

ANNUAL

ANNUAL REPORTS

PAY'n PAK Stores, Inc 1982

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# PAY<sup>n</sup>PAK

STORES, INC.

## *Fiscal 1982* **ANNUAL REPORT**

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# REPORT TO THE SHAREHOLDERS

Fiscal 1982 was a very good year for Pay 'N Pak in spite of a soft economy and extremely high interest rates. It marked the twelfth consecutive year of increased sales and earnings for your company, and we point with pride to the fact that there are few home center chains that can boast of such a high quality consistent sales and earnings performance.

Revenues for fiscal 1982 were \$180,973,899, an increase of 19% over last year. Net income was \$7,198,966 compared to \$6,448,801 in fiscal 1981, an increase of 12%. Net income per share for fiscal 1982 was \$1.63 on the 4,426,342 shares outstanding as compared to \$1.46 per share the previous year, an increase of 12%. Earnings growth did not keep up with sales growth percentage-wise due to extremely high interest rates resulting in high borrowing costs for the company.

One of the outstanding achievements for the year was store-for-store (three years old and older) sales results. They were up 15.1% this year as compared to an increase of only 2.6% last year. This is an accurate reflection of your company's sales and merchandising policies.

Continuing the board of directors policy of increasing dividends for the benefit of our shareholders as earnings increase, quarterly dividends totaling \$.76 per share

were paid out during fiscal 1982 as compared to \$.68 the previous year. Also, on April 29, 1982, the company paid a 10% stock dividend, bringing our total shares outstanding to 4,868,976.

During the past year new stores were opened in Medford and Pendleton, Oregon; in Sacramento, California, (the fourth store in that market); and in Wichita, Kansas, (the second store in that city). These four stores added a total of 79,241 square feet bringing our total square footage to 1,890,773 at year end. We purposely opened fewer stores than we have in the past because we felt it prudent to slow our expansion and conserve capital until interest rates come down and the general economy improves. For fiscal 1983 we are already committed to new stores in Sioux City, Iowa; Scottsbluff, Nebraska; Carson City, Nevada; and Rancho Cordova, California—a suburb of Sacramento. We continue to search for attractive locations for additional stores.

Our next major expansion will be in the sunbelt area of Texas and neighboring states, beginning with a few stores to be serviced out of our Denver, Colorado warehouse. When ten to twelve stores have been established, we will then add a distribution center in the Dallas/Fort Worth area. We feel that market plus the area in some

surrounding states has the potential for 50-75 stores.

In January of this year your board of directors approved management's recommendation that we discontinue the company's automotive and sporting goods departments. Auto and sporting goods merchandise was carried in only eleven of our larger stores and consequently we did not have a purchasing advantage over our competition. Additionally, those departments diverted too much of management's attention from our basic home center business, and while profitable, auto and sporting goods margins were significantly below the total company average. Store space freed up (approximately 9,000 selling square feet per store) will be utilized to expand kitchen and bathroom display areas, and to offer added lines of building materials such as dimensional lumber, paneling, molding, plywood and roofing materials. We feel that we can easily replace the auto and sporting goods sales volume with less seasonal, more profitable, do-it-yourself home center items.

Many of our shareholders have asked why we are doing so well in this difficult retail environment. Simply put—we think we are in an excellent business. People are proud of their homes and want or need to



Ten Year Summary of Growth Highlights

	1982	1981	1980	1979
OPERATIONS				
Revenues	\$180,973,899	\$151,765,190	\$138,361,294	\$117,688,090
Income before federal and state taxes	13,048,796	11,575,328	11,470,982	10,199,489
Net income	7,198,966	6,448,801	6,312,882	5,402,926
COMMON STOCK				
Average number of common shares	4,426,342	4,426,342	4,426,342	4,053,934
Net income per common share (3)	\$1.63	\$1.46	\$1.43	\$1.33
Stock dividends and stock splits			20%	33 1/3%
Cash dividend paid per common share (3)	\$.76	\$.68	\$.60	\$.50
FINANCIAL POSITION (End of year)				
Total assets	\$ 97,799,523	\$ 90,273,374	\$ 81,901,914	\$ 70,313,715
Stockholders' equity	\$ 40,162,336	\$ 36,213,472	\$ 32,224,484	\$ 28,227,556
Return on stockholders' equity	19.9%	20.0%	22.4%	32.9%
Shares of common stock outstanding (end of year)	4,426,342	4,426,342	4,426,342	4,426,342
Net book value per share	\$9.07	\$8.18	\$7.39 (1)	\$6.61(1)
Long term debt	\$ 26,470,343	\$ 27,978,640	\$ 28,680,119	\$ 23,848,328
STORES IN OPERATION				
Number of stores open	88	84	78	70
Number of stores sold or closed	0	0	0	1
Stores replaced with new stores	0	0	1	1
Number of states in which we operated	15	15	15	14
Square footage of stores	1,890,773	1,811,532	1,688,494	1,496,787
Average square footage per store	21,486	21,566	21,647	21,383
Average annual inventory in stores	\$ 36,246,814	\$ 31,418,743	\$ 28,609,679	\$ 23,302,096
Average annual inventory total (includes warehouses)	\$ 53,429,386	\$ 43,723,548	\$ 39,143,118	\$ 31,253,285
STORE AVERAGES				
Average sales per store	\$ 2,049,849	\$ 1,805,760	\$ 1,767,908	\$ 1,676,308
Number of customers served	6,941,182	6,415,206	5,928,176	5,468,777
Average customer purchase	\$25.99	\$23.64	\$23.26	\$21.52
Sales per square foot	\$95.40	\$83.73	\$81.67	\$78.63
Sales per full time employee (end of year)	\$ 151,331	\$ 138,650	\$ 128,635	\$ 113,489

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

After giving retroactive effect to the 10% stock dividend paid to shareholders on April 29, 1982:

Average number of common shares	4,868,976	4,868,976	4,868,976	4,459,327
Net income on common share	\$1.48	\$1.32	\$1.30	\$1.21
Cash dividend paid per common share	\$.691	\$.618	\$.545	\$.455
Shares of common stock outstanding	4,868,976	4,868,976	4,868,976	4,868,976
Net book value per share	\$8.25	\$7.44	\$6.72 (1)	\$6.01(1)

Years ended February 28 or 29

1978	1977	1976	1975	1974	1973
\$98,051,888	\$80,642,749	\$73,279,952	\$61,470,839	\$51,893,886	\$42,396,952
7,882,339	5,463,526	4,604,566	4,070,713	3,437,538	2,808,639
4,006,465(2)	2,871,128	2,429,974	2,113,438	1,763,378	1,394,451
3,862,343	3,862,343	3,986,130	4,010,888	4,010,888	3,974,344
\$1.04(2)	\$.74	\$.61	\$.53	\$.44	\$.35
50%	10%	10%			
\$ .344	\$ .225	\$ .175	\$ .121	\$ .086	\$ .054
\$50,483,429	\$45,833,216	\$39,126,568	\$33,155,258	\$29,730,370	\$27,136,642
\$16,446,885	\$13,566,305	\$11,616,885	\$12,081,360	\$10,451,328	\$ 9,033,240
29.5%	24.7%	20.1%	20.2%	19.5%	18.1%
3,862,343	3,862,343	3,862,343	4,010,888	4,010,888	4,010,888
\$4.53 (1)	\$3.80 (1)	\$3.32 (1)	\$3.01	\$2.61	\$2.25
\$18,467,381	\$19,124,915	\$17,721,561	\$12,518,834	\$12,070,882	\$ 6,555,256
65	60	55	50	44	40
0	0	3	1	1	1
1	2	2	0	3	5
13	13	11	11	11	11
1,365,182	1,260,769	1,144,847	1,030,808	890,527	783,588
21,003	21,013	20,815	20,616	20,239	19,590
\$20,226,001	\$17,951,974	\$14,814,718	\$13,603,679	\$13,714,778	\$10,645,251
\$24,616,742	\$21,007,255	\$16,846,580	\$14,825,123	\$14,723,192	\$11,195,251
\$ 1,507,697	\$ 1,343,207	\$ 1,331,308	\$ 1,227,593	\$ 1,178,003	\$ 1,058,304
4,979,781	4,419,596	4,104,371	3,647,036	3,251,000	2,849,000
\$19.69	\$18.25	\$17.85	\$16.86	\$15.96	\$14.88
\$71.82	\$63.96	\$64.01	\$59.63	\$58.27	\$54.11
\$ 115,084	\$ 108,536	\$ 103,502	\$ 88,320	\$ 91,523	\$ 83,294

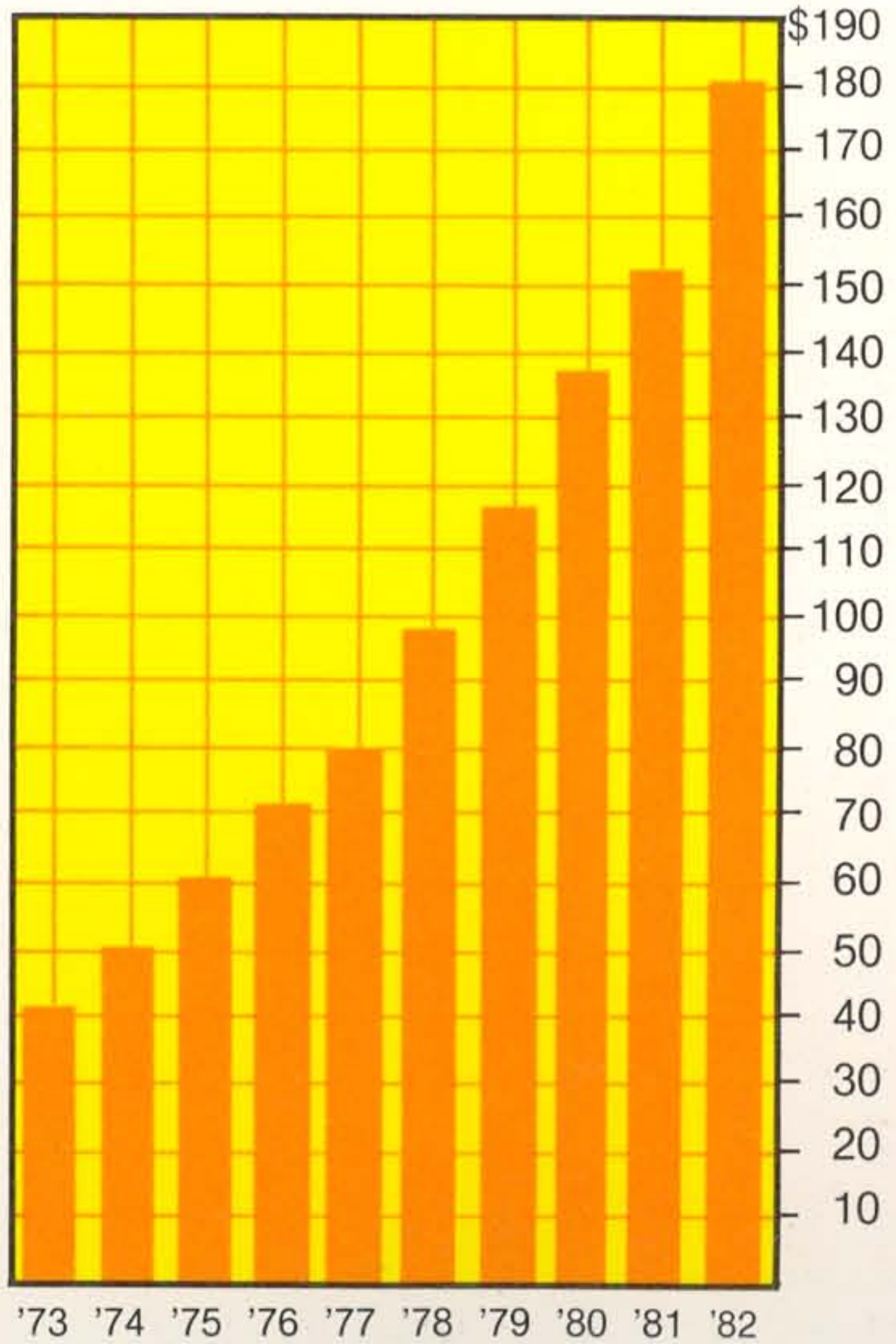
PAY 'N PAK STORES, INC.

Pay 'N Pak Stores, Inc. is a specialty retailer selling home improvement products to the do-it-yourselfer on a cash and carry basis.

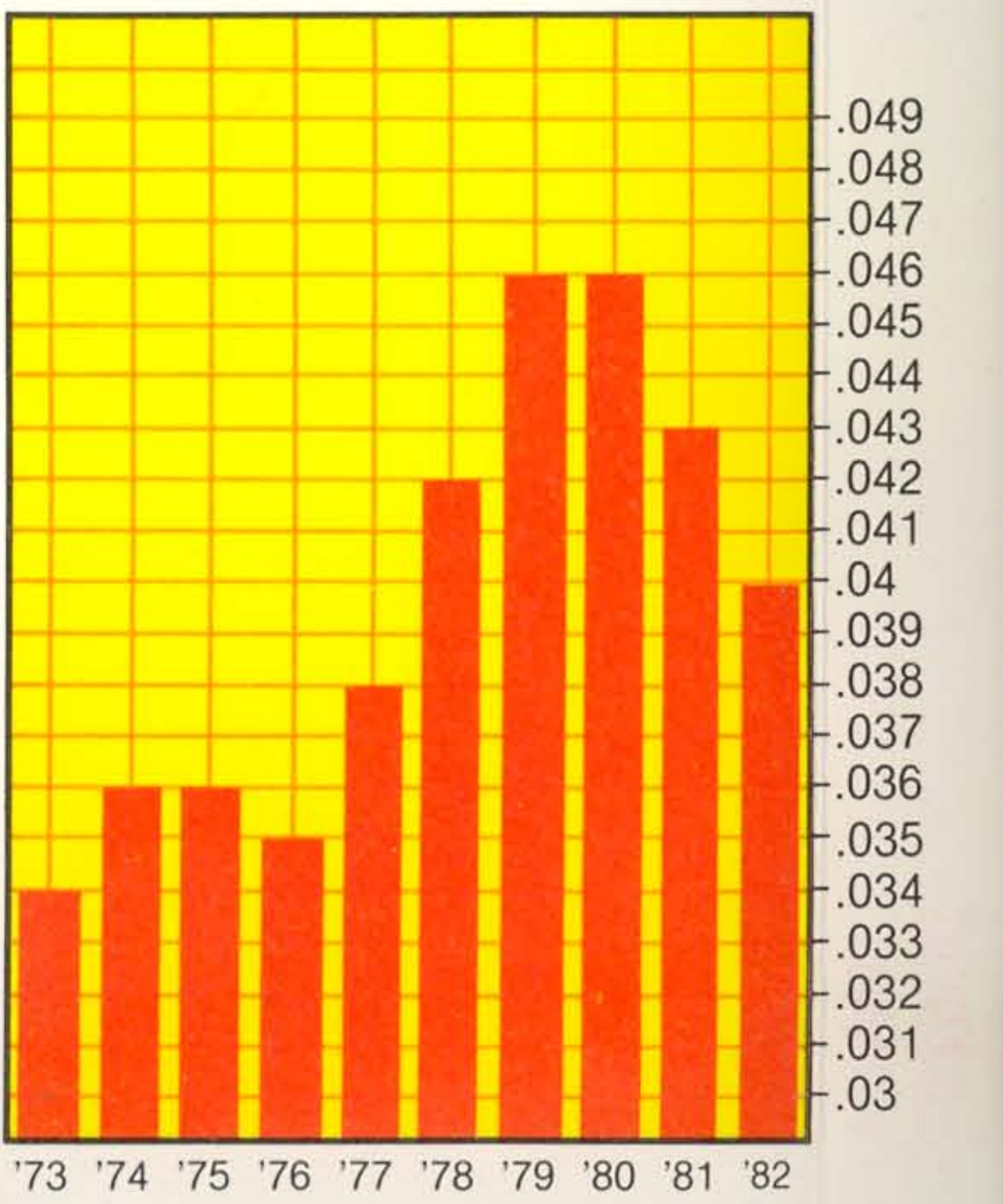
We operate 88 stores in 71 cities located in 15 Western and Midwestern states.

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

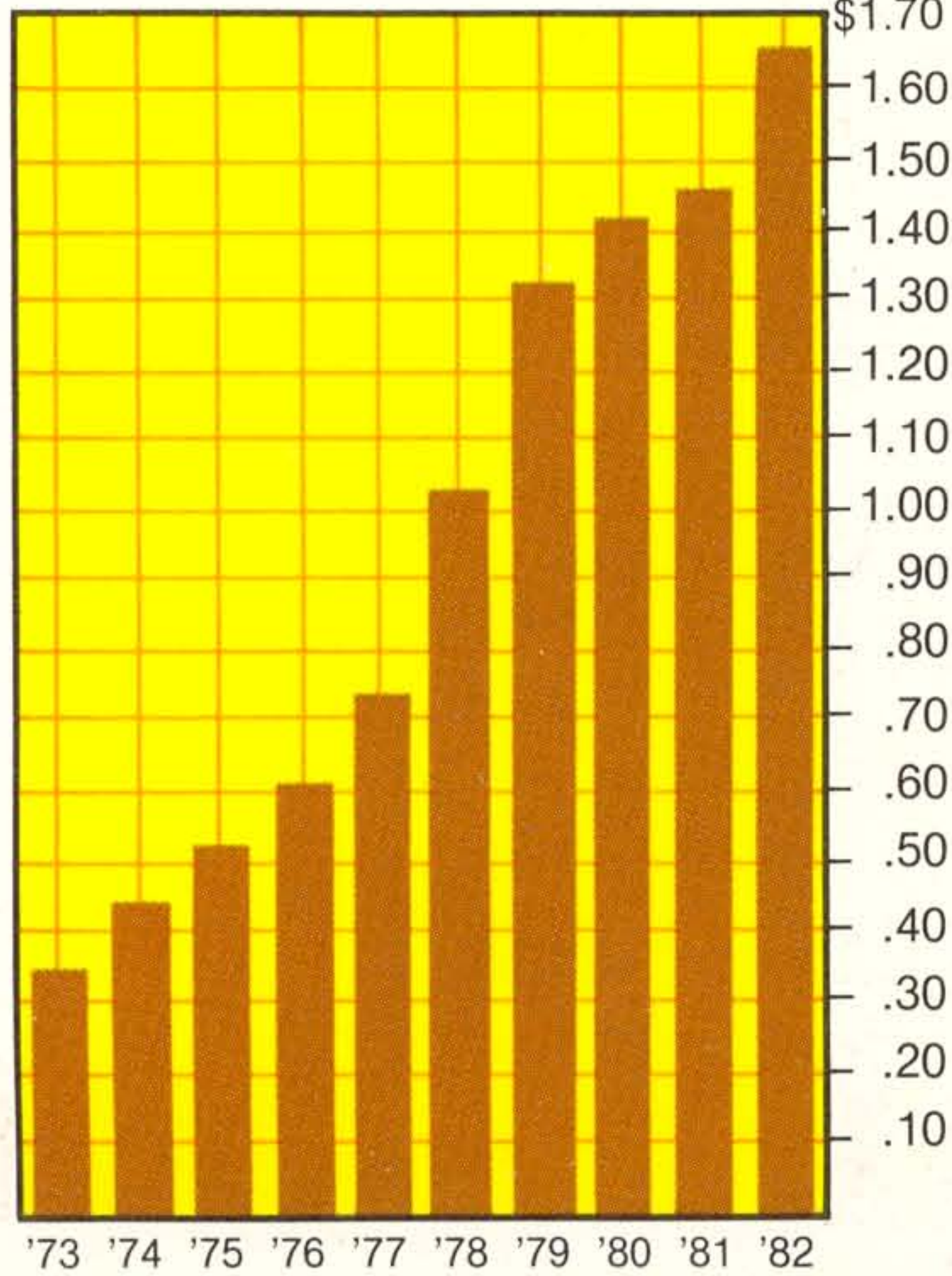
REVENUES (in millions)



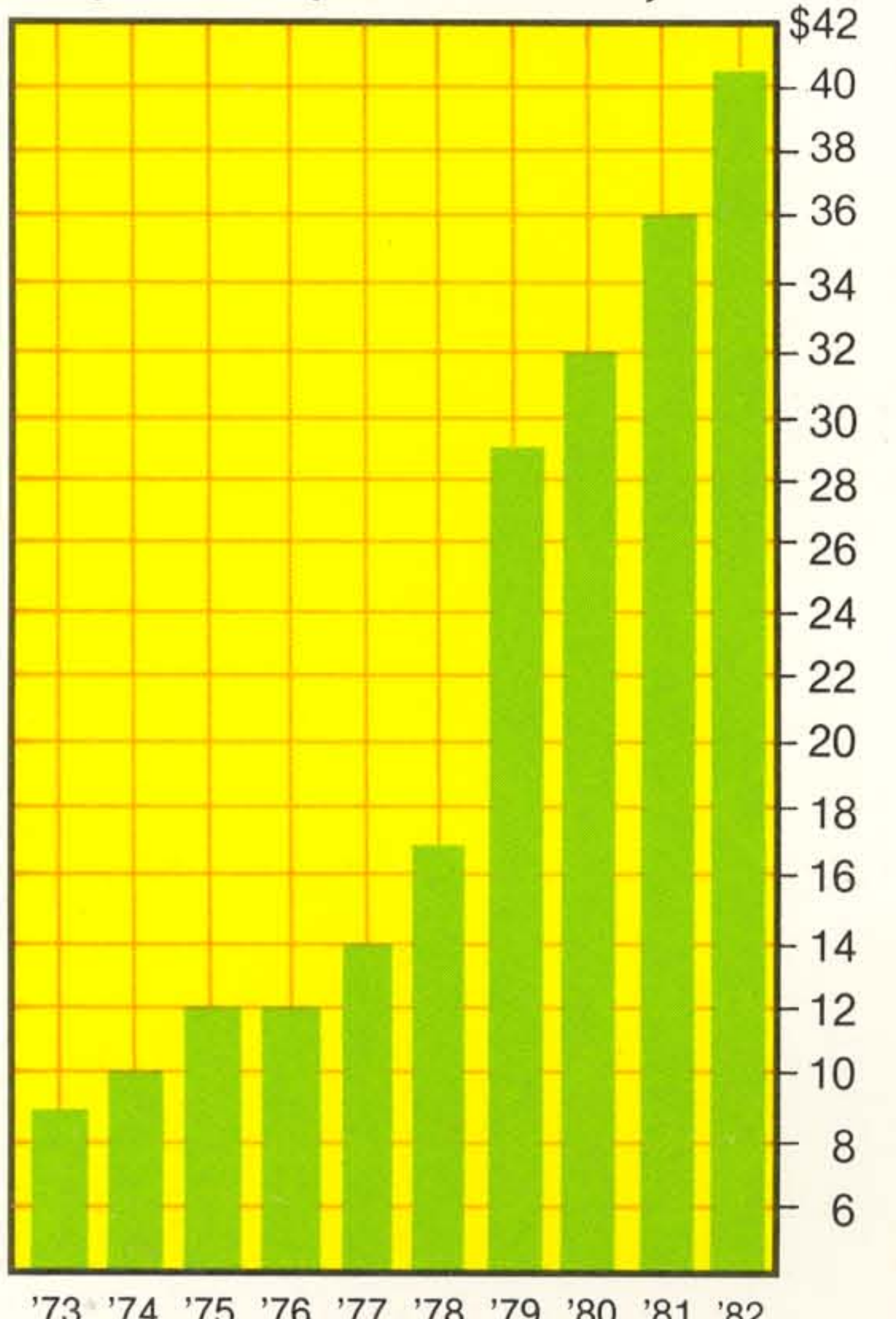
NET INCOME AS A PERCENT OF SALES



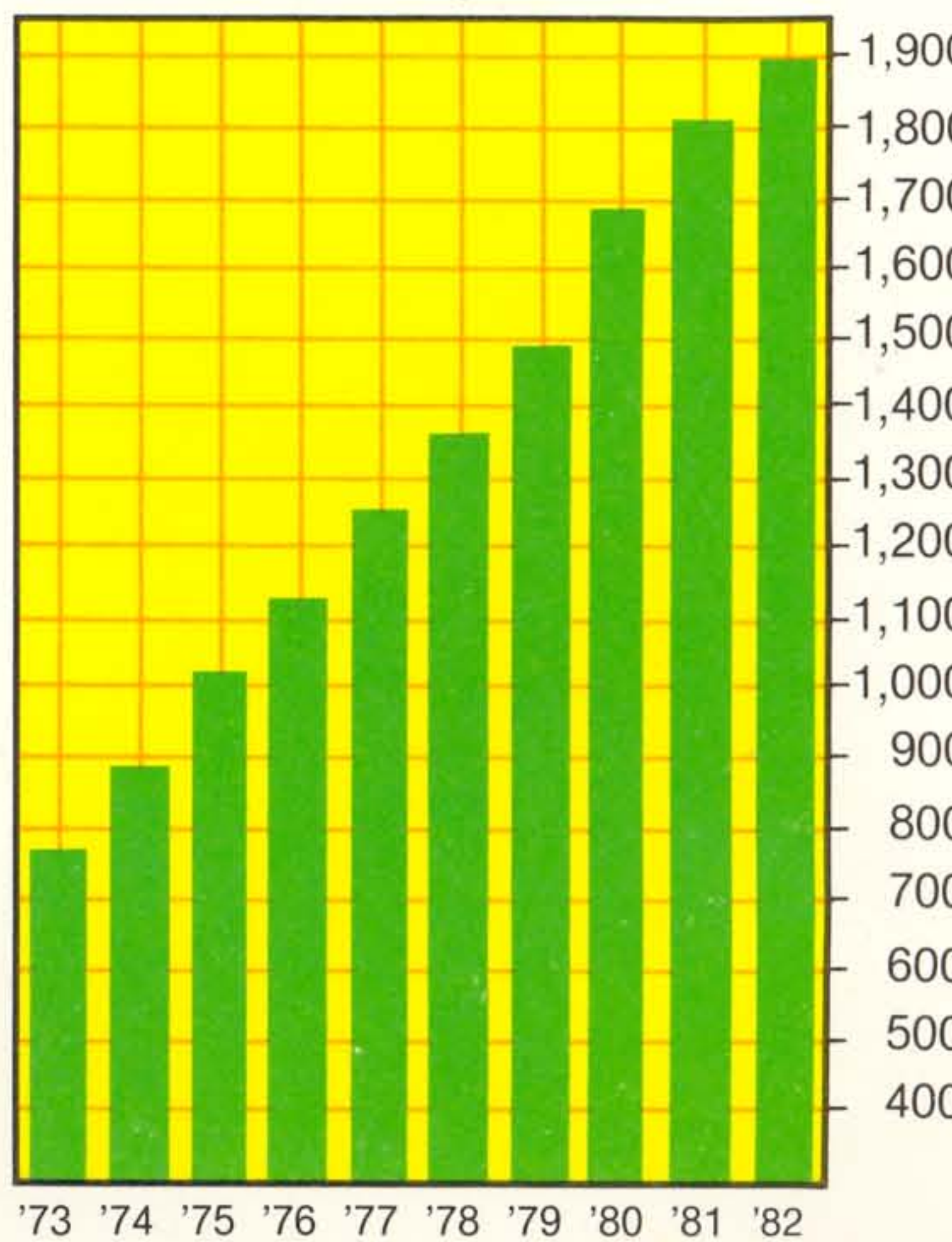
EARNINGS PER SHARE



STOCKHOLDERS' EQUITY (in millions)



STORES SQUARE FOOTAGE (in thousands)





keep them up or improve them. Plumbers, electricians, carpenters and other tradesmen are very expensive, so people are doing more and more work themselves. We sell 98% of our merchandise to the do-it-yourselfer, and we sell for cash. Most of our customers are in the 24-45 age group, and recent census figures show that the Western states, in which we operate, contain the largest percentage of that age group. And approximately 85% own their own homes and most do their home improvement and repair projects themselves.

We have the market to appeal to, and our buyers work very hard to make special buys to provide us good items to advertise. This, of course, creates store traffic.

Our central warehousing system also enables us to offer our customers better prices, and to have a better in-stock position than do our competitors. Two-thirds of our merchandise is shipped out of our two distribution centers (one in Kent, Washington and one in Denver, Colorado) on our own trucks on a weekly basis to all stores.

During the past year we instituted the use of television advertising in 60% of our marketing area. It complemented our regular newspaper and tabloid promotion, and sales results were better than ever.

We have attractive stores, top-flight buyers, excellent warehousing and fine advertising-but to make it all come together, we need a knowledgeable, well-trained, hard-working sales force-and we have it. We spend much time and money on our training program, and proof of the effectiveness of our program is the fact that we achieved \$151,331 average sales per employee during the past year. That is why store-for-store sales in our mature outlets were up so strongly.

Your company is in excellent financial condition and we look forward to another good year, assuming a reasonably good economy. We appreciate the support that our shareholders have given us, and management thanks the people of Pay 'N Pak for their continuing fine effort on behalf of the company.

# THE BOARD OF DIRECTORS



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



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



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



**Monte A. Leen** *Executive Vice President*



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



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

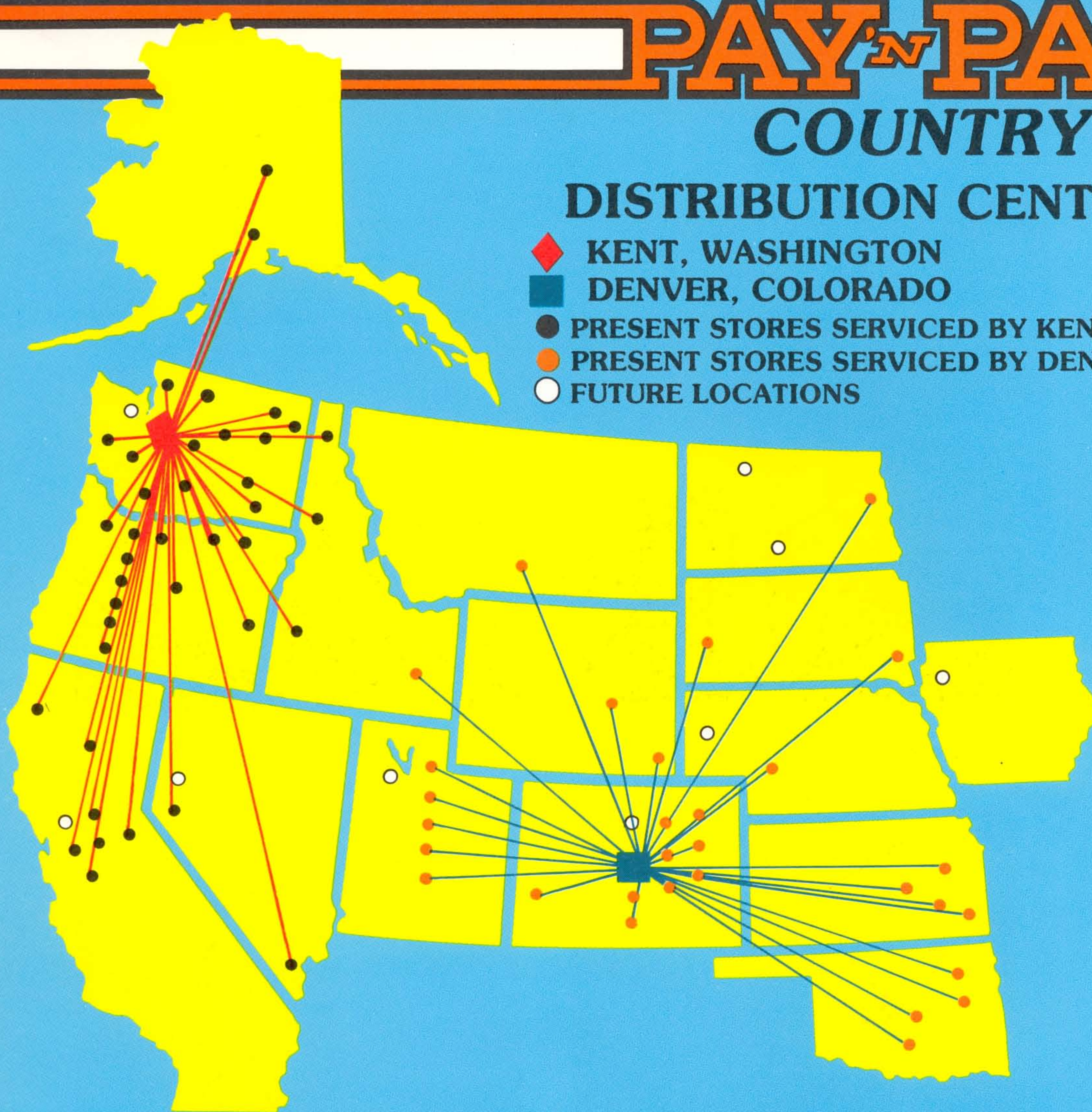


# PAY-N-PAK

## COUNTRY

### DISTRIBUTION CENTERS

- ◆ KENT, WASHINGTON
- DENVER, COLORADO
- PRESENT STORES SERVICED BY KENT
- PRESENT STORES SERVICED BY DENVER
- FUTURE LOCATIONS



#### ALASKA

- Anchorage
- Fairbanks

#### CALIFORNIA

- Eureka
- Rancho Cordova
- Redding
- Roseville
- Yuba City
- Sacramento (3)

#### COLORADO

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

#### IDAHO

- Boise
- Coeur d'Alene
- Lewiston
- Pocatello

#### IOWA

- Sioux City

#### KANSAS

- Hutchinson
- Topeka
- Wichita (2)

#### MONTANA

- Billings

#### NEBRASKA

- North Platte
- Scottsbluff

#### NEVADA

- Carson City
- Las Vegas
- Reno

#### NORTH DAKOTA

- Grand Forks
- Bismarck
- Minot

#### OKLAHOMA

- Oklahoma City (2)
- Tulsa (2)

#### OREGON

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

#### SOUTH DAKOTA

- Rapid City
- Sioux Falls

#### UTAH

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

#### WASHINGTON

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

#### WYOMING

- Casper
- Cheyenne

### OFFICERS, STAFF AND ASSISTANTS:

David J. Heerensperger, Chairman of the Board and Chief Executive Officer; Jerry L. Marlow, President and Chief Operating Officer; Monte A. Leen, Executive Vice-President; Halvor Knudtson, Jr., Secretary-Treasurer and Controller; Victor W. Crosswhite, Vice-President and Director of Purchasing; Peter W. Gallina, Vice-President Real Estate and Store Development; Calvin E. Karbowski, Vice-President Distribution.

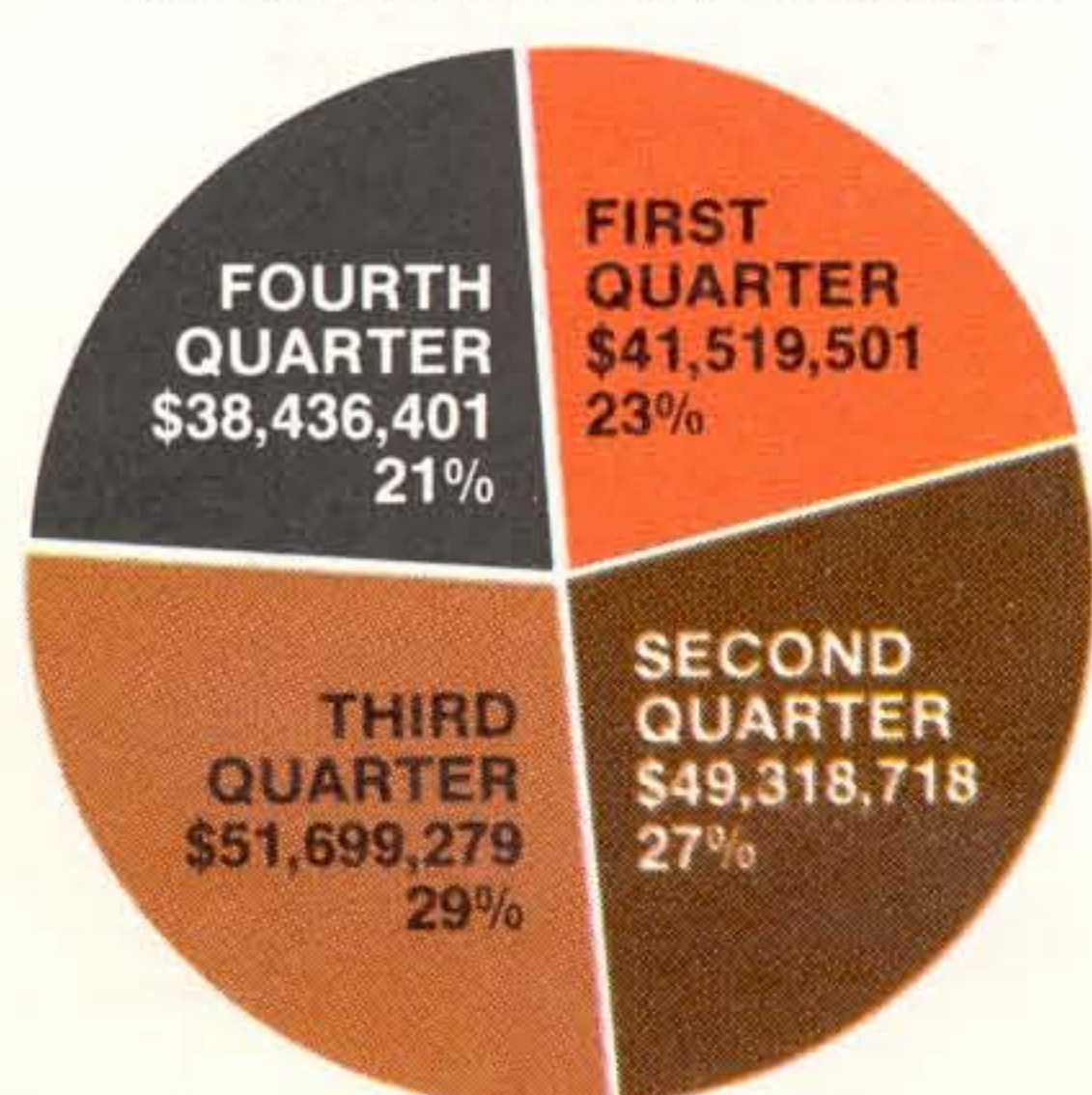
### DISTRICT MANAGERS:

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

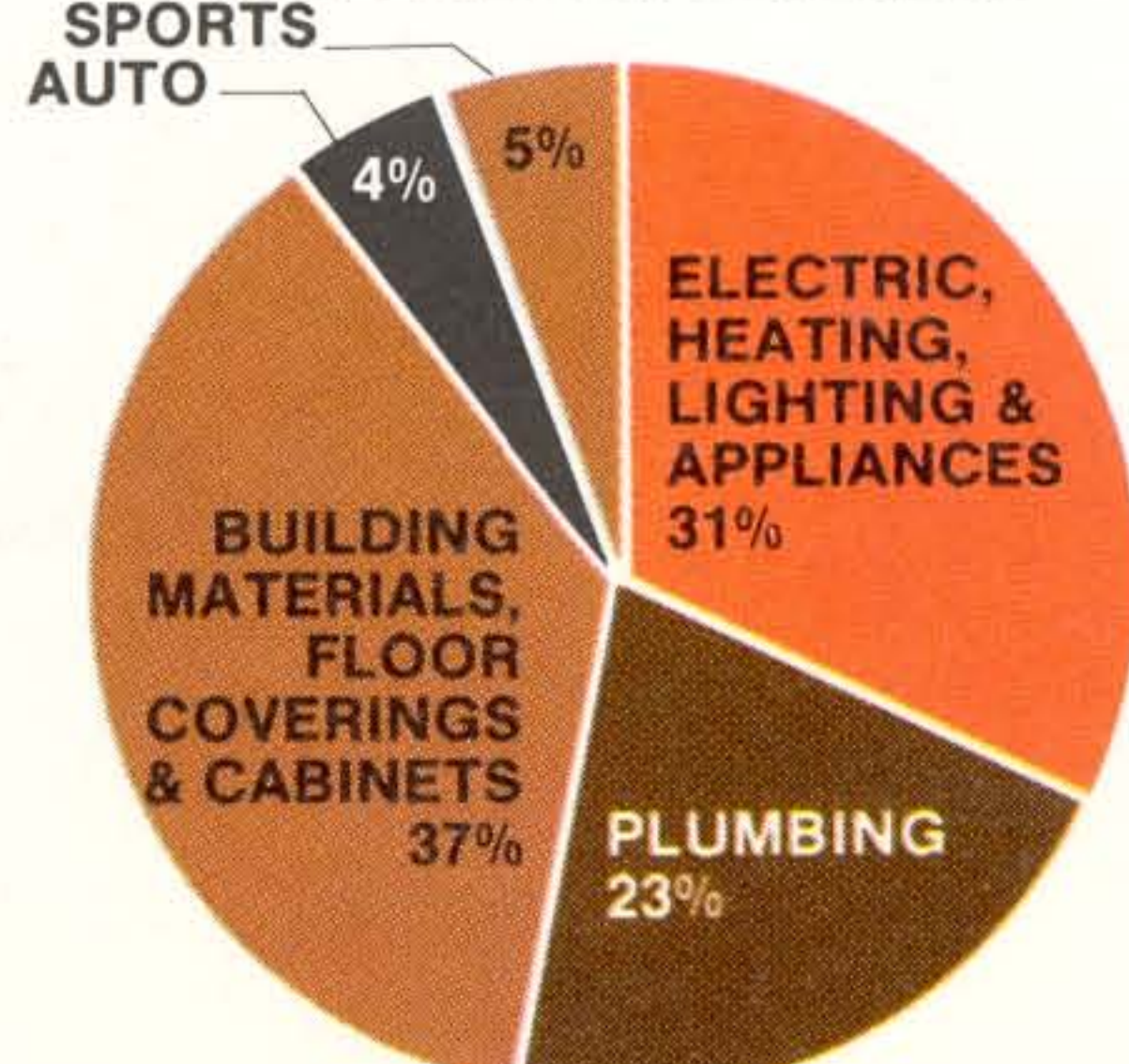
### STAFF AND ASSISTANTS:

Ed Ackelson, Purchasing; Chris Allie, Assistant Training Director; Ralph Beniasch, Purchasing; Doug Brown, Advertising Assistant; Barbara Collett, Personnel Director; Rod Cosgriff, Purchasing; Larry Elliott, Purchasing; William Gottbreht, Office Manager; Jan Harris, Purchasing; Sam Heerensperger, Purchasing; Marvin Iverson, Construction Director; Marry Ann Johnson, Accounts Payable; Bud Larson, Purchasing; Lynn Linke, Data Entry; Herbert McCleary, Advertising Director; Tom McCloskey, Assistant Controller; Paul Morris, Planning Design Director; Candy Scott, Accounting; Neva Sills, Sales Audit; George Smith, Training Director; Sibyl Tice, Administrative; Jo Tien, Purchasing Coordinator; Steve Unash, Merchandising Director; Barry Wong, Data Processing Manager.

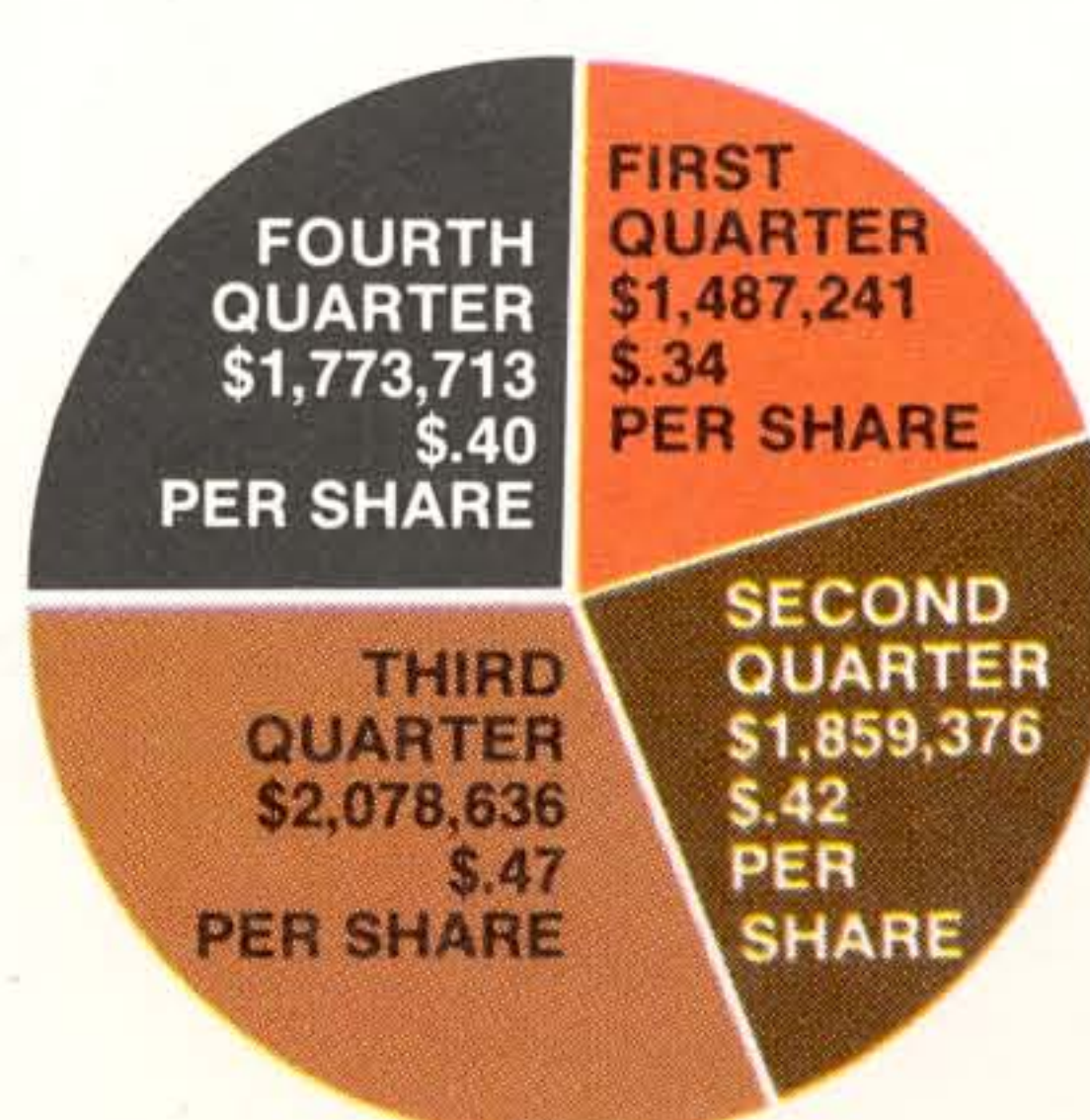
1982 REVENUES BY QUARTER



1982 SALES BY CATEGORY



1982 EARNINGS BY QUARTER





At the heart of the success of Pay 'N Pak is our merchandising strategy: developed over the past 25 years, it is continually being refined.

Our strategy begins with buying quality merchandise. Buying it in large quantities to get the best possible price. And buying it direct from the manufacturer to gain an even better price advantage by doing away with the middleman. (Today, more than 90 percent of our merchandise is bought direct.)

Serving as the hub for this strategy are the company's two warehouses: one in Kent, Washington, serving all of the West Coast and the other in Denver, Colorado, serving our Midwest stores. Together, they allow us to take full advantage of buying direct and in large volume.

Finally, we feature sparkling displays of the merchandise in our stores, creating complete bathrooms and kitchens to give the customer a feel for how the merchandise will actually look in a home setting.

Backing up this strategy are the people of Pay 'N Pak. They provide an intangible resource of which we are very proud. This includes not only our corporate staff, but every employee at every level.

Pay 'N Pak offers top grade merchandise at very competitive prices. Walk through a store, and you'll find the top names in electrical and plumbing supplies, such as Kohler, Waste King, Stanley, and Black & Decker, as well as General Electric and Sylvania light bulbs. In addition, our volume is so great that we often purchase merchandise that is designed and built to our specifications; sometimes it even carries the Pay 'N Pak brand.

We don't stop with major plumbing and electrical merchandise. We pride ourselves on also stocking all the other items that a do-it-yourselfer will need to complete a project. Partly this is a service to our customers. But it also makes good business sense: these add-on items are usually very profitable.

If there is a key to the success of our strategy--a strategy that has allowed us to grow consistently over the years--it has been Pay 'N Pak's continuing ability to offer high quality merchandise at competitive prices and still maintain a healthy profit margin.

This is not a matter of luck. It's the result of a thorough analysis of consumer needs, followed by high-volume buying of merchandise at the best possible price.

Our seven purchasing agents are constantly shopping for new items and better prices. Besides buying in the United States, our agents visit Asia three or four times a year, where we gain significant price breaks by ordering entire container loads.

Pay 'N Pak stores give consumers a wide choice of goods. In many cases, we actually show them how the merchandise will look in their homes by building room displays. These displays are one of the most popular features in our stores and include seven model bathrooms and four model kitchens.

During the 1983 fiscal year, 11 stores will be remodeled into super stores that will be complete home centers. Each one will provide customers with lumber, roofing, millwork, paint, a more complete selection of hardware and enlarged kitchen and bathroom displays.

## Masters of



## Merchandising

*In the 12 years since Pay 'N Pak Stores merged into their present corporate structure, they have shown consistent growth, even in times when the economy has been impotent at best. This has not happened as a matter of mere chance, but through developing a merchandising strategy that allows the company to be successful regardless of the economic times.*





## Choice and more choice

Pay 'N Pak has always been a leader in making new products available to the consumer. Today, each store offers a selection of some 600 different lighting fixtures and over 7000 different electrical, plumbing, and building material items.

While 60 percent of our business is done in the electrical and plumbing trade, we are constantly making changes in the rest of our product mix. For example, we are adding lines of building materials such as dimensional lumber, paneling, molding, plywood and roofing materials, and we added a selection of modestly priced furniture that has been very popular, especially with younger families.

## Keeping a high profile

But merchandising is only a part of Pay 'N Pak's profit picture. We also make sure that Pay 'N Pak

stores are highly visible in their market areas. Again, this is not a matter of luck. It's the result of careful planning and the use of newspaper and television advertising designed to create a strong image in the community.

Most of our stores are located in small and mid-sized cities, since these stores tend to turn a profit more rapidly than a store in a larger market. In a city of 50,000 to 70,000 population, a single store of 18,000 to 21,000 square feet is enough to give Pay 'N Pak a dominant position. In larger cities, like Seattle or Portland, we strategically group several stores around the city to achieve dominance and advertising economies.

In smaller cities, the advertising rates are low. In larger cities, the higher costs are spread over a number of stores. Either way, it allows Pay 'N Pak to run large newspaper ads each week, giving our stores a very strong competitive edge.

## Adding more stores

During the past fiscal year we opened four new stores. This year we plan to open five or six more. As a result, the Pay 'N Pak chain will grow to approximately 94 stores in the Western and Midwestern United States.

In the past, we have built some of our own stores. However, it is usually less expensive to lease old supermarkets than it is to build new stores. This has proved to be an advantageous strategy. For one thing, grocery chains prefer us as a tenant because we will not be in competition with them. Another advantage is the fact that these stores allow us to open approximately 120 days after signing a lease. They also have established traffic patterns with abundant parking.

Today, store sizes average 21,000 square feet compared with only 12,500 square feet back in 1972.





## A bold new look

Last year, we finished giving a colorful new look to all of our stores. Their visual impact has dramatically improved. The new graphic design was produced in house, by our store development department.

The graphics are more than just decoration. They also help direct customers to various sections of the store. The nature of the design and the materials used resulted in quick completion of the job, as well as adaptability for future changes. Customers have reacted favorably to the new look, and employees display a sense of pride in the improved appearance of their stores.

However, even the finest merchandise at the best prices in high-traffic areas will not sell itself. That's where the Pay 'N Pak sales team has made a significant contribution to our profit picture.





## **We're proud of our people**

Our sales force brings enthusiasm to the floor. But that's not all. They also have the expertise it takes to give customers the confidence they need to succeed--even with the most complex do-it-yourself projects--and then come back for more. We believe that's a major reason why Pay 'N Pak has shown continued and consistent growth.

We're proud of the quality of people who work for Pay 'N Pak stores. We work hard to attract them, and work even harder to keep them. As a result, we enjoy a remarkably low turnover rate.

There are two major reasons for this low turnover rate: we reward our employees with above average wages and excellent benefits, and we encourage each employee to expand his or her talents through our extensive training program.

### **A fair day's pay--and then some**

In addition to a strong medical and dental plan, we pay generous bonuses based on store sales and company profits. A full third of our people currently qualify for our Employee Stock Ownership Plan, which gives each vested member of the plan up to \$3,000 worth of company stock annually, totally paid for by the company and held in trust until the employee retires. We're convinced that when employees are also stockholders they have far more interest in doing a good job and are far more productive.

It is interesting to note that each one of our store managers and 90% of the staff members have come up through the ranks. Partly it's because we hire quality people to start with. But we also think it's because we help them become even better by providing one the the most professional training programs in the business.

### **Training for success**

Starting with their first day on the job, we train our people to be successful. Every Saturday morning the manager of each store holds a meeting at which some aspect of

training is covered. Finally, our training teams follow-up with regular visits to each store.

It is a complex job, especially when you consider how widely dispersed our stores are. To see that all of our people get their fair share of training, we have developed a unique "distribution system". It includes a Greyhound bus-type training coach that travels from store to store giving on-the-spot training. Last year alone, it logged 4115 hours training 1725 people.

To aid this training program, the company has produced 35 films on various products and do-it-yourself techniques. Each store has a "theater" where employees can study films at their leisure. After each film they are tested. The results then go into their training records at headquarters.

At the store level, managers also have a program that enables them to prepare employees for advancement to management positions such as assistant managers and "third persons". They can also use it to prepare themselves for a step up to a larger store.

### **Managers who know how**

Our managers are the focal point for each store, and we try to give them every opportunity to develop their entrepreneurial skills. At the same time, we back them up with strong centralized purchasing, marketing, and accounting.

Store managers are given flexibility, for example, in ordering and buying merchandise for their own stores. We also rely on their help in making changes in our merchandising mix, depth of inventory, and advertising approach.

Managers' meetings are held at least three times each year, conducted by a district manager and the president of Pay 'N Pak Stores. In addition, the headquarters staff meets three or four times each year with a special merchandising committee of store managers and purchasing agents to exchange information.

Each store manager reports to one of nine district managers. This system provides a two-way com-

munication link between each store and the home office. We stay in touch.

### **Advertising that works**

Pay 'N Pak relies strongly on aggressive advertising to draw people's attention to our merchandise and prices. Besides our regularly scheduled weekly ads (mentioned earlier) we run a pre-printed tabloid section four times a year. This special advertising insert appears in over 70 newspapers, giving us a total circulation of 6 million per issue.

Our print advertising is prepared by our own advertising department. By having complete control over the production of our ads, we can make last-minute changes as a matter of routine.

During the last fiscal year we began using television commercials for the first time. Their success enhanced our positive image which resulted in increased sales as evidenced by our record sales in November.

To keep track of our marketing and sales data, we have our own IBM System 38 computer. It has been instrumental in helping us spot new trends so that we can make adjustments quickly. As good as the System 38 is--and it will become even more efficient in the future--there is no substitute for direct input from the field. That's one reason why district managers visit each store at least once a month.

### **What makes the difference**

Why is Pay 'N Pak so successful?

Is it just the merchandise? Other stores sell the same products that Pay 'N Pak does.

Does our data processing department give us the edge? Other companies have access to the same and even more sophisticated equipment, yet they still can't compete with us.

Perhaps it's our trucks and warehouses. But anyone can buy trucks and warehouses.

In the final analysis, there are just two things that really make Pay 'N Pak perform consistently and profitably. First, we have talented people who are dedicated to making Pay 'N Pak number one. Second, we have a merchandising strategy that works. And it works because right down the line--from top to bottom--the people at Pay 'N Pak are masters of merchandising.

And that's the bottom line.







## MARKET AND DIVIDEND INFORMATION

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

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

The stock of Pay 'N Pak Stores, Inc. is traded actively in the over-the-counter (OTC) market. Prices are quoted on NASDAQ and published daily in the financial pages of many daily newspapers. As of May 1, 1982, there were approximately 2,377 holders of record of the Company's common stock.

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

### NASDAQ Symbol PAYP

#### Quarterly High and Low Bid Prices

(Asked prices are approximately 1/2 point more)

Years ended February 28	Last Two Fiscal Years	
	1982	1981
1st quarter	\$ 15 1/4-12 1/8	\$ 12 1/2-8 7/8
2nd quarter	\$ 16 3/8-13 1/2	\$ 14-11
3rd quarter	\$ 13 5/8-12	\$ 13 1/2-10 1/8
4th quarter	\$ 14-12 1/4	\$ 12 3/4-9 1/4

#### Quarterly Dividends

Years ended February 28	1982	1981
1st quarter	\$.173	\$.155
2nd quarter	\$.173	\$.155
3rd quarter	\$.173	\$.155
4th quarter	\$.173	\$.155

*The quarterly dividends have been adjusted for a 10% stock dividend paid April 29, 1982.*

<b>Auditors</b> Arthur Young & Company Seattle, Washington	<b>Transfer Agent and Registrar</b> Security Pacific National Bank Los Angeles, California	<b>Banks</b> Peoples National Bank of Washington, Seattle, Washington
	<b>Legal Counsel</b> Davis, Wright, Todd, Riese & Jones Seattle, Washington	Old National Bank of Washington Spokane, Washington

### Notice of Annual Meeting of Stockholders

The annual meeting of stockholders of Pay 'N Pak Stores, Inc. will be held on June 15, 1982, at 11 o'clock a.m., at the Marriott Hotel, 3201 South 176th St., Seattle, Washington.

## FINANCIAL STATEMENTS

### Responsibility for Financial Statements

The accompanying consolidated balance sheets of Pay 'N Pak Stores, Inc. at February 28, 1982 and 1981 and the related statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended February 28, 1982, were prepared by the management in conformance with generally accepted accounting principles appropriate in the circumstances.

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

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

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



David J. Heerensperger  
Chairman of the Board



# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-K

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

For the fiscal year ended February 28, 1982  
Commission file number 0-4967

## PAY 'N PAK STORES, INC.

Washington  
(State of incorporation)

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

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

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

Title of each class  
None

Name of each exchange  
on which registered  
None

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

Common Stock

(Title of Class)

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

Yes X

No \_\_\_\_\_

Aggregate market value of common stock held by nonaffiliates at April 30, 1982-\$64,704,020.

Common stock outstanding at May 12, 1982 - 4,868,976 shares.

### DOCUMENTS INCORPORATED BY REFERENCE

Annual Report to security holders for fiscal year ended February 28, 1982, is incorporated into Part II.

Proxy statement dated May 12, 1982 in connection with Annual Meeting of Shareholders to be held on June 15, 1982, 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. During the past fiscal year, the Company opened four new stores and currently operates 88 stores in 15 states, all west of the Mississippi River, although half of the stores are located in the Pacific Northwest, with 32 stores in Washington and 12 stores in Oregon.



# **ITEM I - Business, continued**

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

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

The Company's marketing efforts are primarily directed toward homeowners and other do-it-yourself customers. The Company estimates that over 98% of sales of home improvement products were made to do-it-yourself customers in fiscal 1982, with professional builders and others accounting for less than 2%.

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

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
Electrical .....	32%	31%	33%	32%	31%
Plumbing .....	26	25	24	24	23
Building Materials .....	30	33	33	34	37
Automotive .....	6	6	5	5	4
Sporting Goods .....	6	5	5	5	5
Total .....	100%	100%	100%	100%	100%

The Company uses modern merchandising and marketing techniques in the operation of its retail stores. Store 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 manufactures' standard merchandise and some of which is designed and manufactured to the Company's specifications. The Company attempts to charge competitive prices with respect to the merchandise sold through its stores, particularly on high volume, commodity products. Such pricing is facilitated by the Company's ability to purchase certain products in volume directly from manufacturers. Sales are predominantly on a cash and carry basis, which includes sales made through the use of bank credit cards by customers. To a limited extent, goods are also sold under installment sales contracts which are in turn sold to finance companies on a nonrecourse basis. The Company estimates that during fiscal 1982, 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, 1982, the Company opened new stores in Medford and Pendleton, Oregon; Sacramento, California (its fourth store in that area), and Wichita, Kansas (its second store in that city).



## ITEM I - Business, continued

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

	Years Ended February 28 or 29				
	1978	1979	1980	1981	1982
Stores in operation at beginning of year (1) . . . . .	60	65	70	78	84
New stores opened . . . . .	6	7	9	6	4
Stores replaced by new stores . . .	(1)	(1)	(1)		
Stores sold or closed (2) . . . . .		(1)			
Stores in operation at end of year . . . . .	65	70	78	84	88

- (1) Prior to fiscal 1979 the Company treated as five separate stores the five physically separate sales outlets in Kent, Washington Mall. In this table, Kent is treated as one store.
- (2) In January, 1979, when the Company's lease expired it closed an outmoded store in Redmond, Washington.

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

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

The Company has entered into leases and plans to open new stores later in fiscal 1983 in Sioux City, Iowa; Rancho Cordova, California (its fifth store in the Sacramento area); Scottsbluff, Nebraska and Carson City, Nevada. The Company also expects to open an additional two or more stores in fiscal 1983 if favorable locations and lease terms can be found and negotiated.

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

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

Approximately one-third of the merchandise is shipped by suppliers directly to the Company's stores. The Company also warehouses merchandise and supplies its stores through two central warehouse locations, an aggregate of 215,700 square feet in Kent, Washington, and an aggregate of 119,160 square feet in Denver, Colorado. The warehouse in Denver, Colorado, services the Company's 30 stores located in Colorado, Kansas, Nebraska, Montana, Oklahoma, South Dakota, North Dakota, Utah, Idaho and Wyoming and the Kent, Washington location services the remainder.

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

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



## 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 basis and other than selling a limited amount of goods under installment sales contracts that are sold to finance companies on a nonrecourse basis, the company does not provide extended payment terms to customers.

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

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

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

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

(2) (i) Research and development activities. The Company has engaged in research and development activities relating to the improvement of services to its customers, through the development of product knowledge training films, a Retail Selling Skills program, the holding of training seminars, and a 40-foot mobile training bus, all of which are designed to constantly update product knowledge and selling skills. The goal of the program is to have the Company's sales people completely qualified to explain to customers how to install or use all of the products that the Company sells. The amount spent by the Company on such activities during each of the last two fiscal years is estimated at approximately \$275,380 in 1981 and \$322,136 in 1982.

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

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

(iv) Number of employees. The Company currently employs approximately 1,147 full-time persons and 89 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 88 stores, 32 are located in the State of Washington, 12 in Oregon, 7 in California, 2 in Nevada, 4 in Idaho, 1 in Montana, 5 in Utah, 9 in Colorado, 4 in Kansas, 4 in Oklahoma, 2 in Alaska, 2 in Wyoming, 2 in South Dakota, 1 in North Dakota and 1 in Nebraska. All of the Company's stores except nine are leased under leases expiring at various times between May 31, 1982, and February 26, 2008. Many of these leases contain options to renew. Operations of the Company are directed from its head office in Kent, Washington, a Seattle suburb, where all administrative functions, including accounting, merchandising, purchasing and advertising, are performed. The head office is leased under a lease expiring in 1995. The Company also leases central warehouse space in Kent, Washington, under leases that expire in 1983. In addition, the Company also leases regional warehouse space in Denver, Colorado, under leases that expire in 1982 and from which the Company's Midwest merchandising is conducted. These leases contain options to renew.

In addition to the properties and buildings used in the Company's daily business operations, the Company owns approximately 20 acres in Spokane, Washington, and 20 acres in Kent, Washington. The Company intends to construct its own warehouse on the 20 acres in Washington to replace the Kent warehouse premises presently under lease.

The Company presently owns its store properties in Fairbanks, Alaska, Pocatello, Idaho, and Casper, Wyoming. The Company obtained long-term mortgage financing on these properties during the fiscal year ended February 28, 1977. The Company also presently owns its store properties in Fort Collins, Colorado, North Platte, Nebraska, and Kent, Federal Way, Aberdeen and Bothell, Washington. These properties are not presently subject to any mortgages or other encumbrances. The Company recently entered into agreements for the sale and leaseback of its Federal Way, Aberdeen and Bothell, Washington stores under 20 year leases that contain options to renew.

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



**ITEM 3 - Legal Proceedings**

None.

**ITEM 4 - Security Ownership of Certain Beneficial Owners and Management**

(a) As of May 1, 1982, the following persons were known by the Company to be the beneficial owners of more than five percent of the outstanding common stock of the Company:

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature Beneficially Owned</u>	<u>Percent of Class</u>
Common stock	David J. Heerensperger 3433 Hunts Point Road Bellevue, Washington 98004	519,614 shares (1)	10.7%
Common stock	Pay 'N Pak Stores, Inc. Employee Stock Ownership Trust c/o Peoples National Bank Trust Division 1414 Fourth Avenue P.O. Box 720 Seattle, Washington 98111	514,296 shares (2)	10.6%
Common Stock	T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, Maryland 21202	419,533 shares (3)	8.6%
Common stock	Lehman Brothers Kuhn Loeb Holding Co., Inc. 55 Watt Street New York, New York 10004	419,540 shares (3)	8.6%

(1) Includes shares allocated to Mr. Heerensperger's account in the Company's Employee Stock Ownership Trust ("ESOT"). Mr. Heerensperger has sole power to direct the vote of such shares.

(2) Employee-participants have sole power to direct the vote of shares allocated to their accounts

(3) Information taken from Schedule 13G filed by Beneficial Owner.

(b) As of May 1, 1982, the directors of the Company, and all officers and directors as a group, beneficially owned outstanding common stock of the Company of follows:

<u>Title of Class</u>	<u>Name of Director</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Common stock	David J. Heerensperger	519,614(1)	10.7%
Common stock	Halvor Knudtzon, Jr.	13,061(1)	.27%
Common stock	Woodrow C. Button	31,680	.65%
Common stock	Marshall J. Weigel	24,939	.51%
Common stock	Jerry L. Marlow	17,580(1)	.36%
Common stock	Monte A. Leen	1,755(1)	.04%
Common stock	All directors and officers as a group (9 persons)	621,814(2)	12.7%

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

(2) Includes shares allocated to such persons' accounts in the Company's ESOT. Each such person has sole power to direct the vote of his shares.



## ITEM 9-Executive Officers of the Company

<u>Name</u>	<u>Age</u>	<u>Positions and Offices</u>
David J. Heerensperger	45	Chairman of the Board and Chief Executive Officer; Director
Jerry L. Marlow	46	President and Chief Operating Officer; Director
Halvor Knudtzon, Jr.	55	Secretary-Treasurer and Controller; Director
Monte A. Leen	39	Executive Vice President; Director
Victor W. Crosswhite	45	Vice President-Purchasing
Peter W. Gallina	46	Vice President-Real Estate and Store Development
Calvin E. Karbowski	44	Vice President-Distribution

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

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

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

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



## Part II

### ITEM 5- Market for the Company's Common Stock and Related Security Holders Matters

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

### ITEM 6 - Selected financial data

	Years Ended February 28 or 29				
	1982	1981	1980	1979	1978
<b>Operating results:</b>					
Net sales . . . . .	\$180,386,746	\$151,683,806	\$137,896,788	\$117,341,577	\$98,000,321
Income before					
income taxes . . . . .	\$ 13,048,796	\$ 11,575,328	\$ 11,470,982	\$ 10,199,489	\$ 7,882,339
Net income . . . . .	\$ 7,198,966	\$ 6,448,801	\$ 6,312,882	\$ 5,402,926	\$ 4,006,465
Net income per					
share:					
Before 1983					
stock dividend	\$1.63	\$1.46	\$1.43	\$1.33	\$1.04
After 1983					
stock dividend	\$1.48	\$1.32	\$1.30	\$1.21	\$ .94
Cash dividends paid					
per common share:					
Before 1983					
stock dividend	\$ .76	\$ .68	\$ .60	\$ .50	\$ .344
After 1983					
stock dividend	\$ .691	\$ .618	\$ .545	\$ .455	\$ .313
<b>At year-end:</b>					
Total assets (1) . . . . .	\$ 97,799,523	\$ 90,273,374	\$ 81,901,914	\$70,313,715	\$50,483,429
Long-term debt . . . . .	\$ 26,470,343	\$ 27,978,640	\$ 28,680,119	\$23,848,328	\$18,467,381

(1) Restated for change in method of accounting for vacation expense.



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

### Results of operations

During the past three years the Company's revenues have increased from \$117.6 million in fiscal 1979 to \$181 million in fiscal 1982 (an increase of 54%). Net income has increased during this period from \$5.4 million in fiscal 1979 to \$7.2 million in fiscal 1981 (an increase of 33%).

The year to year increase in revenues was 18% from fiscal 1979 to 1980, 10% from fiscal 1980 to 1981 and 19% from fiscal 1981 to 1982. These increases are generally attributable to new stores opened during the periods, increased volume in existing stores and, to a lesser extent, price increases. For information regarding numbers of new stores opened in each of the last five fiscal years, see "Business".

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

	Increase(Decrease)		
	1980 over 1979	1981 over 1980	1982 over 1981
	(In thousands)		
Net sales of stores opened during fiscal year* . . . . .	\$ 4,300	\$ 3,673	\$ 3,330
Increase in net sales over the preceding year of stores in their first full fiscal year of operation . . .	4,685	6,837	4,341
Increase in net sales over the preceding year of stores opened for over two fiscal years . . . . .	12,378	3,277	21,032
Decrease in net sales for stores closed or sold . . . . .	(808)	--	--
	<u>\$20,555</u>	<u>\$13,787</u>	<u>\$28,703</u>

During the three-year period, cost of sales and selling and administrative expense have generally increased in proportion to the increase in revenues. Rent and depreciation have increased throughout the period, primarily as a result of new store openings. Interest on long-term debt has increased primarily as a result of a borrowing of \$5 million in June 1978 and an additional borrowing of \$3.3 million in August 1979. Interest on short-term debt increased \$287,000 in fiscal 1980 over 1979, \$253,000 in fiscal 1981 over 1980 and \$1,252,000 in fiscal 1982 over 1981 primarily as a result of interest rate increases and increased short-term borrowing.

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



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

The Company's effective income tax rates for the three fiscal years were as follows: 1980-45.0%, 1981-44.3%, 1982-44.8%. The fluctuations were primarily due to variations in the amount of investment tax credit available in the respective periods.

Primarily as a result of the factors discussed above, net income increased 16.8% from 1979 to 1980 and 2.2% from 1980 to 1981 and 11.6% from 1981 to 1982.

### **Liquidity**

Working capital increased from \$24.9 million at February 28, 1979 to \$25.9 million at February 28, 1982. The year by year change was an increase of \$1.7 million for 1980 over 1979 and a decrease of \$.6 million for 1981 from 1980 and an increase of \$.2 million for 1982 over 1981. The increase since 1979 is primarily due to an increase in merchandise inventory of \$19.5 million during the three year period. Working capital requirements were financed largely by increased short-term bank borrowings and a portion (\$4.6 million) of the proceeds from the sale of 470,000 shares of stock in fiscal year 1979.

### **Capital resources**

Capital expenditures for the three-year period were at record levels. The expenditures for new facilities, furnishings and equipment were \$11.7 million for 1980, \$6.3 million for 1981 and \$6.8 million for 1982. The total of expenditures for the three-year period was \$24.6 million.

The major portion of the expenditures was for the costs of facilities, furnishings and equipment for eighteen new retail outlets opened during the three-year period. The Company purchased land and constructed buildings for six of the new outlets at a total cost of \$7.9 million. In addition, the Company remodeled the facility housing its corporate offices and shopping mall during fiscal 1981. Also in 1980, the Company acquired land in Kent, Washington, at a cost of \$.6 million, to be used as the site for construction of a new warehouse facility to replace the present leased warehouse.

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

## **ITEM 8 - Consolidated financial statements**

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# PAY 'N PAK STORES, INC.

## REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

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

We have examined the consolidated financial statements of Pay 'N Pak Stores, Inc. listed in the index to financial statements in Item 11 (a). Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements listed in the index to financial statements in Item 11 (a) present fairly the consolidated financial position of Pay 'N Pak Stores, Inc. at February 28, 1982 and 1981 and the consolidated results of operations and changes in financial position for each of the three years in the period ended February 28, 1982, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

*Arthur Young & Company*

Seattle, Washington  
March 30, 1982



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED STATEMENT OF INCOME**  
**Years ended February 28 or 29, 1982, 1981 and 1980**

	<u>1982</u>	<u>1981</u>	<u>1980</u>
<b>Revenues:</b>			
Net sales .....	\$180,386,746	\$151,683,806	\$137,896,788
Interest .....	37,885	75,314	454,140
Rentals and other .....	549,268	6,070	10,366
	<u>180,973,899</u>	<u>151,765,190</u>	<u>138,361,294</u>
<b>Costs and expenses:</b>			
Cost of sales .....	113,867,643	96,108,502	88,225,081
Selling and administrative .....	42,560,877	35,012,098	31,011,234
Rent .....	2,605,832	1,977,104	1,665,937
Depreciation .....	3,903,145	3,394,021	2,667,637
Interest on long-term debt .....	3,117,427	3,080,207	2,955,032
Other interest .....	1,870,179	617,930	365,391
	<u>167,925,103</u>	<u>140,189,862</u>	<u>126,890,312</u>
Income before income taxes .....	13,048,796	11,575,328	11,470,982
Provision for income taxes (Notes 1(e) and 4) .....	5,849,830	5,126,527	5,158,100
Net income .....	<u>\$ 7,198,966</u>	<u>\$ 6,448,801</u>	<u>\$ 6,312,882</u>
<b>Before 1983 stock dividend:</b>			
Per common share (Note 1(h)):			
Net income .....	<u>\$1.63</u>	<u>\$1.46</u>	<u>\$1.43</u>
Cash dividends paid .....	<u>\$ .76</u>	<u>\$ .68</u>	<u>\$ .60</u>
<b>After 1983 stock dividend:</b>			
Per common share (Note 1(h)):			
Net income .....	<u>\$1.48</u>	<u>\$1.32</u>	<u>\$1.30</u>
Cash dividends paid .....	<u>\$ .691</u>	<u>\$ .618</u>	<u>\$ .545</u>

See accompanying notes.



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED BALANCE SHEET**  
**February 28, 1982 and 1981**

<b>ASSETS</b>		
	<b>1982</b>	<b>1981</b>
<b>Current assets:</b>		
Cash .....	\$ 780,264	\$ 101,484
Trade accounts receivable, less allowance of \$40,490 (\$50,000 in 1981) for doubtful accounts .....	1,405,490	756,262
Merchandise inventories (Note 1(b)) .....	53,951,569	49,610,381
Prepaid expenses .....	872,257	1,080,651
<b>Total current assets .....</b>	<b>57,009,580</b>	<b>51,548,778</b>
<b>Property, plant and equipment at cost</b> (Notes 1(c), 1(g), 2 and 5):		
Land .....	2,149,996	2,149,996
Buildings .....	8,071,130	8,067,913
Leasehold rights and improvements .....	25,386,382	24,409,577
Store equipment .....	15,297,326	12,883,421
Transportation equipment .....	2,840,506	2,096,706
Construction in progress .....	2,123,234	233,087
	55,868,574	49,840,700
Less accumulated depreciation and amortization .....	16,661,133	13,119,600
	39,207,441	36,721,100
Properties held for development and/or investment .....	973,015	1,262,051
<b>Net property, plant and equipment .....</b>	<b>40,180,456</b>	<b>37,983,151</b>
Deferred income taxes (Note 1(e)) .....	372,699	477,699
Other assets (Note 1(d)) .....	236,788	263,746
	<u><b>\$97,799,523</b></u>	<u><b>\$90,273,374</b></u>

*See accompanying notes.*



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED BALANCE SHEET**  
**February 28, 1982 and 1981**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<u>1982</u>	<u>1981</u>
<b>Current liabilities:</b>		
Payable to bank .....	\$ 1,259,776	\$
Bankers acceptance (Note 2) .....	6,000,000	
Notes payable (Note 2) .....	4,000,000	9,000,000
Accounts payable .....	12,726,262	11,814,427
Income taxes (Notes 1(e) and 4) .....	814,571	134,800
Deferred federal income tax (Note 1(e)) .....	140,000	
<b>Accrued liabilities:</b>		
Payroll and profit sharing .....	2,624,716	1,758,151
Taxes, other than income .....	1,414,285	1,219,369
Interest and other .....	587,952	529,741
	<u>4,626,953</u>	<u>3,507,261</u>
Long-term debt due within one year (Note 2) .....	1,508,175	1,412,885
<b>Total current liabilities</b> .....	<b>31,075,737</b>	<b>25,869,373</b>
Long-term debt (Note 2) .....	26,470,343	27,978,640
Employee benefit plan (Note 3) .....		113,918
Deferred income (Note 1(c)) .....	91,107	97,971
Commitments (Note 5)		
<b>Stockholders' equity:</b>		
Preferred stock, without par value, 1,000,000 shares authorized, none issued		
Common stock, \$.10 par value, 10,000,000 shares authorized, 4,868,976 (4,426,342 in 1981) shares issued (Note 1(h)) .....	486,897	442,634
Capital in excess of par value .....	21,438,708	15,064,778
Retained earnings (Note 2) .....	18,236,731	20,819,978
	<u>40,162,336</u>	<u>36,327,390</u>
Deferred employee benefits (Note 3) .....		(113,918)
<b>Total stockholders' equity</b> .....	<b>40,162,336</b>	<b>36,213,472</b>
	<u><b>\$97,799,523</b></u>	<u><b>\$90,273,374</b></u>



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**  
**Years ended February 28 or 29, 1982, 1981 and 1980**

	<u>Common stock</u>	<u>Capital in excess of par value</u>	<u>Retained earnings</u>	<u>Deferred employee benefits</u>	<u>Total</u>
Balance, March 1, 1979					
As previously reported	\$368,862	\$15,138,550	\$13,971,463	\$(1,003,869)	\$28,475,006
Vacation expense (Note 1(i))			(247,450)		(247,450)
As restated	368,862	15,138,550	13,724,013	(1,003,869)	28,227,556
Net income			6,312,882		6,312,882
Cash dividends			(2,655,805)		(2,655,805)
Six for five stock split at par value (737,723 shares)	73,772	(73,772)			
Amortization of deferred employee benefits				339,851	339,851
Balance, February 29, 1980	442,634	15,064,778	17,381,090	(664,018)	32,224,484
Net income			6,448,801		6,448,801
Cash dividends			(3,009,913)		(3,009,913)
Amortization of deferred employee benefits				550,100	550,100
Balance, February 28, 1981	442,634	15,064,778	20,819,978	(113,918)	36,213,472
Net income			7,198,966		7,198,966
Cash dividends			(3,364,020)		(3,364,020)
10% stock dividend at fair market value at date of declaration (Note 1(h))	44,263	6,373,930	(6,418,193)		
Amortization of deferred employee benefits				113,918	113,918
Balance, February 28, 1982 (Notes 2 and 3)	<u>\$486,897</u>	<u>\$21,438,708</u>	<u>\$18,236,731</u>	<u>\$</u>	<u>\$40,162,336</u>

See accompanying notes.



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION**  
**Years ended February 28 or 29, 1982, 1981 and 1980**

	1982	1981	1980
<b>Sources of working capital:</b>			
Net income . . . . .	\$ 7,198,966	\$ 6,448,801	\$ 6,312,882
<b>Items not involving working capital:</b>			
Depreciation and amortization . . . . .	3,923,239	3,409,984	2,695,809
Deferred income taxes . . . . .	105,000	140,000	10,962
(Gain) loss on sale of assets . . . . .	(77,970)		3,913
<b>Working capital provided from operations . . . . .</b>	<b>11,149,235</b>	<b>9,998,785</b>	<b>9,023,566</b>
<b>Increase in long-term debt:</b>			
Refinancing . . . . .			15,000,000
Other . . . . .		715,963	1,914,904
<b>Proceeds from sale of assets and sale and leaseback of properties . . . . .</b>	<b>765,265</b>	<b>207,610</b>	
	<u>11,914,500</u>	<u>10,922,358</u>	<u>25,938,470</u>
<b>Applications of working capital:</b>			
Additions to property, plant and equipment . . . . .	6,787,745	7,022,724	12,888,026
Cash dividends paid . . . . .	3,364,020	3,009,913	2,655,805
Increase in other assets . . . . .		25,830	2,200
<b>Reduction of long-term debt:</b>			
Refinancing . . . . .			11,700,000
Other . . . . .	1,508,297	1,417,442	383,113
<b>Decrease in non-current time certificates of deposit . . . . .</b>			<b>(3,400,000)</b>
	<u>11,660,062</u>	<u>11,475,909</u>	<u>24,229,144</u>
<b>Increase (decrease) in working capital . . . . .</b>	<b>\$ 254,438</b>	<b>\$ (553,551)</b>	<b>\$ 1,709,326</b>
<b>By component:</b>			
<b>Current assets-increase (decrease):</b>			
Cash . . . . .	\$678,780	\$ (1,056,679)	\$ (4,245,937)
Trade accounts receivable . . . . .	649,228	(200,937)	91,409
Merchandise inventories . . . . .	4,341,188	6,195,177	8,921,852
Prepaid expenses . . . . .	(208,394)	149,803	48,197
<b>Current liabilities - (increase) decrease:</b>			
Payable to bank . . . . .	(1,259,776)		
Bankers acceptance . . . . .	(6,000,000)		
Notes payable . . . . .	5,000,000	(2,750,000)	(3,850,000)
Accounts payable . . . . .	(911,835)	(1,986,369)	(375,754)
Income taxes . . . . .	(679,711)	550,413	359,940
Deferred federal income tax . . . . .	(140,000)		
Accrued liabilities . . . . .	(1,119,692)	(413,115)	(22,254)
Long-term debt due within one year . . . . .	(95,290)	(1,041,844)	781,873
<b>Increase (decrease) in working capital . . . . .</b>	<b>\$ 254,438</b>	<b>\$ (553,551)</b>	<b>\$ 1,709,326</b>

See accompanying notes.



**PAY 'N PAK STORES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
February 28 or 29, 1982, 1981 and 1980

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

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

(c) **Property, plant and equipment**-Depreciation of property, plant and equipment is provided principally on the straight-line method. Estimated useful lives are as follows: buildings-40 years; leasehold rights and improvements-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. Such costs, \$162,822 in 1982 and \$180,542 in 1981, are included in other assets.

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

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

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

(g) **Interest capitalization**-In fiscal year 1981, the Company began capitalizing interest incurred related to the construction of property, plant and equipment. Of the \$5,097,333 in interest costs incurred in 1982, (\$3,849,385 in 1981), \$109,727 or \$.01 per share (\$151,248 or \$.02 per share in 1981) was capitalized. In 1980, all interest costs incurred were expensed.

(h) **Per share data**-Per common share amounts were determined on the number of shares outstanding during each period after giving retroactive effect to the six for five stock split declared in 1980, which was effected in the form of a stock dividend.

A 10% stock dividend was declared on March 25, 1982 which is issuable on April 29, 1982 to stockholders of record on April 9, 1982. This stock dividend increases the number of shares outstanding from 4,426,342 to 4,868,976. The stock dividend has been given retroactive effect in the consolidated balance sheet at February 28, 1982 and the consolidated statement of stockholders' equity for the year then ended. Per common share amounts have been presented in the consolidated statement of income and notes to consolidated financial statements both before and after the stock dividend.

(i) **Vacation pay** - In 1982, the Company changed its method of accounting for vacation expense from the cash basis to the accrual basis in conformity with the provisions of a recently issued statement of accounting principle, which requires the restatement of prior periods. The effect of restatement on prior years' financial statements was not significant.



**PAY 'N PAK STORES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
February 28 or 29, 1982, 1981 and 1980

**2. Bank credit arrangements and long-term debt**

Notes payable at February 28, 1982 and 1981 consist of the following:

	<u>1982</u>	<u>1981</u>
Notes payable to banks	\$ --	\$9,000,000
Note payable to insurance company	4,000,000	--
	<u>\$4,000,000</u>	<u>\$9,000,000</u>

Weighted average interest rate for notes payable and bankers acceptance at February 28, 1982 is 15.2%.

At February 28, 1982, the Company has available unused lines-of-credit for working capital and letter of credit purchases of \$19,094,753 under agreements with banks, which expire from April 1, 1982 to June 30, 1983. The agreement which expires on April 1 has been orally extended by the bank for another year. Interest on borrowings under these agreements is charged at the prime rate or less.

In November, 1981, the Company entered into a \$10,000,000 revolving line-of-credit agreement with an insurance company at an interest rate based on the insurance company's ninety-day commercial paper rate. The agreement expires on October 31, 1983 at which time the Company has the option to convert any outstanding borrowings into a term loan. The outstanding borrowings under this agreement aggregated \$4,000,000 at February 28, 1982, which were refinanced on March 1, 1982 with a short-term note payable to a bank. The Company is charged a commitment fee of 1/2 of one percent per annum on the unused balance which aggregated \$6,000,000 at February 28, 1982.

Long-term debt outstanding at February 28, 1982 and 1981 is shown on the following summary:

	<u>1982</u>	<u>1981</u>
9¾% note payable to insurance company, due \$1,075,000		
annually to 1994, plus interest	\$13,975,000	\$15,000,000
9 5/8% to 9 7/8% mortgage notes payable, due \$216,240 annually		
including interest to 2002, subject to call by holders in 1992	1,897,554	1,926,992
7% to 15% (average 8.0%) contracts and notes payable, due		
\$45,809 including interest in 1983 and reduced amounts		
annually to 1989	150,099	182,428
Capitalized lease obligations (\$27,113,196), less imputed		
interest (\$15,157,337) payable approximately \$1,810,000		
per year including imputed interest, weighted average		
12.21%, final payment in 2008	11,955,865	12,282,105
	27,978,518	29,391,525
Less amounts due within one year	1,508,175	1,412,885
	<u>\$26,470,343</u>	<u>\$27,978,640</u>

Payments on the principal of long-term debt and capitalized lease obligations for the four years ending February 28, 1987 are required as follows: 1984-\$1,553,000; 1985-\$1,588,000; 1986-\$1,581,000 and 1987-\$1,653,000.

The loan agreement covering the 9¾% note payable to insurance company provides, among other matters, restrictions on the payment of cash dividends and redemption or reacquisition of the Company's stock. At February 28, 1982, retained earnings of approximately \$3,706,000 was not restricted.

Operating plant and equipment having a net book value of \$1,984,320 at February 28, 1982 are pledged as collateral for the mortgage notes and contracts payable.

**3. Employee benefit plan**

After three years of employment, all employees participate in the Company's Employee Stock Ownership Plan. The Company contributes 10% of an employee's eligible gross income, with a maximum contribution of \$3,000 per employee. In 1981 and 1980, the maximum contribution per employee was \$2,000. Total contribution was \$949,721, \$595,948 and \$489,217 for fiscal years 1982, 1981 and 1980, respectively.

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



**PAY 'N PAK STORES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**February 28 or 29, 1982, 1981 and 1980**

**4. Income Taxes**

The provision for income taxes is comprised of the following:

	Year ended February 28 or 29,		
	1982	1981	1980
Current federal income tax:			
Provision . . . . .	\$5,491,253	\$5,026,314	\$5,001,593
Investment tax credit . . . . .	(250,000)	(354,299)	(233,048)
	5,241,253	4,672,015	4,768,545
State income taxes . . . . .	363,577	314,512	378,593
Deferred income taxes . . . . .	245,000	140,000	10,962
	<u>\$5,849,830</u>	<u>\$5,126,527</u>	<u>\$5,158,100</u>

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

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

	1982	1981	1980
Depreciation deducted for tax in excess of book expense . . . . .	\$217,177	\$166,884	\$ 132,320
Leasehold rights amortization and related interest expense for book in excess of rental expense deducted for tax . . . . .	(141,534)	(119,433)	(166,547)
Pre-opening and interest expense deducted for tax in excess of book expense and other items . . . . .	169,357	92,549	45,189
	<u>\$245,000</u>	<u>\$140,000</u>	<u>\$ 10,962</u>

**5. Leases**

The Company leases substantially all retail store facilities and both of its warehouses. Certain of these leases have been capitalized (See Note 2). Included in leasehold rights and improvements is \$13,908,091 (\$13,968,983 at February 28, 1981) for capitalized leases for retail stores, one warehouse and computer equipment. Accumulated depreciation and amortization includes \$4,851,844 (\$4,250,280 at February 28, 1981) applicable thereto.

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



**PAY 'N PAK STORES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**February 28 or 29, 1982, 1981 and 1980**

Rental expense for operating leases, except those with terms of a month or less, was \$2,784,809, \$2,107,671 and \$1,780,139 for fiscal years 1982, 1981 and 1980, respectively. Included in expense for each of the three years was percentage rental of \$252,361, \$150,447 and \$134,420, respectively.

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

Year ending February 28 or 29	000's omitted
1983	\$ 2,153
1984	1,952
1985	1,834
1986	1,811
1987	1,777
Later years	18,150
	<u>\$27,677</u>

**6. Quarterly financial data (unaudited)**

	Quarter ended			
	May 31	Aug. 31	Nov. 30	Feb. 28
	(000's omitted, except per share amounts)			
<b>1982</b>				
Revenues . . . . .	\$41,520	\$49,319	\$51,699	\$38,436
Gross profit on sales . . . . .	\$15,327	\$18,034	\$19,405	\$13,752
Net income . . . . .	\$ 1,487	\$ 1,859	\$ 2,079	\$ 1,774
Net income per share:				
Before 1983 stock dividend . . .	\$.34	\$.42	\$.47	\$.40
After 1983 stock dividend . . . .	\$.31	\$.38	\$.43	\$.36
<b>1981</b>				
Revenues . . . . .	\$35,277	\$42,474	\$41,255	\$32,759
Gross profit on sales . . . . .	\$13,045	\$15,118	\$14,902	\$12,511
Net income . . . . .	\$ 1,312	\$ 1,687	\$ 1,783	\$ 1,667
Net income per share:				
Before 1983 stock dividend . . .	\$.30	\$.38	\$.40	\$.38
After 1983 stock dividend . . . .	\$.27	\$.35	\$.37	\$.34



### **PART III**

#### **Item 9 - Directors and Executive Officers of the Company**

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

#### **Item 10 - Management Remuneration and Transactions**

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

### **PART IV**

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

(a) *Financial Statements.*

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

(b) *Exhibits.* See page 28 for index to exhibits.

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



**PAY 'N PAK STORES, INC.**  
**SCHEDULE V - PROPERTY, PLANT AND EQUIPMENT**  
**Years ended February 28 or 29, 1982, 1981 and 1980**

	<u>Balance at beginning of year</u>	<u>Additions, transfers at cost</u>	<u>Retirements or sales</u>	<u>Balance at end of year</u>
<b>1982:</b>				
Land .....	\$ 2,149,996	\$ --	\$ --	\$ 2,149,996
Buildings .....	8,067,913	3,217	--	8,071,130
Leasehold rights and improvements .....	24,409,577	1,037,696	60,891	25,386,382
Store equipment .....	12,883,421	2,413,905	--	15,297,326
Transportation equipment .....	2,096,706	1,442,780	698,980	2,840,506
Construction in progress .....	233,087	1,890,147	--	2,123,234
	<u>49,840,700</u>	<u>6,787,745</u>	<u>759,871</u>	<u>55,868,574</u>
Properties held for development and/or investment .....	<u>1,262,051</u>	<u>--</u>	<u>289,036</u>	<u>973,015</u>
	<u>\$51,102,751</u>	<u>\$ 6,787,745</u>	<u>\$ 1,048,907</u>	<u>\$56,841,589</u>
<b>1981:</b>				
Land .....	\$ 1,899,977	\$ 250,019	\$ --	\$ 2,149,996
Buildings .....	5,228,058	2,839,855	--	8,067,913
Leasehold rights and improvements .....	20,461,758	4,025,941	78,122	24,409,577
Store equipment .....	10,809,886	3,065,580	992,045	12,883,421
Transportation equipment .....	1,405,140	694,778	3,212	2,096,706
Construction in progress .....	3,836,517	(3,603,430)	--	233,087
	<u>43,641,336</u>	<u>7,272,743</u>	<u>1,073,379</u>	<u>49,840,700</u>
Properties held for development and/or investment .....	<u>1,669,680</u>	<u>(250,019)</u>	<u>157,610</u>	<u>1,262,051</u>
	<u>\$45,311,016</u>	<u>\$ 7,022,724</u>	<u>\$ 1,230,989</u>	<u>\$51,102,751</u>
<b>1980:</b>				
Land .....	\$ 707,715	\$ 1,192,262	\$ --	\$ 1,899,977
Buildings .....	1,905,719	3,322,339	--	5,228,058
Leasehold rights and improvements .....	18,498,568	2,087,964	124,774	20,461,758
Store equipment .....	8,798,214	2,804,859	793,187	10,809,886
Transportation equipment .....	1,241,538	174,816	11,214	1,405,140
Construction in progress .....	1,188,091	2,648,426	--	3,836,517
	<u>32,339,845</u>	<u>12,230,666</u>	<u>929,175</u>	<u>43,641,336</u>
Properties held for development and/or investment .....	<u>1,012,320</u>	<u>657,360</u>	<u>--</u>	<u>1,669,680</u>
	<u>\$33,352,165</u>	<u>\$12,888,026</u>	<u>\$ 929,175</u>	<u>\$45,311,016</u>



# PAY 'N PAK STORES, INC.

## SCHEDULE VI - ACCUMULATED DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Years ended February 28 or 29, 1982, 1981 and 1980

Description	Balance at beginning of year	Additions, charged to income	Retirements or sales	Balance at end of year
<b>1982:</b>				
Buildings . . . . .	\$ 477,192	\$ 208,674	\$ --	\$ 685,866
Leasehold rights and improvements . . . . .	6,959,497	1,478,227	60,891	8,376,833
Store equipment . . . . .	4,982,910	1,893,501	--	6,876,411
Transportation equipment . . . . .	700,001	322,743	300,721	722,023
	<u>\$13,119,600</u>	<u>\$3,903,145</u>	<u>\$ 361,612</u>	<u>\$16,661,133</u>
<b>1981:</b>				
Buildings . . . . .	\$ 275,253	\$ 201,939	\$ --	\$ 477,192
Leasehold rights and improvements . . . . .	5,746,959	1,290,660	78,122	6,959,497
Store equipment . . . . .	4,293,408	1,631,547	942,045	4,982,910
Transportation equipment . . . . .	433,338	269,875	3,212	700,001
	<u>\$10,748,958</u>	<u>\$3,394,021</u>	<u>\$1,023,379</u>	<u>\$13,119,600</u>
<b>1980:</b>				
Buildings . . . . .	\$ 187,461	\$ 87,792	\$ --	\$ 275,253
Leasehold rights and improvements . . . . .	4,745,436	\$1,126,297	124,774	5,746,959
Store equipment . . . . .	3,792,452	1,294,143	793,187	4,293,408
Transportation equipment . . . . .	281,234	159,405	7,301	433,338
	<u>\$ 9,006,583</u>	<u>\$2,667,637</u>	<u>\$ 925,262</u>	<u>\$10,748,958</u>



**PAY 'N PAK STORES, INC.**  
**SCHEDULE VIII - VALUATION AND QUALIFYING ACCOUNTS**  
Years ended February 28 or 29, 1982, 1981 and 1980

	<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:				
1982 .....	<u>\$50,000</u>	<u>\$168,318</u>	<u>\$177,828</u>	<u>\$40,490</u>
1981 .....	<u>\$50,000</u>	<u>\$111,591</u>	<u>\$111,591</u>	<u>\$50,000</u>
1980 .....	<u>\$50,000</u>	<u>\$115,728</u>	<u>\$115,728</u>	<u>\$50,000</u>

(\*) Represents accounts written off against the reserve.

**PAY 'N PAK STORES, INC.**  
**SCHEDULE IX - SHORT-TERM BORROWINGS**  
Years ended February 28 or 29, 1982, 1981 and 1980

	<u>Balance at end of year</u>	<u>Weighted average interest rate</u>	<u>Maximum amount outstanding at any month- end during the year</u>	<u>Average amount outstanding during the year</u>	<u>Weighted average interest rate during the year</u>
Notes payable to banks:					
1982	\$ --	--%	\$13,650,000	\$7,372,466	19 %
1981	\$9,000,000	19.1%	\$ 9,000,000	\$5,135,000	14.5%
1980	\$6,250,000	16.7%	\$ 7,950,000	\$2,410,000	11.4%
Note payable to insurance company:					
1982	\$4,000,000	17.6%	\$10,000,000	\$1,830,137	17.6%
Bankers acceptance:					
1982	\$6,000,000	13.5%	\$ 6,000,000	\$1,372,603	16.8%

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

There were no bankers acceptance or short-term notes payable to insurance company in 1981 and 1980.

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, 1982, 1981 and 1980

	<u>Charged to costs and expenses</u>		
	<u>1982</u>	<u>1981</u>	<u>1980</u>
Other taxes .....	<u>\$1,002,749</u>	<u>\$1,183,427</u>	<u>\$ 856,199</u>
Advertising costs .....	<u>\$6,515,478</u>	<u>\$5,123,367</u>	<u>\$4,300,487</u>



**SIGNATURE**

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

**PAY 'N PAK STORES, INC. (Registrant)**

By



**Halvor Knudtzon Jr.  
Treasurer**

Dated: May 12, 1982

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)**

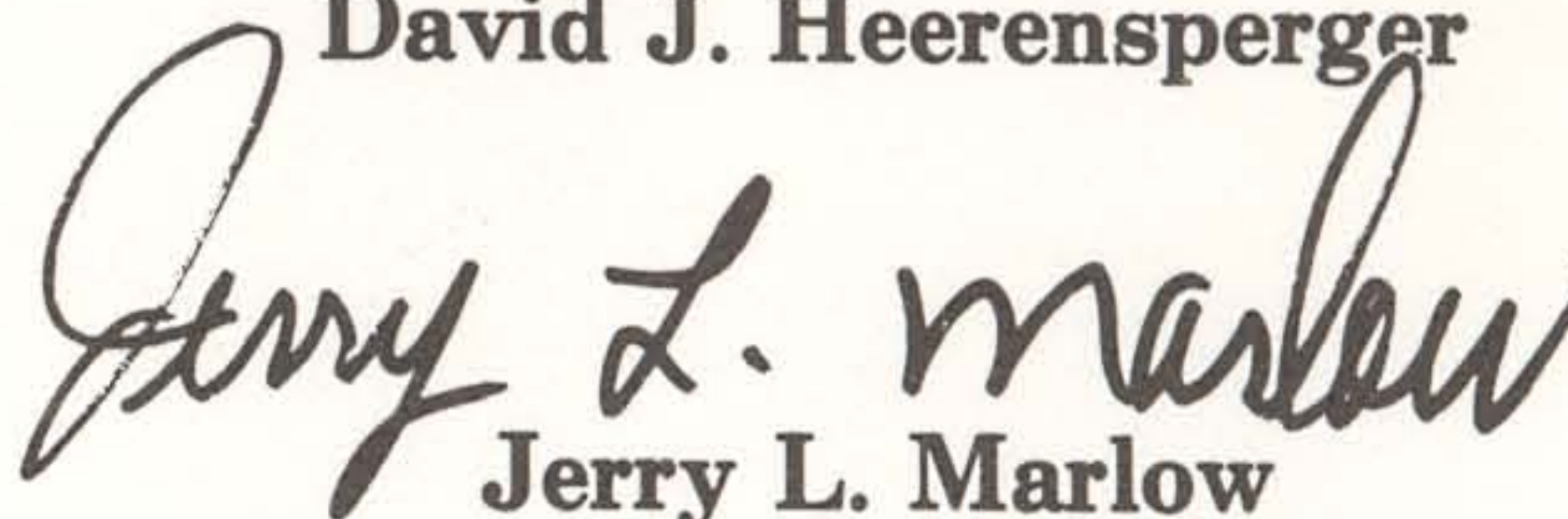
By



**David J. Heerensperger**

Dated: May 12, 1982

By



**Jerry L. Marlow**

Dated: May 12, 1982

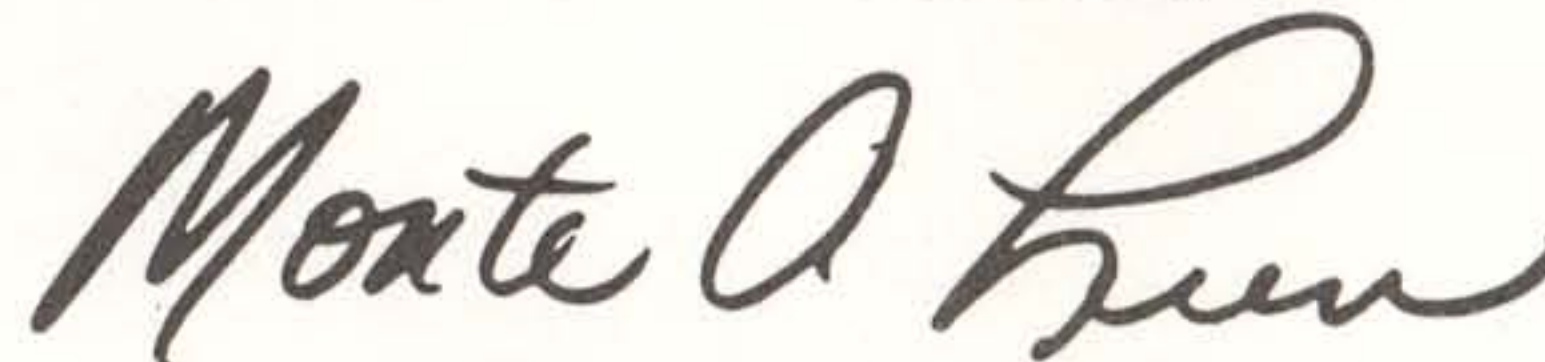
By



**Halvor Knudtzon, Jr.**

Dated: May 12, 1982

By



**Monte A. Leen**

Dated: May 12, 1982

**Majority of Board of Directors**



## EXHIBIT INDEX

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



SEP 23 1982

SEP 9, 1982  
SEP 15 1986 RETD

MAY 2 1984

*Jul 3 1984*

*to*

JUN 8 1986

JUN 11 1986

JUN 18 1986 RETD

AUG 6 1986

AUG 8 1986

AUG 15 1986

AUG 21 1986

AUG 25 1986

SEP 2 1986