

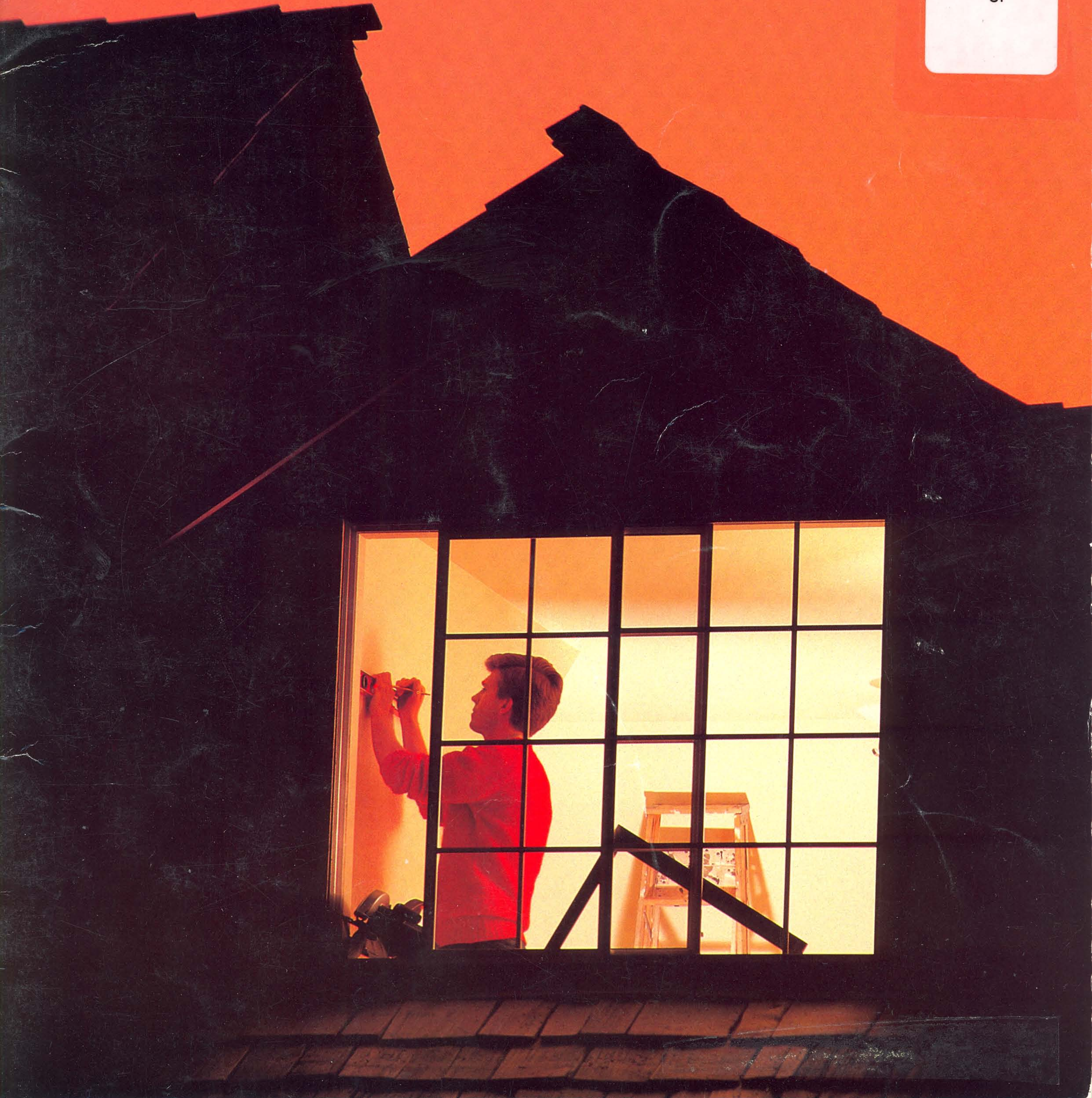
Pay 'N Pak STORES, INC.
Annual Report
Fiscal 1985

PAY 'N PAK STORES, INC.

ANNUAL REPORTS

PAY'n PAK Stores, Inc 1985

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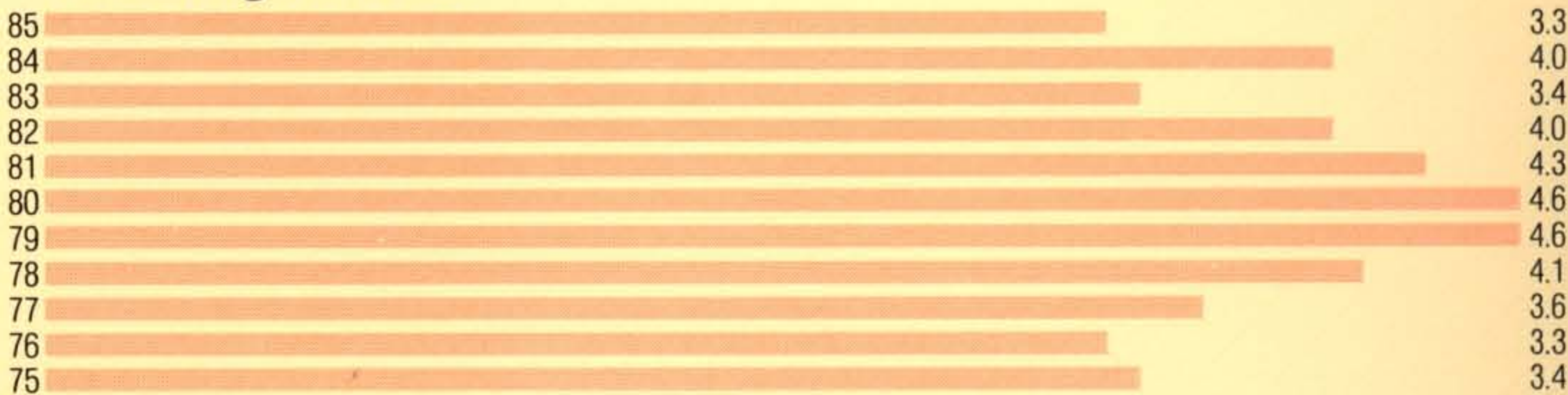
Pay 'N Pak operates 101 retail home centers and warehouse stores located in 17 states throughout the Western United States, including Alaska and Hawaii. Incorporated in 1961, the company specializes in the sale of electrical products, plumbing supplies and building materials to do-it-yourself home improvement and maintenance consumers.

| | |
|---------------------------------------|----|
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Revenues
(in \$ millions)



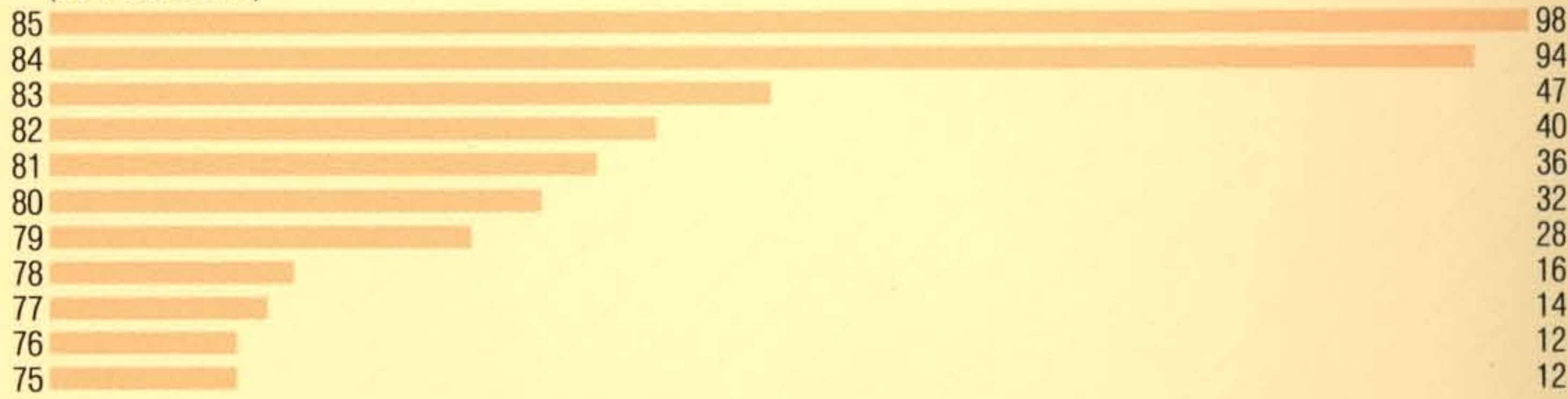
Net Income As A Percentage of Sales



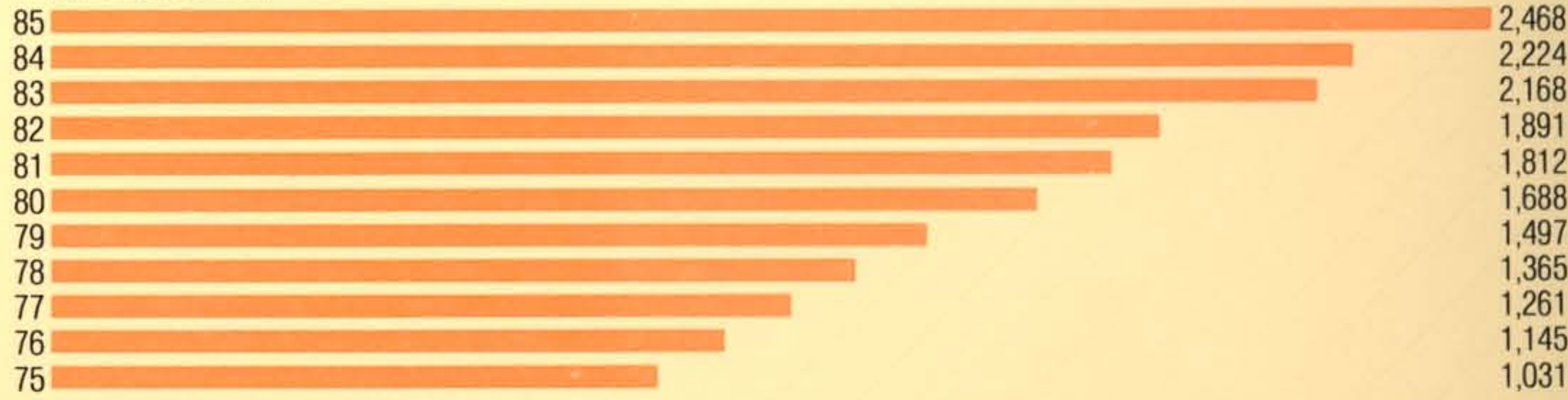
Earnings Per Share
(in \$)



Stockholders' Equity
(in \$ millions)



Stores— Square Footage
(in thousands)



Pay 'N Pak
Stores, Inc.

Fiscal years ended February 28 or 29

| | 1985 | 1984 | % Change |
|---|---|-----------|----------|
| | <i>(dollar amounts in thousands, except per share data)</i> | | |
| Revenues | \$305,185 | \$250,040 | +22 |
| Income before income taxes | \$ 18,420 | \$ 17,851 | + 3 |
| Net income | \$ 10,105 | \$ 10,025 | + 1 |
| Per share of common stock: | | | |
| Net income | \$ 1.01 | \$ 1.11 | - 9 |
| Dividends | \$.60 | \$.56 | + 7 |
| Weighted average number of shares outstanding | 10,003 | 9,033 | +11 |
| Stockholders' equity | \$ 97,776 | \$ 93,673 | + 4 |

Quarterly Financial Information (Unaudited)

For the year ended February 28, 1985

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|-----------------------|---|-------------------|------------------|-------------------|
| | <i>(dollar amounts in thousands, except per share data)</i> | | | |
| Revenues | \$74,437 | \$87,802 | \$81,600 | \$61,346 |
| Gross profit on sales | \$25,878 | \$30,799 | \$27,141 | \$20,527 |
| Net income | \$ 2,386 | \$ 3,842 | \$ 2,678 | \$ 1,199 |
| Net income per share | \$.24 | \$.38 | \$.27 | \$.12 |

For the year ended February 29, 1984

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|-----------------------|---|-------------------|------------------|-------------------|
| | <i>(dollar amounts in thousands, except per share data)</i> | | | |
| Revenues | \$53,885 | \$74,545 | \$68,106 | \$53,504 |
| Gross profit on sales | \$19,967 | \$25,312 | \$25,359 | \$20,891 |
| Net income | \$ 1,568 | \$ 3,092 | \$ 3,126 | \$ 2,239 |
| Net income per share | \$.20 | \$.33 | \$.34 | \$.23 |

Quarterly Low and High Common Stock Prices

For the fiscal years

| | 1985 | 1984 |
|----------------|--|--|
| First quarter | 12³/₄-16 | 15 ¹ / ₈ -22 ¹ / ₄ |
| Second quarter | 13¹/₂-17¹/₂ | 16 ⁵ / ₈ -24 |
| Third quarter | 14¹/₈-16³/₈ | 16 -20 ¹ / ₈ |
| Fourth quarter | 11¹/₂-14³/₄ | 14 ⁷ / ₈ -20 |

Fiscal 1985 was a very capital-intensive year for Pay 'N Pak. It was also a difficult year profit-wise because of intensified competition and inventory deflation. Despite the difficulties, we achieved our fourteenth consecutive year of increases in revenues, coupled with a small increase in overall profit. Revenues for the fiscal year ended February 28, 1985, were \$305,185,000, up 22 percent from \$250,040,000 in fiscal 1984. Store-for-store sales (stores three years old or older) were up 12.1% in fiscal 1985 as compared to the previous year. Earnings were \$10,105,000 for the year as compared to \$10,025,000 in fiscal 1984, an increase of 1 percent. On a per share basis, however, earnings were down 9 percent for the period, from \$1.01 compared to \$1.11 in fiscal 1984. The reason for this is that your company has more shares outstanding this year than last.

For the twelfth consecutive year your board of directors continued its policy of increasing dividends. Shareholders received quarterly cash dividends totaling \$.60 in fiscal 1985, compared with \$.56 the previous year.

For the past three or four years our industry has been undergoing a major change because of the introduction of the "low price, no frills" warehouse concept of merchandising. This concept utilizes steel warehouse shelving to hold an entire store's inventory on the sales floor. Nothing is kept in a back storage room. Several of our competitors plus many newly-formed companies have at least in part adopted this style of doing business, and it has proved to be highly successful. Pay 'N Pak examined the concept thoroughly and in October 1983 opened its first warehouse store in Kent, Washington, next to the company's executive headquarters. In that location, company officers could study the operation at close hand and make desired changes before opening similar type stores. After being assured the concept was successful, your board of directors authorized management to expand the concept throughout the chain where applicable. Not all stores or markets lend themselves to the ware-

house type operation, so Pay 'N Pak will have a mix of warehouse and conventional stores. As of this writing, the company has 19 stores that have been built or converted to the warehouse format. During the next two years another 25 to 30 stores will be added to those already completed. Based on results to date and assuming that reasonable business conditions continue, this program should substantially increase company sales and profits. Financing for the expansion is already in place as the result of the sale and lease-back of our new Kent, Washington, distribution center and a mortgage obtained on the company's new Honolulu, Hawaii, store. Proceeds from these transactions amounted to approximately 22 million dollars.

It should be pointed out that our industry has become extremely competitive, with the result that price-cutting has become a problem in some markets. Pay 'N Pak is determined not to lose market share in any of its markets. Lower prices along with an increase in advertising costs have resulted in lower profit margins in recent months. We expect this situation to continue in the near future. As is the case in any industry, the financially strong, well-managed businesses will survive and the weak ones will fall by the wayside. We are beginning to see that happen in our industry.

Another problem, if it can be called that, facing the industry is lower inflation which has brought about some inventory deflation. Pay 'N Pak took write-downs on the cost of its inventory during the last half of the fiscal year and this adversely affected profit. We do not look for anything other than modest adjustments in the future. It is important to point out that not everyone in our business takes mark-downs as they occur because doing so hurts profits. At Pay 'N Pak we tell it like it is — it may hurt temporarily, but in the long run this philosophy will benefit our shareholders.

As has been announced, we are targeting the San Francisco Bay Area for our next major expansion. In addition, we have plans to move into other markets, but for competitive reasons are not providing that information at this time. Due to our unique employee training program, which is more fully described further on in this report, we have the people to carry out our expansion — and they handle their responsibilities our way. We do not have to recruit from other companies which, in itself, is disruptive.

A word now about management trying to protect itself from take-overs. This has become a major consideration among managements of many publicly-held companies. We object to such actions — they are generally self-serving and not in the best interest of

David J. Heerensperger
(right), and
Jerry L. Marlow

shareholders. If a buyer wants to acquire a company at a price favorable to its shareholders, management should encourage the sale. If it is a poor offer, management should discourage it. Pay 'N Pak is owned by its shareholders and management strives to run the company in the best interest of its owners.

Each year we like to point out that the success of Pay 'N Pak is due to its employees. That is why we implemented our Employee Stock Ownership Plan in 1975. 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. The Plan now owns 11 percent of Pay 'N Pak's stock and is its single largest shareholder. Inasmuch as the stock given employees is purchased on the open market, the Plan will continuously increase its ownership share of the company's outstanding stock.

Briefly stated, our expansion plans are in place, our financing is in place, and our people are in place. We look forward to an exciting and rewarding year with gradually increasing profits. We thank our employees and shareholders for the support they have given us 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



Hawaii Store
Opening Highlights
A Successful Year

Fiscal 1985 was a record year in sales and earnings for Pay 'N Pak. Revenues climbed to a new high for the fourteenth straight year while earnings showed a modest increase. Sales per employee continue to be among the highest in the industry, reaching \$185,000 in fiscal 1985. The opening of our giant warehouse store in Hawaii was a major accomplishment during the year.

Pay 'N Pak's success in the retail home improvement and hardware industry is a direct outgrowth of the company's commitment to long range planning, well developed operations programs supporting long term goals, and the implementation of those programs by highly qualified, highly motivated people.

New warehouse stores opened in California, Hawaii markets

After more than a year of planning, Pay 'N Pak opened its first Hawaii store in May 1984. The 81,000 square-foot warehouse outlet is located on a prime 6-acre site near downtown Honolulu. Occupying a former Del Monte warehouse, the Hawaii store is the first do-it-yourself home-improvement warehouse type operation in the Islands filling a void in the local marketplace with its low price—high inventory concept of business.

The second of the two totally new warehouse stores opened in fiscal 1985 is located in Modesto, California, a new market for Pay 'N Pak. This 34,473 square-foot warehouse store opened in March 1984.

San Francisco Bay Area targeted for expansion in fiscal 1986

The success of the six San Jose, California, area stores acquired in fiscal 1983 has given us the confidence to proceed with our expansion plans in the San Francisco Bay Area. We have targeted downtown San Francisco and the city of South San Francisco as well as the communities of El Cerrito and San Leandro on the East side of the Bay for new warehouse stores in fiscal 1986.

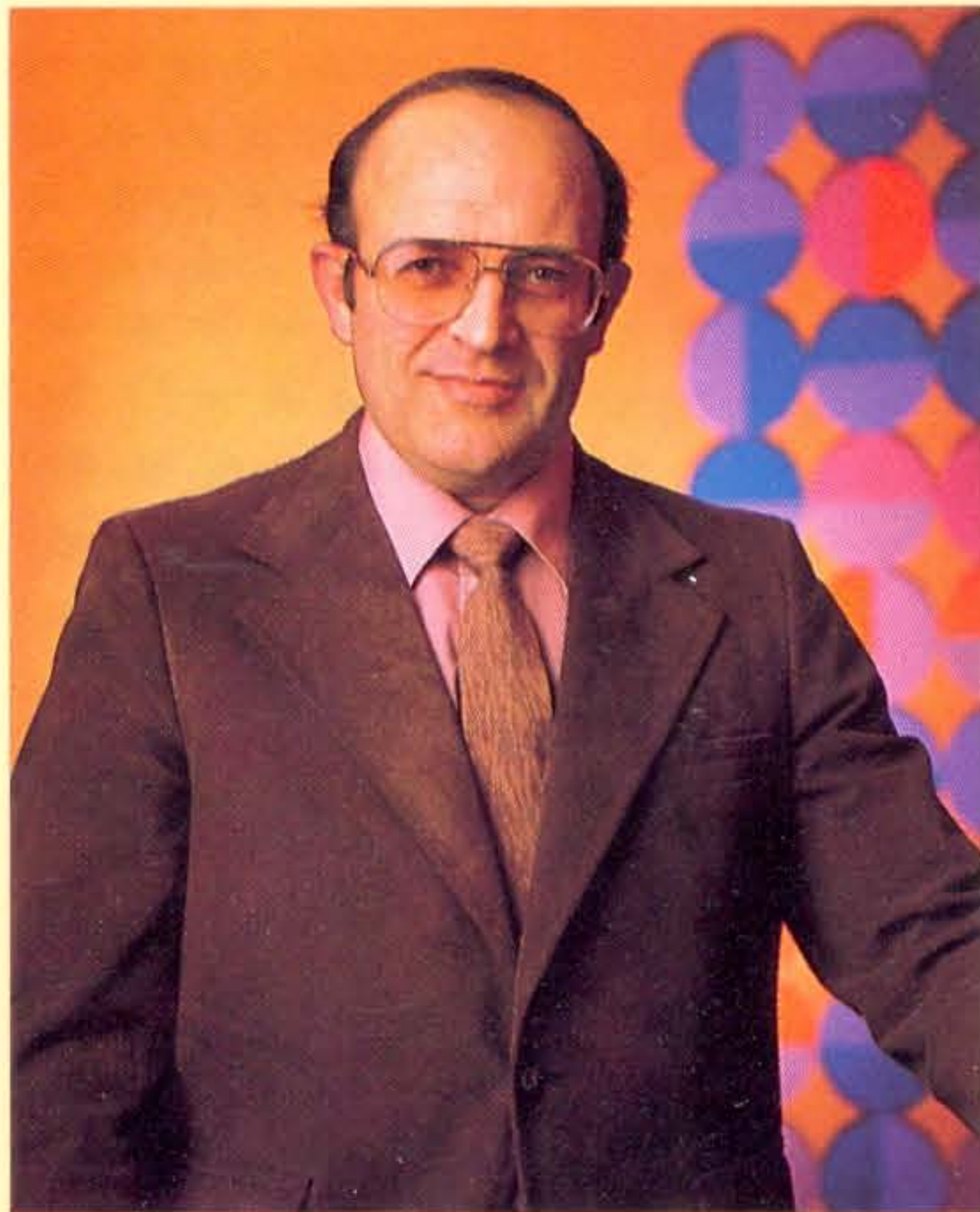
By the end of fiscal 1987 we anticipate having approximately 45 to 50 warehouse stores on line, with 25 to 30 of these stores converted or constructed to the warehouse format during the next two years.

Consumer preference for single source home improvement centers continues to grow

In fiscal 1985, Pay 'N Pak achieved one of its long-range goals—a healthy balance of warehouse stores and traditional stores. This flexibility gives us the ability to solve the needs of each market on an individual basis. We recognize that not all markets can support the inventory levels of our warehouse stores; our traditional store format is the ideal solution for those areas.

“Because we handle all aspects of new store construction and remodeling in-house, we are able to exert greater control over each project. This gives us the ability to meet extremely tight schedules. Hawaii is a prime example of this control, where everything went like clockwork and the store opened within several days of original projections, which were made nine months earlier.”

Paul Morris
Director,
Store Planning & Design



“Our staff has developed and implemented some very important and unique programs for the company's real estate, store development and construction efforts. These programs help ensure the long-term success of every store, particularly those in market areas that are new for Pay 'N Pak, such as Hawaii and the San Francisco Bay Area.”

Pete Gallina
Vice President
Real Estate and
Store Development

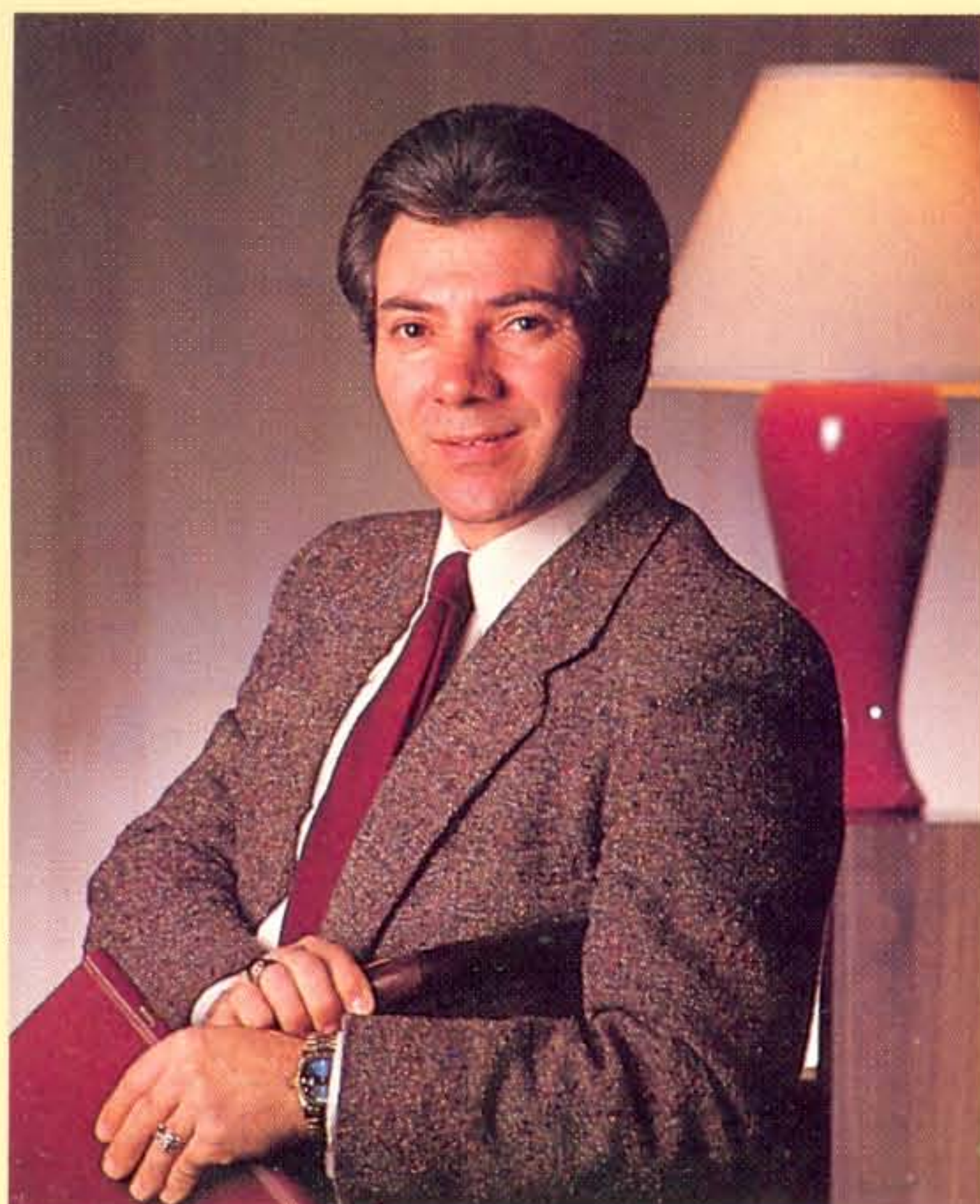


Since the October 1983 opening of the company's first warehouse type store in Kent, Washington, Pay 'N Pak has constructed or converted 19 stores to this successful format.



The company's in-store kitchen and bath displays continue to play a major role in customer buying decisions. These fully decorated rooms give consumers the opportunity to see how merchandise will look before it is purchased. Supported by high inventory levels, these displays are responsible for a significant portion of store sales.





"Incorporating computer technology in our merchandising programs has resulted in significant savings of time and money for the company. Every store is set up similarly using Plan-a-grams—store size is the only variable. As a result, we can merchandise a 45,000 square foot building in 10 weeks, from initial planning to grand opening."

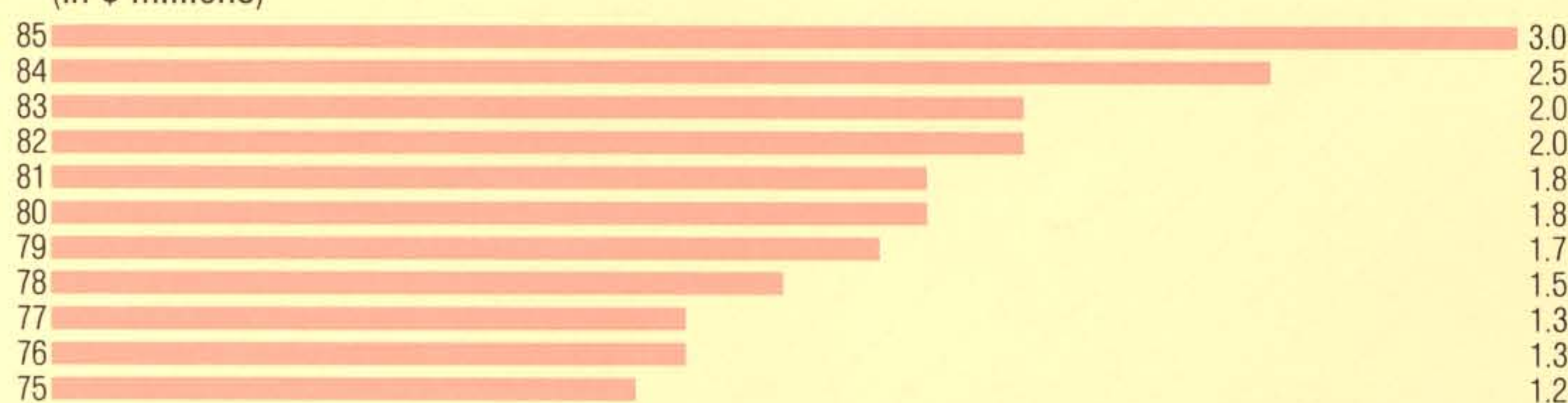
Steve Unash
Merchandising Director

"The warehouse concept is one of the most exciting programs developed and implemented by our department in the past several years. Steel shelving, up to 10 feet in height, holds an entire store's inventory on the sales floor. Our in-store bath and kitchen displays are another important merchandising advantage for Pay 'N Pak."

Janet Hougland
Graphic Design
Merchandising



**Average Sales
Per Store**
(in \$ millions)



Fiscal 1985 was also the first full year in which our remerchandising program was completed. The raising of gondola heights in each store gave us a 32% increase in gondola pegboard footage, enabling us to have more than 5000 new stock-keeping units in a store, a 40% increase. This helped store-for-store sales (stores three years old or older) to increase 12.1% in fiscal 1985.

Research indicates the increasing preference by the consumer for complete home improvement centers—stores in which the do-it-yourselfer can find everything needed for a household project. We have specifically designed our product mix to meet this end. In addition to kitchen cabinets, plumbing and electrical products, we carry items ranging from lumber, plywood, doors and windows to paint, wallpaper, hand and power tools, and lawn and garden supplies.

Low prices, wide selection and inventory depth cited by customers

Selling high-quality products at competitive prices has always been integral to our success. We carry top brand names such as Kohler, Waste King, Black & Decker, Skil, General Electric, Sylvania, Wagner, CertainTeed, Georgia Pacific and Weyerhaeuser among others. We also offer a wide selection of private label merchandise designed and built to our specifications.

One of the company's most successful merchandising programs—our in-store room displays continue to be strong sales stimulators. Model kitchens and bathrooms in every store give customers the opportunity to see how items will look in their homes before they buy. Having merchandise on display and available for immediate purchase increases sales volume. For example, over 600 lighting fixtures and more than 50 styles of bathroom and kitchen faucets are available in every Pay 'N Pak store.

Ongoing, targeted advertising generates results

Pay 'N Pak's marketing and advertising programs stimulate traffic flow. They also help increase customer awareness and appreciation of our expanded, project-oriented product mix and our one-stop shopping philosophy. Our in-house staff coordinates the production of weekly newspaper ads and tabloids, as well as television spots. Centralization of both production and media buying translates into maximum results for dollars spent.

Advertising expenditures are generally consistent for all Pay 'N Pak stores, due to the sharing of costs by several stores in larger markets, and the naturally lower costs involved in smaller markets. Our advertising draws customers initially, and our competitive pricing stimulates repeat sales.

New Kent distribution center targeted for May completion

The success of Pay 'N Pak stores in the Pacific Northwest and Alaska is one of the reasons we are currently building a new distribution center in Kent, Washington. Another is our need for additional space to accommodate future growth in the area. Slated for completion in May 1985, the new facility will provide 361,000 square-feet of space, an increase of more than 100,000 square-feet over the existing warehouse, also located in Kent.

The new distribution center will also house the company's cabinet and fixture shop which designs and constructs in-store kitchen and bath displays, as well as a total service department for the company's fleet of trucks and a home base for the firm's mobile training coach.

Weekly deliveries from distribution centers minimize in-store inventory fluctuation

In addition to the new operation in Kent, Pay 'N Pak operates two other strategically located distribution centers — one in Hayward, California, and one in Denver, Colorado. These three facilities provide a total of 692,000 square-feet of warehouse distribution space. The Hayward facility currently serves 20 stores in the rapidly growing northern California market, as well as Nevada and Hawaii, and is a key component in our expansion plans for the San Francisco Bay Area. A total of 49 stores in Alaska, Washington, Oregon and Idaho receive inventory from the Kent complex while 32 stores in 11 Mountain and Plains states are served by the Denver distribution center.

Pay 'N Pak purchases 90% of its merchandise direct from the manufacturer. This high volume buying allows us to sell merchandise at favorable prices while preserving desirable gross margins.

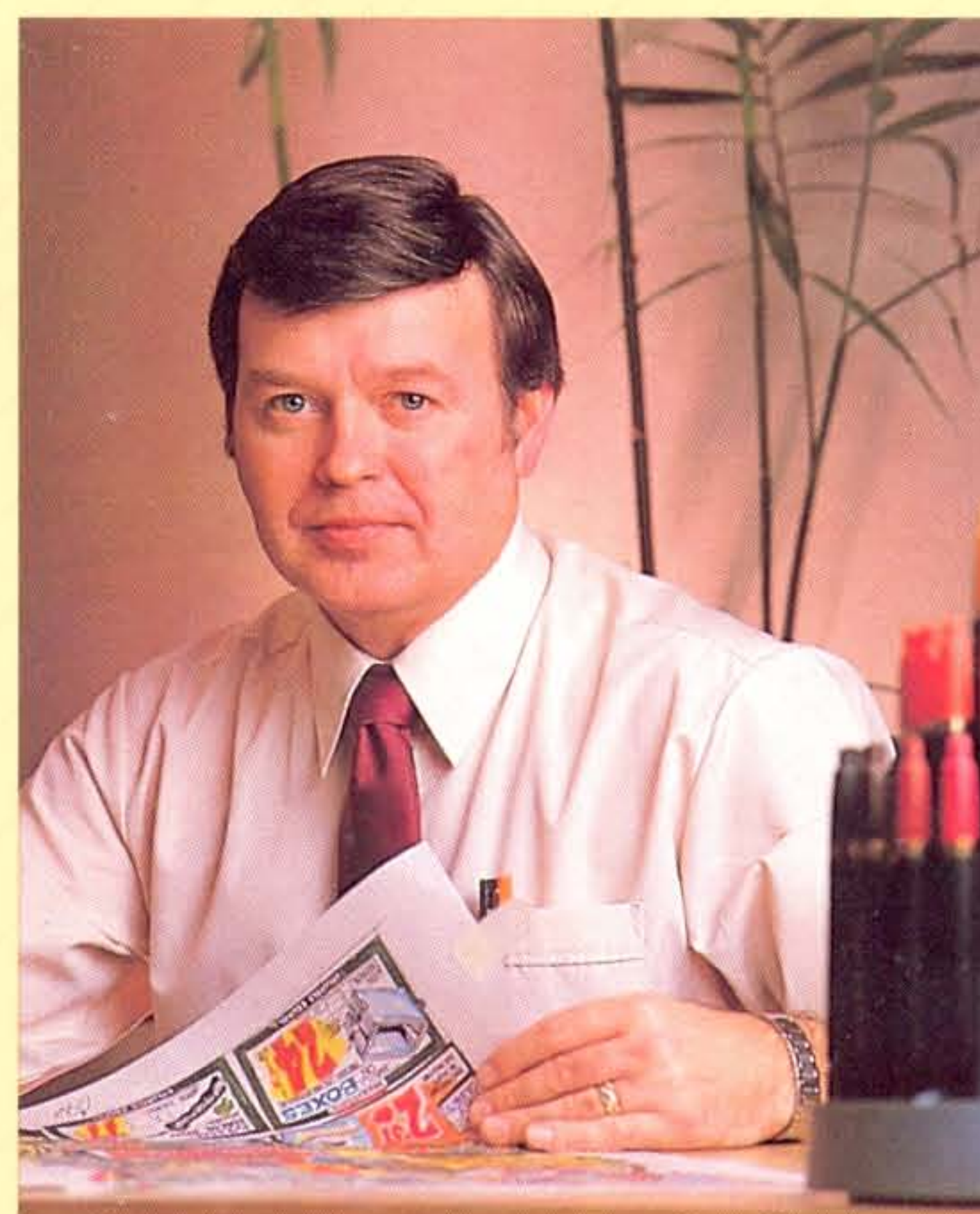
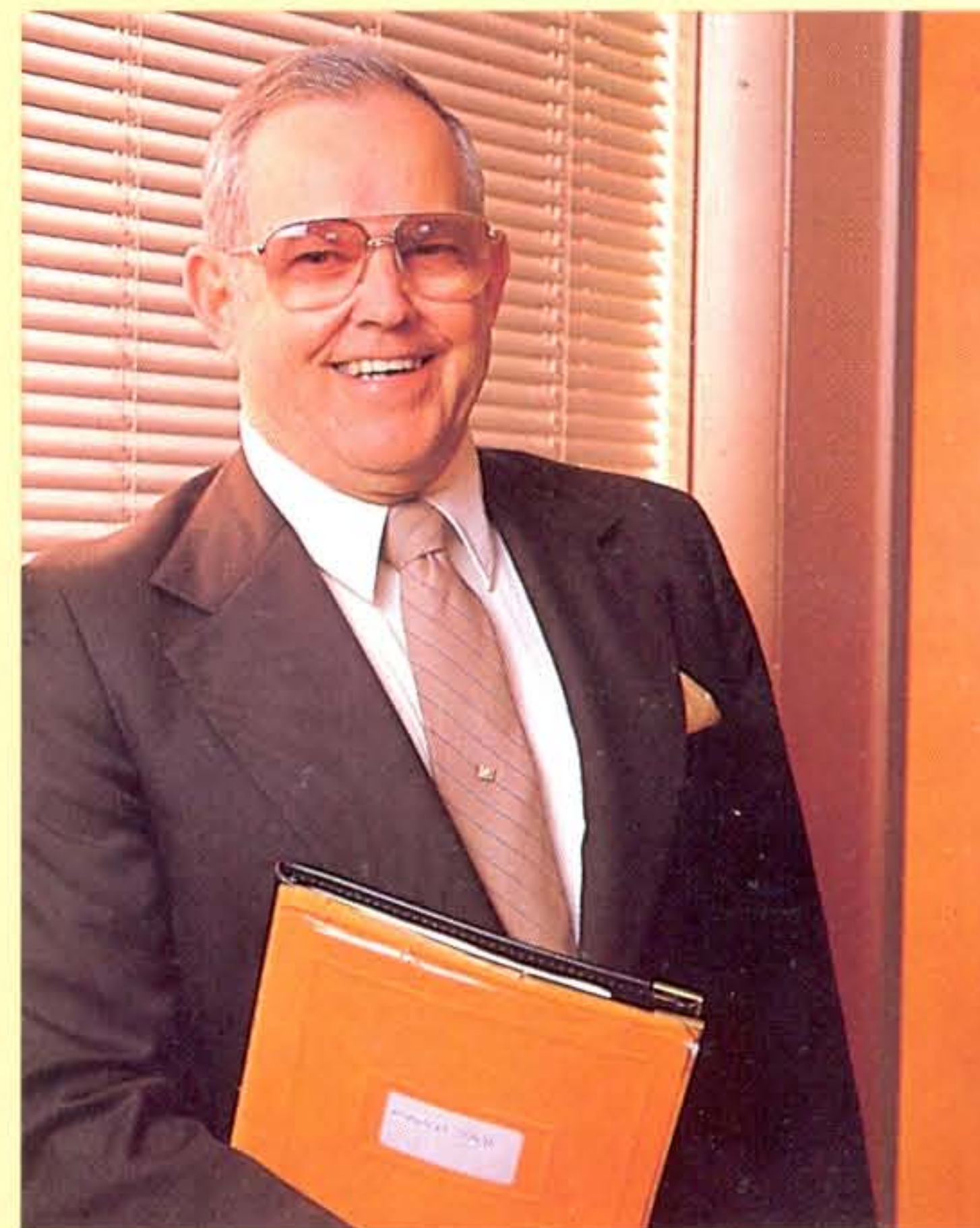
More than 80% of our merchandise is shipped to our stores from the distribution centers in our own trucks. These shipments, made weekly, reduce fluctuation of store inventory levels and this translates into readily available merchandise for our customers.

Advancement opportunities benefit, motivate employees

Pay 'N Pak is recognized as an industry leader in the development and implementation of training and incentive programs for employees. Industry research has shown that the primary customer complaint against do-it-yourself retailers is the lack of knowledgeable sales people. The research also shows that customer loyalty to stores with an informed, helpful sales staff is strong.

"Our in-house advertising department generates weekly ads and special tabloids for each of our 101 stores. We have developed specific programs to increase control over advertising results, with the company benefiting through increased store traffic and higher sales."

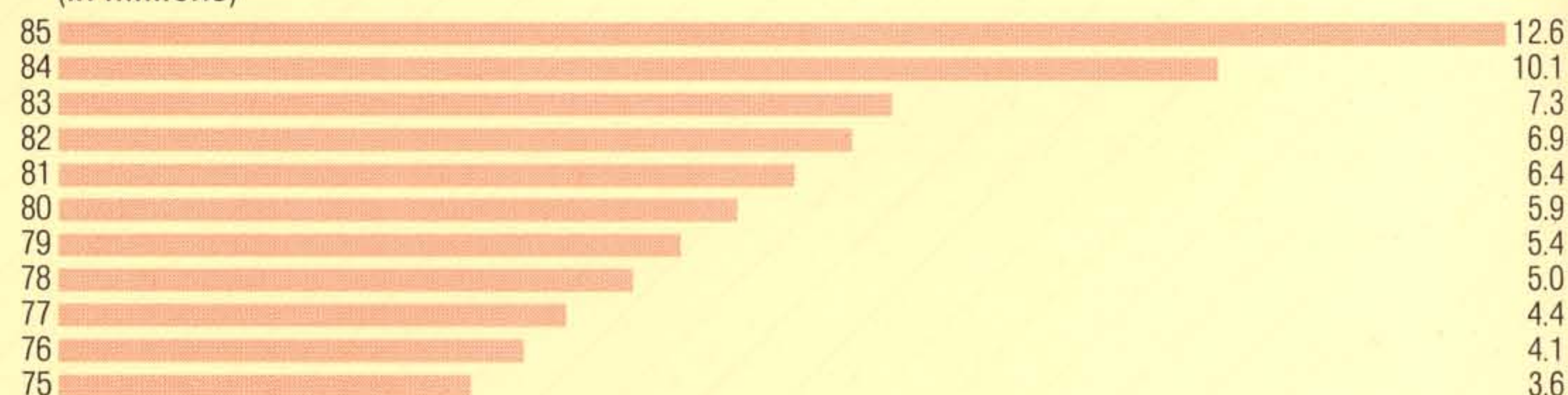
Herb McCleary
Advertising Director



"The company's newspaper insert program has proven to be an extremely effective method of reaching our do-it-yourself audience. Humorous, topical cartoons, and hand-lettered headlines and price-points give our ads a look of dramatic urgency. They are innovative within our industry."

Sandy Holien
Art Director

Number of Customers Served (in millions)

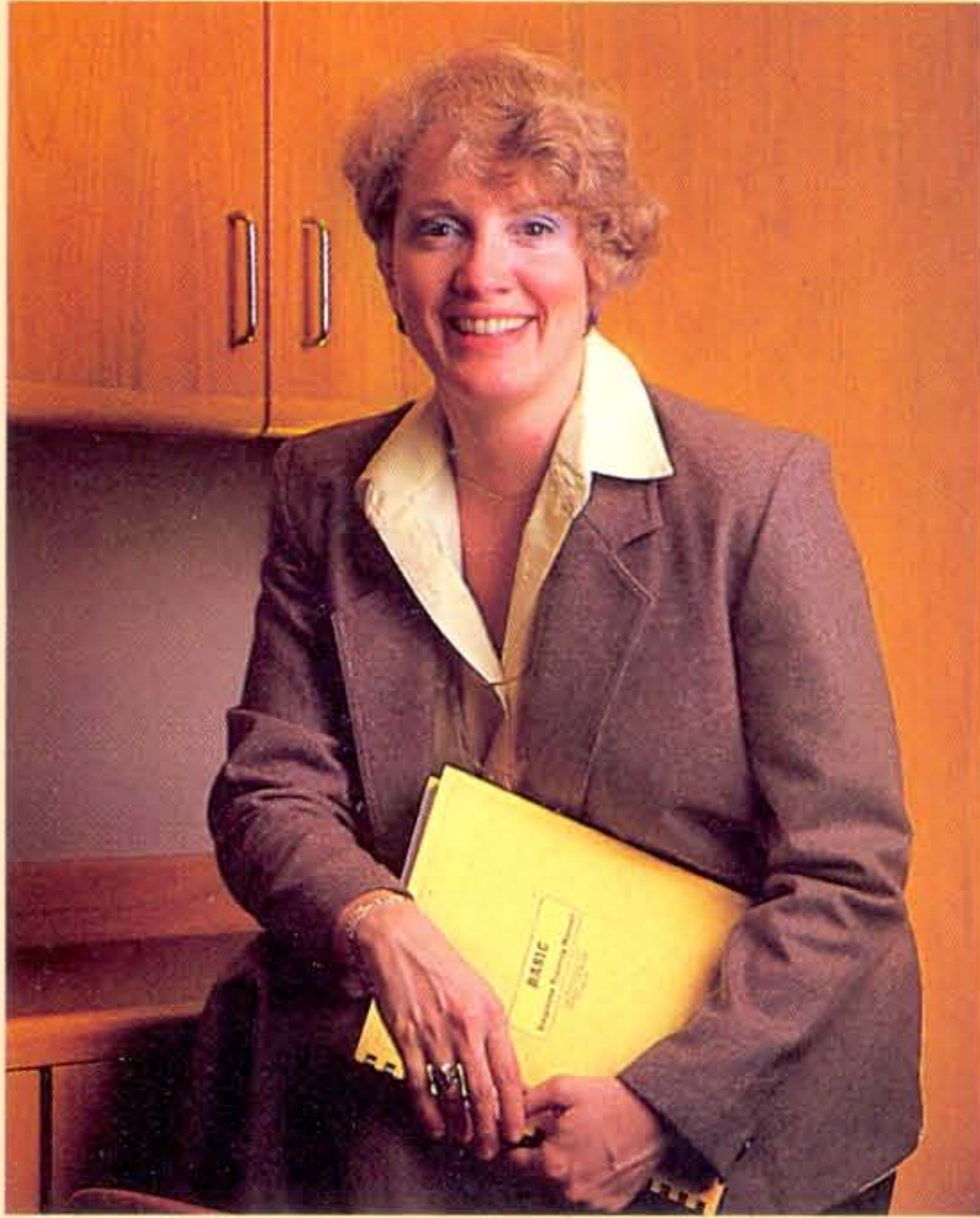


In today's economy, the saving of time and money has become a critical factor influencing home remodeling projects. Pay 'N Pak has responded with a project-oriented merchandising mix, allowing do-it-yourself customers to purchase everything they need at one store, and at consistently low prices.



Pay 'N Pak was the first company in its industry to establish an in-house training department. Research has shown that low prices may attract a first-time customer, but repeat sales go to the store with the well-trained, knowledgeable sales staff.



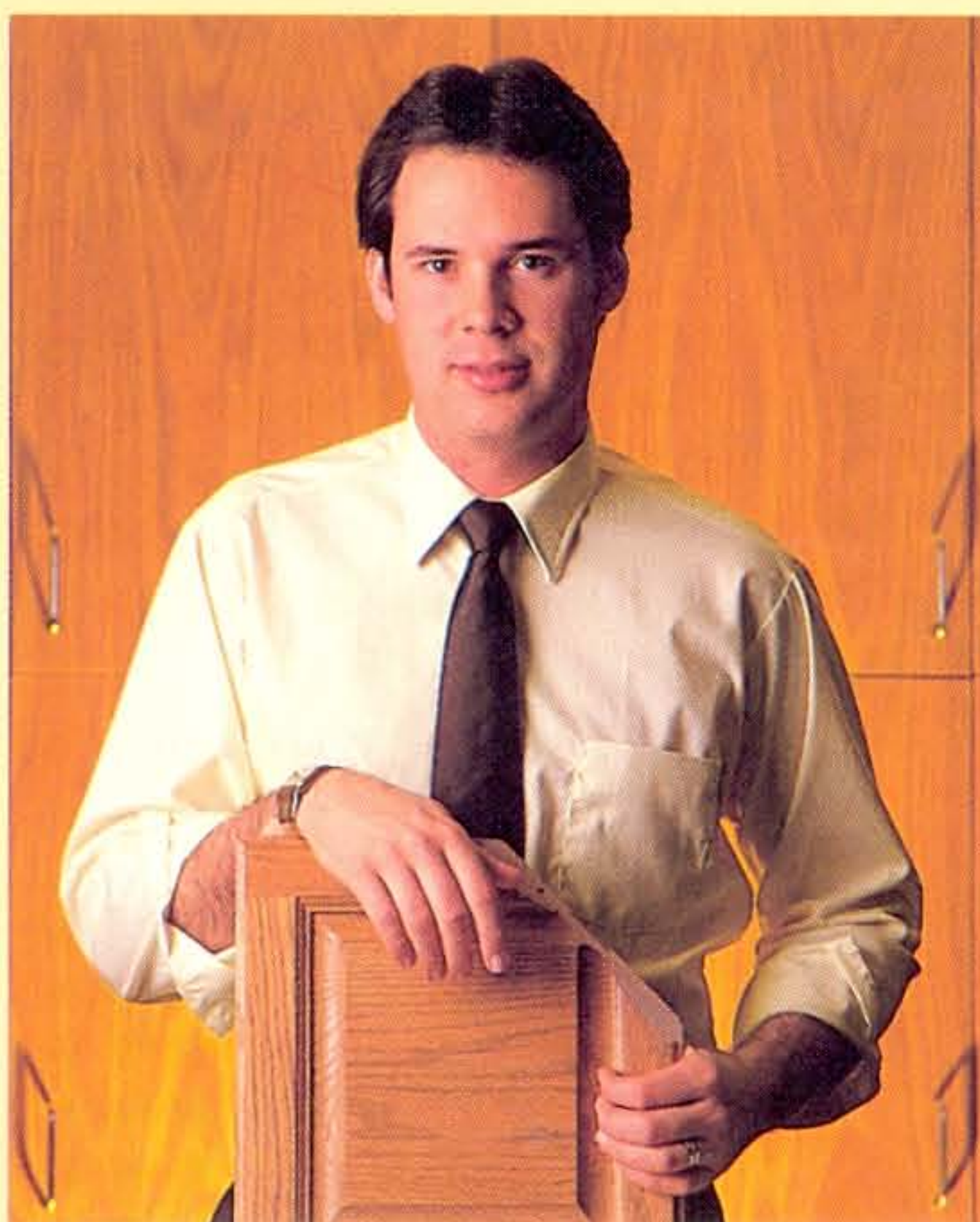


"The Company spends more than \$1 million annually on employee training. Our programs cover all areas of operation, including management, purchasing, warehousing, sales and cashiering. At the store level this training gives employees the skills necessary for maintaining top productivity — in both quality and quantity of sales."

Chris Allie
Assistant
Training Director

"Weekly store meetings and our mobile training unit are two programs developed by our training department that are unique to our industry. Weekly meetings include presentations by manufacturers' representatives to increase product knowledge. In addition, store employees receive hands-on experience with plumbing and electrical projects in the 40-foot training coach which visits each store an average of twice a year."

Bryon Wertz
Trainer



**Sales Per Full-Time
Employee At Year-End**
(in \$ thousands)



Pay 'N Pak spends more than \$1 million annually in training, pays high salaries and offers generous incentives because it recognizes the value of its people. Our loyal employees are the key to our success. Employees are rewarded with advancement opportunities at all levels, from store personnel through management staff. One indicator of the success of our training program is the fact that currently every store manager and 90% of our corporate staff (including senior executives) have come up through the company's ranks. Employee turnover at Pay 'N Pak is extremely low and the average length of service of all current employees is four years. This is very high for a retail chain business.

More than 46% of our employees are members of the company's Employee Stock Ownership Plan (ESOP), which currently owns 11% of the company's stock and is the company's largest shareholder. Employees receive up to \$3,000 worth of company stock annually paid for by the company after three years of full-time service.

In-house training department marks 14th anniversary

Well-trained, highly motivated employees are the key to any successful business. To that end Pay 'N Pak was the first company in its industry to establish an in-house training program, now with a staff of ten. Our training program includes the use of a full size Greyhound bus that has been converted into a training unit, and visits stores an average of twice a year. Manufacturers' representatives make monthly presentations to store employees to educate them as to product knowledge. Weekly store meetings further reinforce home improvement project skills, product understanding and knowledge of company procedures and policy. Agendas and supporting documentation are controlled by the training staff to ensure coverage of all necessary subjects.

Ten district managers oversee the operations of all stores. Working directly with the district managers, store managers have considerable input about inventory and advertising programs in the markets they serve. Bonuses based on sales and profits plus service awards encourage employees to do a superior job.

Looking to the immediate future, and beyond

Pay 'N Pak serves a large portion of the high-growth western United States market. We must be alert to population shifts, changes in consumer demand, and competition. We have the staff to do the job and we reward them all. The end result, of course, is to please those who own Pay 'N Pak — our shareholders.

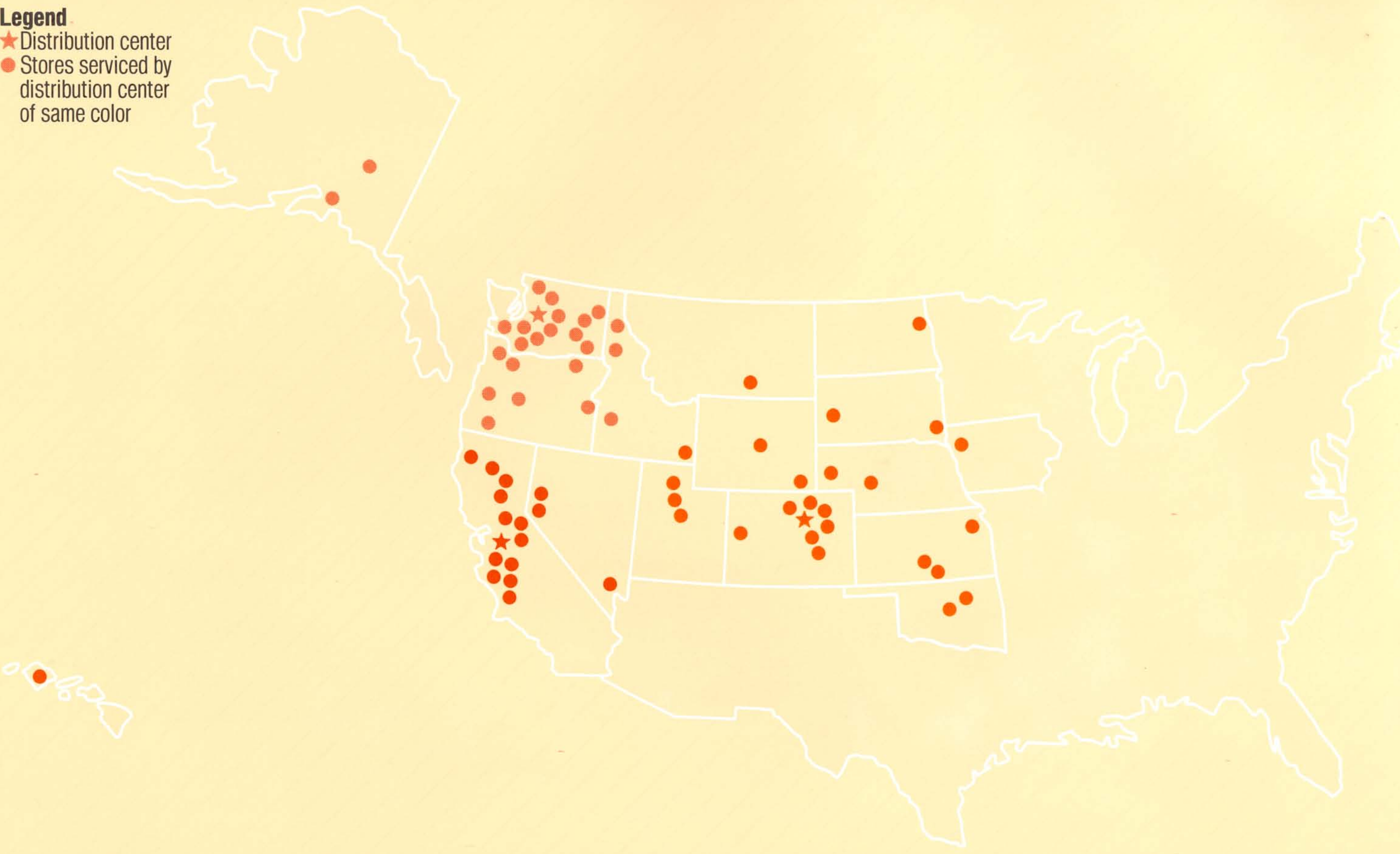
Pay 'N Pak
Stores, Inc.

Years ended February 28 or 29

| | 1985 | 1984 | 1983 | 1982 |
|--|---------------|---------------|---------------|---------------|
| Operations | | | | |
| Revenues | \$305,185,000 | \$250,040,000 | \$187,338,000 | \$180,974,000 |
| Income before income taxes | \$ 18,420,000 | \$ 17,851,000 | \$ 11,085,000 | \$ 13,049,000 |
| Net income | \$ 10,105,000 | \$ 10,025,000 | \$ 6,368,000 | \$ 7,199,000 |
| Common Stock | | | | |
| Average number of common shares | 10,002,832 | 9,033,023 | 7,327,392 | 7,303,464 |
| Net income per common share ³ | \$1.01 | \$1.11 | \$.87 | \$.99 |
| Stock dividends and stock splits | — | 50% | 10% | — |
| Cash dividend paid per common share ³ | \$.60 | \$.56 | \$.507 | \$.461 |
| Financial Position | | | | |
| Total assets | \$190,769,000 | \$164,481,000 | \$119,531,000 | \$ 97,800,000 |
| Stockholders' equity | \$ 97,776,000 | \$ 93,673,000 | \$ 47,430,000 | \$ 40,162,000 |
| Return on stockholders' equity ⁴ | 10.8% | 13.2% | 15.9% | 19.9% |
| Shares of common stock outstanding (end of year) | 10,002,832 | 10,002,832 | 7,652,830 | 7,303,464 |
| Net book value per share | \$9.77 | \$9.36 | \$6.20 | \$5.50 |
| Long-term debt | \$ 41,641,000 | \$ 28,449,000 | \$ 34,879,000 | \$ 26,470,000 |
| Stores In Operation | | | | |
| Number of stores open | 101 | 100 | 98 | 88 |
| Number of stores sold or closed | 1 | 0 | 1 | 0 |
| Stores replaced with new stores | 5 | 0 | 0 | 0 |
| Number of states in which we operated | 17 | 16 | 16 | 15 |
| Square footage of stores | 2,468,000 | 2,224,000 | 2,168,000 | 1,891,000 |
| Average square footage per store | 24,400 | 22,200 | 22,100 | 21,500 |
| Average annual inventory in stores | \$ 62,970,000 | \$ 50,464,000 | \$ 35,485,000 | \$ 36,247,000 |
| Average annual inventory total (includes distribution centers) | \$ 92,651,000 | \$ 74,352,000 | \$ 54,175,000 | \$ 53,429,000 |
| Store Averages | | | | |
| Average sales per store | \$ 3,020,000 | \$ 2,495,000 | \$ 2,009,000 | \$ 2,050,000 |
| Number of customers served | 12,623,000 | 10,105,000 | 7,311,000 | 6,941,000 |
| Average customer purchase | \$ 24.16 | \$ 24.69 | \$25.60 | \$25.99 |
| Sales per square foot | \$123.59 | \$112.17 | \$92.73 | \$95.40 |
| Sales per full time employee (end of year) | \$ 185,000 | \$ 167,000 | \$ 159,000 | \$ 151,000 |

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 \$191,000 (\$.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 all other years, including 1985.

| | 1981 | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 |
|--|---------------|---------------------|----------------------------------|---------------------------|---------------------|---------------------|--------------|
| | | | | | | | |
| | \$151,765,000 | \$138,361,000 | \$117,688,000 | \$98,052,000 | \$80,643,000 | \$73,280,000 | \$61,471,000 |
| | \$ 11,575,000 | \$ 11,471,000 | \$ 10,199,000 | \$ 7,882,000 | \$ 5,464,000 | \$ 4,605,000 | \$ 4,071,000 |
| | \$ 6,449,000 | \$ 6,313,000 | \$ 5,403,000 | \$ 4,006,000 ² | \$ 2,871,000 | \$ 2,430,000 | \$ 2,113,000 |
| | | | | | | | |
| | 7,303,464 | 7,303,464 | 6,688,990 | 6,372,865 | 6,372,865 | 6,577,114 | 6,617,964 |
| | \$. 88 | \$.86 | \$.81 | \$.63 ² | \$.45 | \$.37 | \$.32 |
| | — | 20% | 33 ¹ / ₃ % | 50% | 10% | 10% | — |
| | \$.412 | \$.363 | \$.299 | \$.209 | \$.137 | \$.106 | \$.073 |
| | | | | | | | |
| | \$ 90,273,000 | \$ 81,902,000 | \$ 70,314,000 | \$50,483,000 | \$45,833,000 | \$39,127,000 | \$33,155,000 |
| | \$ 36,213,000 | \$ 32,224,000 | \$ 28,228,000 | \$16,447,000 | \$13,566,000 | \$11,617,000 | \$12,081,000 |
| | 20.0% | 22.4% | 32.9% | 29.5% | 24.7% | 20.1% | 20.2% |
| | 7,303,464 | 7,303,464 | 7,303,464 | 6,372,865 | 6,372,865 | 6,372,865 | 6,617,964 |
| | \$4.96 | \$4.48 ¹ | \$4.00 ¹ | \$2.74 ¹ | \$2.31 ¹ | \$2.01 ¹ | \$1.83 |
| | \$ 27,979,000 | \$ 28,680,000 | \$ 23,848,000 | \$18,467,000 | \$19,125,000 | \$17,722,000 | \$12,519,000 |
| | | | | | | | |
| | 84 | 78 | 70 | 65 | 60 | 55 | 50 |
| | 0 | 0 | 1 | 0 | 0 | 3 | 1 |
| | 0 | 1 | 1 | 1 | 2 | 2 | 0 |
| | 15 | 15 | 14 | 13 | 13 | 11 | 11 |
| | 1,812,000 | 1,688,000 | 1,497,000 | 1,365,000 | 1,261,000 | 1,145,000 | 1,031,000 |
| | 21,600 | 21,600 | 21,400 | 21,000 | 21,000 | 20,800 | 20,600 |
| | \$ 31,419,000 | \$ 28,610,000 | \$ 23,302,000 | \$20,226,000 | \$17,952,000 | \$14,815,000 | \$13,604,000 |
| | \$ 43,724,000 | \$ 39,143,000 | \$ 31,253,000 | \$24,617,000 | \$21,007,000 | \$16,847,000 | \$14,825,000 |
| | | | | | | | |
| | \$ 1,806,000 | \$ 1,768,000 | \$ 1,676,000 | \$ 1,508,000 | \$ 1,343,000 | \$ 1,331,000 | \$ 1,228,000 |
| | 6,415,000 | 5,928,000 | 5,469,000 | 4,980,000 | 4,420,000 | 4,104,000 | 3,647,000 |
| | \$23.64 | \$23.26 | \$21.52 | \$19.69 | \$18.25 | \$17.85 | \$16.86 |
| | \$88.73 | \$81.67 | \$78.63 | \$71.82 | \$63.96 | \$64.01 | \$59.63 |
| | | | | | | | |
| | \$ 139,000 | \$ 129,000 | \$ 113,000 | \$ 115,000 | \$ 109,000 | \$ 104,000 | \$ 88,000 |



**Stores serviced by
Kent distribution center:**

- | | |
|---|---|
| Alaska Anchorage Fairbanks | Washington Aberdeen Bellingham Bothell Bremerton Everett Federal Way Kennewick Kent Longview Lynnwood Marysville Moses Lake Mt. Vernon Olympia Puyallup Redmond Renton Seattle (5) Spokane (2) Tacoma (3) Vancouver Walla Walla Wenatchee Yakima |
| Idaho Boise Coeur d'Alene Lewiston | |
| Oregon Albany Beaverton Bend Eugene Medford Milwaukie Ontario Pendleton Portland (4) Salem | |

**Stores serviced by
Denver distribution center:**

- | | |
|---|--|
| Colorado Aurora Colorado Springs Denver (2) Fort Collins Grand Junction Greeley Pueblo Wheat Ridge | Montana Billings |
| Idaho Pocatello | Nebraska North Platte Scottsbluff |
| Iowa Sioux City | North Dakota Grand Forks |
| Kansas Hutchinson Topeka Wichita (2) | 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 Modesto Newark Rancho Cordova Redding Roseville Sacramento (3) San Jose (2) Santa Clara Sunnyvale Yuba City | Hawaii Honolulu |
| | Nevada Carson City Las Vegas Reno |



David J. Heerensperger (left), Marshall J. Weigel (center), and Jerry L. Marlow

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

Jerry L. Marlow
President and Chief Operating Officer

Monte A. Leen
Executive Vice President

Halvor Knudtzon, Jr.
Secretary-Treasurer

Marshall J. Weigel
Vice Chairman of the Board and Independent Corporate Finance Specialist
San Francisco, CA

Woodrow C. Button
Retired Vice Chairman
Old National Bank
Seattle, WA

Jerry D. Horn
President
Thousand Trails
Bellevue, WA



Monte A. Leen (left), and Halvor Knudtzon, Jr.



Woodrow C. Button (left), and Jerry D. Horn

Officers

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

Jerry L. Marlow
President and Chief Operating Officer

Marshall J. Weigel
Vice Chairman of the Board

Monte A. Leen
Executive Vice President

Halvor Knudtzon, 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, Hawaii

Mike Mandick
Oregon, California

Larry Marlow
Eastern Washington, Northern Idaho

Rick Noegel
California

John Schweitzer
California, Nevada

Wally Tesch
Western Washington

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, 1985, there were approximately 3,180 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

Old National Bank of Washington
Spokane, Washington

First Security Bank of Idaho
Boise, Idaho

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 18, 1985, at 11 o'clock a.m. at the Marriott Hotel, 3201 South 176th Street, Seattle, Washington.

Responsibility for Financial Statements

The accompanying balance sheets of Pay 'N Pak Stores, Inc. at February 28, 1985, and February 29, 1984, 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 28, 1985
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:

Common Stock

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, 1985-\$104,534,356.
Common stock outstanding at April 2, 1985 - 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 18, 1985, is incorporated into Part III.

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PART I

ITEM I - Business

(a) *General development of business.* Pay 'N Pak Stores, Inc. (the "Company") was incorporated in 1961 under the laws of the State of Washington, as the successor to a partnership formed in 1953 to engage in the retail sale of home improvement products, principally electric and plumbing supplies. The Company in its present form evolved from a merger in 1969 of three groups of similar stores in adjacent geographic areas. Immediately after the merger, the Company had 22 stores in three western states, Washington, California and Colorado. Following the merger, the Company undertook a store expansion program and also added auto parts and supplies and sporting goods to its lines of merchandise in 11 of its larger stores. During the past fiscal year ended February 28, 1985, the Company opened two new stores and currently operates 101 stores in 17 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 17 stores in northern California.

ITEM I - Business, continued

In March 1983, the Company began a program to remerchandise its entire chain of stores by raising the height of merchandise display racks, thereby allowing a 30% increase in the number of stock keeping units ("SKU's"). The decision to remerchandise the stores grew out of the Company's successful experience replacing auto and sporting goods merchandise in 11 stores with additional SKU's in the home improvement line. By the end of fiscal year 1984, all 100 of the Company's stores were completely remerchandised.

In the fall of 1983, the Company began to implement a "warehouse" concept for some of its larger stores. The Company based its decision to implement this concept in part upon the experience of other retailers who have successfully utilized this format. Warehouse stores are significantly larger than the Company's traditional stores, stocking greater quantities of merchandise. Merchandise which would otherwise be kept in storerooms is displayed in customer areas and stacked to the ceiling. In contrast to warehouse approaches used by some retailers, the Company's warehouse stores are well-lit, feature attractive merchandise displays and are fully staffed by trained employees to ensure the same level of service as the Company's traditional stores.

The conversion of the Company's Kent, Washington store into the first warehouse store was completed in October 1983. Since that time, the Company has also converted 16 other stores and opened two new warehouse stores. The Company currently intends to establish approximately 14 additional warehouse stores during fiscal year 1986, for a total of 33 warehouse stores. Of these 14 additional warehouse stores, 10 will be conversions of traditional stores currently operated by the Company and the remainder will be new stores.

(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) (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, kitchen cabinets and built-in appliances. The Company specializes in products and supplies for the remodeling and improvement of kitchens and bathrooms. For several years the Company operated sporting goods and automotive parts and accessories departments in eleven stores but during fiscal year 1983 these departments were phased out to provide additional space for home improvement products. All but four 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" and a new store in Honolulu operates under the name "Home Improvement Warehouse". 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 95% of sales of home improvement products were made to do-it-yourself customers in fiscal 1985, with professional builders and others accounting for less than 5%.

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>1985</u> | <u>1984</u> | <u>1983</u> | <u>1982</u> | <u>1981</u> |
|-------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Electrical | 25% | 28% | 31% | 31% | 32% |
| Plumbing | 22 | 23 | 25 | 23 | 24 |
| Building Materials | 53 | 49 | 41 | 37 | 34 |
| Automotive and Sporting Goods . . . | -- | -- | 3 | 9 | 10 |
| Total | 100% | 100% | 100% | 100% | 100% |

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 1985, sales on which it directly extended credit accounted for less than 1% of sales. The Company maintains a liberal merchandise return policy, with full refunds given under most circumstances to customers who return products.

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

During the fiscal year ended February 28, 1985, the Company opened new warehouse concept stores in Modesto California and Honolulu, Hawaii and also converted 13 existing stores to home improvement warehouse format.

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

| | Years Ended February 28 or 29, | | | | |
|--|--------------------------------|------------|-----------|-----------|-----------|
| | 1985 | 1984 | 1983 | 1982 | 1981 |
| Stores in operation at beginning of year | 100 | 98 | 88 | 84 | 78 |
| New stores opened or acquired . . | 7 | 2 | 11 | 4 | 6 |
| Stores replaced by new stores . . . | (5) | | | | |
| Stores sold or closed | (1) | | (1) | | |
| Stores in operation at end of year | <u>101</u> | <u>100</u> | <u>98</u> | <u>88</u> | <u>84</u> |

ITEM I - Business, continued

The Company has 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 1986 in downtown San Francisco, South San Francisco, San Leandro and El Cerrito, California, and possibly, at a presently undetermined site, east of San Francisco Bay; the Company also plans to convert existing traditional stores to warehouse concept stores in downtown Spokane, Spokane Valley, Yakima, Everett, Wenatchee, Bellingham, Kennewick and Seattle, Washington, Boise, Idaho and Salt Lake City, Utah. In April 1986, the Company closed its two stores in Tulsa, Oklahoma as both were marginal operations profit-wise.

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

(iii) Raw materials. The Company buys its merchandise from several hundred independent suppliers, including manufacturers and importers, none of which accounts for more than 8% 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 30 stores located in Colorado, Kansas, Iowa, Nebraska, Montana, Oklahoma, South Dakota, North Dakota, Utah, Idaho and Wyoming, the Hayward warehouse services the Honolulu store and 19 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 \$408,000 in 1985, \$358,000 in 1984 and \$332,000 in 1983.

(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 1,596 full-time persons and 111 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 99 stores, 31 are located in the State of Washington, 13 in Oregon, 17 in California, 3 in Nevada, 4 in Idaho, 1 in Montana, 5 in Utah, 9 in Colorado, 4 in Kansas, 2 in Oklahoma, 2 in Alaska, 2 in Wyoming, 2 in South Dakota, 1 in North Dakota, 2 in Nebraska, 1 in Iowa and 1 in Hawaii. All of the Company's stores except nine are leased under leases expiring at various times between August 1985 and January 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 under leases that expire in 1985. When these leases expire the Company will move to a new 361,000 sq. ft. warehouse in Kent which the Company recently constructed, sold and leased back under a long-term lease. 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.

The Company owns its store properties in Fairbanks, Alaska and Pocatello, Idaho. The Company obtained long-term mortgage financing on these properties during fiscal year 1977. The Company also owns its store properties in Fort Collins, Colorado; North Platte, Nebraska; Honolulu, Hawaii; Kent and Aberdeen, Washington; and two stores in San Jose, California. None of these additional properties are presently subject to any mortgages or other encumbrances except the two San Jose stores and the Honolulu store.

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

On September 5, 1984, an antitrust suit was brought against the Company in the United States District Court for the Western District of Washington by Thurman Industries, Inc., a small Seattle-based chain of competing stores owned by a former officer of the Company. The complaint alleges that Pay 'N Pak has engaged in predatory price reductions, has negotiated with suppliers to obtain favorable terms of dealing which discriminate against Thurman, has induced suppliers not to deal with Thurman through exclusive dealing arrangements and otherwise, and has interfered with Thurman's contractual and business relationships. This conduct is alleged to violate federal and state antitrust laws and common law principles. The complaint seeks both injunctive relief and damages, as well as costs and attorneys' fees. Plaintiff has not computed its claimed damages but for purposes of the complaint estimated them at \$3,000,000 before trebling. Management believes the claim lacks substantial merit and intends to defend it vigorously. The Company has filed a counterclaim seeking to recover from plaintiff its legal expenses and other costs of defending against the claim.

On March 14, 1985, a civil action was filed against the Company and other defendants in the U.S. District Court for the District of Colorado by the United States of America at the request of the Environmental Protection Agency. The complaint alleges that Pay 'N Pak and the other defendants violated the Clean Air Act concerning asbestos emissions in the course of remodeling the Company's store building in Grand Junction, Colorado. The other defendants are the owner of the store and its property manager, the other tenant in the building and the contractors who worked on the building. The complaint seeks both an injunction against further violations and civil penalties of \$25,000 for each day of violation by each defendant. The complaint is based on past conduct that occurred in the summer of 1984 and which was remedied substantially at the expense of the property manager of the building. The Company had no prior knowledge of the asbestos as it had only recently entered into a lease of a part of the building. All approvals were subsequently obtained to finish the remodeling and the new store has been open since December 17, 1984. The Company will endeavor to mitigate penalties based on its lack of prior knowledge of the asbestos. The Company has also filed cross-claims against certain other defendants and will attempt to persuade such defendants to pay all or most of any aggregate lump-sum penalty by way of settlement or consent decree.

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 | 48 | Chairman of the Board and Chief Executive Officer; Director |
| Marshall J. Weigel | 64 | Vice-Chairman of the Board; Director |
| Jerry L. Marlow | 49 | President and Chief Operating Officer; Director |
| Halvor Knudtzon, Jr. | 58 | Secretary-Treasurer; Director |
| Monte A. Leen | 42 | Executive Vice President; Director |
| Victor W. Crosswhite | 48 | Vice President-Purchasing |
| Peter W. Gallina | 49 | Vice President-Real Estate and Store Development |
| Calvin E. Karbowski | 49 | Vice President-Distribution |
| George E. Smith | 49 | 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.

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

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 Knudtson 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 has served the Company as Vice President-Purchasing. Peter W. Gallina has served the Company as Vice President-Real Estate and Store Development. Calvin E. Karbowski has served the Company as Vice President-Distribution. Monte A. Leen, prior to his election as Executive Vice President in March 1981, served the Company as Vice President-Merchandising. 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, 1985, there were approximately 3,180 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)

| <u>Years ended February 28 or 29</u> | <u>1985</u> | <u>1984</u> |
|--------------------------------------|-------------------|-------------------|
| 1st quarter | \$16 - 12 3/4 | \$22 1/4 - 15 1/8 |
| 2nd quarter | \$17 1/2 - 13 1/2 | \$24 - 16 5/8 |
| 3rd quarter | \$16 3/8 - 14 1/8 | \$20 1/8 - 16 |
| 4th quarter | \$14 3/4 - 11 1/2 | \$20 - 14 7/8 |

Quarterly Dividends

| <u>Years ended February 28 or 29</u> | <u>1985</u> | <u>1984</u> |
|--------------------------------------|-------------|-------------|
| 1st quarter | \$.15 | \$.14 |
| 2nd quarter | \$.15 | \$.14 |
| 3rd quarter | \$.15 | \$.14 |
| 4th quarter | \$.15 | \$.14 |

ITEM 6 - Selected Financial Data

In thousands, except per share data.

| | <u>Years Ended February 28 or 29,</u> | | | | |
|---------------------------|---------------------------------------|-------------|-------------|-------------|-------------|
| | <u>1985</u> | <u>1984</u> | <u>1983</u> | <u>1982</u> | <u>1981</u> |
| Operating results: | | | | | |
| Net sales | \$305,026 | \$249,491 | \$187,172 | \$180,387 | \$151,684 |
| Income before | | | | | |
| income taxes | \$ 18,420 | \$ 17,851 | \$ 11,085 | \$ 13,049 | \$ 11,575 |
| Net income | \$ 10,105 | \$ 10,025 | \$ 6,368 | \$ 7,199 | \$ 6,449 |
| Per common share(1): | | | | | |
| Net income | \$1.01 | \$1.11 | \$.87 | \$.99 | \$.88 |
| Cash dividends | \$.60 | \$.56 | \$.507 | \$.461 | \$.412 |
| At year-end: | | | | | |
| Total assets | \$190,769 | \$164,481 | \$119,531 | \$ 97,800 | \$ 90,273 |
| Long-term debt | \$ 41,641 | \$ 28,448 | \$ 34,879 | \$ 26,470 | \$ 27,979 |

(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 \$249.5 million in fiscal 1984 to \$305.0 million in fiscal 1985, an increase of 22%. The increase is generally attributable to increased volume in existing stores, due to the completion of the Company's remerchandising program and the conversion of 13 stores into warehouse outlets (See Part I, Item 1(a) - "Description of Business"). Increased sales also resulted from two large warehouse stores that opened this fiscal year. The remerchandising program consisted of increasing the height of the display racks accompanied by an increase in the number of stock keeping units (SKU's) in each store. The conversion to the warehouse format utilizes steel warehouse shelving to place more merchandise onto the sales floor.

Increases in net sales during the three-year period were attributable to the following:

| | <u>1984 to 1985</u> | <u>1983 to 1984</u> |
|---|-------------------------|-------------------------|
| | (In thousands) | |
| Net sales of stores opened during the fiscal year* | \$22,192 | \$ 2,672 |
| Increase in net sales over the preceding year of stores in their first full fiscal year of operation | 2,752 | 22,112 |
| Increase in net sales over the preceding year of stores open for over two fiscal years | 30,935 | 37,535 |
| Decrease in net sales for stores closed or sold | (344) | -- |
| | <u>\$55,535</u> | <u>\$62,319</u> |

Interest income decreased from \$344,000 to \$34,000, primarily due to interest earned in the prior year on the short-term investment of a portion of the proceeds of a public stock offering in May 1983.

Cost of sales increased as a percentage of net sales due to decreased gross profit margins realized. The gross profit margin has declined because price competition has become a factor in some of the Company's markets. This is particularly evident where new companies are entering the market place. The Company has committed to meet price competition rather than lose sales, even if this results in lower profit margins. These factors are expected to continue placing pressure on profit margins thereby adversely affecting earnings; however, the impact on earnings is expected to lessen during fiscal year 1986.

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

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

Selling and administrative expense decreased as a percent of sales due to the increase in the volume of sales and cost reduction programs put into effect but were partially offset by the accrual of certain expenses related to the closing of two stores in Tulsa, Oklahoma during April 1985. Rent increased as a percentage of sales primarily due to scheduled increases in basic rental payments and increased percentage rent. Depreciation increased due to recording a full year's depreciation on the abnormally large fixture and equipment acquisitions the prior year, as well as depreciation recorded on the large amount of acquisitions related to warehouse format conversions this fiscal year. Income taxes increased due to an increase in state income taxes and a smaller amount of investment tax credit compared to the prior year. Net income increased, but a lower rate than revenues, due to the factors discussed above.

Liquidity and Capital Resources

The Company's principal sources of funds to finance expansion and acquisition of assets for the year have been primarily provided by increases in short-term debt, long-term debt and operations. In addition, a sale/lease back transaction generated funds of \$959,000.

The Company currently intends to establish approximately 14 additional warehouse stores during fiscal year 1986. Of these 14 additional warehouse stores, 10 will be conversions of traditional stores currently operated by the Company and the remainder will be new stores.

Management of the Company anticipates that future needs for capital resources will be provided from its available bank lines, mortgages on certain properties, sale/leaseback transactions and operations. The Company currently has available credit facilities totaling \$40 million, consisting of bank lines, letter of credit arrangements and a revolving credit agreement with an insurance company, of which \$11.6 million of short-term notes and \$2.1 million of letters of credit and \$15 million of the revolving credit agreement were outstanding at February 28, 1985, leaving \$11.3 million unused.

In April 1985, the Company obtained a mortgage loan of \$14,500,000 on its Honolulu store property and also sold its new Kent distribution center for \$8,000,000 in a sale/leaseback transaction. These proceeds were used to reduce short-term notes and the revolving credit agreement described above.

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

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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 28, 1985 and February 29, 1984, and the consolidated results of operations and changes in financial position for each of the three years in the period ended February 28, 1985, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Seattle, Washington
March 28, 1985

PAY 'N PAK STORES, INC.
CONSOLIDATED STATEMENTS OF INCOME
Years ended February 28 or 29, 1985, 1984 and 1983

| | <u>1985</u> | <u>1984</u> | <u>1983</u> |
|---|----------------------|----------------------|---------------------|
| REVENUES: | | | |
| Net sales | \$305,026,000 | \$249,491,000 | \$187,172,000 |
| Interest | 34,000 | 344,000 | 22,000 |
| Rentals and other | 125,000 | 205,000 | 144,000 |
| | <u>305,185,000</u> | <u>250,040,000</u> | <u>187,338,000</u> |
| COSTS AND EXPENSES: | | | |
| Cost of sales | 200,681,000 | 157,962,000 | 119,100,000 |
| Selling and administrative | 69,167,000 | 60,268,000 | 45,499,000 |
| Rent | 6,297,000 | 4,620,000 | 3,089,000 |
| Depreciation | 6,873,000 | 5,999,000 | 4,570,000 |
| Interest on long-term debt (Note 1(g)) | 3,161,000 | 3,340,000 | 3,002,000 |
| Other interest | 586,000 | -- | 993,000 |
| | <u>286,765,000</u> | <u>232,189,000</u> | <u>176,253,000</u> |
| INCOME BEFORE INCOME TAXES | 18,420,000 | 17,851,000 | 11,085,000 |
| PROVISION FOR INCOME TAXES (Notes 1(e) and 4) ... | 8,315,000 | 7,826,000 | 4,717,000 |
| NET INCOME | <u>\$ 10,105,000</u> | <u>\$ 10,025,000</u> | <u>\$ 6,368,000</u> |
| PER COMMON SHARE (Note 1(h)): | | | |
| Net income | <u>\$1.01</u> | <u>\$1.11</u> | <u>\$.87</u> |
| Cash dividends paid | <u>\$.60</u> | <u>\$.56</u> | <u>\$.507</u> |

See accompanying notes.

PAY 'N PAK STORES, INC.
CONSOLIDATED BALANCE SHEETS
February 28, 1985 and February 29, 1984

| ASSETS | | |
|---|-----------------------------|-----------------------------|
| | <u>1985</u> | <u>1984</u> |
| CURRENT ASSETS: | | |
| Cash | \$ 2,775,000 | \$ 536,000 |
| Receivables, less allowance of \$65,000 (\$60,000 in 1984) for doubtful accounts | 1,762,000 | 1,887,000 |
| Merchandise inventories (Note 1(b)) | 96,253,000 | 93,913,000 |
| Prepaid expenses | <u>2,407,000</u> | <u>1,348,000</u> |
| Total current assets | 103,197,000 | 97,684,000 |
| PROPERTY, PLANT AND EQUIPMENT, at cost (Notes 1(c), 1(g), 2 and 5): | | |
| Land | 8,939,000 | 2,567,000 |
| Buildings | 18,428,000 | 9,119,000 |
| Leasehold rights and improvements | 36,590,000 | 32,857,000 |
| Store equipment | 36,492,000 | 30,334,000 |
| Transportation equipment | 3,612,000 | 3,373,000 |
| Construction in progress | <u>13,070,000</u> | <u>11,465,000</u> |
| | 117,131,000 | 89,715,000 |
| Less accumulated depreciation and amortization | <u>30,205,000</u> | <u>25,495,000</u> |
| | 86,926,000 | 64,220,000 |
| Properties held for development | <u>355,000</u> | <u>2,324,000</u> |
| Net property, plant and equipment | 87,281,000 | 66,544,000 |
| OTHER ASSETS (Note 1(d)) | <u>291,000</u> | <u>253,000</u> |
| | <u><u>\$190,769,000</u></u> | <u><u>\$164,481,000</u></u> |

See accompanying notes.

PAY 'N PAK STORES, INC.
CONSOLIDATED BALANCE SHEETS
February 28, 1985 and February 29, 1984

LIABILITIES AND STOCKHOLDERS' EQUITY

| | <u>1985</u> | <u>1984</u> |
|--|----------------------|----------------------|
| CURRENT LIABILITIES: | | |
| Payable to bank | \$ 5,637,000 | \$ 1,500,000 |
| Notes payable (Note 2) | 11,602,000 | 9,700,000 |
| Accounts payable | 22,793,000 | 21,313,000 |
| Income taxes (Notes 1(e) and 4) | 428,000 | 637,000 |
| Accrued liabilities: | | |
| Payroll and profit sharing | 3,837,000 | 3,643,000 |
| Taxes, other than income | 1,958,000 | 2,119,000 |
| Interest and other | <u>932,000</u> | <u>708,000</u> |
| | 6,727,000 | 6,470,000 |
| Long-term debt due within one year (Note 2) | <u>1,687,000</u> | <u>1,686,000</u> |
| Total current liabilities | 48,874,000 | 41,306,000 |
| LONG-TERM DEBT (Note 2) | 41,641,000 | 28,449,000 |
| DEFERRED INCOME TAXES (Notes 1(e) and 4) | 2,281,000 | 825,000 |
| DEFERRED INCOME (Note 1(c)) | 197,000 | 228,000 |
| COMMITMENTS AND CONTINGENCIES (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 shares issued (Note 1(h)) | 1,000,000 | 1,000,000 |
| Capital in excess of par value | 66,722,000 | 66,722,000 |
| Retained earnings (Note 2) | <u>30,054,000</u> | <u>25,951,000</u> |
| Total stockholders' equity | <u>97,776,000</u> | <u>93,673,000</u> |
| | <u>\$190,769,000</u> | <u>\$164,481,000</u> |

PAY 'N PAK STORES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended February 28 or 29, 1985, 1984 and 1983

| | <u>Common stock</u> | <u>Capital in excess of par value</u> | <u>Retained earnings</u> | <u>Total</u> |
|--|-------------------------|---|------------------------------|---------------------|
| BALANCE, February 28, 1982 | \$ 487,000 | \$21,438,000 | \$18,237,000 | \$40,162,000 |
| Net income | | | 6,368,000 | 6,368,000 |
| Cash dividends | | | (3,700,000) | (3,700,000) |
| Issuance of 232,911 shares of common stock | 23,000 | 4,577,000 | | 4,600,000 |
| Three-for-two stock split at par value (2,550,943 shares) | 255,000 | (255,000) | | -- |
| BALANCE, February 28, 1983 | 765,000 | 25,760,000 | 20,905,000 | 47,430,000 |
| Net income | | | 10,025,000 | 10,025,000 |
| Cash dividends | | | (4,979,000) | (4,979,000) |
| Issuance of 2,350,000 shares of common stock, net of offering costs | 235,000 | 40,962,000 | | 41,197,000 |
| BALANCE, February 29, 1984 | 1,000,000 | 66,722,000 | 25,951,000 | 93,673,000 |
| Net income | | | 10,105,000 | 10,105,000 |
| Cash dividends | | | (6,002,000) | (6,002,000) |
| BALANCE, February 28, 1985 (Note 2) | <u>\$1,000,000</u> | <u>\$66,722,000</u> | <u>\$30,054,000</u> | <u>\$97,776,000</u> |

See accompanying notes.

PAY 'N PAK STORES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
Years ended February 28 or 29, 1985, 1984 and 1983

| | <u>1985</u> | <u>1984</u> | <u>1983</u> |
|--|---------------------|---------------------|---------------------|
| OPERATING ACTIVITIES: | | | |
| Net income | \$10,105,000 | \$10,025,000 | \$ 6,368,000 |
| Charges (credits) to earnings not affecting cash: | | | |
| Depreciation and amortization | 6,913,000 | 6,035,000 | 4,598,000 |
| Deferred income taxes | 1,456,000 | 900,000 | 298,000 |
| (Gain) loss on sale of assets | 243,000 | (21,000) | (15,000) |
| Increase in working capital (excluding cash and borrowings) | (1,746,000) | (26,861,000) | (3,946,000) |
| Cash provided from (used by) operations | 16,971,000 | (9,922,000) | 7,303,000 |
| Additions to property, plant and equipment | (28,836,000) | (25,444,000) | (14,810,000) |
| Other | (110,000) | (14,000) | (64,000) |
| Decrease in cash before financing activities | (11,975,000) | (35,380,000) | (7,571,000) |
| FINANCING ACTIVITIES: | | | |
| Increase (decrease) in short-term borrowings | 6,039,000 | 2,200,000 | (2,260,000) |
| Increase (decrease) in long-term debt (including current portion) | 13,193,000 | (6,927,000) | 9,083,000 |
| Issuance of common stock | -- | 41,197,000 | 4,600,000 |
| Proceeds from sale of assets and sale and leaseback of properties | 984,000 | 2,200,000 | 1,293,000 |
| Cash dividends paid | (6,002,000) | (4,979,000) | (3,700,000) |
| Cash provided from financing activities | 14,214,000 | 33,691,000 | 9,016,000 |
| INCREASE (DECREASE) IN CASH | 2,239,000 | (1,689,000) | 1,445,000 |
| CASH, BEGINNING OF YEAR | 536,000 | 2,225,000 | 780,000 |
| CASH, END OF YEAR | <u>\$ 2,775,000</u> | <u>\$ 536,000</u> | <u>\$ 2,225,000</u> |
| DETAIL OF CHANGES IN WORKING CAPITAL (excluding cash and borrowings): | | | |
| Receivables | \$ (125,000) | \$ 445,000 | \$ 37,000 |
| Merchandise inventories | 2,340,000 | 28,875,000 | 11,087,000 |
| Prepaid expenses | 1,059,000 | 104,000 | 372,000 |
| Accounts payable | (1,480,000) | (1,678,000) | (6,909,000) |
| Income taxes | 209,000 | 77,000 | 240,000 |
| Accrued liabilities | (257,000) | (962,000) | (881,000) |
| INCREASE IN WORKING CAPITAL (excluding cash and borrowings) | <u>\$ 1,746,000</u> | <u>\$26,861,000</u> | <u>\$ 3,946,000</u> |

See accompanying notes

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 28 or 29, 1985, 1984 and 1983

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 \$118,000 at February 28, 1985 (\$133,000 at February 29, 1984) 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 \$864,000, \$545,000 and \$135,000 were capitalized in fiscal years 1985, 1984 and 1983, respectively. Total interest costs for the three years were \$4,611,000, \$3,885,000 and \$4,130,000, respectively.

(h) **Per share data**-Per common share amounts were determined on the weighted average number of shares outstanding during each period (1985-10,002,832; 1984-9,033,022 and 1983-7,327,392).

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 28 or 29, 1985, 1984 and 1983

2. Bank credit arrangements and long-term debt

At February 28, 1985, the Company has available unused lines-of-credit for working capital and letter of credit purchases of \$11,299,000 under agreements with banks, which expire from June 30, 1985 to January 1, 1986. Interest on borrowings under these agreements is charged at prime rate or less. The weighted average interest rate for notes payable at February 28, 1985 is 9.15%. The Company is charged a commitment fee of 1/4 to 3/8 of one percent per annum on the unused balance of certain lines-of-credit.

In addition, the Company has a \$15,000,000 revolving line-of-credit agreement with an insurance company at an interest rate 1½% above the insurance company's thirty-day commercial paper rate, \$15,000,000 was outstanding at February 28, 1985. The effective rate at February 28, 1985 is 10.04%. The Company is charged a commitment fee of ½ of one percent per annum on the unused balance. Subsequent to fiscal year end, the Company has negotiated a mortgage on its Honolulu properties and the proceeds of \$14,500,000 will be used to retire \$14,500,000 of the revolving line-of-credit. The mortgage, with an interest rate of 11-7/8%, requires payments of interest only until May 1990 at which time the Company has the option of retiring the debt or paying the balance over a five-year period. As allowed for in the agreement, the remainder of the revolving line is expected to be converted to a term loan September 30, 1986 and will be paid in 12 equal quarterly installments plus interest, at the rate in effect at the conversion date. Accordingly, at February 28, 1985, the \$15,000,000 was classified as long-term debt, see summary below.

Long-term debt outstanding at February 28, 1985 and February 29, 1984 is shown on the following summary:

| | <u>1985</u> | <u>1984</u> |
|---|---------------------|---------------------|
| 9¾% note payable to insurance company, due \$1,075,000 annually to 1994, plus interest | \$10,750,000 | \$11,825,000 |
| Revolving line of credit, \$14,500,000 to be refinanced, balance due \$41,667 quarterly, plus interest, beginning January 1987 to 1989 | 15,000,000 | -- |
| 8-1/4% to 12.0% (average 9.6%) mortgage notes payable, due \$509,000 including interest in 1986 and reduced amounts to 2001; notes with a balance of \$1,790,000 are subject to call by holders in 1992 | 4,017,000 | 4,789,000 |
| 7% to 15% (average 11.8%) contracts and notes payable, due \$52,000 including interest in 1986 and reduced amounts annually to 1989 | 151,000 | 88,000 |
| Capitalized lease obligations (\$31,785,000), less imputed interest (\$18,375,000) payable approximately \$2,003,000 per year including imputed interest, weighted average 12.1%, final payment in January 2012 | 13,410,000 | 13,433,000 |
| | 43,328,000 | 30,135,000 |
| Less amounts due within one year | 1,687,000 | 1,686,000 |
| | <u>\$41,641,000</u> | <u>\$28,449,000</u> |

Payments on the principal of long-term debt and capitalized lease obligations for the four years ending February 28, 1990 are required as follows: 1987-\$2,284,000; 1988-\$1,945,000, 1989-\$1,945,000 and 1990-\$1,964,000

The loan agreement covering the 9¾% note payable to insurance company contains, among other matters, restrictions on the payment of cash dividends and redemption or reacquisition of the Company's stock. At February 28, 1985, retained earnings of approximately \$2,019,000 was not restricted.

Operating plant and equipment having a net book value of \$6,924,000 at February 28, 1985 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, 1985, 1984 and 1983

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 compensation, with a maximum contribution of \$3,000 per employee. Total contribution was \$1,565,000, \$1,420,000, and \$1,180,000 for fiscal years 1985, 1984 and 1983, respectively.

4. Income taxes

The provision for income taxes is comprised of the following:

| | Year ended February 28 or 29, | | |
|-----------------------------|-------------------------------|--------------------|--------------------|
| | 1985 | 1984 | 1983 |
| Current federal income tax: | | | |
| Provision | \$6,639,000 | \$6,979,000 | \$4,813,000 |
| Investment tax credit | (580,000) | (779,000) | (539,000) |
| | 6,059,000 | 6,200,000 | 4,274,000 |
| State income taxes | 800,000 | 726,000 | 285,000 |
| Deferred income taxes | 1,456,000 | 900,000 | 158,000 |
| | <u>\$8,315,000</u> | <u>\$7,826,000</u> | <u>\$4,717,000</u> |

The effective tax rate differs from the statutory federal income tax rate due primarily to the effects of the investment tax credit and state income taxes.

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

| | 1985 | 1984 | 1983 |
|--------------------------------------|--------------------|------------------|------------------|
| Depreciation deducted for | | | |
| tax in excess of book expense | \$1,344,000 | \$990,000 | \$316,000 |
| Capitalized lease items | (133,000) | (141,000) | (122,000) |
| Capitalized interest and other items | 245,000 | 51,000 | (36,000) |
| | <u>\$1,456,000</u> | <u>\$900,000</u> | <u>\$158,000</u> |

PAY 'N PAK STORES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 28 or 29, 1985, 1984 and 1983

5. Leases and contingencies

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 \$16,079,000 (\$16,177,000 at February 29, 1984) for capitalized leases for retail stores, and computer equipment and accumulated depreciation and amortization included \$6,415,000 (\$6,255,000 at February 29, 1984) applicable thereto.

Most lease arrangements provide for minimum rental payments on the basis of lapse of time, with many 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 \$6,546,000, \$4,812,000, and \$3,256,000 for fiscal years 1985, 1984 and 1983, respectively. Included in expense for each of the three years was percentage rental of \$676,000, \$485,000 and \$284,000, 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, | |
|-----------------------------------|---------------------|
| 1986 | \$ 4,159,000 |
| 1987 | 4,118,000 |
| 1988 | 3,853,000 |
| 1989 | 3,489,000 |
| 1990 | 3,392,000 |
| Later years | <u>25,829,000</u> |
| | <u>\$44,840,000</u> |

In September 1984 an antitrust suit was brought against the Company by a competitor with stores located primarily in Western Washington. The complaint alleges that the Company has engaged in predatory price reductions, interfered with suppliers, as well as other matters. The complaint seeks injunctive relief and damages and is scheduled for trial in March 1986. Plaintiff has not computed its claimed damages but for purposes of the complaint estimated them at \$3,000,000 before trebling. Various other claims, suits and complaints arising in the ordinary course of business are pending against the Company. In all of these cases the Company is defending them vigorously and, in some cases, has filed counterclaims. In the opinion of management, all such matters are either adequately covered by insurance, are without substantial merit or involve such amounts as would not have a significant effect on the financial position or results of operations of the Company.

PAY 'N PAK STORES, INC.
SUPPLEMENTARY DATA
February 28 or 29, 1985, 1984 and 1982

Quarterly financial data (unaudited)

| | Quarter ended | | | |
|---------------------------------|--|----------------|----------------|----------------|
| | May 31 | Aug. 31 | Nov. 30 | Feb. 28 |
| | (In thousands, except per share amounts) | | | |
| 1985 | | | | |
| Revenues | \$74,437 | \$87,802 | \$81,600 | \$61,346 |
| Gross profit on sales | \$25,878 | \$30,799 | \$27,141 | \$20,527 |
| Net income | \$ 2,386 | \$ 3,842 | \$ 2,678 | \$ 1,199 |
| Net income per share | \$.24 | \$.38 | \$.27 | \$.12 |
| 1984 | | | | |
| Revenues | \$53,885 | \$74,545 | \$68,106 | \$53,504 |
| Gross profit on sales | \$19,967 | \$25,312 | \$25,359 | \$20,891 |
| Net income | \$ 1,568 | \$ 3,092 | \$ 3,126 | \$ 2,239 |
| Net income per share | \$.20 | \$.33 | \$.34 | \$.23 |

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 current cost method 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 1985, 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 the current cost method. This 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.

Current Cost Method: Inventories were adjusted based on costs in effect during the fourth quarter of fiscal year 1985 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, or will require for settlement, 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, 1985, 1984 and 1983

Supplementary information on changing prices (unaudited), continued

| | As Reported In The Primary Statements (Historical Cost) | Adjusted For Changes in Specific Prices (Cur- rent Cost) |
|---|---|--|
| Revenues | \$305,185,000 | \$305,185,000 |
| Cost of sales | 200,681,000 | 204,052,000 |
| Depreciation | 6,873,000 | 9,441,000 |
| Other operating expenses | 75,464,000 | 75,464,000 |
| Interest | 3,747,000 | 3,747,000 |
| Total expenses | 286,765,000 | 292,704,000 |
| Income before income taxes | 18,420,000 | 12,481,000 |
| Provision for income taxes | 8,315,000 | 8,315,000 |
| Net income | \$ 10,105,000 | \$ 4,166,000 |
| Effective income tax rate | <u>45.1%</u> | <u>66.6%</u> |
| Purchasing power gain from holding net monetary liabilities during the year | | \$ 2,511,000 |
| Increase in specific prices (current cost) of inventories and property, plant and equipment during the year* | | \$ 15,238,000 |
| Effect of increase in general price level | | <u>8,176,000</u> |
| Excess of increase in specific prices over increase in general price level | | <u>\$ 7,062,000</u> |

*At February 28, 1985, current cost of inventory was \$96,408,000 and current cost of property, plant and equipment, net of accumulated depreciation was \$114,218,000.

PAY 'N PAK STORES, INC.
SUPPLEMENTARY DATA
February 28 or 29, 1985, 1984 and 1983

Supplementary information on changing prices (unaudited), continued

FIVE-YEAR COMPARISON OF SELECTED FINANCIAL DATA
ADJUSTED FOR THE EFFECTS OF CHANGING PRICES
IN AVERAGE FISCAL 1985 DOLLARS

| | <u>1985</u> | <u>1984</u> | <u>1983</u> | <u>1982</u> | <u>1981</u> |
|---|---------------|---------------|---------------|---------------|---------------|
| Revenues | \$305,185,000 | \$260,358,000 | \$201,575,000 | \$205,244,000 | \$188,967,000 |
| <u>Current cost information</u> | | | | | |
| Net income | \$ 4,166,000 | \$ 2,137,000 | | | |
| Net income per common share | \$.42 | \$.24 | | | |
| Excess of increase in specific prices over increase in general price level | \$ 7,062,000 | \$ 2,712,000 | | | |
| Stockholders' equity at year-end | \$124,869,000 | \$117,700,000 | | | |
| <u>Other information</u> | | | | | |
| Purchasing power gain from holding net monetary liabilities during the year | \$ 2,511,000 | \$ 2,928,000 | | | |
| Cash dividends per common share | \$.60 | \$.583 | \$.546 | \$.523 | \$.513 |
| Market price per share at year-end | \$13.75 | \$15.749 | \$16.409 | \$9.451 | \$10.470 |
| Average Consumer Price Index for the fiscal year | 312.9 | 300.5 | 290.8 | 275.9 | 251.3 |

The five-year supplementary financial data show the effect of adjusting selected historical and current cost data to average fiscal year 1985 dollars, as measured by the CPI-U Index. In addition, sales, cash dividends per share and market prices per share for the fiscal years 1981 through 1985 have been restated in average fiscal year 1985 dollars. The Company is not required to present certain information for fiscal years prior to 1984.

The Company's supplementary financial data are prepared on a current cost basis. The current cost of property, plant and equipment was determined 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 to, or will require for settlement, a fixed number of dollars regardless of changes in prices. Examples of monetary items are cash, receivables, payables and long-term debt.

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 28, 1985 | 13 |
| Consolidated balance sheets at February 28, 1985 and February 29, 1984 | 14-15 |
| Consolidated statements of stockholders' equity for each of the three years in the period ended February 28, 1985 | 16 |
| Consolidated statements of changes in financial position for each of the three years in the period ended February 28, 1985 | 17 |
| Notes to consolidated financial statements | 18-21 |
| Supplementary data (unaudited) | 22-24 |
| Schedules for each of the three years in the period ended February 28, 1985: | |
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| VI - Accumulated depreciation of property, plant and equipment | 28 |
| VIII - Valuation and qualifying accounts | 29 |
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| 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, 1985, 1984 and 1983

| | Balance at beginning of year | Additions, transfers at cost | Retirements or sales | Balance at end of year |
|--|------------------------------------|------------------------------------|-------------------------|------------------------------|
| 1985: | | | | |
| Land | \$ 2,567,000 | \$ 6,707,000 | \$ 335,000 | \$ 8,939,000 |
| Buildings | 9,119,000 | 9,875,000 | 566,000 | 18,428,000 |
| Leasehold rights and improvements | 32,857,000 | 4,844,000 | 1,111,000 | 36,590,000 |
| Store equipment | 30,334,000 | 7,530,000 | 1,372,000 | 36,492,000 |
| Transportation equipment | 3,373,000 | 244,000 | 5,000 | 3,612,000 |
| Construction in progress | 11,465,000 | 1,605,000 | -- | 13,070,000 |
| | 89,715,000 | 30,805,000 | 3,389,000 | 117,131,000 |
| Properties held for development .. | 2,324,000 | (1,969,000) | -- | 355,000 |
| | <u>\$92,039,000</u> | <u>\$28,836,000</u> | <u>\$ 3,389,000</u> | <u>\$117,486,000</u> |
| 1984: | | | | |
| Land | \$ 2,529,000 | \$ 335,000 | \$ 297,000 | \$ 2,567,000 |
| Buildings | 10,480,000 | (203,000) | 1,158,000 | 9,119,000 |
| Leasehold rights and improvements | 29,446,000 | 3,531,000 | 120,000 | 32,857,000 |
| Store equipment | 20,868,000 | 10,074,000 | 608,000 | 30,334,000 |
| Transportation equipment | 3,581,000 | 907,000 | 1,115,000 | 3,373,000 |
| Construction in progress | 676,000 | 10,789,000 | -- | 11,465,000 |
| | 67,580,000 | 25,433,000 | 3,298,000 | 89,715,000 |
| Properties held for development .. | 2,313,000 | 11,000 | -- | 2,324,000 |
| | <u>\$69,893,000</u> | <u>\$25,444,000</u> | <u>\$ 3,298,000</u> | <u>\$92,039,000</u> |
| 1983: | | | | |
| Land | \$ 2,150,000 | \$ 916,000 | \$ 537,000 | \$ 2,529,000 |
| Buildings | 8,072,000 | 3,093,000 | 685,000 | 10,480,000 |
| Leasehold rights and improvements | 25,386,000 | 4,120,000 | 60,000 | 29,446,000 |
| Store equipment | 15,297,000 | 5,995,000 | 424,000 | 20,868,000 |
| Transportation equipment | 2,840,000 | 793,000 | 52,000 | 3,581,000 |
| Construction in progress | 877,000 | (201,000) | -- | 676,000 |
| | 54,622,000 | 14,716,000 | 1,758,000 | 67,580,000 |
| Properties held for development .. | 2,219,000 | 94,000 | -- | 2,313,000 |
| | <u>\$56,841,000</u> | <u>\$14,810,000</u> | <u>\$ 1,758,000</u> | <u>\$69,893,000</u> |

PAY 'N PAK STORES, INC.
SCHEDULE VI - ACCUMULATED DEPRECIATION OF
PROPERTY, PLANT AND EQUIPMENT
Years ended February 28 or 29, 1985, 1984 and 1983

| Description | Balance at beginning of year | Additions, charged to income | Retirements or sales | Balance at end of year |
|--|------------------------------------|------------------------------------|-------------------------|------------------------------|
| 1985: | | | | |
| Buildings | \$ 970,000 | \$ 337,000 | \$ 2,000 | \$ 1,305,000 |
| Leasehold rights and improvements | 11,755,000 | 2,092,000 | 882,000 | 12,965,000 |
| Store equipment | 11,619,000 | 3,921,000 | 1,278,000 | 14,262,000 |
| Transportation equipment | 1,151,000 | 523,000 | 1,000 | 1,673,000 |
| | <u>\$25,495,000</u> | <u>\$6,873,000</u> | <u>\$2,163,000</u> | <u>\$30,205,000</u> |
| 1984: | | | | |
| Buildings | \$ 856,000 | \$ 241,000 | \$ 127,000 | \$ 970,000 |
| Leasehold rights and improvements | 10,024,000 | 1,864,000 | 133,000 | 11,755,000 |
| Store equipment | 8,676,000 | 3,422,000 | 479,000 | 11,619,000 |
| Transportation equipment | 1,106,000 | 472,000 | 427,000 | 1,151,000 |
| | <u>\$20,662,000</u> | <u>\$5,999,000</u> | <u>\$1,166,000</u> | <u>\$25,495,000</u> |
| 1983: | | | | |
| Buildings | \$ 686,000 | \$ 213,000 | \$ 43,000 | \$ 856,000 |
| Leasehold rights and improvements | 8,377,000 | 1,706,000 | 59,000 | 10,024,000 |
| Store equipment | 6,876,000 | 2,215,000 | 415,000 | 8,676,000 |
| Transportation equipment | 722,000 | 436,000 | 52,000 | 1,106,000 |
| | <u>\$16,661,000</u> | <u>\$4,570,000</u> | <u>\$ 569,000</u> | <u>\$20,662,000</u> |

PAY 'N PAK STORES, INC.
SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS
Years ended February 28 or 29, 1985, 1984 and 1983

| | <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: | | | | |
| 1985 | \$60,000 | \$242,000 | \$237,000 | \$65,000 |
| 1984 | \$53,000 | \$171,000 | \$164,000 | \$60,000 |
| 1983 | \$40,000 | \$164,000 | \$151,000 | \$53,000 |

* Represents accounts written off against the reserve.

PAY 'N PAK STORES, INC.
SCHEDULE IX - SHORT-TERM BORROWINGS
Years ended February 28 or 29, 1985, 1984 and 1983

| | <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: | | | | | |
| 1985 | \$11,602,000 | 9.2% | \$14,600,000 | \$8,594,000 | 11.5% |
| 1984 | \$ 9,700,000 | 9.8% | \$12,700,000 | \$2,469,000 | 10.7% |
| 1983 | \$ 5,000,000 | 9.1% | \$ 8,600,000 | \$3,202,000 | 12.8% |
| Note payable to insurance company: | | | | | |
| 1985 | \$ -- | -- % | \$ 8,000,000 | \$1,372,000 | 14.9% |
| 1984 | \$ -- | -- % | \$ -- | \$ -- | -- % |
| 1983 | \$ -- | -- % | \$ 7,000,000 | \$2,098,000 | 15.6% |
| Bankers acceptances: | | | | | |
| 1985 | \$ -- | -- % | \$ -- | \$ -- | -- % |
| 1984 | \$ -- | -- % | \$ 4,000,000 | \$ 239,000 | 9.5% |
| 1983 | \$ 4,000,000 | 9.2% | \$ 5,000,000 | \$2,427,000 | 12.0% |

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, 1985, 1984 and 1983

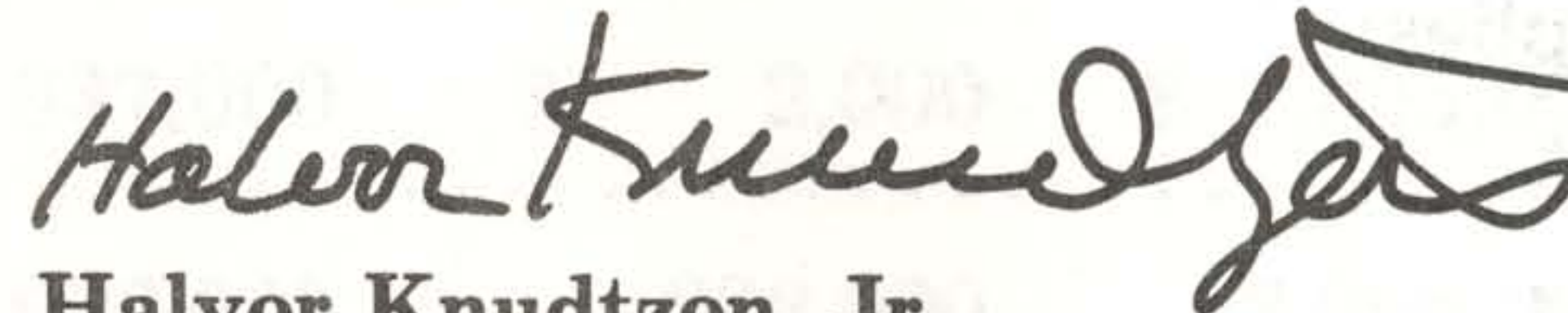
| | <u>Charged to costs and expenses</u> | | |
|-------------------------|--------------------------------------|-------------|-------------|
| | <u>1985</u> | <u>1984</u> | <u>1983</u> |
| Advertising costs | \$10,468,000 | \$9,300,000 | \$6,827,000 |

SIGNATURE

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

PAY 'N PAK STORES, INC. (Registrant)

By



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

Dated: April 29, 1985

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

PAY 'N PAK STORES, INC. (Registrant)

By



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

Dated: April 29, 1985

By



**Jerry L. Marlow
Director and President**

Dated: April 29, 1985

By



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

Dated: April 29, 1985

By



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

Dated: April 29, 1985

Majority of Board of Directors

EXHIBIT INDEX

- (3) Restated Articles of Incorporation as amended and Bylaws as amended are incorporated by reference from the Registrants Form 10-K filed for the fiscal year ended February 29, 1984.
- (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.
P.O. Box 8808
Kent, Washington 98031-0480
206 854-5450

| | |
|-----------------------------|--|
| MAY 14 1986 | |
| MAY 18 1986 | |
| MAY 22 1986 | |
| MAY 21 1986 RETD | |

| | |
|------------------------|--|
| JUN 8 1986 | |
| JUN 11 1986 | |
| JUN 18 1986 RETD | |
| AUG 6 1986 | |
| AUG 8 1986 | |
| AUG 15 1986 | |
| AUG 21 1986 | |
| AUG 23 1986 | |
| SEP 8 1986 | |
| SEP 9 1986 | |
| SEP 15 1986 RETD | |
| NOV 18 1986 | |
| JAN 19 1993 RETD BA | |