution centers and leasing new stores in the latter part of fiscal 1983.

ITEM 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, continued

From fiscal 1983 to fiscal 1984 interest on long-term debt increased due to mortgages assumed related to real property acquisitions. From fiscal 1983 to fiscal 1984 short-term interest expense decreased due to the capitalization of interest related to store properties under construction during fiscal 1984 which are scheduled for completion in fiscal 1985. From fiscal 1982 to fiscal 1983 short-term interest decreased as a result of a decrease in the average amount borrowed and a decrease in interest rates.

The Company's effective income tax rates for the three fiscal years were as follows: 1984-43.8%; 1983-42.6% and 1982-44.8%. The fluctuations were primarily due to variations in the amount of investment tax credits, partially offset by an increase in state income taxes.

Net income increased 57% from fiscal 1983 to fiscal 1984, due to increased sales volume during fiscal 1984 and the other factors discussed above. Net income decreased 11.5% from fiscal 1982 to fiscal 1983. The decrease was primarily due to the closeout of the automotive and sporting goods departments in 11 stores, together with the costs of remodeling such stores, and the expenses associated with the remerchandising, staffing and opening of six stores acquired in January 1983. Also, fiscal 1982 included a non-recurring gain from the sale of an option to purchase an aircraft.

Liquidity and Capital Resources

The Company's principal source of liquidity during fiscal 1984 was \$41.2 million received from two public stock offerings. Additionally, \$2.2 million was generated by short-term borrowing and \$2.2 million from the sale and leaseback of real properties. The above funds were used to increase working capital, purchase fixtures for the remerchandising program and acquire fixed assets, primarily real property for future store expansion. In addition, there was a net reduction of long-term debt in fiscal 1984 of \$6.9 million.

The Company's management anticipates that future needs for capital resources (see Part I, Item 1(a)-"Description of Business") will be provided from its available bank lines, a revolving credit agreement and letter of credit arrangements and, to a lesser extent, from operations, sale and leaseback of real property and sale of equity securities. The Company currently has available credit facilities totalling \$42 million, consisting of bank lines, letter of credit arrangements and a revolving credit agreement with an insurance company, of which \$26.3 million were unused at February 29, 1984.

Effects of Inflation

For a discussion of the effects of inflation on the Company, see Supplementary Data, pages 22-24 herein.

ITEM 8 - Financial Statements and Supplementary Data

	<u>Page</u>
Report of certified public accountants	12
Consolidated statements of income	13
Consolidated balance sheets	14-15
Consolidated statements of stockholders' equity	16
Consolidated statements of changes in financial position	17
Notes to consolidated financial statements	18-21
Supplementary data	22-24

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 consolidated financial statements of Pay 'N Pak Stores, Inc. listed in the index to consolidated financial statements and financial statement schedules in Item 14(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 consolidated financial statements listed in the index to consolidated financial statements and financial statement schedules in Item 14(a) present fairly the consolidated financial position of Pay 'N Pak Stores, Inc. at February 29, 1984 and February 28, 1983, and the consolidated results of operations and changes in financial position for each of the three years in the period ended February 29, 1984, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Seattle, Washington
March 27, 1984

PAY 'N PAK STORES, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended February 28 or 29, 1984, 1983 and 1982

	<u>1984</u>	<u>1983</u>	<u>1982</u>
REVENUES:			
Net sales	\$249,491,156	\$187,172,289	\$180,386,746
Interest	343,577	21,406	37,885
Rentals and other	205,502	144,207	549,268
	<u>250,040,235</u>	<u>187,337,902</u>	<u>180,973,899</u>
COSTS AND EXPENSES:			
Cost of sales	157,961,944	119,099,470	113,867,643
Selling and administrative	60,268,155	45,499,237	42,560,877
Rent	4,619,744	3,088,705	2,605,832
Depreciation	5,999,412	4,570,289	3,903,145
Interest on long-term debt	3,340,081	3,001,816	3,117,427
Other interest	--	993,341	1,870,179
	<u>232,189,336</u>	<u>176,252,858</u>	<u>167,925,103</u>
INCOME BEFORE INCOME TAXES	17,850,899	11,085,044	13,048,796
PROVISION FOR INCOME TAXES (Notes 1(e) and 4) ...	<u>7,826,000</u>	<u>4,717,000</u>	<u>5,849,830</u>
NET INCOME	<u>\$ 10,024,899</u>	<u>\$ 6,368,044</u>	<u>\$ 7,198,966</u>
PER COMMON SHARE (Note 1(h)):			
Net income	<u>\$1.11</u>	<u>\$.87</u>	<u>\$.99</u>
Cash dividends paid	<u>\$.56</u>	<u>\$.507</u>	<u>\$.461</u>

See accompanying notes.

PAY 'N PAK STORES, INC.
CONSOLIDATED BALANCE SHEETS
February 29, 1984 and February 28, 1983

ASSETS		
	<u>1984</u>	<u>1983</u>
CURRENT ASSETS:		
Cash	\$ 535,690	\$ 2,225,090
Receivables, less allowance of \$60,000 (\$53,000 in 1983) for doubtful accounts	1,887,084	1,442,160
Merchandise inventories (Note 1(b))	93,913,073	65,038,335
Prepaid expenses	<u>1,348,382</u>	<u>1,244,621</u>
 Total current assets	 97,684,229	 69,950,206
 PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 1(c), 1(g), 2 and 5):		
Land	2,567,100	2,528,619
Buildings	9,118,516	10,480,255
Leasehold rights and improvements	32,857,247	29,445,933
Store equipment	30,334,339	20,868,670
Transportation equipment	3,373,323	3,581,377
Construction in progress	<u>11,465,179</u>	<u>675,612</u>
	89,715,704	67,580,466
 Less accumulated depreciation and amortization	 <u>25,495,028</u>	 <u>20,661,765</u>
	64,220,676	46,918,701
 Properties held for development	 <u>2,323,596</u>	 <u>2,312,825</u>
 Net property, plant and equipment	 66,544,272	 49,231,526
 DEFERRED INCOME TAXES (Note 1(e))	 --	 74,699
 OTHER ASSETS (Note 1(d))	 <u>252,125</u>	 <u>274,402</u>
	<u>\$164,480,626</u>	<u>\$119,530,833</u>

See accompanying notes.

PAY 'N PAK STORES, INC.
CONSOLIDATED BALANCE SHEETS
February 29, 1984 and February 28, 1983

LIABILITIES AND STOCKHOLDERS' EQUITY		
	<u>1984</u>	<u>1983</u>
CURRENT LIABILITIES:		
Payable to bank	\$ 1,500,000	\$ --
Bankers acceptances (Note 2)	--	4,000,000
Notes payable (Note 2)	9,700,000	5,000,000
Accounts payable	21,313,332	19,634,976
Income taxes (Notes 1(e) and 4)	636,934	714,547
Accrued liabilities:		
Payroll and profit sharing	3,643,169	3,265,092
Taxes, other than income	2,118,229	1,694,958
Interest and other	<u>708,217</u>	<u>547,968</u>
	6,469,615	5,508,018
Long-term debt due within one year (Note 2)	<u>1,686,097</u>	<u>2,182,950</u>
Total current liabilities	41,305,978	37,040,491
LONG-TERM DEBT (Note 2)	28,448,453	34,879,056
DEFERRED INCOME TAXES (Note 1(e))	825,301	--
DEFERRED INCOME (Note 1(c))	227,690	181,192
COMMITMENTS (Note 5)		
STOCKHOLDERS' EQUITY:		
Preferred stock, without par value, 1,000,000 shares authorized, none issued		
Common stock, \$.10 par value, 20,000,000 shares authorized, 10,002,832 (7,652,832 in 1983) shares issued (Note 1(h))	1,000,283	765,283
Capital in excess of par value	66,722,067	25,760,322
Retained earnings (Note 2)	<u>25,950,854</u>	<u>20,904,489</u>
Total stockholders' equity	<u>93,673,204</u>	<u>47,430,094</u>
	<u>\$164,480,626</u>	<u>\$119,530,833</u>

PAY 'N PAK STORES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended February 28 or 29, 1984, 1983 and 1982

	<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, February 28, 1981	\$442,634	\$15,064,778	\$20,819,978	\$(113,918)	\$36,213,472
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 (Note 3)				113,918	113,918
BALANCE, February 28, 1982	486,897	21,438,708	18,236,731	--	40,162,336
Net income			6,368,044		6,368,044
Cash dividends			(3,700,286)		(3,700,286)
Issuance of 232,911 shares of common stock	23,291	4,576,709			4,600,000
Three-for-two stock split at par value (2,550,943 shares) (Note 1(h))	255,095	(255,095)			
BALANCE, February 28, 1983	765,283	25,760,322	20,904,489	--	47,430,094
Net income			10,024,899		10,024,899
Cash dividends			(4,978,534)		(4,978,534)
Issuance of 2,350,000 shares of common stock, net of offering costs	235,000	40,961,745			41,196,745
BALANCE, February 29, 1984 (Note 2)	<u>\$1,000,283</u>	<u>\$66,722,067</u>	<u>\$25,950,854</u>	<u>\$ --</u>	<u>\$93,673,204</u>

See accompanying notes.

PAY 'N PAK STORES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
Years ended February 28 or 29, 1984, 1983 and 1982

	<u>1984</u>	<u>1983</u>	<u>1982</u>
OPERATING ACTIVITIES:			
Net income	\$10,024,899	\$ 6,368,044	\$ 7,198,966
Charges (credits) to earnings not affecting cash:			
Depreciation and amortization	6,035,170	4,597,668	3,923,239
Deferred income taxes	900,000	298,000	105,000
Gain on sale of assets	(21,222)	(14,407)	(77,970)
Increase in working capital (excluding cash and borrowings)	(26,861,083)	(3,946,045)	(1,930,724)
Cash provided from (used by) operations	(9,922,236)	7,303,260	9,218,511
Additions to property, plant and equipment	(25,444,483)	(14,809,740)	(6,787,745)
Other	(13,481)	(64,993)	--
Increase (decrease) in cash before financing activities	(35,380,200)	(7,571,473)	2,430,766
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings	2,200,000	(2,259,776)	2,259,776
Increase (decrease) in long-term debt (including current portion)	(6,927,456)	9,083,488	(1,413,007)
Issuance of common stock	41,196,745	4,600,000	--
Proceeds from sale of assets and sale and leaseback of properties	2,200,045	1,292,873	765,265
Cash dividends paid	(4,978,534)	(3,700,286)	(3,364,020)
Cash provided from (used by) financing activities	33,690,800	9,016,299	(1,751,986)
INCREASE (DECREASE) IN CASH	(1,689,400)	1,444,826	678,780
CASH, BEGINNING OF YEAR	2,225,090	780,264	101,484
CASH, END OF YEAR	<u>\$ 535,690</u>	<u>\$ 2,225,090</u>	<u>\$ 780,264</u>
DETAIL OF CHANGES IN WORKING CAPITAL (excluding cash and borrowings):			
Receivables	\$ 444,924	\$ 36,670	\$ 649,228
Merchandise inventories	28,874,738	11,086,766	4,341,188
Prepaid expenses	103,761	372,364	(208,394)
Accounts payable	(1,678,356)	(6,908,714)	(911,835)
Income taxes	77,613	100,024	(679,771)
Deferred income taxes	--	140,000	(140,000)
Accrued liabilities	(961,597)	(881,065)	(1,119,692)
INCREASE IN WORKING CAPITAL (excluding cash and borrowings)	<u>\$26,861,083</u>	<u>\$ 3,946,045</u>	<u>\$ 1,930,724</u>

See accompanying notes

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 28 or 29, 1984, 1983 and 1982

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 include the accounts of the parent company and its subsidiaries. All intercompany transactions and balances have been eliminated.

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

(c) **Property, plant and equipment**-Depreciation of property, plant and equipment is provided principally on the straight-line method. Estimated useful lives are as follows: buildings-40 years; leasehold rights and improvements-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 \$132,798 at February 29, 1984 (\$147,810 at February 28, 1983) is included in other assets.

(e) **Income taxes**-Deferred income taxes are provided in the accompanying consolidated financial statements for differences in the timing of reporting income and expenses for financial statement and income tax purposes (See Note 4).

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 \$545,250, \$135,354 and \$109,727 were capitalized in fiscal years 1984, 1983 and 1982, respectively. Total interest costs for the three years were \$3,885,331, \$4,130,511 and \$5,097,333, respectively.

(h) **Per share data**-Per common share amounts were determined on the weighted average number of shares outstanding during each period (1984-9,033,022; 1983-7,327,392 and 1982-7,303,464) after giving retroactive effect to a three-for-two stock split issued in April 1983 and a 10% stock dividend issued in April 1982.

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 28 or 29, 1984, 1983 and 1982

2. Bank credit arrangements and long-term debt

At February 29, 1984, the Company has available unused lines-of-credit for working capital and letter of credit purchases of \$26,300,000 under agreements with banks, which expire from June 30, 1984 to January 1, 1985. Interest on borrowings under these agreements is charged at prime rate or less. The weighted average interest rate for notes payable at February 29, 1984 is 9.83%. 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, 1983, the Company renewed a revolving line-of-credit agreement with an insurance company which increased to \$15,000,000 at an interest rate 1½ % above the insurance company's thirty-day commercial paper rate. The Company is charged a commitment fee of ½ of one percent per annum on the unused balance. The agreement expires on September 30, 1985 at which time the Company may request a one year extension. When the agreement does expire, the Company has the option to convert any outstanding borrowings into a term loan. There were no borrowings under this agreement at February 29, 1984.

Long-term debt outstanding at February 29, 1984 and February 28, 1983 is shown on the following summary:

	<u>1984</u>	<u>1983</u>
9¾% note payable to insurance company, due \$1,075,000 annually to 1994, plus interest	\$11,825,000	\$12,900,000
Revolving line-of-credit, repaid in May 1983	--	7,000,000
8-1/4% to 13.5% (average 10.1%) mortgage notes payable, due \$601,920 annually including interest to 1987, and reduced amounts thereafter; notes with a balance of \$1,829,355 are subject to call by holders in 1992	4,788,684	3,560,951
7% to 15% (average 7.7%) contracts and notes payable, due \$23,004 including interest in 1985 and reduced amounts annually to 1989	88,348	116,617
Capitalized lease obligations (\$32,455,549), less imputed interest (\$19,023,031) payable approximately \$1,995,000 per year including imputed interest, weighted average 12.0%, final payment in February 2012	13,432,518	13,484,438
	30,134,550	37,062,006
Less amounts due within one year	1,686,097	2,182,950
	<u>\$28,448,453</u>	<u>\$34,879,056</u>

Payments on the principal of long-term debt and capitalized lease obligations for the four years ending February 28, 1989 are required as follows: 1986-\$1,690,500; 1987-\$2,287,000; 1988-\$1,780,500 and 1989-\$1,797,500.

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 29, 1984, retained earnings of approximately \$4,833,843 was not restricted.

Operating plant and equipment having a net book value of \$7,354,463 at February 29, 1984 are pledged as collateral for the mortgage notes and contracts payable.

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 28 or 29, 1984, 1983 and 1982

3. 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. Total contribution was \$1,420,388, \$1,179,667 and \$949,721 for fiscal years 1984, 1983 and 1982, 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.

4. Income taxes

The provision for income taxes is comprised of the following:

	Year ended February 28 or 29,		
	1984	1983	1982
Current federal income tax:			
Provision	\$6,979,476	\$4,812,861	\$5,491,253
Investment tax credit	(779,476)	(538,861)	(250,000)
	6,200,000	4,274,000	5,241,253
State income taxes	726,000	285,000	363,577
Deferred income taxes	900,000	158,000	245,000
	<u>\$7,826,000</u>	<u>\$4,717,000</u>	<u>\$5,849,830</u>

The effective tax rate differs from the statutory federal income tax rate due primarily to the effects 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:

	1984	1983	1982
Depreciation deducted for			
tax in excess of book expense	\$989,794	\$316,025	\$217,177
Capitalized lease items	(140,743)	(122,114)	(141,534)
Capitalized interest and other items	50,949	(35,911)	169,357
	<u>\$900,000</u>	<u>\$158,000</u>	<u>\$245,000</u>

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 28 or 29, 1984, 1983 and 1982

5. Leases

The Company leases substantially all retail store facilities and its three warehouses. Certain of these leases have been capitalized (See Note 2). Leasehold rights and improvements included \$16,177,298 (\$15,817,332 at February 28, 1983) for capitalized leases for retail stores, and computer equipment and accumulated depreciation and amortization included \$6,254,973 (\$5,537,123 at February 28, 1983) 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 \$4,811,536, \$3,255,739, and \$2,784,809 for fiscal years 1984, 1983 and 1982, respectively. Included in expense for each of the three years was percentage rental of \$485,276, \$283,992 and \$252,361, respectively.

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

<u>Year ending</u> <u>February 28 or 29,</u>	
1985	\$ 4,015,000
1986	3,476,000
1987	3,452,000
1988	3,294,000
1989	2,886,000
Later years	<u>23,747,000</u>
	<u>\$40,870,000</u>

PAY 'N PAK STORES, INC.
SUPPLEMENTARY DATA
February 28 or 29, 1984, 1983 and 1982

Quarterly financial data (unaudited)

	Quarter ended			
	<u>May 31</u>	<u>Aug. 31</u>	<u>Nov. 30</u>	<u>Feb. 28</u>
	(In thousands, except per share amounts)			
1984				
Revenues	\$53,885	\$74,545	\$68,106	\$53,504
Gross profit on sales	\$19,967	\$25,312	\$25,359	\$20,892
Net income	\$ 1,568	\$ 3,092	\$ 3,126	\$ 2,239
Net income per share	\$.20	\$.33	\$.34	\$.23
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	\$.13	\$.26	\$.29	\$.19

Supplementary information on changing prices (unaudited)

The Company is providing the following supplementary information as required by Financial Accounting Standard (FAS) 33. The Company respectfully questions the meaningfulness and reliability of the hypothetical assumptions and methods used to derive the amounts presented below; accordingly, it is the Company's belief that this information may be of limited value. Because the information deals only with certain aspects of inflation and certain elements of the basic financial statements, and because the compilation of the data by its nature is imprecise, these disclosures should be viewed only as an attempt to estimate the approximate effects of inflation on the Company and not as a precise measurement. An analysis of the Company's performance and any assessment of its future prospects based solely on the information given would very likely be misleading.

The decline in net income under the constant dollar and current cost methods is the result of increased cost of sales and depreciation expense, reflecting the higher values for inventories and property, plant and equipment. It should be noted, however, that FAS 33 does not permit any adjustment of historical income tax expense. As a result, the effective income tax rates for the inflation adjusted data vary significantly from the Company's historical rate.

As indicated below, the Company recognized a purchasing power gain, since the Company held net monetary liabilities during fiscal year 1984, a period in which the purchasing power of the dollar declined. However, since this gain does not represent a receipt of cash, it should not be considered as providing funds for reinvestment or dividend distribution.

The information presented below is a calculation of the estimated effects of inflation on inventories, cost of sales, property, plant and equipment and depreciation expense measured under two methods. The first method provides data adjusted for general inflation using the Consumer Price Index for All Urban Consumers (CPI-U Index) published by the federal Bureau of Labor Statistics. The objective of this approach is to provide financial information in dollars of equivalent purchasing power (constant dollars). The second method adjusts for changes in specific prices (current cost) related to individual assets and expenses. The objective of this method is to reflect the effects of changes in specific prices of the resources used in the Company's operations.

Constant Dollar Method: The estimated effects of inflation under the constant dollar method were determined by adjusting the historical cost of inventories, property, plant and equipment, cost of sales and depreciation expense to average fiscal year 1984 dollars by use of the CPI-U Index.

Current Cost Method: Inventories were adjusted based on costs in effect during the fourth quarter of fiscal year 1984 which relates to turnover of inventory. Cost of sales was estimated using Producer Price Indices for the various product categories, taking into account the approximate time lag between incurring costs and their subsequent conversion into sales revenue. The current cost of property, plant and equipment was estimated using various approaches, including specific pricing, indexing, engineering cost estimates, property tax valuations and use of the actual costs of the most recently completed stores. Depreciation expense on a current cost basis was estimated by computing the ratio of historical depreciation to historical cost and applying it to the current cost of assets.

Purchasing Power Gain: Monetary assets and liabilities are items that are or will be converted into a fixed number of dollars regardless of changes in prices. Examples of monetary items are cash, receivables, payables and long-term debt.

PAY 'N PAK STORES, INC.
SUPPLEMENTARY DATA
February 28 or 29, 1984, 1983 and 1982

Supplementary information on changing prices (unaudited), continued

	As Reported In The Primary Statements (Historical Cost)	Adjusted For General Inflation (Constant Dollars)	Adjusted For Changes in Specific Prices (Cur- rent Cost)
Revenues	\$250,040,235	\$250,040,235	\$250,040,235
Cost of sales	157,961,944	161,036,350	163,483,440
Depreciation	5,999,412	7,241,589	8,365,993
Other operating expenses	64,887,899	64,887,899	64,887,899
Interest on long-term debt	3,340,081	3,340,081	3,340,081
Total expenses	232,189,336	236,505,919	240,077,413
Income before income taxes	17,850,899	13,534,316	9,962,822
Provision for income taxes	7,826,000	7,826,000	7,826,000
Net income	\$ 10,024,899	\$ 5,708,316	\$ 2,136,822
Effective income tax rate	43.8%	57.8%	78.6%
Purchasing power gain from holding net monetary liabilities during the year		\$ 2,928,349	\$ 2,928,349
Increase in specific prices (current cost) of inventories and property, plant and equipment during the year*			\$ 11,279,911
Effect of increase in general price level			8,567,457
Excess of increase in specific prices over increase in general price level			\$ 2,712,454

*At February 29, 1984, current cost of inventory was \$94,145,758 and current cost of property, plant and equipment, net of accumulated depreciation was \$90,338,384.

PAY 'N PAK STORES, INC.
SUPPLEMENTARY DATA
February 28 or 29, 1984, 1983 and 1982

Supplementary information on changing prices (unaudited), continued

FIVE-YEAR COMPARISON OF SELECTED FINANCIAL DATA
ADJUSTED FOR THE EFFECTS OF CHANGING PRICES
IN AVERAGE FISCAL 1984 DOLLARS

	<u>1984</u>	<u>1983</u>	<u>1982</u>	<u>1981</u>	<u>1980</u>
Revenues	\$250,040,235	\$193,586,794	\$197,110,028	\$181,478,072	\$187,033,598
Historical cost information adjusted for general inflation (constant dollars)					
Net income	\$ 5,708,316				
Net income per common share	\$.63				
Stockholders' equity at year-end	\$107,775,595				
<u>Current cost information</u>					
Net income	\$ 2,136,822				
Net income per common share	\$.24				
Excess of increase in specific prices over increase in general price level	\$ 2,712,454				
Stockholders' equity at year-end	\$117,700,001				
<u>Other information</u>					
Purchasing power gain from holding net monetary liabilities during the year	\$ 2,928,349				
Cash dividends per common share	\$.56	\$.524	\$.502	\$.493	\$.491
Market price per share at year-end	\$15.125	\$15.759	\$9.076	\$10.055	\$10.445
Average Consumer Price Index for the fiscal year	300.5	290.8	275.9	251.3	222.3

The five-year supplementary financial data show the effect of adjusting selected historical and current cost data to average fiscal year 1984 dollars, as measured by the CPI-U Index. In addition, sales, cash dividends per share and market prices per share for the fiscal years 1980 through 1984 have been restated in average fiscal year 1984 dollars. The Company is not required to present certain information for fiscal years prior to 1984.

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 8.

Item 11 - Executive Compensation

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.

Item 13 - Certain Relationships and Related Transactions

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

PART IV

Item 14 - Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) *Financial Statements.*

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

(b) *Exhibits.* See page 31 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 CONSOLIDATED FINANCIAL STATEMENTS AND
FINANCIAL STATEMENT SCHEDULES
(Item 14(a))

	Page
Consolidated statements of income for each of the three years in the period ended February 29, 1984	13
Consolidated balance sheets at February 29, 1984 and February 28, 1983	14-15
Consolidated statements of stockholders' equity for each of the three years in the period ended February 29, 1984	16
Consolidated statements of changes in financial position for each of the three years in the period ended February 29, 1984	17
Notes to consolidated financial statements	18-21
Supplementary data	22-24
Schedules for each of the three years in the period ended February 29, 1984:	
V - Property, plant and equipment	27
VI - Accumulated depreciation of property, plant and equipment	28
VIII - Valuation and qualifying accounts	29
IX - Short-term borrowings	29
X - Supplementary income statement information	29

All other schedules are omitted since the required information is not present 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 and notes thereto.

PAY 'N PAK STORES, INC.
SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT
Years ended February 28 or 29, 1984, 1983 and 1982

	<u>Balance at beginning of year</u>	<u>Additions, transfers at cost</u>	<u>Retirements or sales</u>	<u>Balance at end of year</u>
1984:				
Land	\$ 2,528,619	\$ 335,000	\$ 296,519	\$ 2,567,100
Buildings	10,480,255	(203,455)	1,158,284	9,118,516
Leasehold rights and improvements	29,445,933	3,531,280	119,966	32,857,247
Store equipment	20,868,670	10,074,133	608,464	30,334,339
Transportation equipment	3,581,377	907,188	1,115,242	3,373,323
Construction in progress	675,612	10,789,567	--	11,465,179
	67,580,466	25,433,713	3,298,475	89,715,704
Properties held for development ..	2,312,825	10,771	--	2,323,596
	<u>\$69,893,291</u>	<u>\$25,444,484</u>	<u>\$ 3,298,475</u>	<u>\$92,039,300</u>
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
	54,622,255	14,716,249	1,758,038	67,580,466
Properties held for development ..	2,219,334	93,491	--	2,312,825
	<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
	49,840,700	5,541,426	759,871	54,622,255
Properties held for development ..	1,262,051	1,246,319	289,036	2,219,334
	<u>\$51,102,751</u>	<u>\$ 6,787,745</u>	<u>\$ 1,048,907</u>	<u>\$56,841,589</u>

PAY 'N PAK STORES, INC.
SCHEDULE VI - ACCUMULATED DEPRECIATION OF
PROPERTY, PLANT AND EQUIPMENT
Years ended February 28 or 29, 1984, 1983 and 1982

Description	Balance at beginning of year	Additions, charged to income	Retirements or sales	Balance at end of year
1984:				
Buildings	\$ 855,865	\$ 240,841	\$ 126,660	\$ 970,046
Leasehold rights and improvements	10,024,257	1,863,926	133,275	11,754,908
Store equipment	8,675,977	3,422,369	479,423	11,618,923
Transportation equipment	1,105,666	472,276	426,791	1,151,151
	<u>\$20,661,765</u>	<u>\$5,999,412</u>	<u>\$1,166,149</u>	<u>\$25,495,028</u>
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>

PAY 'N PAK STORES, INC.
SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
Years ended February 28 or 29, 1984, 1983 and 1982

	<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:				
1984	\$53,000	\$171,352	\$164,352	\$60,000
1983	\$40,490	\$164,039	\$151,529	\$53,000
1982	\$50,000	\$168,318	\$177,828	\$40,490

* Represents accounts written off against the reserve.

PAY 'N PAK STORES, INC.
SCHEDULE IX - SHORT-TERM BORROWINGS
Years ended February 28 or 29, 1984, 1983 and 1982

	<u>Balance at end of year</u>	<u>Weighted average interest rate at end of year</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:					
1984	\$9,700,000	9.8%	\$12,700,000	\$2,469,167	10.7%
1983	\$5,000,000	9.1%	\$ 8,600,000	\$3,202,466	12.8%
1982	\$ --	-- %	\$13,650,000	\$7,372,466	19.0%
Note payable to insurance company:					
1984	\$ --	-- %	\$ --	\$ --	-- %
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:					
1984	\$ --	-- %	\$ 4,000,000	\$ 238,889	9.5%
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.

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 or 29, 1984, 1983 and 1982

	<u>Charged to costs and expenses</u>		
	<u>1984</u>	<u>1983</u>	<u>1982</u>
Advertising costs	\$9,299,854	\$6,826,527	\$6,746,887

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: May 2, 1984

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)

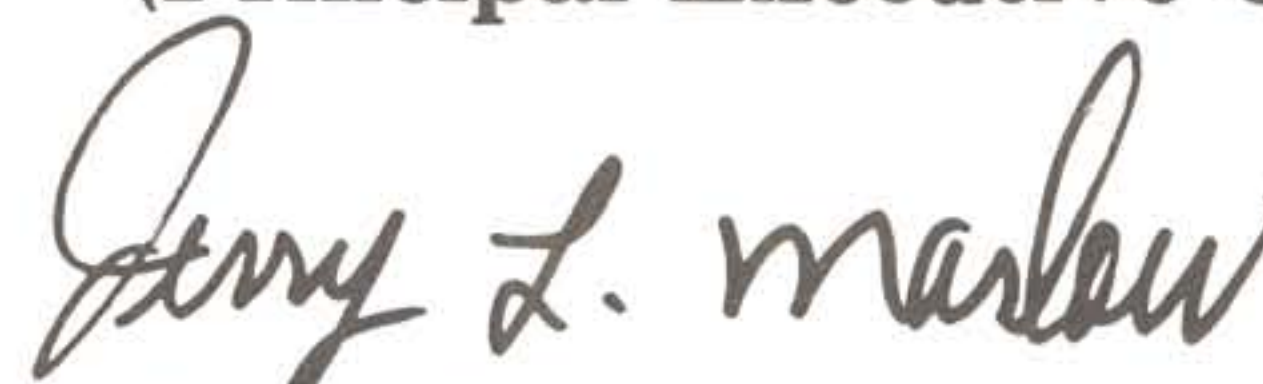
By



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

Dated: May 2, 1984

By



**Jerry L. Marlow
Director and President**

Dated: May 2, 1984

By



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

Dated: May 2, 1984

By



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

Dated: May 2, 1984

Majority of Board of Directors

EXHIBIT INDEX

- (3) Restated Articles of Incorporation as amended and Bylaws as amended.
- (4) Credit Agreement with PruFunding, Inc. dated November 1, 1983 and Amendments dated September 27, 1983 to the Note Agreement with The Prudential Insurance Company of America dated August 15, 1979, are incorporated by reference from the Registrant's Form S-3 as filed with the Securities and Exchange Commission on January 9, 1984.
- (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.

Pay 'N Pak Stores, Inc.
1209 South Central
Kent, Washington 98032

MAY 21 1986	
MAY 23 1986 RETD	SEP 1 1986
MAY 25 1986	SEP 15 1986 RETD
MAY 30 1986	
MAY 29 1986 RETD	
JUN 8 1986	
JUN 11 1986	
JUN 18 1986 RETD	
AUG 6 1986	
AUG 13 1986	
AUG 15 1986	
AUG 21 1986	
AUG 25 1986	
SEP 1 1986	