

PAY'N PAK STORES, INC. **ANNUAL REPORT** FISCAL 1981

ENDED FEBRUARY 28, 1981

ANNU

ANNUAL REPORTS

PAY'n PAK Stores, Inc 1981

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REPORT TO SHAREHOLDERS

We are proud to say that fiscal 1981 was the eleventh consecutive year in which both sales and earnings were up over the previous year. However, fiscal 1981 proved to be a year of below average growth for Pay 'N Pak Stores. The weak economy, due in part to inflation, lower disposable income, and high interest rates hurt our big ticket sales and impaired the company's growth this past year. In addition, the eruption of Mount St. Helens hurt sales and earnings of a number of our stores for a short period of time. As a result, store for store sales for the year in our established units (stores 3 years old or older) only increased 2.6% over the previous year.

Revenues for fiscal 1981 were \$151,765,190, an increase of 10% over last year. Net income was \$6,448,801 compared to \$6,312,882 last year an increase of 2%. Net income per share for fiscal 1981 was \$1.46 on the 4,426,342 shares outstanding as compared to \$1.43 per share the previous year. Interest rates of 20% plus in the second and fourth quarters especially affected our earnings because of the resultant high borrowing costs for the company.

Quarterly cash dividends paid during this fiscal year totaled \$.68 as compared to \$.60 last year. This reflects the company's policy of increasing dividends for the benefit of

shareholders as earnings and other conditions warrant.

During the past year, new stores were opened in Burien and Bothell, Washington; Orem and Woods Cross, Utah; Bend, Oregon and Greeley, Colorado. These six new stores increased our overall store square footage by 123,038 square feet, an increase of 7%. During fiscal 1982, Pay 'N Pak plans to open additional stores in Medford and Pendleton, Oregon; Carson City, Nevada; Sacramento, California and Wichita, Kansas, as well as in Sioux City, Iowa and a fourth Sacramento area store, for a total of 6 to 7 new stores this year. This continues our strategy of locating stores in existing buildings in smaller cities and increasing penetration in the larger, faster growing cities where we have existing stores.

The new corporate headquarters in Kent was completed, and the office staff moved into the expanded complex during the latter months of 1980. The three departments that had previously been located in outlying buildings are now incorporated with the rest of the staff in the new headquarters complex. The additional space allotted each department and the efficient layout of each work area has made it possible to effect

PAY 'N PAK STORES, INC.

Ten Year Summary of Growth Highlights Years ended February 28 or 29

	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
OPERATIONS										
Revenues	\$151,765,190	\$138,361,294	\$117,688,090	\$98,051,888	\$80,642,749	\$73,279,952	\$61,470,839	\$51,893,886	\$42,396,952	\$30,927,898
Income before federal and state taxes	11,575,328	11,470,982	10,199,489	7,882,339	5,463,526	4,604,566	4,070,713	3,437,538	2,808,639	2,080,131
Net income	6,448,801	6,312,882	5,402,926	4,006,465(2)	2,871,128	2,429,974	2,113,438	1,763,378	1,394,451	1,085,032
COMMON STOCK										
Average number of common shares	4,426,342	4,426,342	4,053,934	3,862,343	3,862,343	3,986,130	4,010,888	4,010,888	3,974,344	3,886,741
Net income per common share (4).....	\$1.46	\$1.43	\$1.33	\$1.04(2)	\$.74	\$.61	\$.53	\$.44	\$.35	\$.28
Stock dividends and stock splits		20%	33⅓%	50%	10%	10%				
Cash dividend paid per common share (4).....	\$.68	\$.60	\$.50	\$.344	\$.225	\$.175	\$.121	\$.086	\$.054	\$.052
FINANCIAL POSITION (End of year)										
Total assets	\$ 90,062,573	\$ 81,691,113	\$ 70,102,914	\$50,272,628	\$45,833,216	\$39,126,568	\$33,155,258	\$29,730,370	\$27,136,642	\$20,355,014
Stockholders' equity	\$ 36,460,922	\$ 32,471,934	\$ 28,475,006	\$16,694,335	\$13,566,305	\$11,616,885	\$12,081,360	\$10,451,328	\$ 9,033,240	\$ 7,699,605
Return on stockholders' equity	19.9%	22.2%	32.4%	29.5%	24.7%	20.1%	20.2%	19.5%	18.1%	16.6%
Shares of common stock outstanding (end of year) .	4,426,342	4,426,342	4,426,342	3,862,343	3,862,343	3,862,343	4,010,888	4,010,888	4,010,888	3,930,301
Net book value per share	\$8.24	\$7.45(1)	\$6.67(1)	\$4.60(1)	\$3.80(1)	\$3.32(1)	\$3.01	\$2.61	\$2.25	\$1.96
Long term debt	\$ 27,978,640	\$ 28,680,119	\$ 23,848,328	\$18,467,381	\$19,124,915	\$17,721,561	\$12,518,834	\$12,070,882	\$ 6,555,256	\$ 4,523,274
STORES IN OPERATION										
Number of stores open (3)	84	78	70	65	60	55	50	44	40	37
Number of stores sold or closed	0	0	1	0	0	3	1	1	1	0
Stores replaced with new stores	0	1	1	1	2	2	0	3	5	0
Number of states in which we operated.....	15	15	14	13	13	11	11	11	11	8
Square footage of stores	1,811,532	1,688,494	1,496,787	1,365,182	1,260,769	1,144,847	1,030,808	890,527	783,588	584,380
Average square footage per store	21,566	21,647	21,383	21,003	21,013	20,815	20,616	20,239	19,590	15,794
Average annual inventory in stores	\$ 31,418,743	\$ 28,609,679	\$ 23,302,096	\$20,226,001	\$17,951,974	\$14,814,718	\$13,603,679	\$13,714,778	\$10,645,251	\$ 7,172,653
Average annual inventory total (includes warehouses)	\$ 43,723,548	\$ 39,143,118	\$ 31,253,285	\$24,616,742	\$21,007,255	\$16,846,580	\$14,825,123	\$14,723,192	\$11,195,251	\$ 7,397,098
STORE AVERAGES										
Average sales per store	\$ 1,805,760	\$ 1,767,908	\$ 1,676,308	\$ 1,507,697	\$ 1,343,207	\$ 1,331,308	\$ 1,227,593	\$ 1,178,003	\$ 1,058,304	\$ 833,635
Number of customers served	6,415,206	5,928,176	5,468,777	4,979,781	4,419,596	4,104,371	3,647,036	3,251,000	2,849,000	N/A
Average customer purchase	\$23.64	\$23.26	\$21.52	\$19.69	\$18.25	\$17.85	\$16.86	\$15.96	\$14.88	N/A
Sales per square foot	\$83.73	\$81.67	\$78.63	\$71.82	\$63.96	\$64.01	\$59.63	\$58.27	\$54.11	\$52.92
Sales per full time employee (end of year).....	\$ 138,650	\$ 128,635	\$ 113,489	\$ 115,084	\$ 108,536	\$ 103,502	\$ 88,320	\$ 91,523	\$ 83,294	\$ 74,345

- (1) After giving effect to shares held by the ESOT which have not been allocated to employee accounts: 358,506 shares in 1976; 296,162 in 1977; 230,089 in 1978; 154,204 in 1979; 66,693 in 1980.
- (2) Net income in 1978 includes a net reduction of \$191,337 (\$.05 per share) due to a change in method of accounting for pre-opening costs to expensing them as incurred rather than amortizing them.
- (3) Prior to fiscal 1979 the company treated as separate stores the 5 physically separate sales outlets located in the Kent, Washington Mall. In this table and throughout this report the Kent location is treated as only one store.
- (4) Restated for stock dividends and stock splits in fiscal years 1980, 1979, 1978, 1977 and 1976.

PAY 'N PAK STORES, INC.

Pay 'N Pak Stores, Inc. operates 84 stores in 69 cities located in 15 Western and Midwestern states.

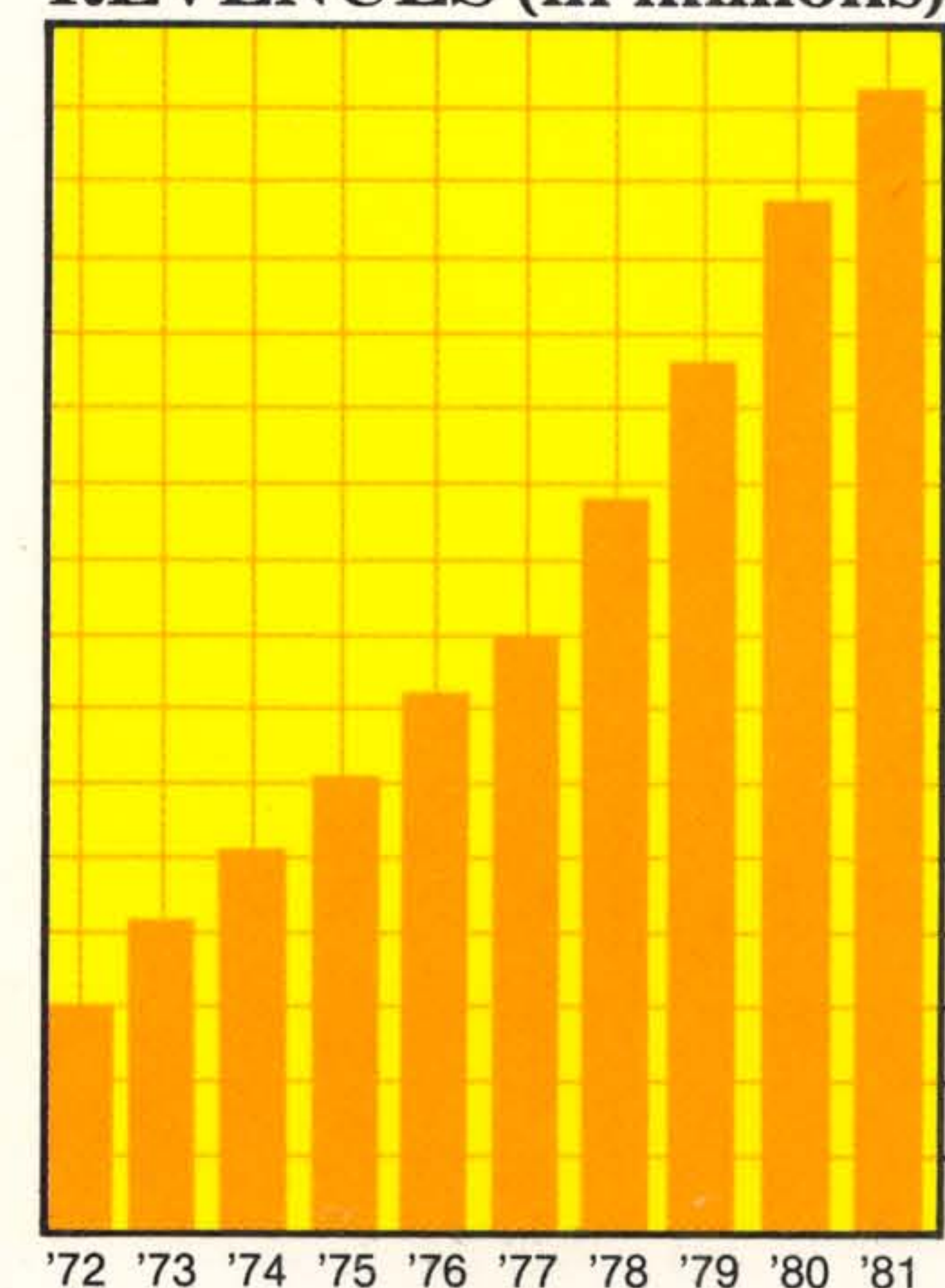
Selling electrical, lighting, plumbing and building materials to the do-it-yourself home improvement market on a cash and carry basis is the major emphasis of the company. Eleven stores also feature sporting goods, automotive parts and accessories.

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

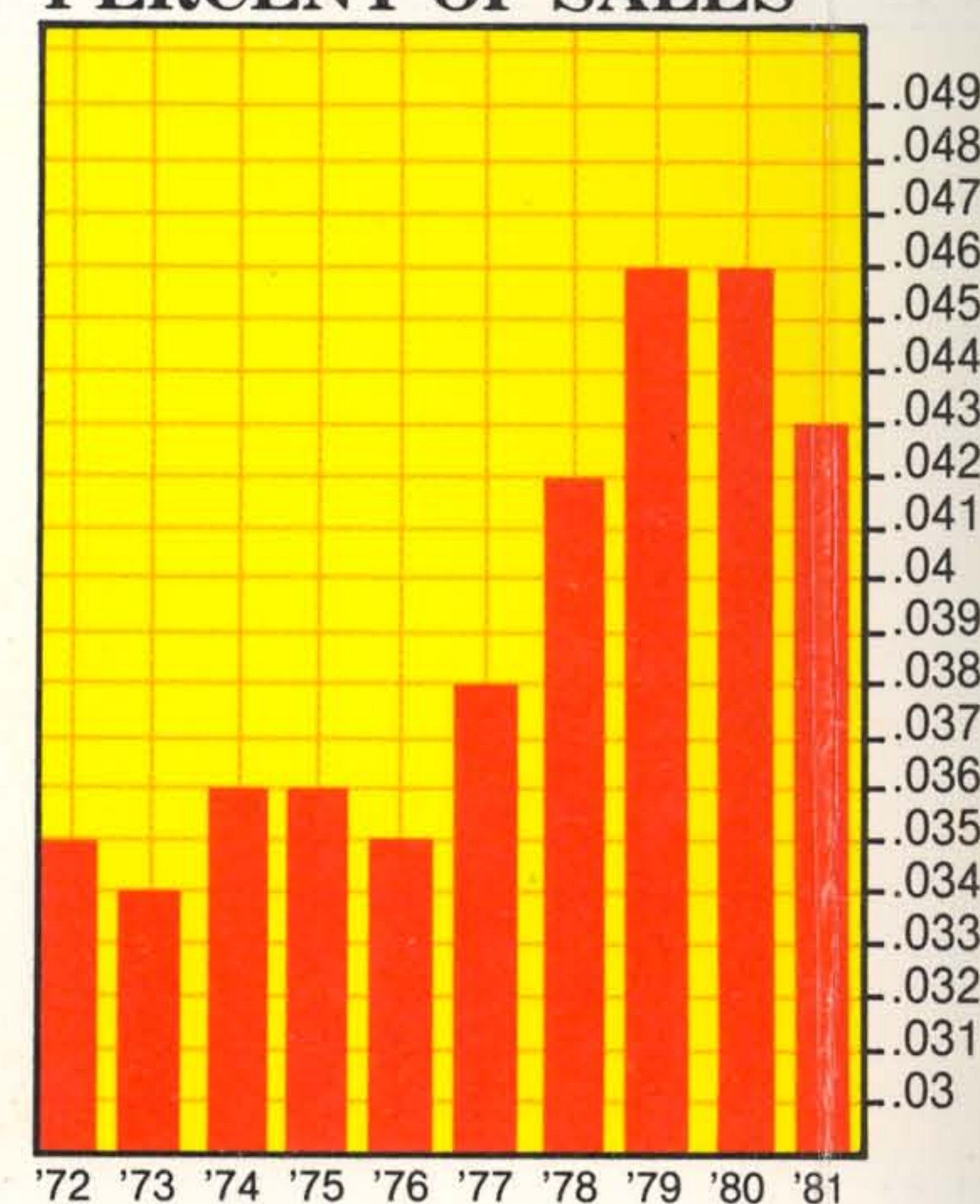
THE COVER STORY

Movement of merchandise from two major distribution centers is accomplished by Pay 'N Pak's sharp fleet of trucks like the one pictured on the front cover. One warehouse, located in Kent, Washington, services 55 stores in the West, while the Denver, Colorado warehouse supplies merchandise to the 29 remaining stores in the chain. 899,576 miles were logged this year supplying Pay 'N Pak Stores.

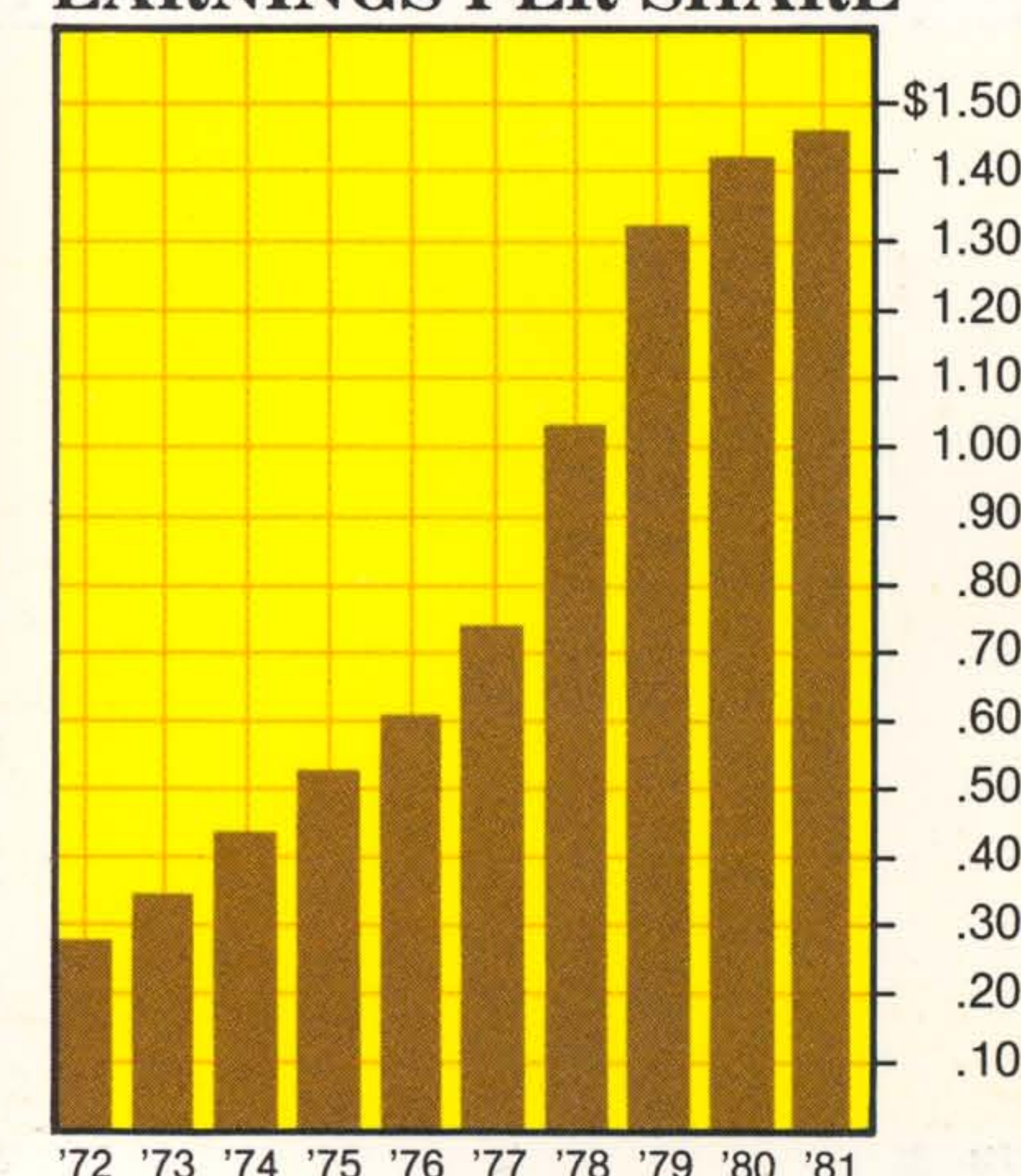
REVENUES (in millions)



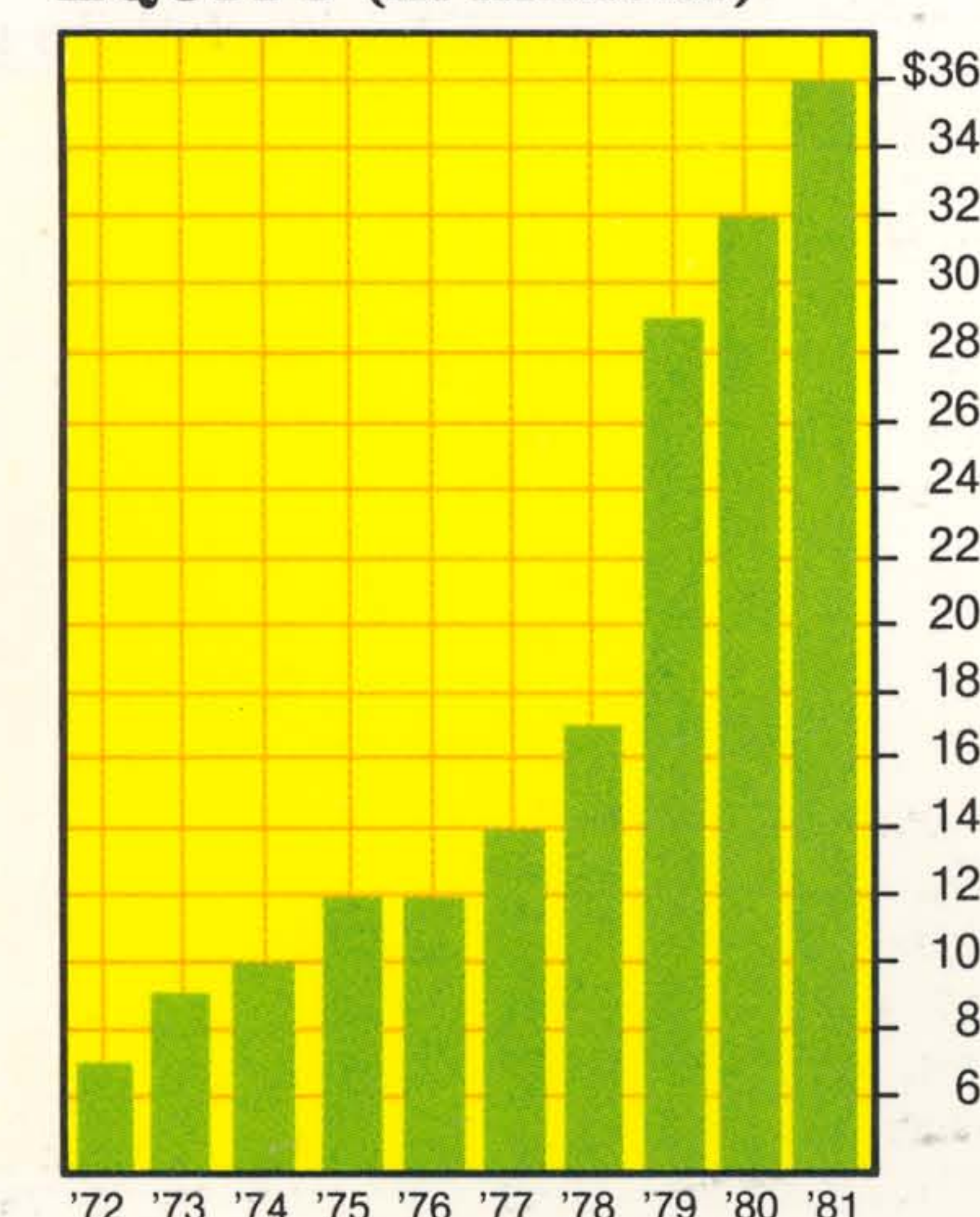
NET INCOME AS A PERCENT OF SALES



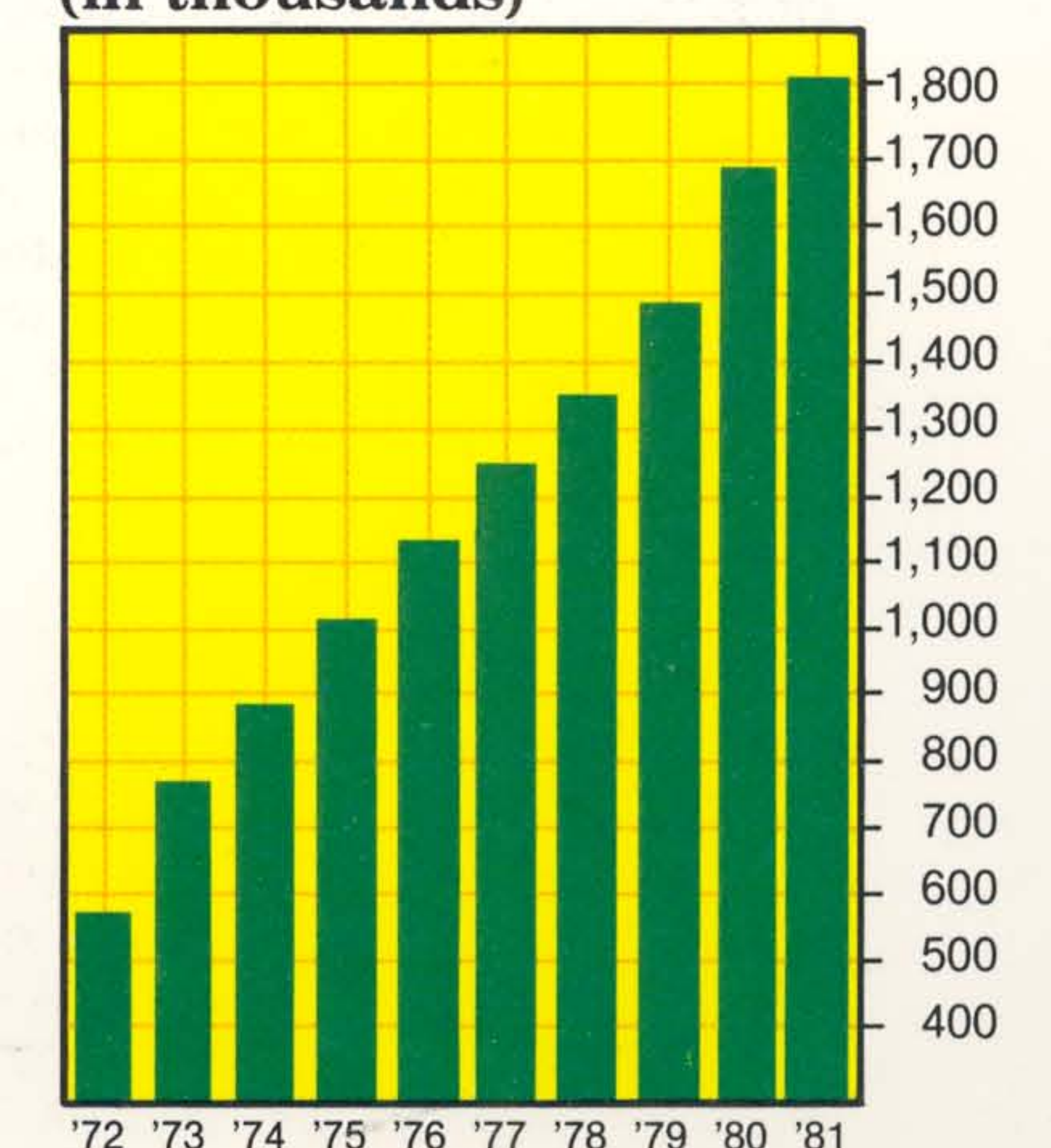
EARNINGS PER SHARE



STOCKHOLDERS' EQUITY (in millions)



STORES SQUARE FOOTAGE (in thousands)



a substantial increase in the volume of work produced with 10% less staff.

During the last decade, homeowners in all parts of the United States have consistently spent ever-increasing amounts of money for alterations and repairs. Most of this money is spent by people in the 25-55 year old age bracket. In the 1980's, it is estimated that the 23-33 and 34-44 year old age groups will increase population-wise by 1.9% and 3.7% respectively, and the combined groups will account for 31.7% of the total purchasing power of the United States in the latter part of the decade. We are fortunate that most of our stores are located in areas of high growth. For example, expenditures for single-family homes grew at a compounded rate of 15.5% in the Western states where we are particularly strong as compared to 14.4% in the South, 11.4% in the North Central states, and 9.7% in the Northeast. Since 1974, alteration and repair expenditures in all regions have grown at a double digit rate, paced by a

better than 24% growth rate in the West.

We are proud of our ten year compounded sales growth of 21.4%, earnings of 25.8% and our shareholders' return on equity of 22.2%. This could not have been accomplished without the strong support of all of our dedicated employees. We have an excellent team that works diligently to contribute to the fine performance of your company. While commenting on our fine staff, I want to note that Harold F. Bacon announced his retirement as executive vice president and as a member of the company's board of directors due to health reasons. His ten years of dedication and service to the company are sincerely appreciated, and his invaluable services to the company will certainly be missed.

By somewhat limiting the company's new store expansion and closely watching inventory levels, management has kept your company in strong financial position and as soon as business conditions improve, Pay 'N Pak should move strongly ahead.

THE BOARD OF DIRECTORS



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



Jerry L. Marlow *President and
Chief Operating Officer*



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



Monte A. Leen *Executive Vice President*



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



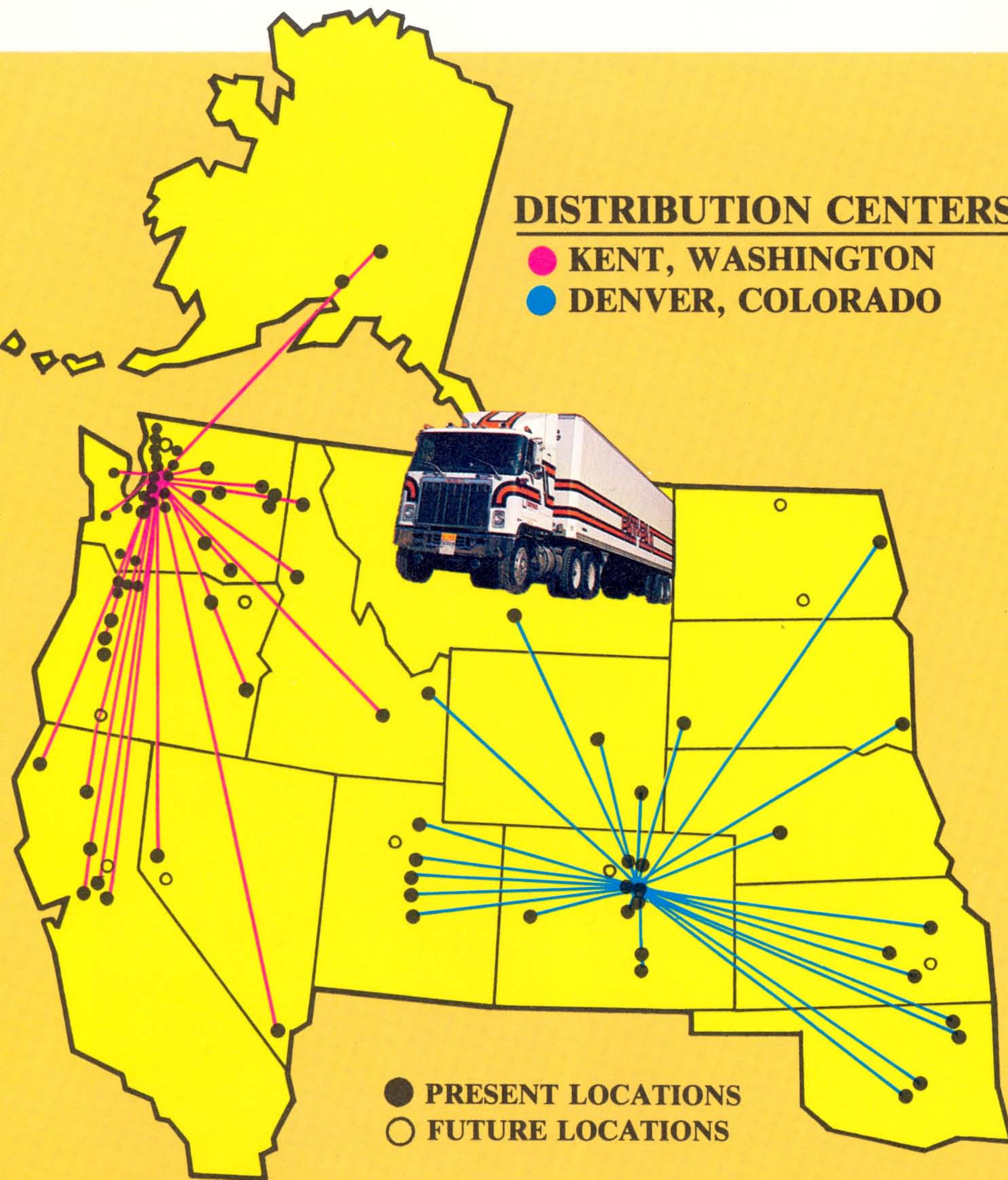
Marshall J. Weigel *Independent Corporate
Finance Specialist, San Francisco, CA*

PAY-PAK

COUNTRY

DISTRIBUTION CENTERS

- KENT, WASHINGTON
- DENVER, COLORADO



ALASKA
Anchorage
Fairbanks

CALIFORNIA
Eureka
Redding
Roseville
Yuba City
Sacramento (2) ○

COLORADO
Aurora
Colorado Springs
Denver (3)
Ft. Collins
Grand Junction
Pueblo
Greeley
Boulder ○

IDAHO
Boise
Coeur d'Alene
Lewiston
Pocatello

KANSAS
Hutchinson
Topeka
Wichita (1) ○

MONTANA
Billings

NEBRASKA
North Platte

NEVADA
Carson City ○
Las Vegas
Reno

NORTH DAKOTA
Grand Forks
Bismarck ○
Minot ○

OKLAHOMA
Oklahoma City (2)
Tulsa (2)

OREGON
Albany
Beaverton
Eugene
Milwaukie
Ontario
Portland (3)
Salem
Bend
Medford ○
Pendleton ○

SOUTH DAKOTA
Rapid City
Sioux Falls

UTAH
Ogden
Sandy
Salt Lake City
Granger ○
Orem
Woods Cross

WASHINGTON
Aberdeen
Bellevue
Bellingham
Bremerton
Everett
Federal Way
Kennewick
Kent
Longview
Lynnwood
Marysville
Moses Lake
Mt. Vernon
Olympia
Puyallup
Renton
Seattle (3)
Spanaway
Spokane (3)
Tacoma (2)
Vancouver
Walla Walla
Wenatchee
White Center
Yakima
Bothell
Burien
Kirkland ○
WYOMING
Casper
Cheyenne

OFFICERS, STAFF AND ASSISTANTS:

David J. Heerensperger, *Chairman of the Board*; Jerry L. Marlow, *President*; Halvor Knudtzon, Jr., *Secretary-Treasurer and Controller*; Monte A. Leen, *Executive Vice President*; 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*.

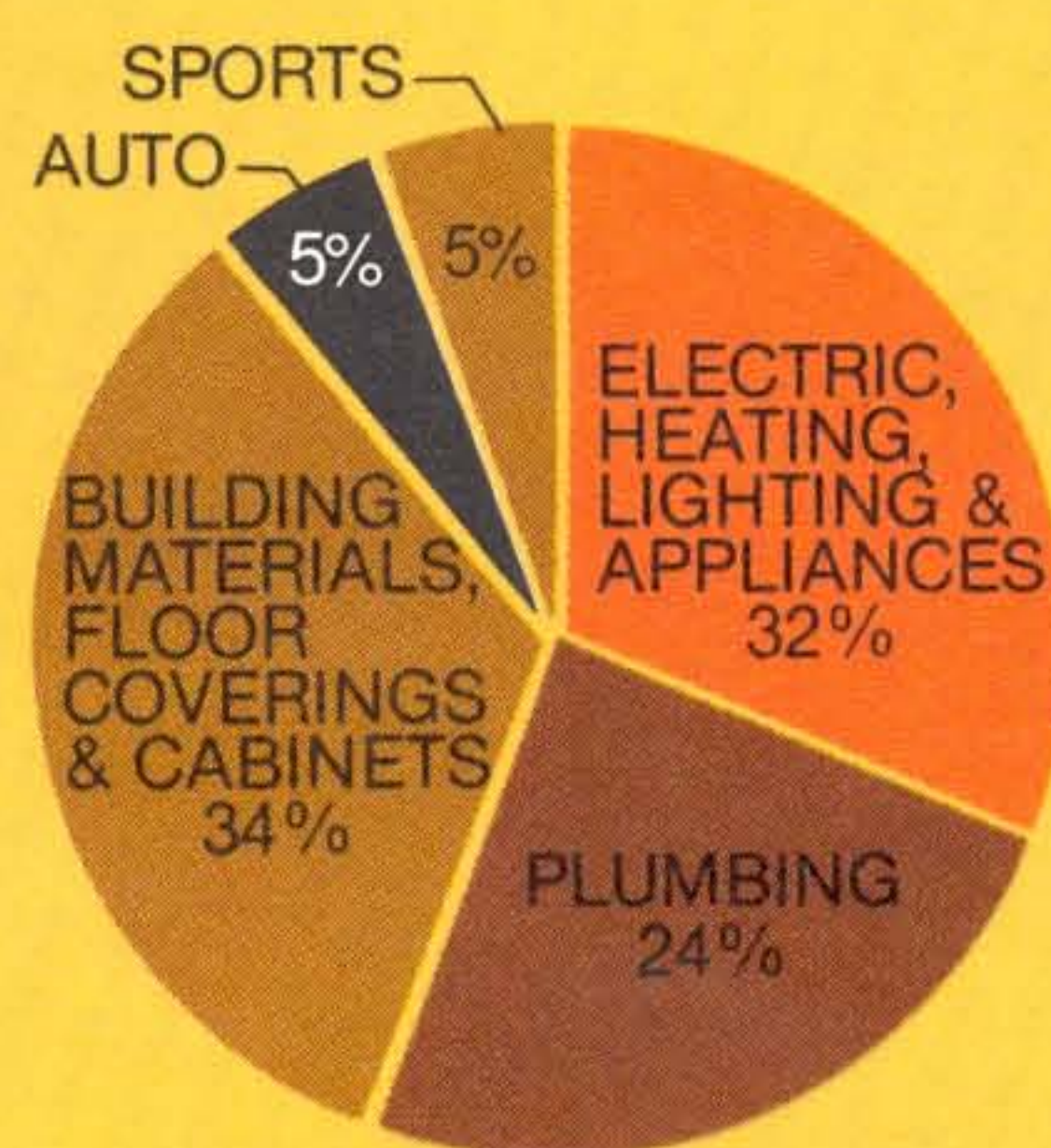
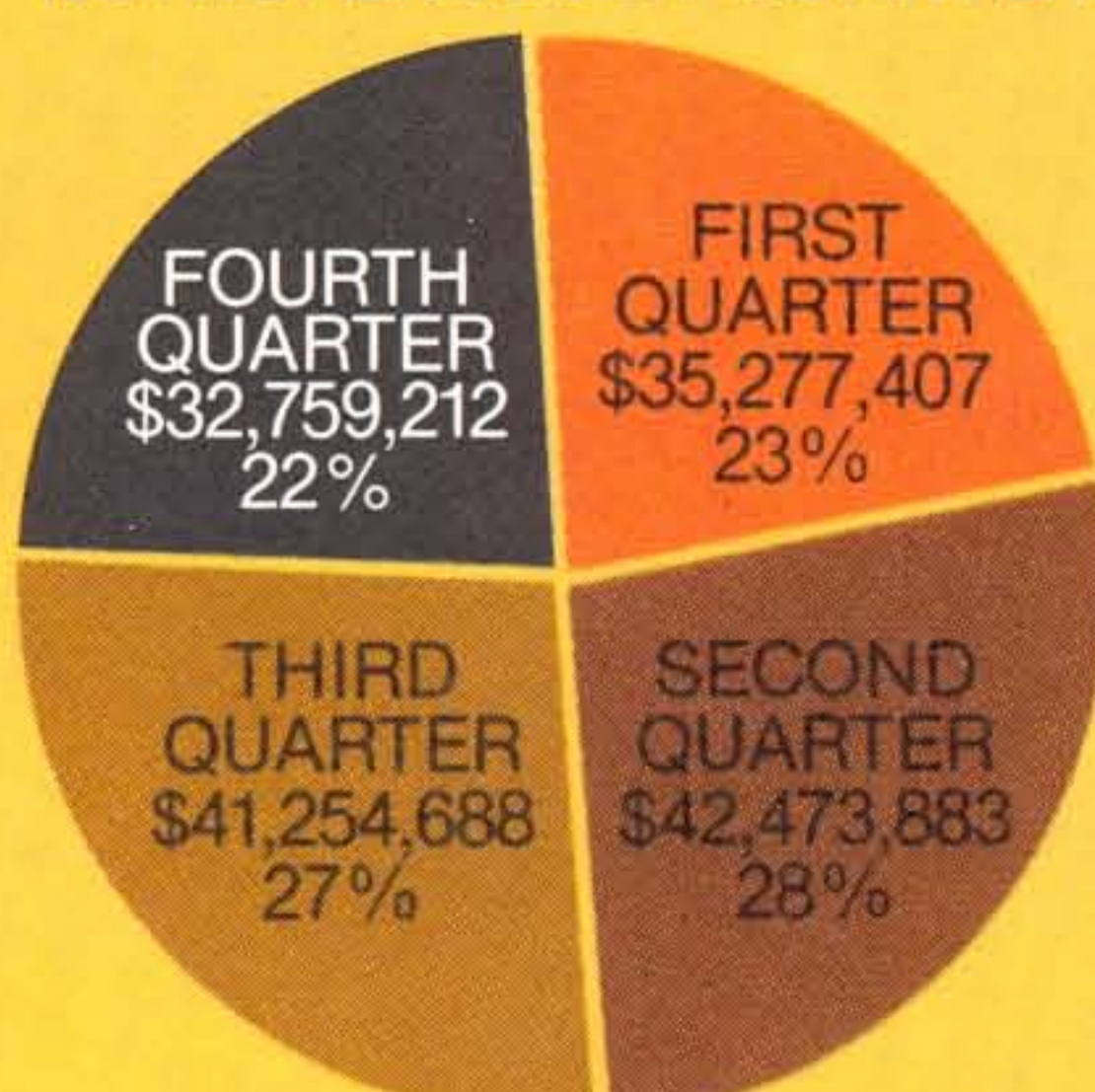
DISTRICT MANAGERS:

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

STAFF AND ASSISTANTS:

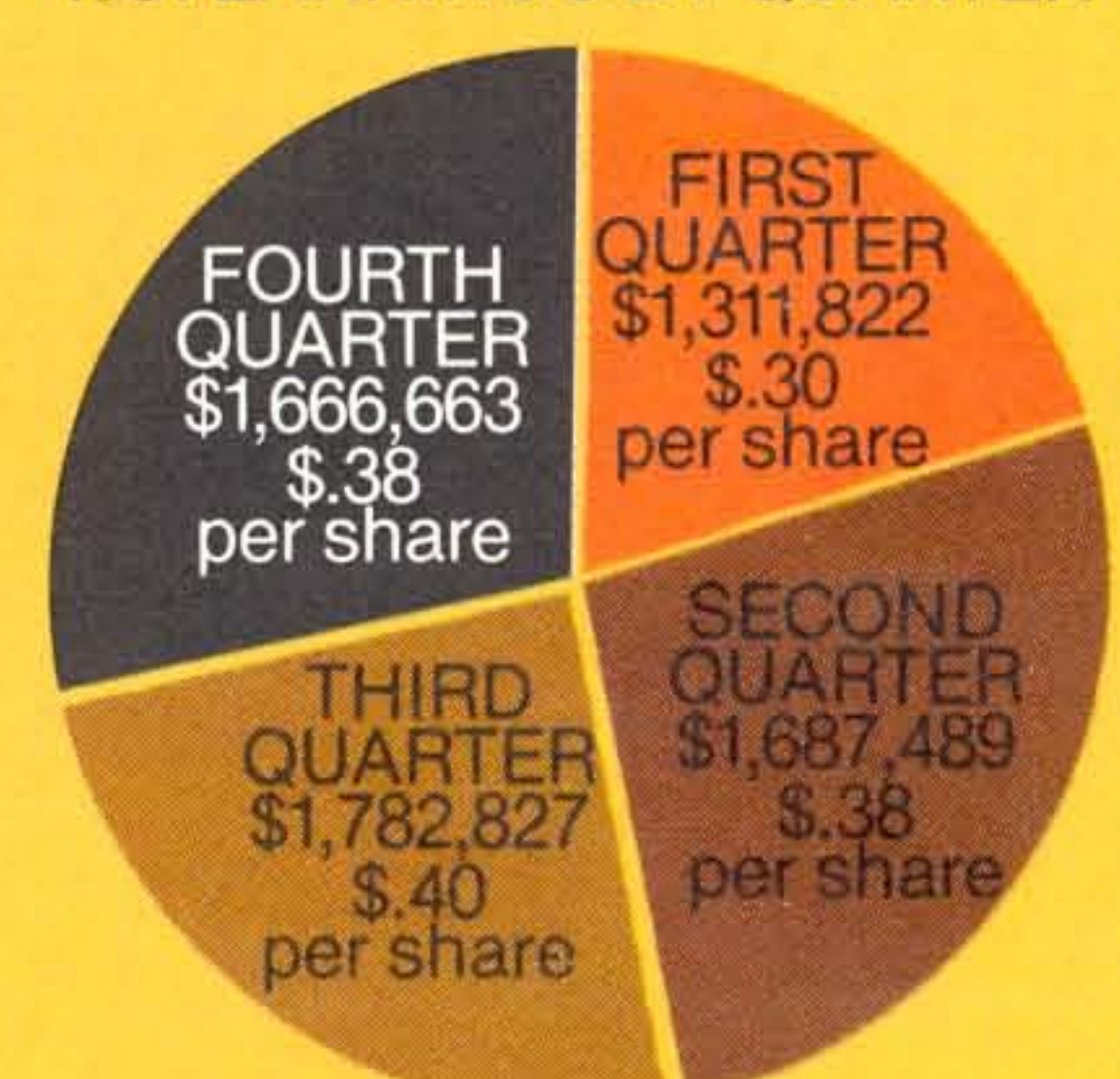
Ralph Beniasch, *Purchasing*; Doug Brown, *Advertising Assistant*; Barbara Collett, *Personnel Director*; Rod Cosgriff, *Purchasing*; Larry Elliott, *Purchasing*; Bonnie Frisbee, *Sales Audit*; William Gottbreht, *Office Manager*; Jan Harris, *Purchasing*; Sam Heerensperger, *Purchasing*; Marvin Iverson, *Construction Director*; Scott Jason, *Data Processing Manager*; Mary Ann Johnson, *Accounts Payable*; Bud Larsen, *Purchasing*; Lynn Linke, *Data Entry*; Herbert McCleary, *Advertising Director*; Tom McCloskey, *Assistant Controller*; Paul Morris, *Planning Design Director*; Bob Scher, *Purchasing*; Candy Scott, *Accounting*; George Smith, *Training Director*; Sibyl Tice, *Administrative*; Jo Tien, *Purchasing Co-ordinator*; Steve Unash, *Merchandising Director*;

1981 REVENUES BY QUARTER



1981 SALES BY CATEGORY

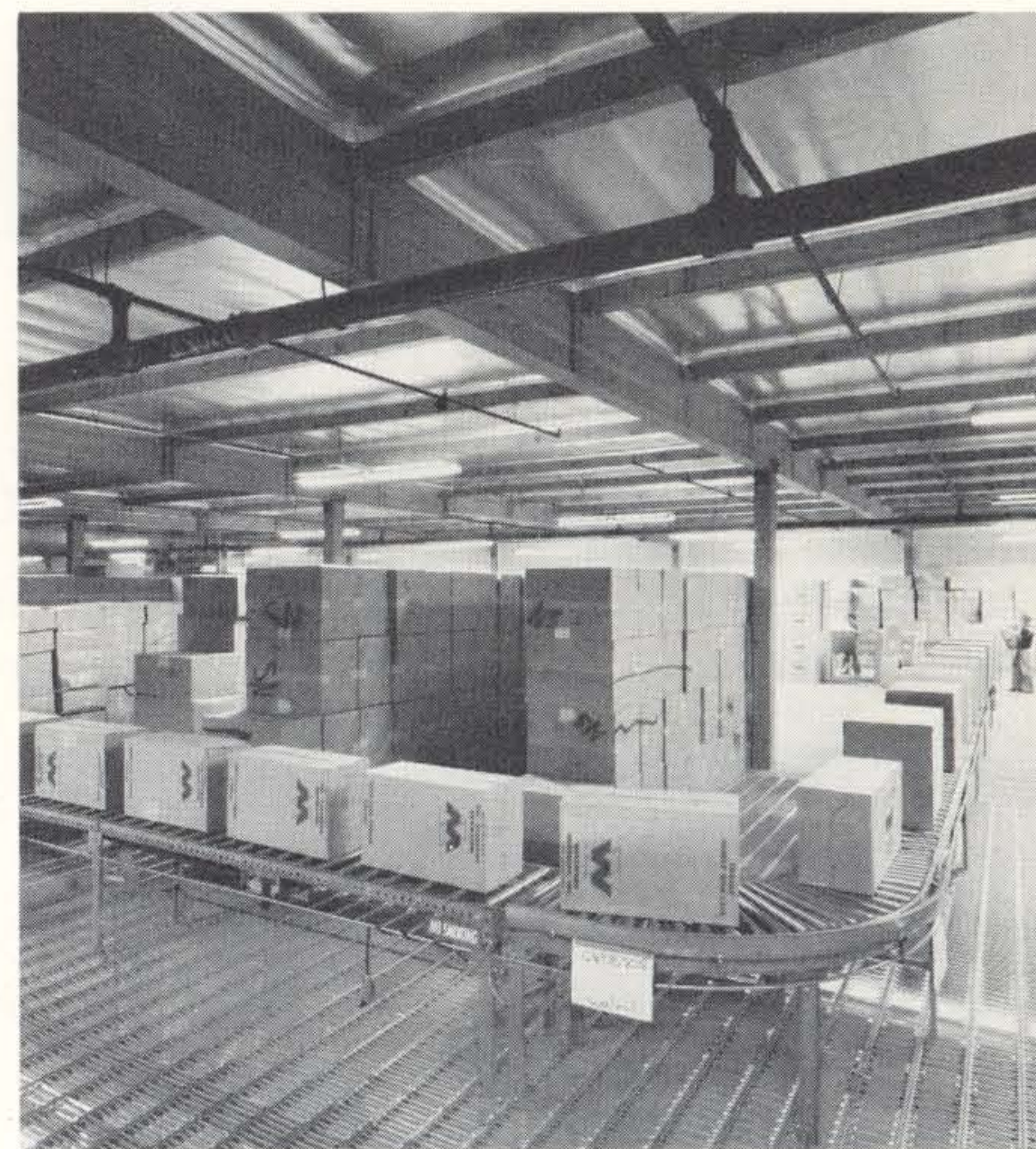
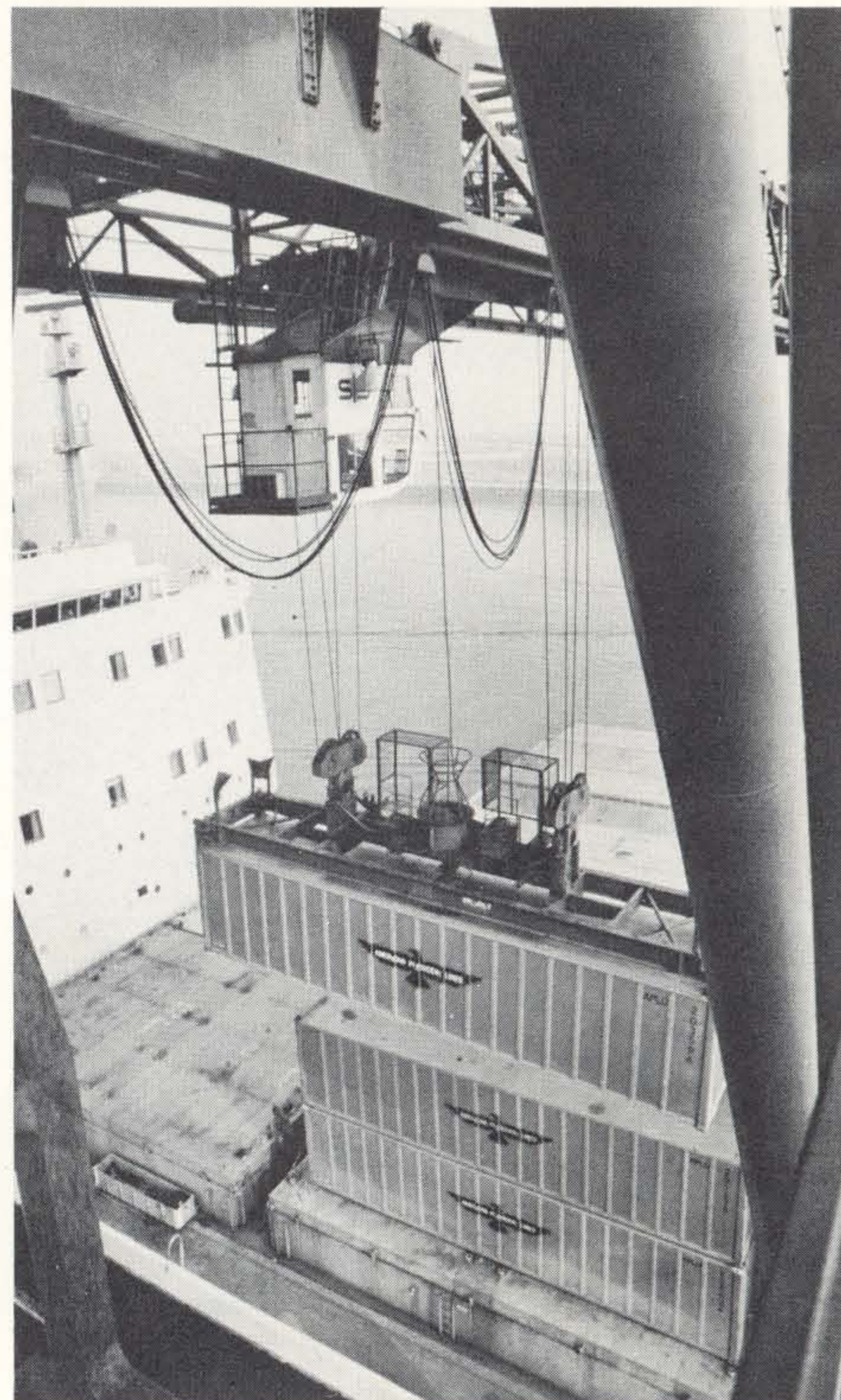
1981 EARNINGS BY QUARTER



OUR DISTRIBUTION MAKES US DYNAMIC

Starting with the big truck on our cover, we're focusing on our distribution system in this year's report. Over the years, it has been a vital ingredient in Pay 'N Pak's success.

If 1980 is any indication, it's going to be even more important in the years ahead.



After all, distribution is what we're all about. First, we seek out superior products and buy them in large quantities to get the best possible price. Then, through our network of 84 stores, we distribute the products over a wide geographical area.

Each step of that process offers us opportunities for lower costs and/or increased sales and profits.

This year, we want to show you some of the ways in which Pay 'N Pak is working to make distribution pay dividends. Not just for our shareholders but for our employees and customers as well.

As you can see from the map, we currently serve customers in 15 Western States, including Alaska.

You'll notice that most of our stores are located in intermediate size cities of 50,000 to 70,000 people.

We've found that in cities of this size we have the best opportunity to establish ourselves quickly and profitably.



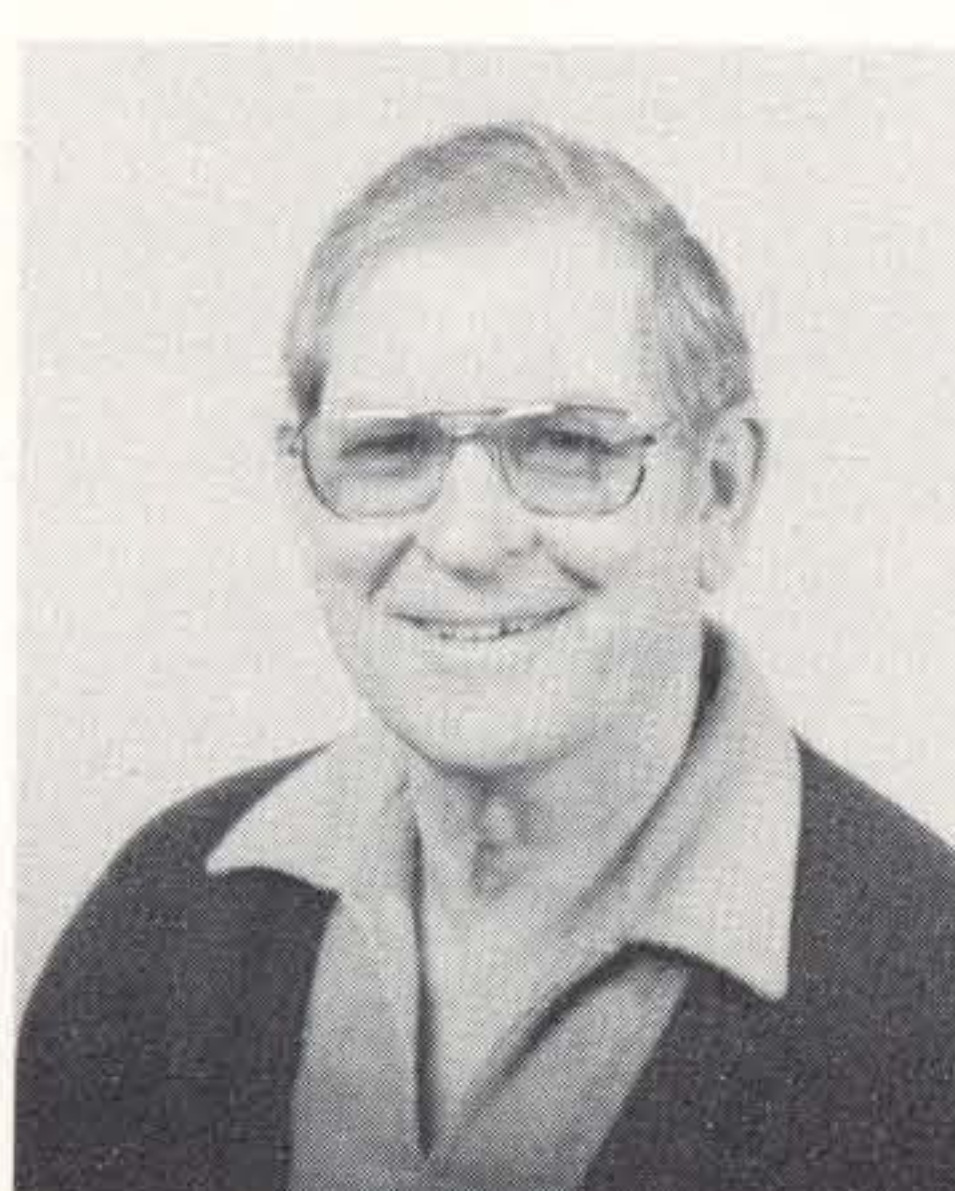
THE DISTRICT MANAGERS



Bud Brown



John Coogan



Warren Jones



Gene Kasper



Mel Kelley



Mike Mandick



Larry Marlow



John Schweitzer



Wally Tesch



It's a good marketing strategy. But it's also a big chunk of real estate. To service all those stores, we maintain about \$12 million in inventory in two huge warehouses, one in Kent, Washington (215,700 square feet) and another in Denver, Colorado (119,160 square feet). Every day of the work week our fleet of trucks is shuttling back and forth to keep our stores stocked with merchandise for our customers.

Our kind of customers

Almost 98% of our customers are do-it-yourselfers, not professional builders and contractors.

This is one of our strong points because it gives us a built-in cushion against abrupt ups and downs of the construction trade.

At the same time, however, it means we must provide a great deal of special help for our customers.

Often they're tackling unfamiliar jobs and they rely on us to answer questions and help them choose the right products. To make a sale, we have to give them the confidence they need to do a good job.

In addition, low prices are very important to our customers, especially these days. After all, that's why most do-it-yourselfers do it themselves: to save money.

Our purchasing power

Thanks to our size and volume, we have tremendous purchasing power with suppliers, which gives us a valuable competitive edge.

For example, we can often obtain exclusive distribution of certain designs, styles, and quality. In other cases, we have merchandise designed and manufactured to our own specifications.

In all, we buy more than 80% of



our merchandise direct from manufacturers rather than through wholesalers. This gives us a big advantage over most of our competitors. Since there is no "middle man" we can still maintain normal profit margins, even when we sell at below-normal prices.

Our eight purchasing agents are constantly shopping for new items or better prices. And not just here in the United States. Our buyers visit Asia five or six times a year, and we get significant price breaks by ordering entire container loads.

Through our distribution system, we can then pass these savings along to our stores and their customers.



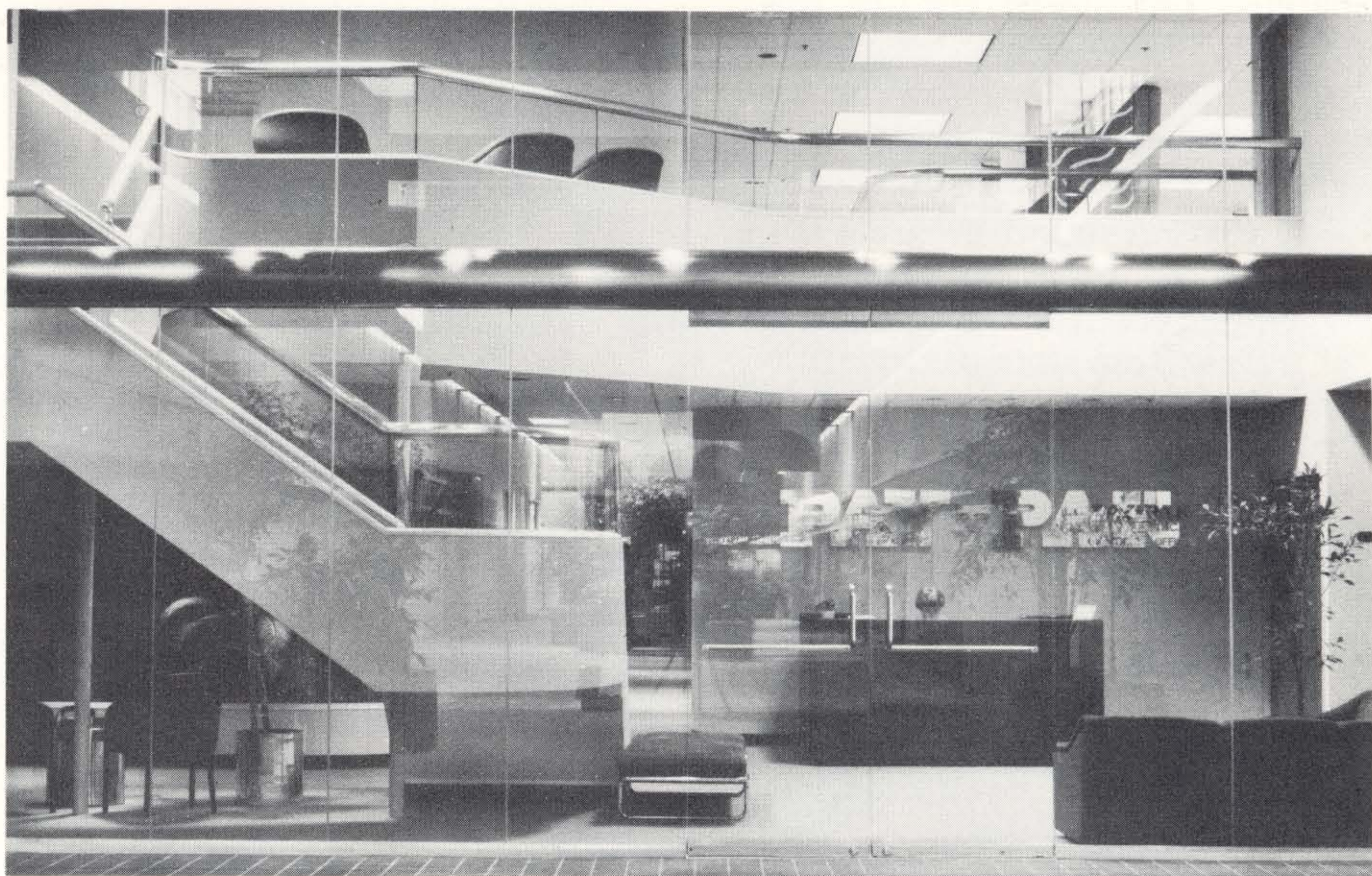
Finding the right product mix

We try to stay abreast of our customer's needs and tastes, and it's a never ending job.

Primarily, we concentrate on electrical and plumbing supplies, because they account for about 60% of our sales. In these areas, customers expect us to carry everything they need to do the job right.

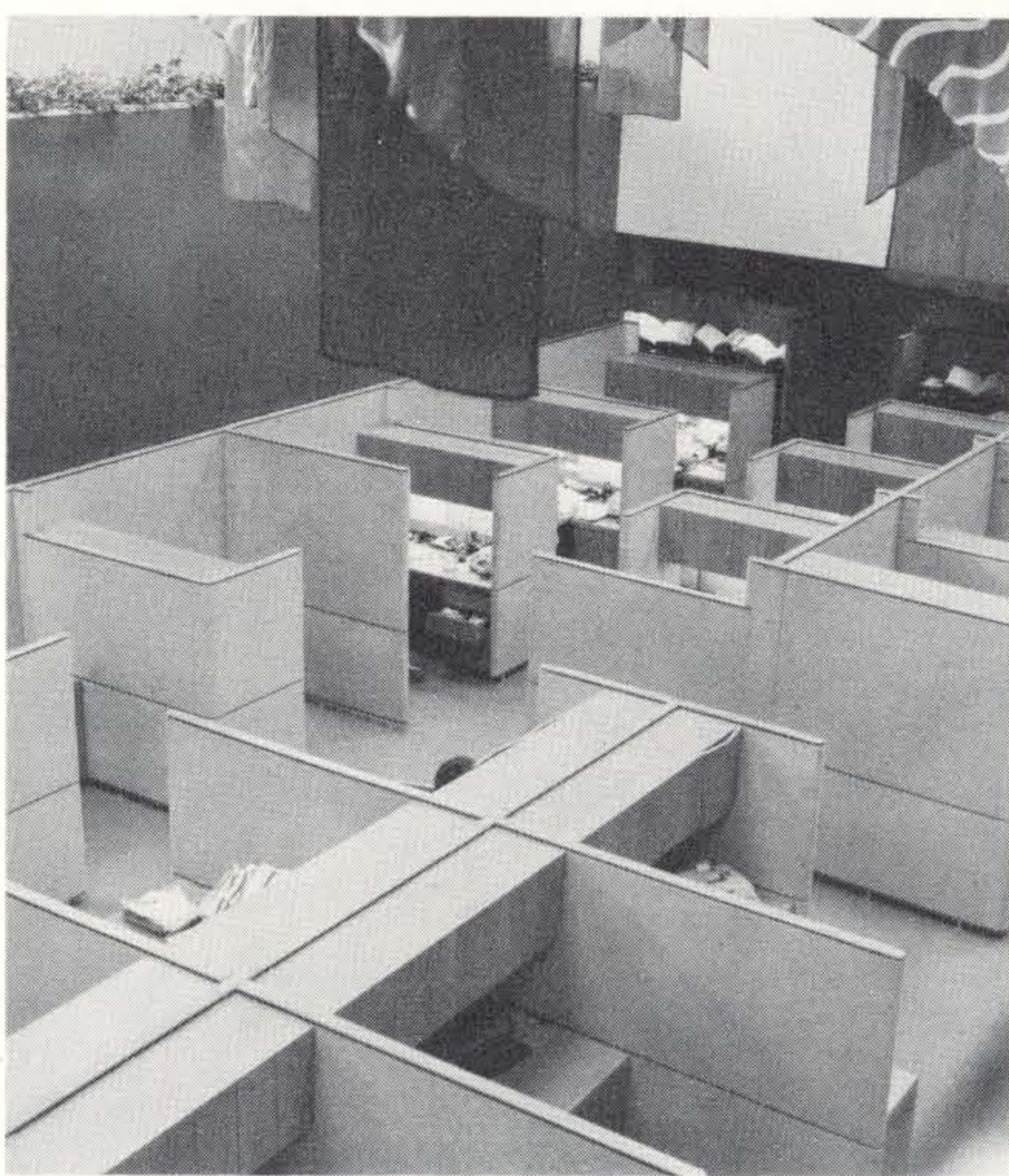
We also try to give them a lot of choice, so each store carries 6,000 different electrical and plumbing items, including more than 550 styles of light fixtures alone.

In the rest of our product mix, we're constantly making changes, depending on sales trends. For instance, we carried wall paneling for years, but when sales dropped off, we discontinued it. Instead, we've



added a selection of modestly priced furniture, which has been very popular, especially with younger families.

In eleven locations, we also offer sporting goods and automotive supplies.



A person-to-person business

Even the best of products don't sell themselves, however.

That's why our people have been so important in our growth. Their expertise and enthusiasm help give customers the confidence they need to succeed with unfamiliar projects...and come back for more.

We work hard to attract good people and then we reward their hard work. We're very proud that

every single one of our district and store managers have come up through the ranks.

Almost one third of our people are now enrolled in our Employee Stock Ownership Plan, which now gives each one up to \$3,000 worth of company stock annually, totally paid for by the company.

In addition, we pay above average wages, provide a strong medical and dental plan, and offer generous bonuses based on store sales and company profits.



All aboard for training

We also try to give our people the training they need to be successful, starting with their first day on the job. It's a complex task, especially when you remember how widely

separated our stores are. In this area, too, we've had to develop a unique "distribution system" to see that all of our people get their fair share of training.

One element in our program is a unique "class room on wheels" a Greyhound bus-type training coach that travels from store to store conducting on-the-spot training. Last year alone, it traveled over 75,000 miles.



In addition, we've produced 35 training films on various products and procedures. Each store has its own "Technicolor Theater" where employees can study the films at their convenience. After each film, they're tested, and the results go into their training records at headquarters.

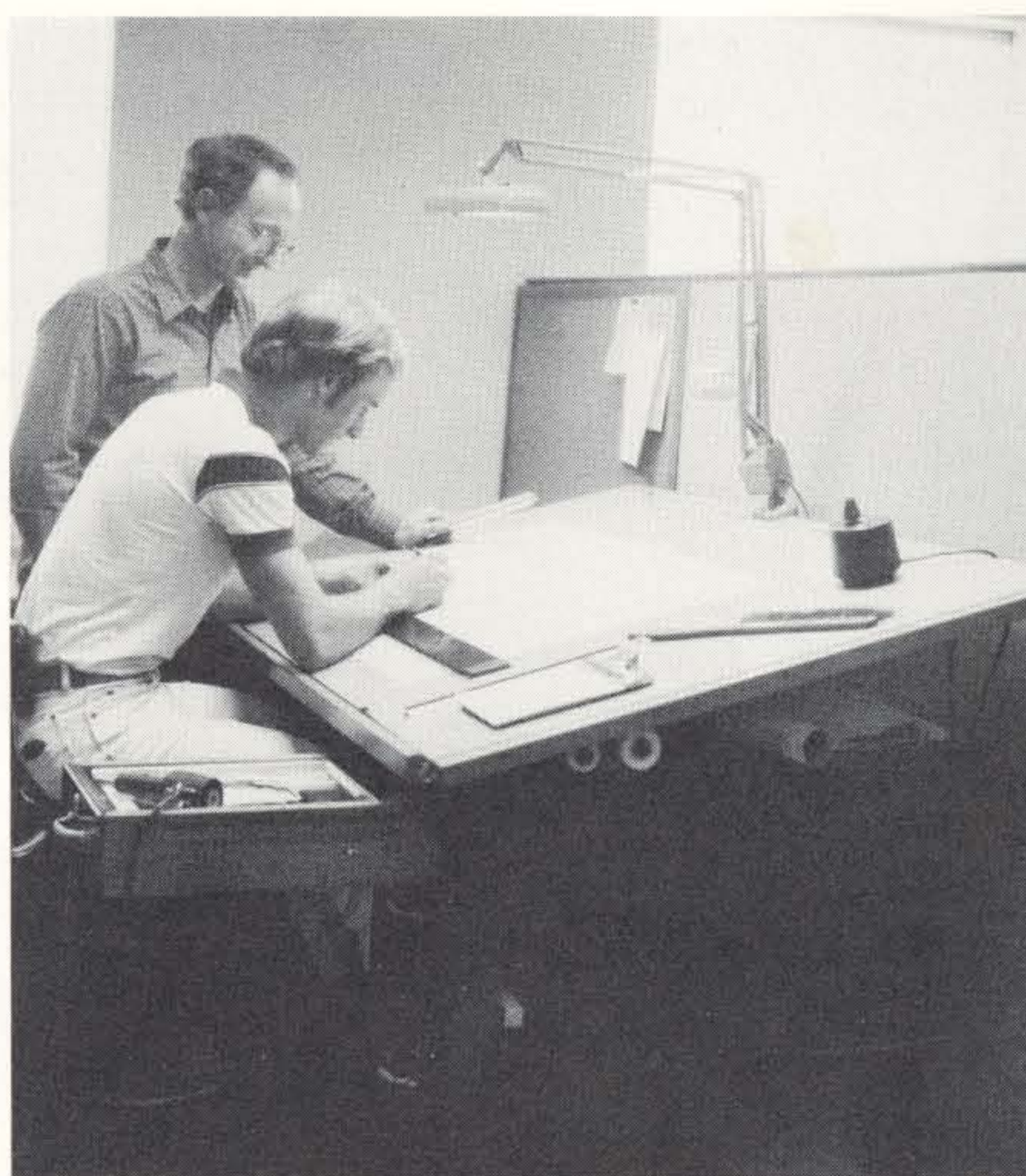
On top of all this, there are specific training programs for cashiers, freight persons, purchasing agents, and other employees, and each week, store managers conduct store-wide meetings.

Finally, there's an ongoing training program for managers, their assistants, and third persons. (To prepare for their own promotion, we encourage managers to train their replacement ahead of time.)

It takes a full-time training staff of eight people to develop, conduct, and monitor all these programs. Quite frankly, we don't know anyone in the business who does a better, more professional job.

Sprucing up our stores

Our big stores (average 21,000 square feet) are a vital element in

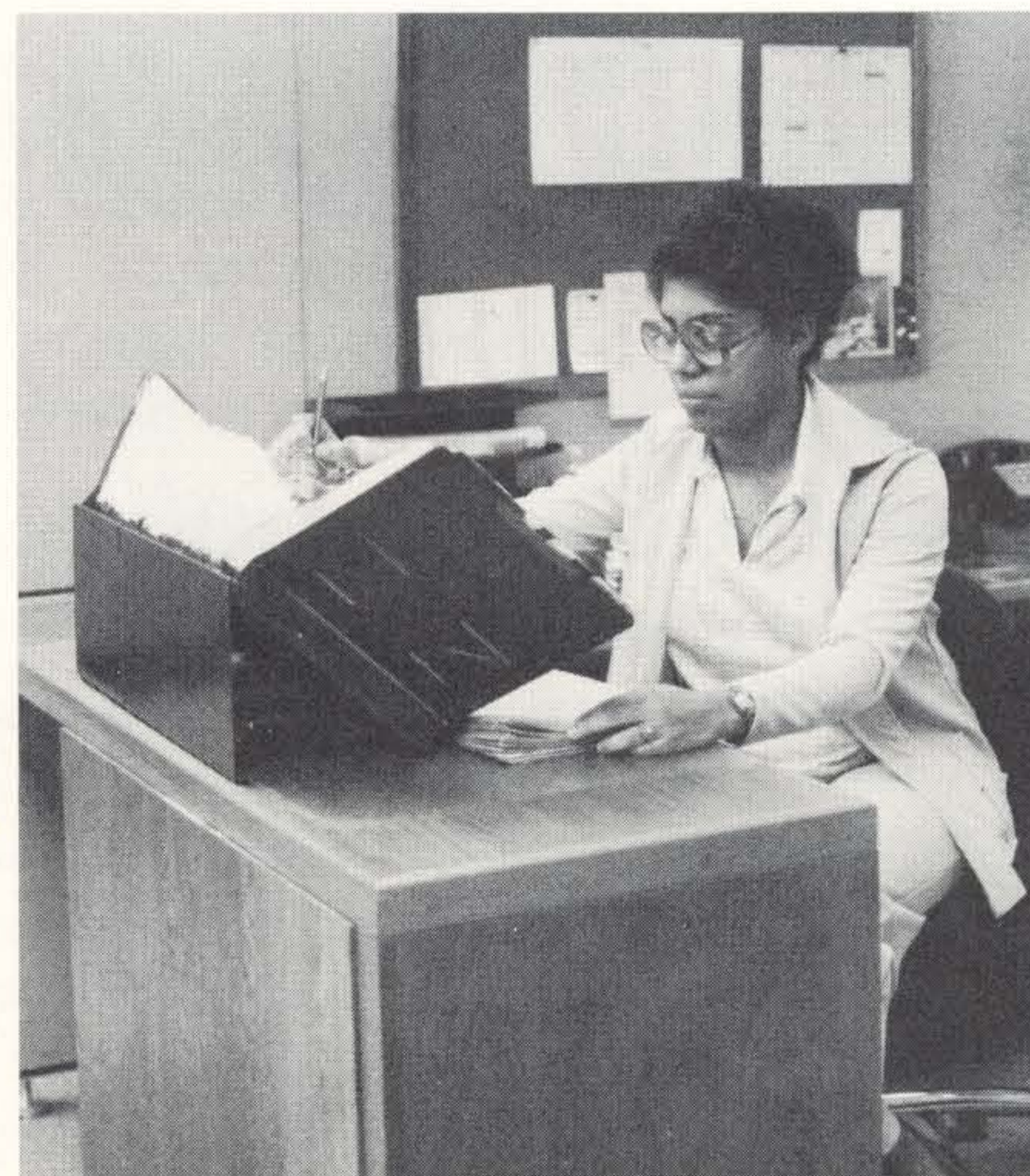


our distribution system, of course. Here, too, we are constantly making additions and improvements.

Last year, we opened 6 new stores: Bothell, WA; Orem, UT; Woods Cross, UT; Burien, WA; Bend, OR; Greeley, CO, and in our other stores we began an extensive re-decorating program. Developed by our own designers, the new look features warm, cheerful colors and bold, contemporary designs.

In our stores, we emphasize realistic displays that show customers how products will look in their own homes. We have six construction crews who are constantly installing new displays or remodeling older ones so they always look fresh and appealing.

We are currently re-merchandising our existing stores updating our



merchandise mix to give us more variety and keep up with the current consumer buying trends.

Advertising that pays off

We believe firmly in advertising and sales promotion.

That's one reason we concentrate on intermediate size cities. Because advertising rates are lower, we can afford to run large-space newspaper ads each week, prepared by our own advertising department.

Four times each year, we also run colorful preprinted tabloids--more than 5½ million copies in over 70 different newspapers, and now we are experimenting with TV as well.

These days, low prices are big news, and advertising is the way we spread the news to our customers and friends.



Managers who really manage

We try to give our managers the maximum opportunity to develop their own entrepreneurial skills, while we back them up with the strengths of centralized purchasing, marketing and accounting.

They have some degree of flexibility in ordering and pricing merchandise for their stores. We rely heavily on them to help us make changes in merchandise mix, depth of inventory and advertising approaches.

Each store manager reports to one of nine district managers who provide a two-way communication link between the stores and top management.

BRINGING IT ALL TO OUR CUSTOMERS



Staying in touch.. and in control

At Pay 'N Pak we rely heavily on computers to give us the information we need for efficient operations from personnel records and payrolls to vendor reports and inventory control.

We have our own IBM System 38, and it's a big help in spotting trends, so that we can quickly make adjustments.

But there is still no substitute for face-to-face contact. And that's why district managers visit each store at least once a month. We also hold managers' meetings in each division at least three times a year, conducted by the district manager and the president.

Also, three or four times a year, a special merchandising committee of store managers and purchasing agents meets with headquarters staff to exchange information.

Other firms may have the same computers we do, now or in the future. But nobody else has the same people we do.

In the long run, it is our people who make us more efficient than our competition.

Trucks and warehouses, computers and merchandise, they're all important; but it is our people who are the unique ingredient in our distribution system.



MARKET AND DIVIDEND INFORMATION

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

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

The stock of Pay 'N Pak Stores, Inc. is traded actively in the over-the-counter (OTC) market. Prices are quoted on NASDAQ and published daily in the financial pages of many daily newspapers. As of May 1, 1981, there were approximately 2,562 holders of record of the company's common stock.

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

NASDAQ Symbol PAYP

Quarterly High and Low Bid Prices

(Asked prices are approximately 1/2 point more)

Years ended February 28 or 29	1981	Last Two Fiscal Years	1980
1st quarter	13 3/4-9 3/4		16 3/4-14 1/4
2nd quarter	15 3/8-12 1/8		18 5/8-13 7/8
3rd quarter	14 7/8-11 1/8		18 5/8-14 3/8
4th quarter	14-10 1/8		16 1/8-12 1/2

Quarterly Dividends

Years ended February 28 or 29	1981	Last Two Fiscal Years	1980
1st quarter	.17		.15
2nd quarter	.17		.15
3rd quarter	.17		.15
4th quarter	.17		.15

The range of high and low representative bid prices and the quarterly dividends have been adjusted for a 6 for 5 stock split in April, 1979.

Transfer Agent and Registrar

Security Pacific National Bank
Los Angeles, California

Banks

Peoples National Bank of Washington
Seattle, Washington

Auditors

Arthur Young & Company
Seattle, Washington

Legal Counsel

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

Old National Bank of Washington
Spokane, Washington

Notice of Annual Meeting of Stockholders

The annual meeting of stockholders of Pay 'N Pak Stores, Inc. will be held on June 16, 1981, at 11 o'clock a.m., at the Red Lion Motor Inn, 18740 Pacific Highway South, Seattle, Washington.

FINANCIAL STATEMENTS

Responsibility for Financial Statements

The accompanying consolidated balance sheets of Pay 'N Pak Stores, Inc. at February 28, 1981 and February 29, 1980 and the related statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended February 28, 1981, were prepared by the 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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended February 28, 1981
Commission file number 0-4967

PAY 'N PAK STORES, INC.

Washington
(State of incorporation)

91-0729852
(I.R.S. Employer I.D. No.)

1209 South Central, Kent, Washington 98031
Telephone: (206) 854-5450

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

Title of each class
None

Name of each exchange
on which registered
None

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

Common Stock
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X

No _____

Aggregate market value of common stock held by nonaffiliates at April 29, 1981 — \$41,874,980.

Common stock outstanding at May 13, 1981 — 4,426,342 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Annual Report to security holders for fiscal year ended February 28, 1981, is incorporated into Part II.

Proxy statement dated May 13, 1981 in connection with Annual Meeting of Shareholders to be held on June 16, 1981, is incorporated into Part III.

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Part I

Item 1 – Business

(a) *General development of business.* Pay 'N Pak Stores, Inc. (the "Company") was incorporated in 1961 under the laws of the State of Washington, as the successor to a partnership formed in 1953 to engage in the retail sale of home improvement products, principally electric and plumbing supplies. The Company in its present form evolved from a merger in 1969 of three groups of similar stores in adjacent geographic areas. Immediately after the merger, the Company had 22 stores in three western states, Washington, California and Colorado. 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. During the past fiscal year, the Company opened six new stores and currently operates 84 stores in 15 states, all west of the Mississippi River, although about half of the stores are located in the Pacific Northwest, with 32 stores in Washington and 10 stores in Oregon.

Item 1 – Business, continued

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

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

The Company's marketing efforts are primarily directed toward homeowners and other do-it-yourself customers. The Company estimates that over 98% of sales of home improvement products and auto supplies were made to do-it-yourself customers in fiscal 1981, with professional builders and others accounting for less than 2%.

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

	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
Electrical	33%	32%	31%	33%	32%
Plumbing	26	26	25	24	24
Building Materials	29	30	33	33	34
Automotive	7	6	6	5	5
Sporting Goods	5	6	5	5	5
Total	100%	100%	100%	100%	100%

The Company uses modern merchandising and marketing techniques in the operation of its retail stores. Store layout, merchandise organization and merchandise signs are designed by the Company's corporate staff and are essentially consistent throughout its stores. Merchandise is conveniently arranged and displayed in well-lighted stores, with emphasis placed on displays which illustrate how the product will look in the customer's own home. Many brand name products are carried by the stores, particularly where the Company believes such brand names are recognized by the customer as indicative of quality and reliability. The Company also carries private label merchandise, some of which is the manufacturers' standard merchandise and some of which is designed and manufactured to the Company's specifications. The Company attempts to charge competitive prices with respect to the merchandise sold through its stores, particularly on high volume, commodity products. Such pricing is facilitated by the Company's ability to purchase certain products in volume directly from manufacturers. Sales are predominantly on a cash and carry basis, which includes sales made through the use of bank credit cards by customers. To a limited extent, goods are also sold under installment sales contracts which are in turn sold to finance companies on a nonrecourse basis. The Company estimates that during fiscal 1981, 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 on how to select, install and use products for home improvement and maintenance projects. The Company places particular emphasis on the training of its sales personnel to accomplish this objective. Although the Company does not deliver or install the products it sells, it continually trains its sales personnel so that they may advise customers regarding the selection and use of the products sold and so that they may give step-by-step instructions regarding the installation of such products. The Company has a product training director and staff, and uses training film programs and meetings to qualify employees in product knowledge and selling skills. The Company also owns a 40-foot bus that is specially equipped and used as a mobile training classroom for its sales personnel.

During the fiscal year ended February 28, 1981, the Company opened new stores in Bothell and Burien, Washington, Orem and Woods Cross, Utah, Greeley, Colorado, and Bend, Oregon. The Company also modernized and expanded its administrative head office in Kent, Washington.

Item 1 – Business, continued

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

	Years Ended February 28 or 29				
	1977	1978	1979	1980	1981
Stores in operation at beginning of year (1)	55	60	65	70	78
New stores opened	7	6	7	9	6
Stores replaced by new stores	(2)	(1)	(1)	(1)	
Stores sold or closed (2)	—	—	(1)	—	—
Stores in operation at end of year	60	65	70	78	84

(1) Prior to fiscal 1979 the Company treated as five separate stores the five physically separate sales outlets in Kent, Washington Mall. In this table, the Kent Mall is treated as one store.

(2) In January, 1979, when the Company's lease expired it closed an outmoded store in Redmond, Washington.

The Company has undertaken a store expansion program to increase the 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 smaller cities and in suburban areas of larger cities. In selecting locations for future stores, the Company plans to concentrate on trading areas in the western and mid-western half of the United States that have a minimum trading area population of 50,000 persons.

The Company has entered into leases and plans to open new stores later in fiscal 1982 in Medford and Pendleton, Oregon, Carson City, Nevada, a second store in Wichita, Kansas, and a third store in Sacramento, California. The Company is also presently negotiating for new stores in Sioux City, Iowa, and a fourth Sacramento area store.

(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 half the merchandise is shipped by suppliers directly to the Company's stores. The Company also warehouses merchandise and supplies its stores through two central warehouse locations, an aggregate of 215,700 square feet in Kent, Washington, and an aggregate of 119,160 square feet in Denver, Colorado. The warehouse in Denver, Colorado, services the Company's 29 stores located in Colorado, Kansas, Nebraska, Montana, Oklahoma, South Dakota, North Dakota, Utah, Idaho and Wyoming and the Kent, Washington location services the remainder.

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

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

Item 1 – Business, continued

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

The Company sells most of its goods on a cash basis and other than selling a limited amount of goods under installment sales contracts that are sold to finance companies on a 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, auto supply stores and sporting goods stores. The Company's competitors, some of which have substantially greater financial resources, are continually expanding and opening new stores in market areas in which the Company has existing stores as well as in new market areas in which the Company plans to expand. Because of the variety of products sold by the Company and the number and variety of its competitors, it is virtually impossible to determine a competitive position for the Company.

(2) (i) Research and development activities. The Company has engaged in research and development activities relating to the improvement of services to its customers, through the development of product knowledge training films, a Retail Selling Skills program, the holding of training seminars, and a 40-foot mobile training bus, all of which are designed to constantly update product knowledge and selling skills. The goal of this program is to have the Company's sales people completely qualified to explain to customers how to install or use all of the products that the Company sells. The amount spent by the Company on such activities during each of the last two fiscal years is estimated at approximately \$301,862 in 1980 and \$275,380 in 1981.

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

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

(iv) Number of employees. The Company currently employs approximately 1,097 full-time persons and 56 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 84 stores, 32 are located in the State of Washington, 10 in Oregon, 6 in California, 2 in Nevada, 4 in Idaho, 1 in Montana, 5 in Utah, 9 in Colorado, 3 in Kansas, 4 in Oklahoma, 2 in Alaska, 2 in Wyoming, 2 in South Dakota, 1 in North Dakota and 1 in Nebraska. All of the Company's stores except nine are leased under leases expiring at various times between July 6, 1981, and February 26, 2008. 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 1983. In addition, the Company also leases regional warehouse space in Denver, Colorado, under leases that expire in 1982 and from which the Company's midwest merchandising is conducted. These leases contain options to renew.

In addition to the properties and buildings used in the Company's daily business operations, the Company owns approximately 20 acres in Spokane, Washington, and 30 acres in Kent, Washington. The Company has granted an option to purchase 10 acres of the Kent property and intends to construct its own warehouse on the remaining 20 acres to replace the Kent warehouse premises presently under lease.

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

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

Item 3 – Legal Proceedings

None.

Item 4 – Security Ownership of Certain Beneficial Owners and Management

(a) As of May 1, 1981, except as otherwise indicated in footnote 3 below, the following persons were known by the Company to be the beneficial owners of more than five percent of the outstanding common stock of the Company:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature Beneficially Owned	Percent of Class
Common stock	David J. Heerensperger 3433 Hunts Point Road Bellevue, Washington 98004	504,167 shares (1)	11.4%
Common stock	Pay 'N Pak Stores, Inc. Employee Stock Ownership Trust c/o Peoples National Bank Trust Division 1414 Fourth Avenue P.O. Box 720 Seattle, Washington 98111	468,559 shares (2)	10.6%
Common stock	T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, Maryland 21202	381,394 shares (3)	8.6%
Common stock	Lehman Brothers Kuhn Loeb Holding Co., Inc. 55 Water Street New York, New York 10004	389,700 shares (3)	8.8%

- (1) Includes shares allocated to Mr. Heerensperger's account in the Company's Employee Stock Ownership Trust ("ESOT"). Mr. Heerensperger has sole power to direct the vote of such shares.
- (2) Employee-participants have sole power to direct the vote of shares allocated to their accounts.
- (3) Information taken from Schedule 13G filed by Beneficial Owner as of December 31, 1980, and as of April 29, 1981.

(b) As of May 1, 1981, the directors of the Company, and all officers and directors as a group, beneficially owned outstanding common stock of the Company as follows:

Title of Class	Name of Director	Amount and Nature of Beneficial Ownership	Percent of Class
Common stock	David J. Heerensperger	504,167 (1)	11.4%
Common stock	Halvor Knudtson, Jr.	12,781 (1)	.3%
Common stock	Woodrow C. Button	28,800	.6%
Common stock	Marshall J. Weigel	28,515	.6%
Common stock	Jerry L. Marlow	14,982 (1)	.3%
Common stock	Monte A. Leen	1,096 (1)	.03%
Common stock	All directors and officers as a group (9 persons)	602,318 (2)	13.7%

- (1) Includes shares allocated to director's account in the Company's Employee Stock Ownership Trust ("ESOT"). The director has sole power to direct the vote of such shares.
- (2) Includes shares allocated to such persons' accounts in the Company's ESOT. Each such person has sole power to direct the vote of his shares.

Item – Executive Officers of the Company

<u>Name</u>	<u>Age</u>	<u>Positions and Offices</u>
David J. Heerensperger	44	Chairman of the Board and Chief Executive Officer; Director
Jerry L. Marlow	45	President and Chief Operating Officer; Director
Halvor Knudtzon, Jr.	54	Secretary-Treasurer and Controller; Director
Monte A. Leen	38	Executive Vice President
Victor W. Crosswhite	44	Vice President-Purchasing
Peter W. Gallina	45	Vice President-Real Estate and Store Development
Calvin E. Karbowski	43	Vice President-Distribution

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

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

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

All of the above officers have been employed by the Company during the past five years except Mr. Leen. David J. Heerensperger has served the Company as Chairman of the Board and Chief Executive Officer, and also, from November 1975 to December 1977, as President. Halvor Knudtzon, Jr., has served the Company as Controller and Secretary-Treasurer. Jerry L. Marlow, prior to his election as President and Chief Operating Officer in December 1977 served the Company as Vice President-Operations and Chief Operating Officer. Victor W. Crosswhite, prior to his election as Vice President-Purchasing in February 1980 served the Company as Vice President-Midwest Merchandising from December 1977 and as a purchasing agent for electrical, lighting and heating supplies. Peter W. Gallina, prior to his election as Vice President-Real Estate and Store Development in December 1977 served the Company as Director of Store Development, Construction and Real Estate. Calvin E. Karbowski, prior to his election as Vice President-Distribution in February 1980 served the Company as manager of its Kent warehouse. Monte A. Leen, prior to his election as Executive Vice President in March 1981, served the Company as Vice President-Merchandising from February 1980, and was a purchasing agent for electrical and lighting supplies and appliances from February 1978. From November 1975 to February 1978, Mr. Leen was employed in California by Yardbirds, Inc., as the manager of an electric and plumbing supplies store for approximately a year and thereafter was self-employed as a co-managing partner of another electric and plumbing supplies store.

Part II

Item 5 – Market for the Company's Common Stock and Related Security Holders Matters

Incorporated by reference from page 11 of the Company's annual report to security holders being furnished to and filed with the Securities and Exchange Commission.

Item 6 – Selected financial data

	Years ended February 28 or 29,				
	<u>1981</u>	<u>1980</u>	<u>1979</u>	<u>1978</u>	<u>1977</u>
Operating results:					
Net sales.	\$151,683,806	\$137,896,788	\$117,341,577	\$98,000,321	\$80,592,395
Income before					
income taxes	\$ 11,575,328	\$ 11,470,982	\$ 10,199,489	\$ 7,882,339	\$ 5,463,526
Net income.	\$ 6,448,801	\$ 6,312,882	\$ 5,402,926	\$ 4,006,465	\$ 2,871,128
Net income per					
share	\$1.46	\$1.43	\$1.33	\$1.04	\$.74
Cash dividends paid					
per common share	\$.68	\$.60	\$.50	\$.344	\$.225
At year-end:					
Total assets.	\$ 90,062,573	\$ 81,691,113	\$ 70,102,914	\$50,272,628	\$45,883,216
Long-term debt	\$ 27,978,640	\$ 28,680,119	\$ 23,848,328	\$18,467,381	\$19,124,915

Per share data has been restated to reflect the three for two, four for three and six for five stock splits declared in fiscal years 1978, 1979 and 1980, respectively.

Item 7 – Management’s discussion and analysis of results of operations and financial condition

Results of operations

During the past three years the Company’s revenues have increased from \$98 million in fiscal 1978 to \$152 million in fiscal 1981 (an increase of 55%). Net income has increased during this period from \$4.0 million in fiscal 1978 to \$6.4 million in fiscal 1981 (an increase of 61%).

The year to year increase in revenues was 20% from fiscal 1978 to 1979, 18% from fiscal 1979 to 1980 and 10% from fiscal 1980 to 1981. These increases are generally attributable to new stores opened during the periods, increased volume in existing stores and, to a lesser extent, price increases. For information regarding numbers of new stores opened in each of the last five fiscal years, see “Business”. Interest income increased \$293,846 or 696% in fiscal 1979 over 1978 and \$118,093 or 35% in fiscal 1980 over 1979 primarily as a result of investing excess funds in time certificates of deposit.

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

	Increase (Decrease)		
	1979 over 1978	1980 over 1979	1981 over 1980
		(In thousands)	
Net sales of stores opened during fiscal year*	\$ 2,763	\$ 4,300	\$ 3,673
Increase in net sales over the preceding year of stores in their first full fiscal year of operation	3,279	4,685	6,837
Increase in net sales over the preceding year of stores opened for over two fiscal years.	13,299	12,378	3,277
Decrease in net sales for stores closed or sold	—	(808)	—
	<u>\$19,341</u>	<u>\$20,555</u>	<u>\$13,787</u>

During the three-year period, cost of sales and selling and administrative expense have generally increased in proportion to the increase in revenues. Rent and depreciation have increased throughout the period, primarily as a result of new store openings. Interest on long-term debt has increased primarily as a result of a borrowing of \$5 million in June 1978 and an additional borrowing of \$3.3 million in August 1979. Interest on short-term debt increased \$287,000 in fiscal 1980 over 1979 and \$253,000 in fiscal 1981 over 1980 primarily as a result of interest rate increases and increased short-term borrowing.

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

Item 7 – Management’s discussion and analysis of results of operations and financial condition, continued

The Company’s effective income tax rates for the three fiscal years were as follows: 1979—47.0%, 1980—45.0%, 1981—44.3%. The fluctuations were primarily due to variations in the amount of investment tax credit available in the respective periods and a federal rate change in 1979.

Primarily as a result of the factors discussed above, net income increased by 34.9% from 1978 to 1979, and by 16.8% from 1979 to 1980 and 2.2% from 1980 to 1981.

Liquidity

Working capital increased from \$15.5 million at February 28, 1978 to \$26.1 million at February 28, 1981. The year by year change was an increase of \$9.5 million for 1979 over 1978, an increase of \$1.7 million for 1980 over 1979 and a decrease of \$.6 million for 1981 from 1980. The increase since 1978 is primarily due to an increase in merchandise inventory of \$22.2 million during the three year period. Working capital requirements were financed largely by increased short-term bank borrowings and a portion (\$4.6 million) of the proceeds from the sale of 470,000 shares of stock in fiscal year 1979.

Capital resources

Capital expenditures for the three-year period were at record levels. The expenditures for new facilities, furnishings and equipment were \$5.6 million for 1979, \$11.7 million for 1980 and \$9.8 million for 1981. The total of expenditures for the three-year period was \$27.1 million.

The major portion of the expenditures was for the costs of facilities, furnishings and equipment for eighteen new retail outlets opened during the three-year period. The Company purchased land and constructed buildings for six of the new outlets at a total cost of \$7.9 million. In addition, the Company remodeled the facility housing its corporate offices and shopping mall during fiscal 1981. Also in 1980, the Company acquired land in Kent, Washington, at a cost of \$.9 million, to be used as the site for construction of a new warehouse facility to replace the present leased warehouse. The warehouse is expected to be completed by approximately September 1983.

The completion and furnishing of the eighteen new outlets was financed primarily by earnings, depreciation, term loans of \$5 million in fiscal 1979 and \$3.3 million in fiscal 1980 from the Prudential Insurance Company of America and \$3.4 million of proceeds from the sale of stock in fiscal 1979.

Item 8 – Consolidated financial statements

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PAY 'N PAK STORES, INC.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

We have examined the consolidated financial statements of Pay 'N Pak Stores, Inc. listed in the index to financial statements in Item 11 (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 financial statements in Item 11 (a) present fairly the consolidated financial position of Pay 'N Pak Stores, Inc. at February 28, 1981 and February 29, 1980 and the consolidated results of operations and changes in financial position for each of the three years in the period ended February 28, 1981, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Seattle, Washington
March 27, 1981

PAY 'N PAK STORES, INC.
CONSOLIDATED STATEMENT OF INCOME
Years ended February 28 or 29, 1981, 1980 and 1979

	<u>1981</u>	<u>1980</u>	<u>1979</u>
Revenues:			
Net sales	\$151,683,806	\$137,896,788	\$117,341,577
Interest	75,314	454,140	336,047
Rentals and other	6,070	10,366	10,466
	<u>151,765,190</u>	<u>138,361,294</u>	<u>117,688,090</u>
Costs and expenses:			
Cost of sales	96,108,502	88,225,081	75,255,440
Selling and administrative	35,012,098	31,011,234	26,005,335
Rent	1,977,104	1,665,937	1,424,436
Depreciation	3,394,021	2,667,637	2,203,011
Interest on long-term debt	3,080,207	2,955,032	2,522,478
Other interest	617,930	365,391	77,901
	<u>140,189,862</u>	<u>126,890,312</u>	<u>107,488,601</u>
Income before income taxes	11,575,328	11,470,982	10,199,489
Provision for income taxes (Notes 1(e) and 4)	5,126,527	5,158,100	4,796,563
Net income	<u>\$ 6,448,801</u>	<u>\$ 6,312,882</u>	<u>\$ 5,402,926</u>
Average number of common shares (Note 1(h))	<u>4,426,342</u>	<u>4,426,342</u>	<u>4,053,934</u>
Per common share:			
Net income	<u>\$1.46</u>	<u>\$1.43</u>	<u>\$1.33</u>
Cash dividends paid	<u>\$.68</u>	<u>\$.60</u>	<u>\$.50</u>

See accompanying notes.

PAY 'N PAK STORES, INC.

CONSOLIDATED BALANCE SHEET

February 28, 1981 and February 29, 1980

	<u>ASSETS</u>	<u>1981</u>	<u>1980</u>
Current assets:			
Cash	\$	101,484	\$ 1,158,163
Trade accounts receivable, less allowance of \$50,000 for doubtful accounts		756,262	957,199
Merchandise inventories (Note 1(b))		49,610,381	43,415,204
Prepaid expenses		1,080,651	930,848
Total current assets		51,548,778	46,461,414
Property, plant and equipment, at cost (Notes 1(c), 1(g), 2 and 5):			
Land		2,149,996	1,899,977
Buildings		8,067,913	5,228,058
Leasehold rights and improvements		24,409,577	20,461,758
Store equipment		12,883,421	10,809,886
Transportation equipment		2,096,706	1,405,140
Construction in progress		233,087	3,836,517
		49,840,700	43,641,336
Less accumulated depreciation and amortization		13,119,600	10,748,958
		36,721,100	32,892,378
Properties held for development and/or investment		1,262,051	1,669,680
Net property, plant and equipment		37,983,151	34,562,058
Deferred income taxes (Note 1(e))		266,898	406,898
Other assets (Note 1(d))		263,746	260,743
		<u>\$90,062,573</u>	<u>\$81,691,113</u>

See accompanying notes.

PAY 'N PAK STORES, INC.

CONSOLIDATED BALANCE SHEET

February 28, 1981 and February 29, 1980

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>1981</u>	<u>1980</u>
Current liabilities:		
Notes payable to bank (Note 2)	\$ 9,000,000	\$ 6,250,000
Accounts payable	11,814,427	9,828,058
Income taxes (Notes 1(e) and 4)	134,800	685,213
Accrued liabilities:		
Payroll and profit sharing	1,299,900	1,431,317
Taxes, other than income	1,219,369	1,079,583
Interest and other	529,741	124,995
	3,049,010	2,635,895
Long-term debt due within one year (Note 2)	1,412,885	371,041
Total current liabilities	25,411,122	19,770,207
Long-term debt (Note 2)	27,978,640	28,680,119
Employee benefit plan (Note 3)	113,918	664,018
Deferred income (Note 1(c))	97,971	104,835
Commitments (Note 5)		
Stockholders' equity:		
Preferred stock, without par value, 1,000,000 shares authorized, none issued		
Common stock, \$.10 par value, 10,000,000 shares authorized, 4,426,342 shares issued	442,634	442,634
Capital in excess of par value	15,064,778	15,064,778
Retained earnings (Note 2)	21,067,428	17,628,540
	36,574,840	33,135,952
Deferred employee benefits (Note 3)	(113,918)	(664,018)
Total stockholders' equity	36,460,922	32,471,934
	<u>\$90,062,573</u>	<u>\$81,691,113</u>

PAY 'N PAK STORES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Years ended February 28 or 29, 1981, 1980 and 1979

	<u>Common stock</u>	<u>Capital in excess of par value</u>	<u>Retained earnings</u>	<u>Deferred employee benefits</u>	<u>Total</u>
Balance, March 1, 1978 . . .	\$241,396	\$ 7,136,168	\$10,570,206	\$ (1,253,435)	\$16,694,335
Net income			5,402,926		5,402,926
Cash dividends.			(2,001,669)		(2,001,669)
Four for three stock split at par value (804,655 shares)	80,466	(80,466)			
Net proceeds from sale of 470,000 shares of common stock.	47,000	8,082,848			8,129,848
Amortization of deferred employee benefits.				249,566	249,566
Balance, February 28, 1979	368,862	15,138,550	13,971,463	(1,003,869)	28,475,006
Net income			6,312,882		6,312,882
Cash dividends.			(2,655,805)		(2,655,805)
Six for five stock split at par value (737,723 shares)	73,772	(73,772)			
Amortization of deferred employee benefits.				339,851	339,851
Balance, February 29, 1980	442,634	15,064,778	17,628,540	(664,018)	32,471,934
Net income			6,448,801		6,448,801
Cash dividends.			(3,009,913)		(3,009,913)
Amortization of deferred employee benefits.				550,100	550,100
Balance, February 28, 1981 (Notes 2 and 3)	<u>\$442,634</u>	<u>\$15,064,778</u>	<u>\$21,067,428</u>	<u>\$ (113,918)</u>	<u>\$36,460,922</u>

See accompanying notes.

PAY 'N PAK STORES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended February 28 or 29, 1981, 1980 and 1979

	<u>1981</u>	<u>1980</u>	<u>1979</u>
Sources of working capital:			
Net income	\$ 6,448,801	\$ 6,312,882	\$ 5,402,926
Items not involving working capital:			
Depreciation and amortization	3,409,984	2,695,809	2,252,019
Deferred income taxes	140,000	10,962	(6,400)
Net book value of assets retired and loss on sale of assets	—	3,913	24,163
Working capital provided from operations	9,998,785	9,023,566	7,672,708
Increase in long-term debt:			
Refinancing	—	15,000,000	11,700,000
Other	715,963	1,914,904	966,065
Proceeds from sale of assets and sale and leaseback of properties	207,610	—	353,740
Proceeds from sale of common stock	—	—	8,129,848
	<u>10,922,358</u>	<u>25,938,470</u>	<u>28,822,361</u>
Applications of working capital:			
Additions to property, plant and equipment	7,022,724	12,888,026	6,406,526
Cash dividends paid	3,009,913	2,655,805	2,001,669
Increase in other assets	25,830	2,200	4,283
Reduction of long-term debt:			
Refinancing	—	11,700,000	6,700,000
Other	1,417,442	383,113	585,118
Increase (decrease) in non-current time certificates of deposit	—	(3,400,000)	3,400,000
	<u>11,475,909</u>	<u>24,229,144</u>	<u>19,097,596</u>
Increase (decrease) in working capital	<u>\$ (553,551)</u>	<u>\$ 1,709,326</u>	<u>\$ 9,724,765</u>
Net increases (decreases) in the elements of working capital:			
Cash	\$ (1,056,679)	\$ (4,245,937)	\$ 4,803,508
Trade accounts receivable	(200,937)	91,409	504,515
Merchandise inventories	6,195,177	8,921,852	7,035,469
Prepaid expenses	149,803	48,197	306,371
Notes payable to bank	(2,750,000)	(3,850,000)	(550,000)
Accounts payable	(1,986,369)	(375,754)	(1,689,049)
Income taxes	550,413	359,940	210,491
Accrued liabilities	(413,115)	(22,254)	(716,220)
Long-term debt due within one year	(1,041,844)	781,873	(180,320)
Increase (decrease) in working capital	<u>\$ (553,551)</u>	<u>\$ 1,709,326</u>	<u>\$ 9,724,765</u>

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 28 or 29, 1981, 1980 and 1979

1. Description of the Company and significant accounting policies

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

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

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

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

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. Such costs, \$180,542 in 1981 and \$195,746 in 1980, are included in other assets.

(e) **Income taxes** — Deferred federal and state income taxes are provided in the accompanying consolidated financial statements for differences in the timing of reporting income and expenses for financial statement and income tax purposes (See Note 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** — In fiscal year 1981, the Company began capitalizing interest incurred related to the construction of property, plant and equipment in accordance with Statement of Financial Accounting Standards No. 34. Of the \$3,849,385 in interest costs incurred in 1981, \$151,248 was capitalized (\$.02 per share). In 1980 and 1979, all interest costs incurred were expensed.

(h) **Per share data** — Per common share amounts were determined on the weighted average number of such shares outstanding during each year after giving retroactive effect to the four for three and six for five stock splits declared in fiscal years 1979 and 1980, which splits were effected in the form of stock dividends.

PAY 'N PAK STORES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

February 28 or 29, 1981, 1980 and 1979

2. Bank credit arrangements and long-term debt

At February 28, 1981, the Company has available unused lines-of-credit for working capital and letter of credit purchases of \$4,940,102 under agreements with banks, which expire on March 1 and in July 1981. The agreement which expires on March 1 has been orally extended by the bank for another year. The interest rate is at $\frac{1}{2}\%$ above prime (average rate was 19.1% at February 28, 1981).

Long-term debt outstanding at February 28, 1981 and February 29, 1980 is shown on the following summary:

	<u>1981</u>	<u>1980</u>
9 $\frac{3}{4}\%$ note payable to insurance company, due \$1,025,000 on December 1, 1981 and \$1,075,000 annually beginning December 1, 1982 to 1994, plus interest	\$15,000,000	\$15,000,000
9 $\frac{5}{8}\%$ to 9 $\frac{7}{8}\%$ mortgage notes payable, due \$216,240 annually including interest to 2002, subject to call by holders in 1992 . .	1,926,992	1,953,703
7% to 15% (average 8.2%) contracts and notes payable, due \$32,207 including interest in 1982 and reduced amounts annually to 1989	182,428	226,836
Capitalized lease obligations (\$28,969,487), less imputed interest (\$16,687,382) payable approximately \$1,810,000 per year including imputed interest, weighted average 12.25%, final payment in 2008	12,282,105	11,870,621
	29,391,525	29,051,160
Less amounts due within one year	1,412,885	371,041
	<u>\$27,978,640</u>	<u>\$28,680,119</u>

Payments on the principal of long-term debt and capitalized lease obligations for the four years ending February 28, 1986 are required as follows: 1983—\$1,574,000; 1984—\$1,551,000; 1985—\$1,588,000; 1986—\$1,581,000.

The loan agreement covering the 9 $\frac{3}{4}\%$ note payable to insurance company provides, among other matters, restrictions on the payment of cash dividends and redemption or reacquisition of the Company's stock. At February 28, 1981, retained earnings of approximately \$2,984,000 was not restricted.

Operating plant and equipment having a net book value of \$2,040,169 at February 28, 1981 are pledged as collateral for the mortgage notes and contracts payable.

3. Employee benefit plan

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

In March 1976, the Employee Stock Ownership Trust (ESOT) borrowed \$1,656,732 from a bank to acquire 397,615 shares of the Company's common stock. The unpaid balance of the debt is payable at \$62,500 per quarter (including interest at 2 $\frac{1}{4}\%$ above prime). The obligation of the ESOT is guaranteed by the Company, therefore, the unpaid balance of the loan has been reflected in the accompanying consolidated balance sheet as a liability and an equal amount, representing deferred employee benefits, has been recorded as a deduction from stockholders' equity.

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 28 or 29, 1981, 1980 and 1979

4. Income taxes

The provision for income taxes is comprised of the following:

	Year ended February 28 or 29,		
	1981	1980	1979
Current federal income tax:			
Provision	\$5,026,314	\$5,001,593	\$4,712,255
Investment tax credit	(354,299)	(233,048)	(168,325)
Tax effect of new jobs credit	—	—	(52,000)
	<u>4,672,015</u>	<u>4,768,545</u>	<u>4,491,930</u>
State income taxes	314,512	378,593	311,033
Deferred income taxes	<u>140,000</u>	<u>10,962</u>	<u>(6,400)</u>
	<u>\$5,126,527</u>	<u>\$5,158,100</u>	<u>\$4,796,563</u>

The effective tax rate in all years differs from the statutory federal income tax rate due primarily to the effect of the investment tax credit and new jobs credit shown above and the allowable deduction for state income taxes of \$169,836, \$204,440 and \$162,764 for 1981, 1980 and 1979, respectively.

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

	Year ended February 28 or 29,		
	1981	1980	1979
Excess of depreciation deducted for tax in excess of book expense	\$166,884	\$132,320	\$120,135
Leasehold rights amortization and related interest expense for book in excess of rental expense deducted for tax	(119,433)	(166,547)	(151,780)
Pre-opening and interest (in 1981) expense deducted for tax in excess of book expense and other	<u>92,549</u>	<u>45,189</u>	<u>25,245</u>
	<u>\$140,000</u>	<u>\$ 10,962</u>	<u>\$ (6,400)</u>

5. Leases

The Company leases substantially all retail store facilities and both of its warehouses. Certain of these leases have been capitalized (See Note 2). Included in leasehold rights and improvements is \$14,120,231 (\$13,261,120 at February 29, 1980) for capitalized leases for retail stores and one warehouse and accumulated depreciation and amortization includes \$4,257,790 (\$3,631,026 at February 29, 1980) applicable thereto.

Most lease agreements provide for minimum rental payments on the basis of lapse of time, with certain leases providing for additional percentage rentals at such time that an individual store's annual sales exceed a specified amount. The Company has options to renew most leases for three to 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.

PAY 'N PAK STORES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

February 28 or 29, 1981, 1980 and 1979

Rental expense for operating leases, except those with terms of a month or less, was \$2,107,671, \$1,780,139 and \$1,533,967 for fiscal years 1981, 1980 and 1979, respectively. Included in expense for each of the three years was percentage rental of \$150,447, \$134,420 and \$50,867, respectively.

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

Year ending February 28 or 29,	000's omitted
1982	\$ 1,998
1983	1,992
1984	1,771
1985	1,650
1986	1,643
Later years	19,487
	\$28,541

6. Quarterly financial data (unaudited)

	Quarter ended			
	May 31	Aug. 31	Nov. 30	Feb. 28 or 29
	(000's omitted, except per share amounts)			
1981				
Revenues	\$35,277	\$42,474	\$41,255	\$32,759
Gross profit on sales	\$13,045	\$15,118	\$14,902	\$12,511
Net income	\$ 1,312	\$ 1,687	\$ 1,783	\$ 1,667
Net income per share (a)	\$.30	\$.38	\$.40	\$.38
1980				
Revenues	\$31,771	\$39,551	\$36,828	\$30,211
Gross profit on sales	\$11,267	\$13,648	\$12,975	\$11,782
Net income	\$ 1,266	\$ 1,815	\$ 1,652	\$ 1,580
Net income per share (a)	\$.29	\$.41	\$.37	\$.36
1979				
Revenues	\$25,659	\$32,131	\$31,940	\$27,958
Gross profit on sales	\$ 9,456	\$11,288	\$11,516	\$ 9,826
Net income	\$ 1,050	\$ 1,449	\$ 1,424	\$ 1,480
Net income per share (a)	\$.27	\$.38	\$.35	\$.33

(a) See Note 1(h) for per share data.

Part III

Item 9 – Directors and Executive Officers of the Company

Incorporated by reference from pages 3 and 4 of the definitive proxy statement being furnished to and filed with the Securities and Exchange Commission, except information regarding executive officers which appears under Part I, on page 8.

Item 10 – Management Remuneration and Transactions

Incorporated by reference from pages 5 and 6 of the definitive proxy statement being furnished to and filed with the Securities and Exchange Commission.

Part IV

Item 11 – Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) Financial Statements.

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

(b) Exhibits. See page 28 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.
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(Item 11(a))

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PAY 'N PAK STORES, INC.
SCHEDULE V – PROPERTY, PLANT AND EQUIPMENT
Years ended February 28 or 29, 1981, 1980 and 1979

	<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>
1981:				
Land	\$ 1,899,977	\$ 250,019	\$ —	\$ 2,149,996
Buildings	5,228,058	2,839,855	—	8,067,913
Leasehold rights and improvements	20,461,758	4,025,941	78,122	24,409,577
Store equipment	10,809,886	3,065,580	992,045	12,883,421
Transportation equipment	1,405,140	694,778	3,212	2,096,706
Construction in progress	3,836,517	(3,603,430)	—	233,087
	<u>43,641,336</u>	<u>7,272,743</u>	<u>1,073,379</u>	<u>49,840,700</u>
Properties held for development and/or investment	<u>1,669,680</u>	<u>(250,019)</u>	<u>157,610</u>	<u>1,262,051</u>
	<u>\$45,311,016</u>	<u>\$ 7,022,724</u>	<u>\$ 1,230,989</u>	<u>\$51,102,751</u>
1980:				
Land	\$ 707,715	\$ 1,192,262	\$ —	\$ 1,899,977
Buildings	1,905,719	3,322,339	—	5,228,058
Leasehold rights and improvements	18,498,568	2,087,964	124,774	20,461,758
Store equipment	8,798,214	2,804,859	793,187	10,809,886
Transportation equipment	1,241,538	174,816	11,214	1,405,140
Construction in progress	1,188,091	2,648,426	—	3,836,517
	<u>32,339,845</u>	<u>12,230,666</u>	<u>929,175</u>	<u>43,641,336</u>
Properties held for development and/or investment	<u>1,012,320</u>	<u>657,360</u>	<u>—</u>	<u>1,669,680</u>
	<u>\$33,352,165</u>	<u>\$12,888,026</u>	<u>\$ 929,175</u>	<u>\$45,311,016</u>
1979:				
Land	\$ 520,058	\$ 386,015	\$ 198,358	\$ 707,715
Buildings	2,005,018	—	99,299	1,905,719
Leasehold rights and improvements	16,097,581	2,486,199	85,212	18,498,568
Store equipment	7,281,477	1,726,008	209,271	8,798,214
Transportation equipment	1,053,198	237,977	49,637	1,241,538
Construction in progress	84,999	1,103,092	—	1,188,091
	<u>27,042,331</u>	<u>5,939,291</u>	<u>641,777</u>	<u>32,339,845</u>
Properties held for development and/or investment	<u>612,485</u>	<u>467,235</u>	<u>67,400</u>	<u>1,012,320</u>
	<u>\$27,654,816</u>	<u>\$ 6,406,526</u>	<u>\$ 709,177</u>	<u>\$33,352,165</u>

PAY 'N PAK STORES, INC.

SCHEDULE VI - ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Years ended February 28 or 29, 1981, 1980 and 1979

Description	Balance at beginning of period	Additions charged to income	Retirements or sales	Balance at close of period
1981:				
Buildings.	\$ 275,253	\$ 201,939	\$ —	\$ 477,192
Leasehold rights and improvements	5,746,959	1,290,660	78,122	6,959,497
Store equipment	4,293,408	1,631,547	942,045	4,982,910
Transportation equipment	433,338	269,875	3,212	700,001
	<u>\$10,748,958</u>	<u>\$3,394,021</u>	<u>\$1,023,379</u>	<u>\$13,119,600</u>
1980:				
Buildings.	\$ 187,461	\$ 87,792	\$ —	\$ 275,253
Leasehold rights and improvements	4,745,436	1,126,297	124,774	5,746,959
Store equipment	3,792,452	1,294,143	793,187	4,293,408
Transportation equipment	281,234	159,405	7,301	433,338
	<u>\$ 9,006,583</u>	<u>\$2,667,637</u>	<u>\$ 925,262</u>	<u>\$10,748,958</u>
1979:				
Buildings.	\$ 146,788	\$ 52,287	\$ 11,614	\$ 187,461
Leasehold rights and improvements	3,876,979	\$ 953,669	85,212	4,745,436
Store equipment	2,942,142	1,059,581	209,271	3,792,452
Transportation equipment	169,237	137,474	25,477	281,234
	<u>\$ 7,135,146</u>	<u>\$2,203,011</u>	<u>\$ 331,574</u>	<u>\$ 9,006,583</u>

PAY 'N PAK STORES, INC.

SCHEDULE VIII – VALUATION AND QUALIFYING ACCOUNTS

Years ended February 28 or 29, 1981, 1980 and 1979

	<u>Balance at beginning of period</u>	<u>Additions charged to income</u>	<u>Deductions*</u>	<u>Balance at close of period</u>
Allowance for doubtful accounts deducted from the asset to which it applies:				
1981	\$50,000	\$111,591	\$111,591	\$50,000
1980	\$50,000	\$115,728	\$115,728	\$50,000
1979	\$50,000	\$ 75,505	\$ 75,505	\$50,000

(*) Represents accounts written off against the reserve.

SCHEDULE IX – SHORT-TERM BORROWINGS

Years ended February 28 or 29, 1981, 1980 and 1979

	<u>Balance at end of period</u>	<u>Weighted average interest rate at end of period</u>	<u>Maximum amount outstanding at any month- end during the year</u>	<u>Average amount outstanding during the period</u>	<u>Weighted average interest rate during the year</u>
Notes payable to banks:					
1981	\$9,000,000	19.1%	\$9,000,000	\$5,135,000	14.5%
1980	\$6,250,000	16.7%	\$7,950,000	\$2,410,000	11.4%
1979	\$2,400,000	12.3%	\$4,950,000	\$ 625,000	9.0%

Notes payable 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.

SCHEDULE X – SUPPLEMENTARY INCOME STATEMENT INFORMATION

Years ended February 28 or 29, 1981, 1980 and 1979

	<u>Charged to costs and expenses</u>		
	<u>1981</u>	<u>1980</u>	<u>1979</u>
Other taxes	\$1,183,427	\$ 856,199	\$ 977,819
Advertising costs	\$5,123,367	\$4,300,487	\$3,302,069

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.
Treasurer

Dated: May 13, 1981

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)

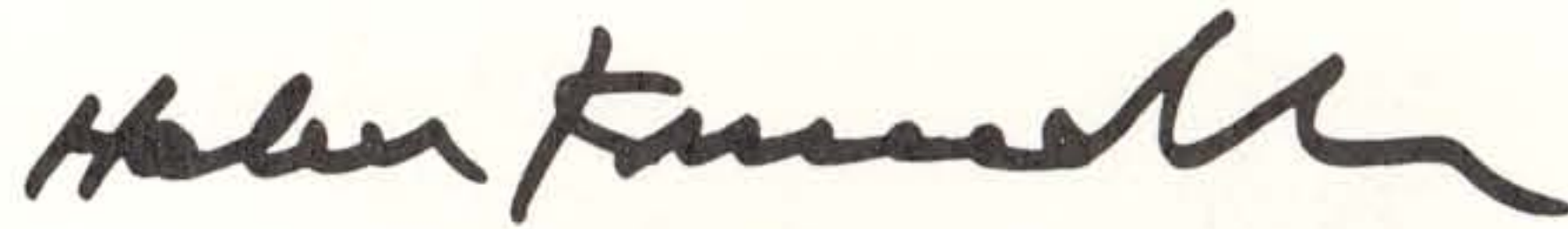
Dated: May 13, 1981

By 
David J. Heerensperger

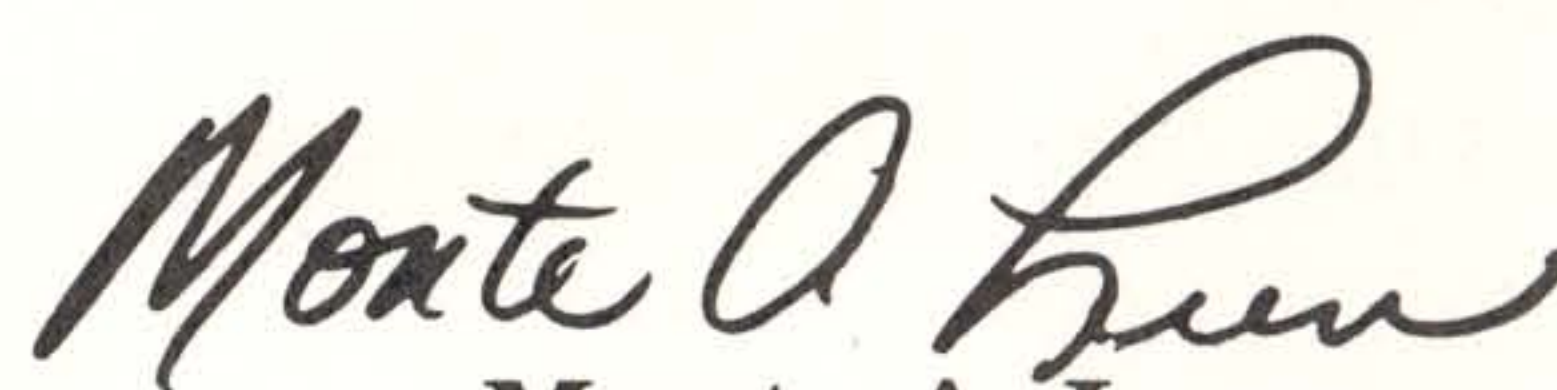
Dated: May 13, 1981

By 
Jerry L. Marlow

Dated: May 13, 1981

By 
Halvor Knudtzon, Jr.

Dated: May 13, 1981

By 
Monte A. Leen

Majority of Board of Directors

EXHIBIT INDEX

- (3) Restated Articles of Incorporation as amended and Bylaws
- (10) Note Agreement with The Prudential Insurance Company of America
dated August 15, 1979
- (13) Annual report to security holders
- (22) Subsidiaries of the registrant

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

JUN 8 1986	
JUN 11 1986	
JUN 18 1986 RETD	
AUG 6 1986	
AUG 8 1986	
AUG 15 1986	
AUG 21 1986	
AUG 25 1986	
SEP 1 1986	
SEP 9 1986	
SEP 15 1986 RETD	

