

ANNUAL REPORTS

PAY'n SAVE Corp. 1984

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# PAY'n SAVE CORPORATION

ANNUAL REPORT  
FOR THE YEAR ENDED  
JANUARY 28, 1984

NO. 1



# CORPORATE PROFILE

Pay 'n Save is a Washington corporation with four basic retail operations — drug, home center, apparel and auto specialty.

In addition, the Company has started a wholesale cash and carry business named Price Savers Wholesale Club. The Company also recently acquired Northwestern Drug Company, a wholesaler of pharmaceuticals and over-the-counter drug products.

The drug operations consist of 111 Pay 'n Save and 32 Bi-Mart drug stores. Each offers a pharmacy, as well as proprietary drugs, cosmetics, sporting goods, camera and

sound equipment, small household appliances, automotive accessories, stationery, toys and school supplies.

The home center division is comprised of 69 Ernst stores, three Von Tobel's, three general merchandise stores called Yard Birds and 15 Sportswest stores. Ernst and Von Tobel's carry home improvement products for the do-it-yourself customer. Ernst stores also have large indoor and outdoor garden nurseries. Sportswest carries athletic and recreational equipment and sportswear.

Twenty-four Lamonts stores form the apparel division. They offer moderately priced, brand name clothing for the family, plus specialty departments with women's

accessories, cosmetics and domestics.

Schuck's auto supply stores make up the auto specialty division, which joined the Company in fiscal 1984. All information for prior periods has been restated to include Schuck's. The 58 Schuck's stores sell a broad line of automotive parts and accessories for the do-it-yourself customer.

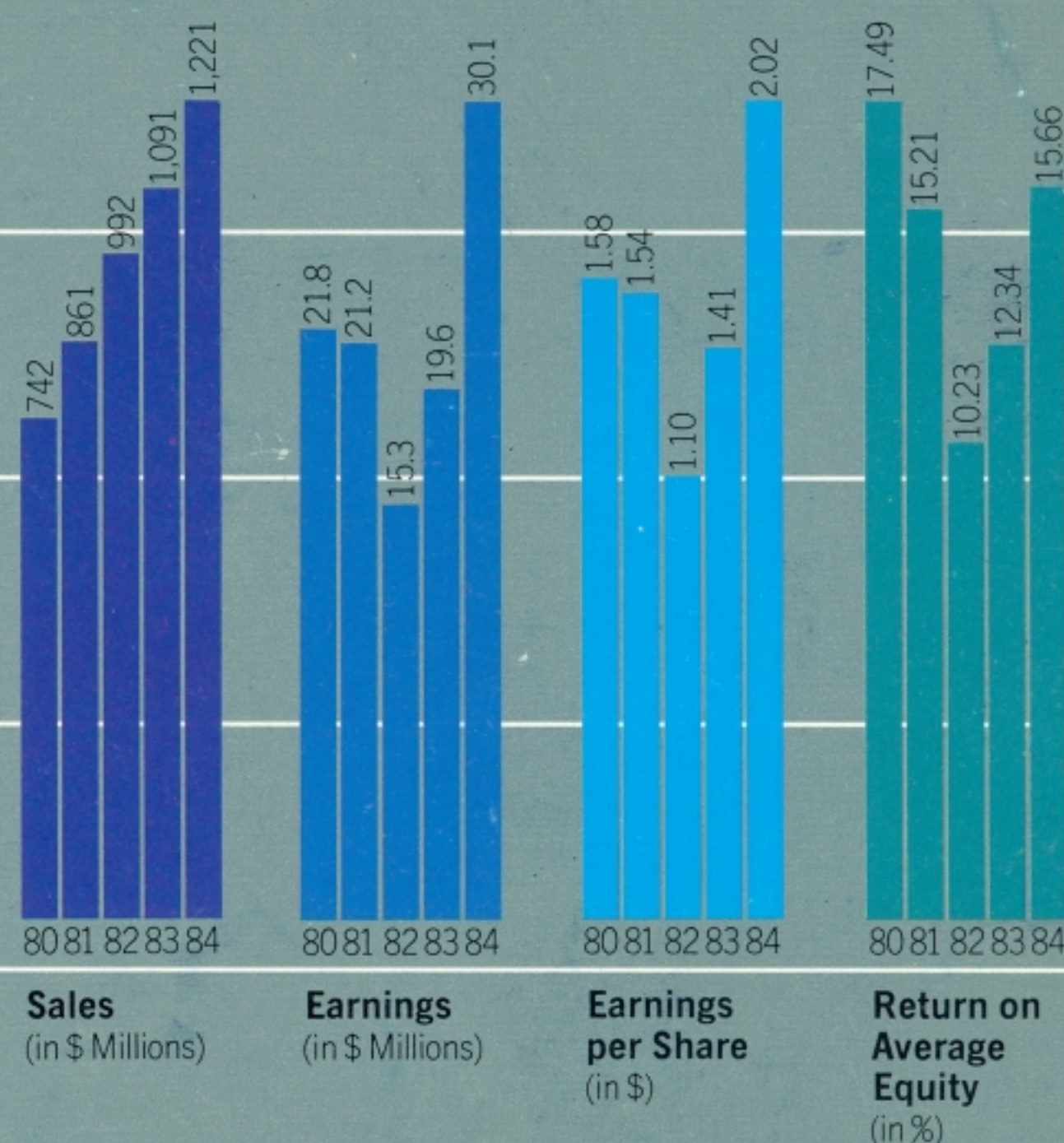
The Company was founded in 1947. As of January 28, 1984, the Company operated 315 stores in 10 western states.

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# FINANCIAL HIGHLIGHTS



Amounts and percentages for 1981 and 1980 are pro forma (see page 26).

## Consolidated Financial Highlights

For the fiscal years

	1984	1983	% Change
Sales*	\$1,220,521	\$1,091,287	12
Earnings*	30,104	19,593	54
Earnings per share	2.02	1.41	43
Dividends per share	.545	.50	9
Percent return on average equity	15.66%	12.34%	

At year end

Total assets*	\$490,749	\$468,118
Total stockholders' equity*	218,905	165,640
Shares outstanding	15,230,856	13,799,656

## Financial Highlights by Division

For the fiscal years

	1984	1983	% Change	% of Company Total 1984	% of Company Total 1983
<b>Sales*</b>					
Drug	\$718,089	\$646,475	11	59	59
Home Center	321,326	288,408	11	26	26
Apparel	121,984	108,335	13	10	10
Auto Specialty	59,122	48,069	23	5	5
<b>Earnings before income taxes*</b>					
Drug	\$ 23,873	\$ 15,077	58	42	42
Home Center	11,007	6,726	64	20	19
Apparel	15,765	9,185	72	28	25
Auto Specialty	5,710	4,892	17	10	14

\*thousands of dollars





M. Lamont Bean

# TO OUR STOCKHOLDERS

The past year has been a challenging and eventful one for Pay 'n Save Corporation. Your Company achieved record earnings while, at the same time, formulating and beginning the implementation of significant new operating strategies which we believe will serve as a basis for an increasingly successful future.

Sales for the year ended January 28, 1984 totaled \$1,220,521,000, an increase of 12% over last year's sales of \$1,091,287,000. Earnings for the year were \$30,104,000 as compared with \$19,593,000 a year ago. Earnings per share for the year grew to \$2.02 from \$1.41. Sales, earnings and earnings per share for each of the last two years reflect the combined results of operations of the Company and Schuck's Auto Supply, Inc. The Company acquired Schuck's in a "pooling of interests" transaction on January 27, 1984. Earnings per share have also been restated to reflect the two-for-one stock split which occurred in May 1983.

The 54% increase in earnings resulted primarily from sales increases of approximately 10% without regard to new stores, combined with good control over growth in operating and administrative expenses. Gross margins improved modestly during the year and interest expense declined to \$17,947,000 as compared with \$22,633,000 a year ago.

During the year, the following developments took place which have important strategic implications for the future growth and profitability of your Company:

- The Company raised approximately \$30,500,000 in equity capital through the sale of common stock.
- The reformatting of our 69 Ernst home center stores was planned and initiated.

○ We completed the development of our long-term plan for upgrading of management information systems.

○ We announced plans to start a new wholesale cash and carry business named Price Savers Wholesale Club.

○ We consummated the acquisition of Schuck's Auto Supply, Inc., an automotive specialty parts retailer.

○ Shortly after the end of the fiscal year, we acquired Northwestern Drug Company, a wholesaler of pharmaceuticals, over-the-counter drug products and health and beauty aids.

The sale of 1,430,000 shares of common stock in June of 1983 was a highly successful public offering which had the effect of strengthening your Company's capital base while reducing financial leverage and exposure to fluctuating interest rates.

The reformatting of our Ernst home center stores is an important development which commenced during the fourth quarter of the year with

the close out of sporting goods merchandise from the Ernst product lines. The elimination of relatively less profitable sporting goods merchandise and certain other product lines from our Ernst home centers, and the replacement of these lines with merchandise which creates a more complete home center image, is expected to enhance the capability of Ernst to capture its share of the growing do-it-yourself market throughout the next decade. The complete reformatting of the Ernst stores, including major in-store remodels, will be completed over the next two to three years.

The evaluation of our long-term strategies for improved management information systems (MIS) was completed late in the year.





Calvin Hendricks



E. Ronald Erickson

Implementation of an aggressive plan for upgrading MIS has already commenced. The most visible element of this plan in the next year will be the implementation of point of sale/scanning systems in 12 of our Pay 'n Save drug stores. This development follows the successful testing of this concept in one Pay 'n Save store in the latter portion of fiscal 1984. In addition to proceeding with an aggressive program to implement point of sale systems in our drug stores during the next several years, we are also in the process of working with a number of hardware and software vendors to identify quality solutions to enhance our merchandise management systems in each of our major businesses over the next two to three years. Finally, we plan to install computers in each of our store locations during the next several years in order to provide the tools to store employees to execute their jobs more effectively.

Another exciting development during the fiscal year was the formation of Price Savers Wholesale Club, a new subsidiary which has been organized to take advantage of a relatively new merchandising concept. This operation will be a wholesale cash and carry business operating in a warehouse format of approximately 100,000 square feet for each location. This type of business has proven to be highly successful for other organizations and we expect to make it a success in the market areas in the Northwest, Alaska and Hawaii which we have selected for expansion.

Near the end of our fiscal year, we consummated the acquisition of Schuck's Auto Supply, Inc. in exchange for approximately 2,800,000 shares of Pay 'n Save common stock. Schuck's has been a highly successful retailer of automotive parts in the Northwest. We believe this business has tremendous potential for rapid growth and intend to at least double the number of store locations over the next three years.

In February 1984, the Company acquired Northwestern Drug Company, a major Washington wholesaler. Northwestern Drug operates a 258,000-square-foot mechanized warehouse supplying mainly hospitals and drug stores, including some Pay 'n Save and Bi-Mart stores. The Company's goal for this new operation is to maintain quality service to its many wholesale customers while expanding the centralized distribution of products to Pay 'n Save and Bi-Mart drug stores. Northwestern Drug also will add new lines and become an important supplier to the Ernst home center stores.

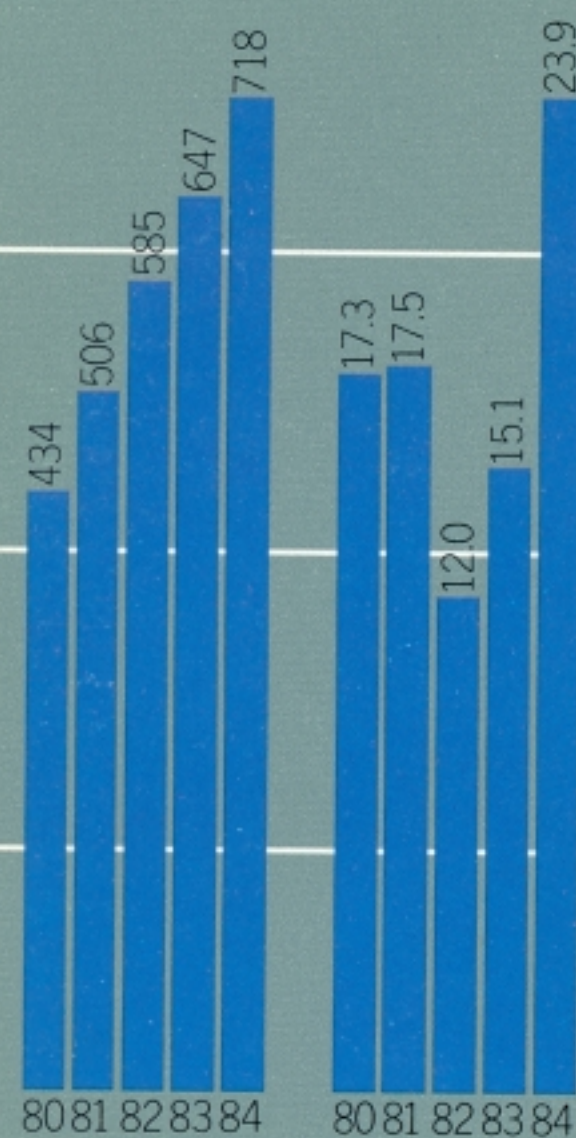
We are, of course, gratified at the strong improvement in operating results which we have been able to achieve for the past year. However, we are even more excited about the important strategic steps which we have taken during the year to position your Company for an outstanding future.

M. Lamont Bean  
Chairman of the Board and  
Chief Executive Officer

Calvin Hendricks  
Vice Chairman of the Board  
and Chief Financial Officer

E. Ronald Erickson  
President and  
Chief Operating Officer.





**Sales**  
(in \$ Millions)

**Pretax Earnings**  
(in \$ Millions)



## CUSTOMER SERVICE EMPLOYEE PRODUCTIVITY

Slot scanner test  
improved service  
and productivity

# DRUG DIVISION

Sales for the Company's drug division, which consists of 111 Pay 'n Save and 32 Bi-Mart stores, increased 11% for the year to \$718,089,000 from \$646,475,000 reported during fiscal 1983. Approximately 9% of the sales increase was attributable to improved sales in existing stores with the remaining 2% resulting from new stores.

Earnings before income taxes were \$23,873,000, a 58% increase over the \$15,077,000 reported a year ago. Divisional sales amounted to 59% of consolidated sales. Earnings before income taxes were 42% of the consolidated total.

Improved earnings are primarily attributable to increased sales volume, improved gross margins and continued control over growth in operating expenses.

The Pay 'n Save chain maintains outlets in the states of Washington, California, Alaska, Hawaii, Idaho, Montana and Wyoming. The typical Pay 'n Save store is approximately 22,000 square feet in size and offers a complete pharmacy plus health and beauty aids, toiletries, small appliances and electronics, records, cameras and photo processing, sporting goods, candy, tobacco and some food products. Several drug/home center combination stores are much larger and carry hardware, nursery products and lumber as well.

Management worked hard during fiscal 1984 to improve its merchandising tools. Under the guidance of newly named director of merchandising Jim O'Sullivan, existing programs were refined in an ongoing effort to strengthen merchandise mix, reduce stock outs and improve store presentation.

During the year, Pay 'n Save implemented a pilot test of a slot scanning system in one Seattle store. This system is similar to those used in many grocery stores and is capable

of reading the manufacturer (UPC) bar codes printed on most merchandise. The test has demonstrated that the system provides improved customer service and employee productivity through faster and more accurate cash register checkouts. In addition, the scanners capture merchandise movement information which will support the division's ongoing merchandise planning efforts. Scanning systems will be installed in 12 more Seattle stores this year.

In order to better understand its customers' needs and perceptions, Pay 'n Save conducts extensive market research studies. These focus



## MERCHANDISING PLANOGRAMS

The division's customer base is strong and thriving



## MARKET STRENGTH CUSTOMER BASE



Long-range planning efforts emphasize refining of store planograms



Consumer studies provide valuable input into marketing efforts

## FOCUS GROUPS MARKET RESEARCH

group studies confirm that Pay 'n Save occupies "top of mind" recognition in our primary market areas. The vast majority of consumer respondents display positive attitudes toward our print and electronic advertising, convenient locations and good service. The results of our research are incorporated into our continuing efforts to serve the needs of our customers with a commitment to excellence.

New stores opened during the year in Missoula, Montana and Maui,

Hawaii. Three unprofitable California stores were sold.

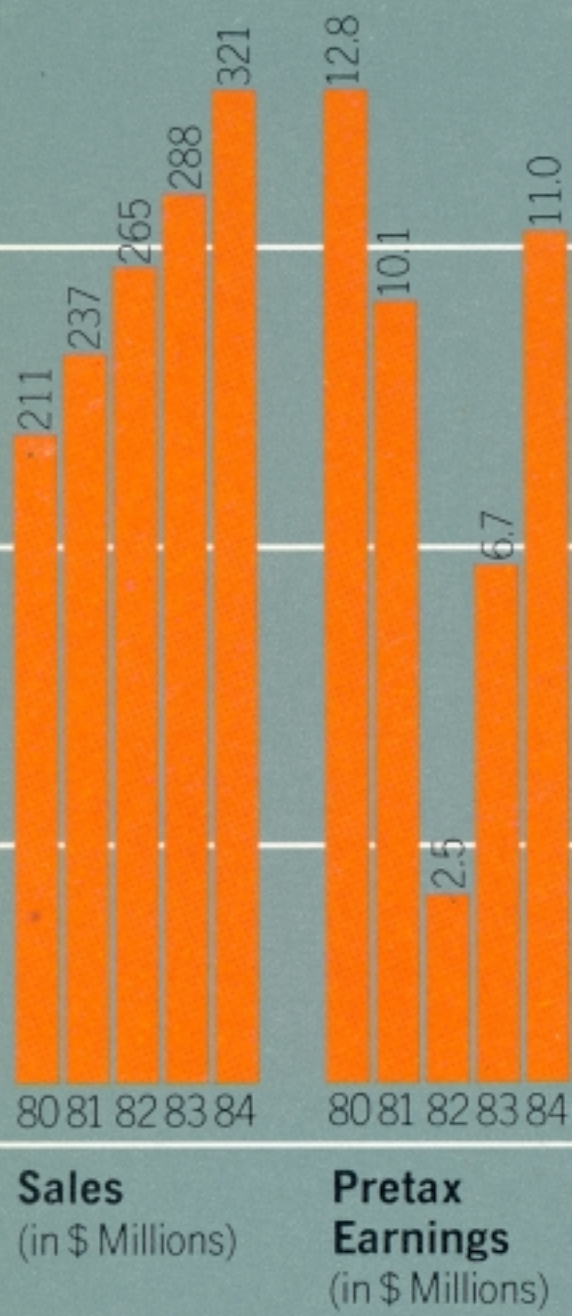
Three new Western Washington area stores are set to open during fiscal 1985 along with an expanded facility for the Pay 'n Save in Soldotna, Alaska.

The Bi-Mart portion of the drug division operates stores in the states of Washington and Oregon. The 30,000 square-foot stores emphasize low overhead, standardization and a discount philosophy that has made them a consistent performer for the Company. Emphasis on name brand products at everyday low prices has been instrumental in Bi-Mart's continued success.

Bi-Mart continued its expansion into the Portland, Oregon market with the addition of two new stores. This brings the number of outlets in the Portland area to five, all of which have opened during the past two years. An additional Portland store is set to open in fiscal 1985. A new Bi-Mart also is planned for Oregon's capital city of Salem in the coming year.



## PRODUCT KNOWLEDGE CUSTOMER SERVICE



Experienced employees provide service and share product knowledge with customers

# HOME CENTER DIVISION

The Company's home center division, which comprises 90 stores in seven states, achieved sales of \$321,326,000, up 11% from the \$288,408,000 reported a year ago. Approximately 10% of the sales increase was attributable to improved sales in existing stores with the remaining 1% resulting

from new stores. Pre-tax earnings for the year were \$11,007,000, a 64% increase compared to the \$6,726,000 recorded last year. The division was responsible for 26% of consolidated sales and 20% of consolidated pre-tax earnings.

Solid sales increases coupled with continued control over operating expenses were the key to the division's increased profitability. The strengthening of the housing market was an important contributor to improved sales growth. Gross margins declined somewhat due

to the closeout of sporting goods merchandise as the first step of a strategic plan to reformat the Ernst home center stores.

The 69-store Ernst home center chain operates in Washington, Idaho, Utah, Wyoming, Nevada and Montana. The stores average approximately 36,000 square feet and carry a large assortment of tools, paint,

lumber and electrical, plumbing and building supplies. Each outlet has a nursery featuring indoor and outdoor plants as well as lawn and garden equipment and supplies.

During the year, the Company undertook a reevaluation of the growing do-it-yourself (DIY) market, including an extensive market research effort designed to better understand and fulfill customer needs. The results of this effort confirmed the Company's belief that today's DIY consumer is project-oriented and that DIY projects are becoming increasingly larger and more sophisticated.



## PRODUCT TRAINING TEAM WORK

Ernst buyers plan for expanded lumber departments



Extensive product-related training is provided to employees



Do-it-yourself projects are becoming larger and more complex

## DO-IT-YOURSELF MARKET GROWTH

## EFFECTIVE BUYING MERCHANDISE STRATEGIES

In order to appeal to the needs of this growing consumer group, Ernst recently announced format changes with stronger emphasis on home improvement merchandise and a back-to-basics store design.

In the new configuration, sporting goods and certain other non-DIY lines will be replaced by a broader selection of lumber, hardware, electrical, paint and plumbing products.

Also, the new Ernst will stock more kitchen and bathroom fixtures and expanded lines of home decorating items, including "large ticket" items such as tub enclosures, hot water heaters, cabinets, doors and windows.

The garden section of Ernst will continue to provide the same quality products and service to which our customers have grown accustomed.

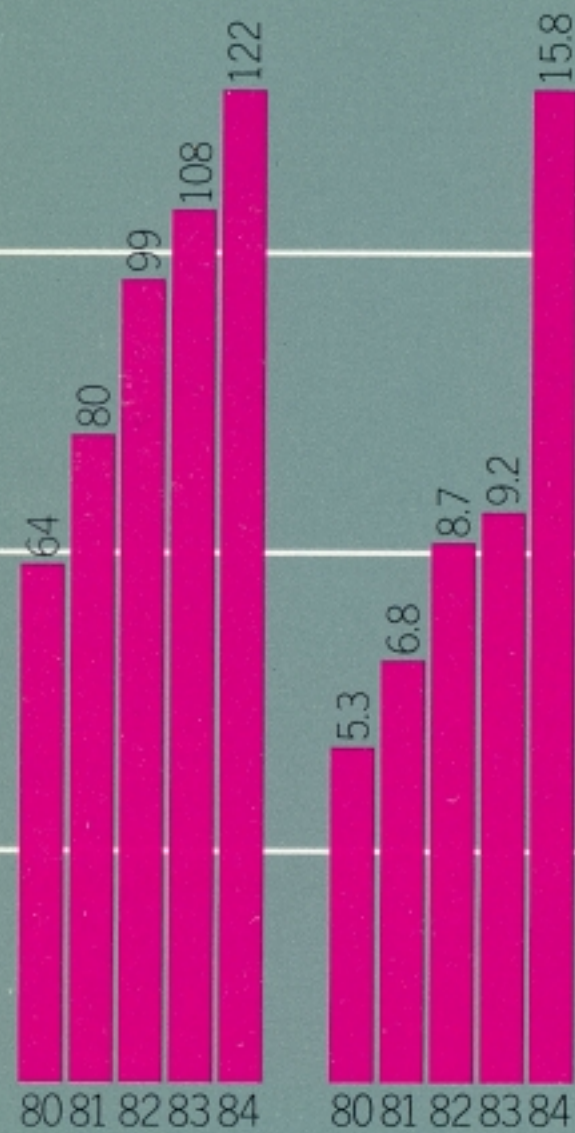
Remerchandising and remodeling is currently underway and will be accomplished over the next two to three years.

Ernst opened one new store during the year located in Missoula, Montana. Two new Ernst outlets in

Western Washington are scheduled for the coming year.

In addition to the Ernst stores, the home center division includes three Von Tobel's home improvement centers in Las Vegas, three Yard Birds family shopping centers in central Washington and 15 Sports-west sporting goods stores located in Anchorage, Alaska and in Western Washington.





**Sales**  
(in \$ Millions)

**Pretax Earnings**  
(in \$ Millions)

Lamonts features popular lines of sportswear



## VALUE MERCHANDISE MIX

# APPAREL DIVISION

Lamonts, the Company's 24-store apparel division, ended fiscal 1984 with sales totaling \$121,984,000, compared to \$108,335,000 during the prior year, an increase of 13%. Pre-tax earnings were \$15,765,000 and increased 72% as compared with 1983 pre-tax earnings of \$9,185,000. The apparel division was responsible for 10% of consolidated sales and contributed 28% of the Company's consolidated earnings before income taxes.

Factors contributing to these positive results were solid sales increases combined with strong improvement in gross margins.

Offering attractive and spacious surroundings, Lamonts stores average 50,000 square feet and are conveniently located in neighborhood shopping centers or regional malls in Washington, Oregon, Idaho and Alaska. Stores from the drug and home center divisions often are situated in these shopping centers, giving the Company concentrated coverage in its various business lines in these markets.

During the year, Lamonts strengthened the depth and selection of its merchandise lines by the addition of several new national brands. This had the effect of enhancing the division's competitive posture and reinforced Lamonts' image of quality and value to its customers.

In addition, selected outlets were used to test market various upscale merchandise lines in an effort to

broaden customer base. However, the core business continues to be mainstream fashions at moderate prices for the whole family.

That image was well-portrayed in Lamonts' weekly advertising tabloid, the division's primary promotional tool. Originally distributed only through newspapers, the tab distribution was expanded in mid-year to include direct mail to households in targeted markets. The combination of direct mail and newspaper advertisements provides for optimum circulation and readership. Increased levels of electronic advertising also helped to reinforce the Lamonts name in the mind of the consumer.



## ADVERTISING MARKET COVERAGE



Promotions of brand name merchandise attract customers

## PROMOTION BRAND NAME



Lamonts colorful advertising tab provides total market coverage of weekly specials



Selection and value make Lamonts the ideal place for the whole family to shop

## SELECTION FAMILY SHOPPING

Lamonts is constantly seeking innovative advertising for particular objectives. For instance, public transit display advertising was used in the Seattle area to support an extremely successful back-to-school campaign.

During the latter part of fiscal 1984, Lamonts added increased

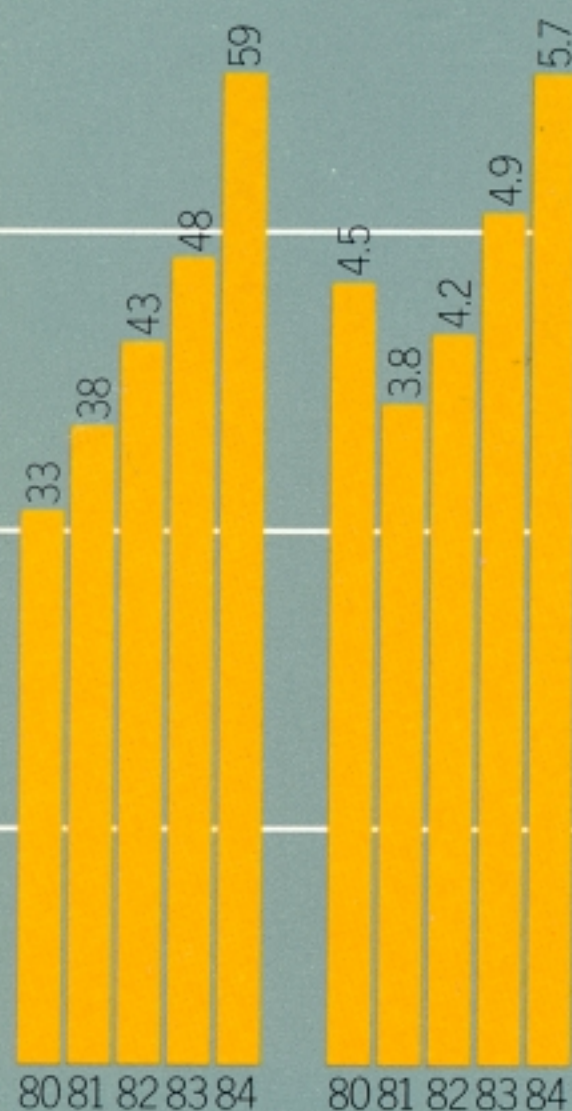
depth to its merchandise management group. The expanded buying organization creates more clearly defined buying and communications channels and enables a more streamlined approach for buying merchandise in the future.

During the coming year, human resource plans call for intensification of management training and recruitment programs in order to

continue strengthening of the management team.

No new Lamonts outlets were added during fiscal 1984. However, two new outlets are planned for the current year.





**Sales**  
(in \$ Millions)

**Pretax Earnings**  
(in \$ Millions)

Customers rely on the expert advice provided by Schuck's employees



**PRODUCT DEPTH  
CUSTOMER SERVICE**

# AUTO SPECIALTY DIVISION

During the year, the Company acquired Schuck's Auto Supply, a major Pacific Northwest retailer of automotive parts and accessories. The new division achieved sales totaling \$59,122,000 for the year just ended, up 23% from its fiscal 1983 sales of \$48,069,000. Approximately 18% of the sales increase was attributable to improved sales in

existing stores with the remaining 5% resulting from new stores. Pre-tax earnings were \$5,710,000, an increase of 17% over last year's pre-tax earnings of \$4,892,000. Schuck's was responsible for 5% of consolidated sales and contributed 10% of pre-tax profits.

The Company acquired Schuck's with the objective of rapidly expanding this business. Current plans call for doubling the present store count within the next three years. The store building design and layout has been thoroughly developed and repeatedly proven. Individual stores

can be built, stocked and opened in a short period of time with minimal capital expenditure.

Schuck's stores cater to the do-it-yourself (DIY) consumer. This market has grown steadily in the last decade as consumers use their cars more and keep them longer. Increasing amounts of auto maintenance, repair and customizing are being completed by the car-driving public, and these people are turning to Schuck's for parts and advice.

Schuck's has met this consumer demand by stocking a broad, in-depth selection of quality parts and accessories for both foreign and domestic cars at competitive prices. Merchandise lines include many national brands. In addition, private label products account for approximately 25% of sales. The stores carry automotive parts such as carburetors, alternators and starters and a wide array of accessories such as gauges, tools, oil and other additives, filters, seat covers and sound systems.

Schuck's emphasizes customer service and keeping quality products in stock. Inventory levels are controlled through the use of



## DIY CONSUMERS EMERGING MARKET



Today's car owners do more of their own maintenance



Schuck's stores are strategically located in its markets

## LOCATION MARKET SHARE



Inventory movement is carefully monitored through use of point of sale terminals

## INVENTORY CONTROL INFORMATION SYSTEMS

centralized buying and warehousing and a merchandise information system featuring point of sale terminals in all stores.

At fiscal year-end, Schuck's operated 58 stores in Washington, Idaho and Oregon, with two-thirds of those stores located in Western Washington. The typical Schuck's is about 5,000 square feet in size.

Schuck's employees are thoroughly trained in customer service techniques. Employees greet each customer who walks into the store and actively assist them in diagnosing

repair problems and selecting appropriate merchandise. This selling approach and Schuck's "satisfaction guaranteed" policy has led to great customer loyalty. It is not unusual for store personnel to know customers by name.

Schuck's advertising uses a well-balanced campaign of newspapers and color circulars with customized graphics, radio, television and special event promotions. The combination of high shopper traffic generated by these advertisements and a trained sales force enables Schuck's to effectively market higher margin products in addition to advertised specials.

One promotion has brought Schuck's national recognition. The

annual "Million Dollar Fish Derby" has won the Automotive Advertisers Council Grand Award for Promotion and attracts thousands of customers to the stores each year.

Overall, Schuck's strong market position, marketing approach, experienced and hands-on management, computerized systems and operational strengths will provide for growth and a contribution to the Company's future success.



# PRICE SAVERS WHOLESALE CLUB



In October 1983, the Company announced plans to open a chain of cash and carry wholesale warehouses catering to small businesses and members of selected groups. Price Savers Wholesale Club opened its first warehouse in Salt Lake City in March 1984, and by the end of the summer, will open two additional warehouses in Seattle and Tacoma, Washington.

The Price Savers format is a true "no frills," self-service operation. Each 100,000-square-foot warehouse will have concrete floors and

open beamed ceilings with merchandise stacked high on pallets. Customers will enjoy very low prices and a wide variety of product categories.

Each warehouse will carry major appliances, groceries, office equipment and supplies, housewares, domestics, plants, seasonal goods, books, health and beauty aids, automotive products, hardware, tools, electronics and apparel. Each unit also will have a tire center where members can purchase tires and have them mounted.

Low gross margins allow for extremely attractive pricing of merchandise to customers which is expected to result in very rapid inventory turns and high sales per square foot. This high sales volume, combined with closely controlled operating expenses, represents a

formula for outstanding potential returns on investment in this exciting new business. Specific cost controls include limited operating hours and minimal advertising.

The majority of the customer base is expected to be small businesses who will purchase products either for their own use or for resale to others. Each business will pay an annual fee. Warehouses will have special hours exclusively for business customers.

Another type of membership will be offered to qualified groups, such as members of approved credit unions and employees of hospitals, public utilities, financial institutions and state, local and federal governments. Although group members will not pay an annual fee to shop at the warehouses, they will be charged slightly higher prices than business customers.

The Company has recruited an excellent group of experienced merchandisers to manage its entry into this new business. This management strength combined with the exciting wholesale club concept provides a promising growth vehicle for the Company.



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# MANAGEMENT'S DISCUSSION & ANALYSIS

The following is an analysis of the major factors and elements regarding the operations, financial condition, liquidity and capital resources of the Company. This discussion and analysis should be read in conjunction with the financial statements and retroactively reflects the 1984 acquisition of Schuck's Auto Supply, Inc. in a pooling of interests.

## Results of Operations

Fiscal 1984 earnings of \$30,104,000 (\$2.02 per share) were a Company record high, increasing by 54% (43% for earnings per share) over 1983. Earnings for 1983 were \$19,593,000 (\$1.41 per share) as the Company rebuilt from the earnings setback experienced during the recession of 1981-1982. Earnings were 2.47% of sales in 1984, compared to 1.80% in 1983 and 1.54% in 1982.

Sales set new Company records in each of the past three years. Sales increased 12% in 1984, 10% in 1983, and 15% in 1982 over the respective preceding years. These increases reflect sales growth in existing stores of 10% (1984), 8% (1983) and 6% (1982). The increases also reflect the net addition of 8 stores in 1984, 14 stores in 1983 and 9 stores in 1982 and include inflation-related price increases in amounts which cannot be precisely measured.

Cost of merchandise sold was 70.1% of sales in 1984, 70.4% in 1983 and 70.3% in 1982. The fluctuations reflect the Company's efforts to maintain and improve its market share and gross margins as well as the changes in its merchandise mix.

As a percentage of sales, operating and administrative expenses decreased in 1984 to 24.2% as compared to 24.7% in 1983 and 24.8% in 1982. The decreases in 1984 and 1983 are the result of effective budgetary controls over the growth in operating expenses. The decreases also reflect the slowdown during the past three years in numbers of new stores opened, which are typically initially less profitable than mature stores.

Interest expense decreased by 21% in 1984 to \$17,947,000, compared to \$22,633,000 in 1983 and \$24,861,000 in 1982 and includes capital lease interest of \$11,359,000 (1984), \$11,458,000 (1983) and \$11,768,000 (1982). The decreases result from lower interest rates and reduction in 1984 in average debt outstanding.

The effective income tax rate for 1984 was 46.6%, up from 45.4% in 1983 and 44.4% in 1982. The increases are caused primarily by reduced investment tax credits as a percent of pre-tax earnings.

## Financial Condition, Liquidity and Capital Resources

The Company's operations are its principal source of working capital, providing \$47,259,000 in 1984 compared to \$37,107,000 in 1983 and \$28,690,000 in 1982. In 1984 funds of approximately \$30,500,000 were generated from the sale of common stock, and were used to retire long term debt. The principal use of funds is the addition of property and equipment, primarily in connection with new stores. This declined to

\$21,796,000 in 1984 compared to \$22,668,000 in 1983 and \$36,511,000 in 1982.

Working capital has remained relatively constant from 1982 to 1984 and was \$130,675,000 at January 28, 1984. The year-end current ratio was 2.00 for 1984 compared to 2.29 for 1983 and 2.53 for 1982. These amounts reflect the Company's efforts to increase sales and earnings while maintaining controlled asset growth.

During 1984 stockholders' equity and stockholders' equity per share increased by 32% and 20%, respectively to \$218,905,000 and \$14.37. Long-term liabilities as a percentage of stockholders' equity were 64% at 1984 year-end, an eight year low. The stronger equity base is the result of the cash flow from improved earnings, the 1984 common stock sale and the 1984 retirement of \$63,081,000 of long-term liabilities.

The Company's seven year revolving credit/term loan agreement provides the ability to finance seasonal inventory fluctuations as well as meet medium-term capital needs. As the result of the 1984 stock sale, the Company has reduced the amount available under the agreement to \$70,000,000 (including commercial paper). At January 28, 1984, \$3,500,000 was outstanding under the agreement, compared to year-end borrowings of \$61,265,000 in 1983 and \$61,962,000 in 1982. The maximum end-of-month balances outstanding under this agreement were approximately \$79,000,000 in 1984 and \$90,000,000 in both 1983 and 1982. Average borrowings under the agreement were approximately \$43,500,000 (1984), \$71,000,000 (1983) and \$69,000,000 (1982) with corresponding average interest rates of approximately 9.88%, 12.77% and 16.68%, respectively.

The Company plans capital expenditures of approximately \$75,000,000 in fiscal 1985. Management believes that the Company's capital resources, combined with cash flow from operations, are adequate to fund its planned expansion and to maintain the liquidity required by its operations for the foreseeable future.

## Inflation

The effects of inflation have moderated during 1984 and 1983 as the general inflation rate has declined. The effects of inflation on the Company's operations are discussed in the supplemental section entitled "Financial Reporting for the Effects of Inflation" on pages 24 and 25 of this Annual Report.



# CONSOLIDATED STATEMENTS OF EARNINGS AND OF STOCKHOLDERS' EQUITY

## Consolidated Statement of Earnings

For the fiscal years

	1984	1983	1982
	(in thousands of dollars except per share data)		
<b>Revenues</b>			
Sales	\$1,220,521	\$1,091,287	\$992,326
Other	4,853	4,198	3,601
	<b>1,225,374</b>	<b>1,095,485</b>	<b>995,927</b>
<b>Costs and Expenses</b>			
Cost of merchandise sold	856,049	767,725	697,871
Operating and administrative expenses	295,023	269,247	245,791
Interest	17,947	22,633	24,861
	<b>1,169,019</b>	<b>1,059,605</b>	<b>968,523</b>
Earnings before income taxes	56,355	35,880	27,404
Provision for income taxes	26,251	16,287	12,154
Earnings	<b>\$ 30,104</b>	<b>\$ 19,593</b>	<b>\$ 15,250</b>
Earnings per share	<b>\$2.02</b>	<b>\$1.41</b>	<b>\$1.10</b>

## Consolidated Statement of Stockholders' Equity

	Common Shares Outstanding	Common Stock	Retained Earnings	Total Stockholders' Equity
			(thousands of dollars)	
Balances at January 31, 1981	13,796,156	\$36,339	\$109,949	\$146,288
Earnings for the year ended January 30, 1982			15,250	15,250
Cash dividends—\$.50 per share			(9,708)	(9,708)
Exercise of stock options	2,700	34		34
Balances at January 30, 1982	13,798,856	36,373	115,491	151,864
Earnings for the year ended January 29, 1983			19,593	19,593
Cash dividends—\$.50 per share			(5,826)	(5,826)
Exercise of stock options	800	9		9
Balances at January 29, 1983	13,799,656	36,382	129,258	165,640
Earnings for the year ended January 28, 1984			30,104	30,104
Cash dividends—\$.54½ per share			(7,305)	(7,305)
Sale of common stock	1,430,000	30,447		30,447
Exercise of stock options	1,200	19		19
Balances at January 28, 1984	15,230,856	\$66,848	\$152,057	\$218,905

The accompanying notes are an integral part of these financial statements.



# CONSOLIDATED BALANCE SHEET

<b>Assets</b>	January 28, 1984	January 29, 1983
	(thousands of dollars)	
<b>Current Assets</b>		
Cash and short-term investments (at cost)	\$ 17,462	\$ 14,253
Receivables, less allowance for doubtful accounts of \$300,000 (1984) and \$150,000 (1983)	10,033	11,229
Inventories	232,443	219,231
Prepaid expenses	1,690	930
Total current assets	261,628	245,643
<b>Property and Equipment</b>	212,059	207,866
<b>Other Assets</b>		
Deferred income taxes	5,904	6,122
Excess of cost over net assets of acquired companies	3,338	3,442
Notes receivable and other	7,820	5,045
Total other assets	17,062	14,609
	<b>\$490,749</b>	<b>\$468,118</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 89,284	\$ 71,185
Accrued payroll and related costs	14,748	10,961
Other accrued expenses	15,740	14,957
Income taxes	7,017	5,602
Current maturities of long-term liabilities	4,164	4,376
Total current liabilities	130,953	107,081
<b>Long-Term Liabilities</b>		
Long-term debt	30,839	86,628
Obligations under capital leases	106,323	106,384
Other	3,729	2,385
Total long-term liabilities	140,891	195,397
<b>Stockholders' Equity</b>		
Common stock—authorized 20,000,000 shares without par value, outstanding 15,230,856 (1984) and 13,799,656 (1983)	66,848	36,382
Retained earnings	152,057	129,258
Total stockholders' equity	218,905	165,640
	<b>\$490,749</b>	<b>\$468,118</b>

The accompanying notes are an integral part of these financial statements.



# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the fiscal years

1984

1983

1982

(thousands of dollars)

## Sources of Working Capital

Financial resources were provided by:

Earnings	\$30,104	\$19,593	\$ 15,250
Charges (credits) not affecting working capital—			
Depreciation and amortization of property and equipment	15,255	15,559	15,131
Deferred income taxes	218	237	(1,304)
Other charges (credits)	1,682	1,718	(387)
Working capital provided by operations	47,259	37,107	28,690
Sale of common stock	30,466	9	34
Increase in long-term liabilities	7,307	4,170	81,316
Other	(737)	2,175	455
	84,295	43,461	110,495

## Uses of Working Capital

Financial resources were used for:

Additions to property and equipment	21,796	22,668	36,511
Current maturities and repayment of long-term liabilities	63,081	5,871	3,593
Cash dividends	7,305	5,826	9,708
	92,182	34,365	49,812
Increase (decrease) in working capital	\$ (7,887)	\$ 9,096	\$ 60,683

## Analysis of Changes in Working Capital

Increase (decrease) in current assets:

Cash and short-term investments	\$ 3,209	\$ 95	\$(17,254)
Receivables	(1,196)	2,701	530
Recoverable store location expenditures		(1,084)	(7,401)
Inventories	13,212	29,652	10,436
Prepaid expenses	760	195	(544)
	15,985	31,559	(14,233)

(Increase) decrease in current liabilities:

Short-term debt			63,269
Accounts payable and accrued expenses	(22,669)	(20,508)	10,527
Income taxes	(1,415)	(1,172)	1,443
Current maturities of long-term liabilities	212	(783)	(323)
	(23,872)	(22,463)	74,916
Increase (decrease) in working capital	\$ (7,887)	\$ 9,096	\$ 60,683

The accompanying notes are an integral part of these financial statements.



# NOTES TO FINANCIAL STATEMENTS

## 1. Summary of Accounting Policies

**Fiscal Year**—The Pay 'n Save Corporation fiscal year ends on the Saturday nearest January 31.

**Basis of Consolidation**—The financial statements include Pay 'n Save Corporation and its wholly-owned subsidiaries. All material intercompany transactions have been eliminated.

**Inventories**—Company inventories are principally valued at the lower of first-in, first-out cost or market. Inventory values for Lamonts, Bi-Mart and Yard Birds are determined by the retail inventory method.

**Property and Equipment**—Property and equipment is recorded at cost less accumulated depreciation based on the following useful lives: buildings, 10-40 years; furniture, fixtures and equipment, 3-10 years; leasehold improvements and property under capital leases, life of lease or useful life if shorter. Depreciation is computed using primarily the straight-line method. Accelerated depreciation methods are generally applied for income tax purposes. The cost of assets retired or disposed of and the accumulated depreciation thereon are removed from their related accounts and the resulting gain or loss is reflected in earnings. Maintenance and repairs are charged to earnings while major improvements are capitalized.

**Excess of Cost Over Net Assets of Acquired Companies**—Excess of cost over the value of tangible net assets acquired is amortized over a 40-year period and results primarily from the acquisition of Bi-Mart and Von Tobel's. Accumulated amortization was \$939,000 at January 28, 1984.

**Accounts Payable**—Outstanding checks of \$37,215,000 in 1984 and \$28,744,000 in 1983 are included in accounts payable.

**Earnings Per Share**—Earnings per share are based on the weighted average number of shares outstanding during each year, adjusted for the dilutive effect of stock options. Fully diluted earnings per share do not differ materially from primary earnings per share. In June 1983 the Company sold 1,430,000 shares of common stock resulting in net proceeds to the Company of \$30,447,000. The pro forma consolidated earnings and earnings per share for the year ended January 28, 1984 (computed as if the stock offering had occurred on January 29, 1983 and the proceeds were used to repay the Company's bank debt, less related income tax effects) are as follows:

Historical earnings	\$30,104,000
Pro forma adjustment	560,000
Pro forma earnings	\$30,664,000
Pro forma earnings per share	\$1.98

**Income Taxes**—Deferred income taxes are provided to reflect the differences in the timing of reporting certain expenses for financial reporting and income tax purposes. Investment tax credits are reflected under the flow-through method as a reduction in federal income taxes in the year such credits arise.

## 2. Property and Equipment

Property and equipment are comprised of the following, at cost:

	1984	1983
	(thousands of dollars)	
Land	\$ 19,156	\$ 17,727
Buildings under capital leases	120,114	118,326
Buildings and improvements	60,453	56,118
Leasehold improvements	21,577	19,721
Furniture, fixtures and equipment	87,176	82,635
	308,476	294,527
Less accumulated depreciation and amortization	(102,117)	(88,847)
	206,359	205,680
Construction in progress	5,700	2,186
	\$212,059	\$207,866

Accumulated amortization of buildings under capital leases was \$33,295,000 for 1984 and \$28,935,000 for 1983.

Interest costs on projects constructed by the Company are capitalized as part of the historical cost of assets (\$415,000 in 1984, \$843,000 in 1983 and \$809,000 in 1982).



### 3. Long-Term Debt

Long-term debt is summarized as follows:

	1984	1983
	(thousands of dollars)	
Notes payable to banks under \$70,000,000 revolving credit agreement, described below	\$ 3,500	\$40,500
Commercial paper		20,765
Industrial Development Revenue (IDR) Bonds, secured by the related real estate—		
Due in 2014, interest at 8.875% until November 1988, thereafter at 65% of prime	3,900	
Due in 2014, interest at 65% of prime (refinanced in 1984)	7,200	7,200
Due in 1997, interest at 67% to 68% of prime	7,600	11,250
Notes payable, interest at 7%, due in annual installments through 1992	3,490	4,052
Notes payable, interest at 8.825%, secured by certain real property, due in annual installments through 1997	4,548	4,648
Other (principally mortgages)	7,789	10,167
	38,027	98,582
Current maturities of long-term debt	(1,785)	(2,241)
Industrial Development Revenue Bond funds held by Trustees	(5,403)	(9,713)
	\$30,839	\$86,628

Under the terms of its revolving credit agreement with a group of banks, the Company may borrow up to \$70,000,000 (including commercial paper backed under the agreement) until December 31, 1986, at which time

outstanding borrowings may be converted into a term loan with annual principal payments equal to one-sixth of such outstanding borrowings due in 1987 through 1989 and the remaining one-half of such outstanding borrowings due December 31, 1990. Interest on outstanding borrowings is computed at the lesser of the prime rate or certain rate options based upon the cost of funds available to the various participating banks. A commitment fee of  $\frac{3}{8}\%$  per year of the daily average unused portion of the revolving credit is payable through December 31, 1986. Prepayments on amounts borrowed prior to December 31, 1986 are generally permitted without penalty. The weighted average interest rate of such borrowings (including commercial paper) outstanding at January 28, 1984 was 9.90% and at January 29, 1983 was 9.53%.

The Industrial Development Revenue Bonds provide for put options commencing in fiscal 1987 under which the Company can be required by the bondholders to repurchase the outstanding bonds. The Company may prepay the bonds at certain dates, generally at par.

The revolving credit and IDR Bond agreements contain certain restrictive covenants, including the maintenance of a minimum current ratio and tangible net worth. For the fiscal year ended January 28, 1984, the Company was in compliance with all covenants. Under the most restrictive of these covenants, approximately \$53,093,000 of retained earnings were not restricted as to payment of dividends at January 28, 1984.

Long-term maturities for the five years subsequent to January 28, 1984, assuming the put options on the Industrial Development Revenue Bonds are fully exercised, are \$1,785,000 (1985); \$1,196,000 (1986); \$8,899,000 (1987); \$1,547,000 (1988) and \$12,737,000 (1989).

### 4. Leases

The Company leases a majority of its stores and some equipment. Generally, the store leases provide for minimum rentals (which, in some cases, include payment of taxes and insurance), plus contingent rentals (based upon a percentage of sales in excess of a stipulated minimum). The majority of lease agreements cover periods from 20 to 30 years, with three to five renewal options of five years each. However, the Company has a number of leases covering shorter periods, with fewer renewal options.

Contingent rentals (including taxes and insurance) paid on capital leases were \$4,300,000 in 1984, \$3,632,000 in 1983 and \$3,835,000 in 1982. Sublease rental income received from buildings under capital leases was \$876,000 in 1984, \$702,000 in 1983 and \$1,048,000 in 1982.



Future minimum rental payments under capital leases together with present value of net minimum lease payments are as follows:

<i>For the fiscal years</i>	<i>Amount</i> <i>(thousands of dollars)</i>
1985	\$ 14,066
1986	13,937
1987	13,915
1988	13,860
1989	13,777
Thereafter	196,716
Total minimum rental payments	266,271
Less estimated executory costs (primarily taxes and insurance)	(4,317)
Less amounts representing interest	(153,252)
Present value of obligations under capital leases at January 28, 1984	108,702
Less current portion	(2,379)
Long-term obligations under capital leases	\$106,323
Future sublease rentals	\$ 4,472

Future minimum rental payments under operating leases are as follows:

<i>For the fiscal years</i>	<i>Amount</i> <i>(thousands of dollars)</i>
1985	\$12,378
1986	12,035
1987	11,550
1988	10,557
1989	9,968
Thereafter	133,267
Total minimum rental payments	\$189,755
Future sublease rentals	\$ 2,354

Operating lease rental expense is as follows:

<i>For the fiscal years</i>	<b>1984</b>	1983	1982
	<i>(thousands of dollars)</i>		
Minimum rentals	<b>\$12,912</b>	\$11,830	\$10,099
Contingent rentals	<b>3,126</b>	2,413	1,924
Sublease rentals	<b>(352)</b>	(285)	(354)
	<b>\$15,686</b>	\$13,958	\$11,669

## 5. Pension Plan

The Company has a noncontributory defined benefit pension plan for salaried and hourly employees not covered under union plans. The Company makes annual contributions to the plan in amounts equal to the year's pension expense. Pension expense for 1984, 1983, and 1982 was \$2,084,000, \$2,371,000, and \$2,143,000, respectively, which includes amortization of prior service costs over 15 to 40 years. The actuarial present value of accumulated plan benefits and plan net assets as of April 30 for the Company's pension plan is presented below:

<i>For the fiscal years</i>	<b>1984</b>	1983
	<i>(thousands of dollars)</i>	
Actuarial present value of accumulated plan benefits:		
Vested	<b>\$21,796</b>	\$18,904
Nonvested	<b>1,460</b>	1,489
	<b>\$23,256</b>	\$20,393
Net assets available for benefits	<b>\$29,996</b>	\$20,703

The average rate of return used in determining the actuarial present value of accumulated plan benefits was six percent for 1984 and 1983.

## 6. Employee Stock Option Plans

The Company's 1980 Non-Qualified Stock Option Plan provides for the granting of stock options with a nominal exercise price determined by the Board of Directors. Options generally become exercisable five years after grant and expire eight years after grant. Options were exercised under the plan for 1,200 shares in 1984, 800 shares in 1983 and 1,600 shares in 1982 at a price of \$.50 per share.

The 1984 Incentive Stock Option Plan provides for options with an exercise price not less than the stock's market price on the grant date. Most other terms are determined by a committee of the Board of Directors at the time of grant.

Outstanding options under the two plans at January 28, 1984 are summarized as follows:

<i>Options Become Exercisable in Fiscal</i>	<i>Price per Share</i>	<i>Number of Shares</i>
1986	\$ .50	201,200
1986	23.25	500
1987	.50	50,600
1988	.50	147,600
1989	.50	152,000
		<b>551,900</b>

On January 28, 1984, there were 1,096,400 shares of the Company's authorized unissued common stock reserved for issuance under the option plans.



## 7. Income Taxes

Provision for income taxes has been made as follows:

For the fiscal years	1984	1983	1982
	(thousands of dollars)		
Current	\$26,714	\$16,455	\$13,577
Deferred	(463)	(168)	(1,423)
	<b>\$26,251</b>	<b>\$16,287</b>	<b>\$12,154</b>

A reconciliation of income taxes at the federal statutory rate to the income tax expense reflected in the financial statements is as follows:

For the fiscal years	1984	1983	1982
	(thousands of dollars)		
Income taxes at federal statutory rate	\$25,923	\$16,505	\$12,606
State income taxes	1,090	686	521
Investment tax credits	(445)	(787)	(803)
Other	(317)	(117)	(170)
	<b>\$26,251</b>	<b>\$16,287</b>	<b>\$12,154</b>

The principal timing differences resulting in deferred income taxes are as follows:

For the fiscal years	1984	1983	1982
	(thousands of dollars)		
Capital leases	\$(1,270)	\$(1,096)	\$(1,532)
Accelerated depreciation	1,762	987	626
Other	(955)	(59)	(517)
	<b>\$ (463)</b>	<b>\$ (168)</b>	<b>\$(1,423)</b>

## 8. Stock Split

Shares and per share amounts presented in the consolidated financial statements and this Annual Report have been restated to give retroactive effect to the May 1983 two-for-one stock split.

## 9. Acquisition of Schuck's

On January 27, 1984 the Company acquired all the outstanding stock of Schuck's Auto Supply, Inc. in exchange for 2,799,014 shares of Pay 'n Save common stock in a "pooling of interests." Schuck's is included in the 1984 financial statements and all prior year information in this Annual Report has been restated to include Schuck's.

Summarized results of operations of the separate companies for fiscal 1984 (excluding costs incurred in the acquisition) are as follows:

	The Company	Schuck's
	(thousands of dollars)	
Sales	\$1,161,399	\$59,122
Earnings	\$ 27,158	\$ 3,526

The following is a reconciliation of the amounts of sales and earnings previously reported for fiscal years 1983 and 1982 with the restated amounts:

For the fiscal years	1983	1982
Sales (thousands):		
As previously reported	\$1,043,218	\$949,189
Schuck's	48,069	43,137
As restated	<b>\$1,091,287</b>	<b>\$992,326</b>
Earnings (thousands):		
As previously reported	\$ 16,807	\$ 12,897
Schuck's	2,786	2,353
As restated	<b>\$ 19,593</b>	<b>\$ 15,250</b>
Earnings per share:		
As previously reported	\$1.51	\$1.17
As restated	<b>1.41</b>	<b>1.10</b>

Cash dividends include both the amounts paid by the Company (\$6,397,000 in 1984, \$5,500,000 in 1983 and \$5,499,000 in 1982) and distributions by Schuck's to its owners prior to the acquisition (\$908,000 in 1984, \$326,000 in 1983 and \$4,209,000 in 1982). Per share cash dividend amounts presented are the amounts paid by the Company.



## 10. Business Segments

The Company is a diversified retailer engaged primarily in four business segments. Sales and earnings information is shown in the table below. General corporate revenues, expenses and net interest expense are allocated to the business segments based on relative usage.

<i>For fiscal 1984</i>	Drug	Home Center	Apparel	Auto Specialty	Consolidated
			(thousands of dollars)		
Sales	\$718,089	\$321,326	\$121,984	\$59,122	\$1,220,521
Operating profit	\$ 35,814	\$ 18,423	\$ 17,277	\$ 5,926	\$ 77,440
Allocation of general corporate revenues, expenses and interest expense	11,941	7,416	1,512	216	21,085
Earnings before income taxes	\$ 23,873	\$ 11,007	\$ 15,765	\$ 5,710	\$ 56,355

<i>For fiscal 1983</i>	Drug	Home Center	Apparel	Auto Specialty	Consolidated
			(thousands of dollars)		
Sales	\$646,475	\$288,408	\$108,335	\$48,069	\$1,091,287
Operating profit	\$ 28,191	\$ 14,437	\$ 11,792	\$ 5,154	\$ 59,574
Allocation of general corporate revenues, expenses and interest expense	13,114	7,711	2,607	262	23,694
Earnings before income taxes	\$ 15,077	\$ 6,726	\$ 9,185	\$ 4,892	\$ 35,880

<i>For fiscal 1982</i>	Drug	Home Center	Apparel	Auto Specialty	Consolidated
			(thousands of dollars)		
Sales	\$585,449	\$264,983	\$ 98,757	\$43,137	\$ 992,326
Operating profit	\$ 25,150	\$ 12,783	\$ 11,726	\$ 4,775	\$ 54,434
Allocation of general corporate revenues, expenses and interest expense	13,147	10,279	3,004	600	27,030
Earnings before income taxes	\$ 12,003	\$ 2,504	\$ 8,722	\$ 4,175	\$ 27,404

Assets employed, additions to property and equipment and depreciation and amortization of property and equipment are as follows:

<i>Fiscal year-end</i>	1984	1983	1982
		(thousands of dollars)	
Assets employed:			
Drug	\$250,445	\$238,052	\$204,375
Home Center	146,144	148,387	142,886
Apparel	52,755	49,416	52,615
Auto Specialty	21,605	19,186	16,433
Corporate	19,800	13,077	14,887
Total	\$490,749	\$468,118	\$431,196

<i>For the fiscal years</i>	1984	1983	1982
		(thousands of dollars)	
Additions to property and equipment:			
Drug	\$10,249	\$15,714	\$18,370
Home Center	4,138	3,218	12,502
Apparel	1,180	2,223	5,272
Auto Specialty	3,353	1,331	151
Corporate	2,876	182	216
Total	\$21,796	\$22,668	\$36,511

Depreciation and amortization:			
Drug	\$ 6,877	\$ 7,220	\$ 6,396
Home Center	4,676	4,725	4,934
Apparel	2,773	2,886	3,124
Auto Specialty	822	639	620
Corporate	107	89	57
Total	\$15,255	\$15,559	\$15,131



## 11. Quarterly Results, Common Stock Prices and Stockholders (unaudited)

Selected quarterly financial data, which has been adjusted to reflect the acquisition of Schuck's in a pooling of interests (dollar amounts in thousands except per share data) and common stock data, are as follows:

For fiscal 1984 quarters	First	Second	Third	Fourth
Sales	\$255,945	\$301,469	\$300,664	\$362,443
Gross profit	76,853	91,633	90,630	105,356
Earnings	2,823	8,480	7,987	10,814
Earnings per share	.20	.58	.52	.70
Common stock price range	24½-16½	27⅝-21⅞	26⅞-21¼	29¼-18¾

For fiscal 1983 quarters	First	Second	Third	Fourth
Sales	\$227,526	\$276,333	\$268,677	\$318,751
Gross profit	67,259	83,337	78,599	94,367
Earnings	1,349	5,003	3,979	9,262
Earnings per share	.10	.36	.29	.66
Common stock price range	11-8¼	10¼-8¾	14-8¾	18¾-13

The increases (decreases) in quarterly sales, gross profit, earnings and earnings per share resulting from the inclusion of Schuck's in the Company's operating results are as follows (in thousands, except per share data):

For fiscal 1984 quarters	First	Second	Third	Fourth
Sales	\$11,457	\$16,613	\$16,615	\$14,437
Gross profit	4,503	6,416	6,776	6,040
Earnings	314	1,064	1,181	967
Earnings per share	(.02)	(.04)	(.02)	(.08)

For fiscal 1983 quarters	First	Second	Third	Fourth
Sales	\$ 9,421	\$13,145	\$13,726	\$11,777
Gross profit	4,098	5,402	5,053	5,092
Earnings	437	948	651	750
Earnings per share	.02	(.01)	(.01)	(.10)

The Company has approximately 10,000 stockholders.

## 12. Subsequent Event

During February 1984, the Company acquired Northwestern Drug Company (Northwestern) for a cash purchase price of approximately \$3 million. Northwestern is a wholesaler of pharmaceuticals, over-the-counter drug products and health and beauty aids. Its customers include the Company.

Northwestern will be included in the Company's financial statements for periods subsequent to the acquisition. The following presents the unaudited pro forma results of the Company as if Northwestern had been

included in the Company's financial statements since the beginning of fiscal 1982 (all intercompany sales are eliminated):

For the fiscal years	1984	1983	1982
Sales (thousands)	\$1,337,000	\$1,207,000	\$1,096,000
Earnings (thousands)	29,500	20,100	15,400
Earnings per share	1.98	1.45	1.11

## Report of Independent Accountants

### To the Board of Directors and Stockholders of Pay 'n Save Corporation:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of earnings, of stockholders' equity and of changes in financial position present fairly the financial position of Pay 'n Save Corporation and its subsidiaries at January 28, 1984 and January 29, 1983 and the results of their operations, the changes in their stockholders' equity and the changes in their financial position for each of the three years in the period ended January 28, 1984, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements 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.

Seattle, Washington  
March 12, 1984

*Pricewaterhouse*



# FINANCIAL REPORTING FOR THE EFFECTS OF INFLATION

The following supplemental financial information is presented in accordance with Financial Accounting Standards Board Statement 33, Financial Reporting and Changing Prices (FAS 33). An effort has been made to restate financial information to disclose the effects of inflation utilizing the Consumer Price Index (CPI-U) and the effects of changes in specific prices (current cost) utilizing methods of indexing.

Earnings adjusted for general inflation reflects the impact from restating the historical cost of goods sold and depreciation and amortization expense as measured by the CPI-U. All other revenue and expense transactions are assumed to have occurred proportionately during the year.

The gain in purchasing power of net amounts owed is derived from the concept that net monetary liabilities decrease in value with inflation. The gain is calculated by measuring the increase in purchasing power for the year attributable to general inflation. Because the Company's monetary liabilities were substantially in excess of its monetary assets for the year, there was a purchasing power gain in net amounts owed.

The current cost of inventories represents the cost of purchasing the goods at year-end prices. The cost of goods sold reflects prices in effect on the date of sale. The current cost of property and equipment and the

related depreciation and amortization expense are estimates of what the Company's existing assets would cost at January 28, 1984. These values represent the estimated current costs of existing assets and do not consider technological improvements and efficiencies related with the normal replacement of productive capacity.

The provision for income taxes included in the supplemental financial information is the same as reported in the primary financial statements. FAS 33 does not allow income tax provisions based on income after adjustments for effects of inflation. Thus, income taxes as reported reflect effective rates which in real terms exceed established statutory rates.

The five-year comparison shows the effect of adjusting historical net sales, cash dividends per share, and the market price per share to dollar amounts expressed in terms of average fiscal 1984 dollars as measured by the CPI-U. Amounts for prior years have been adjusted to average fiscal 1984 dollars.

The information should be viewed as an experimental attempt to estimate the approximate effects of inflation rather than as a precise measure of the actual effects upon the Company. It does not reflect the results of actual inflated dollar transactions.

## Statement of Earnings Adjusted for Inflation (unaudited)

	As reported in the Primary Financial Statements	Adjusted for General Inflation	Adjusted for Changes in Specific Prices (Current Costs)
<i>For the year ended January 28, 1984</i>			
	(thousands of dollars)		
Sales	\$1,220,521	\$1,220,521	\$1,220,521
Other revenues	4,853	4,853	4,853
	1,225,374	1,225,374	1,225,374
Cost of merchandise sold, excluding depreciation and amortization	855,839	863,644	864,678
Other costs and expenses, excluding depreciation and amortization	297,925	297,925	297,925
Depreciation and amortization	15,255	22,820	22,362
	1,169,019	1,184,389	1,184,965
Earnings before income taxes	56,355	40,985	40,409
Provision for income taxes	26,251	26,251	26,251
Earnings	\$ 30,104	\$ 14,734	\$ 14,158
Gain from decline in purchasing power of net amounts owed		\$ 9,205	\$ 9,205
Increase in current cost of inventories and property and equipment held during the year			\$ 18,292
Less effects of changes in general price levels			(19,766)
Increase in current cost of inventories and property and equipment, net of changes in general price levels			\$ (1,474)

At January 28, 1984, current cost of inventory was \$233,287,000 and current cost of property and equipment, net of accumulated depreciation, was \$305,122,000.



**Five-Year Comparison of Selected Supplementary Financial Data Adjusted for the Effects of Inflation (unaudited)**

*For the fiscal years*

	1984	1983	1982	1981	1980
	<i>(Thousands of average fiscal 1984 dollars except per share figures)</i>				
Historical cost information adjusted for general inflation:					
Sales	<b>\$1,220,521</b>	\$1,126,283	\$1,083,163	\$1,034,379	\$1,010,380
Earnings (loss)	<b>14,734</b>	5,911	(7,298)	(2,041)	3,047
Earnings (loss) per share	<b>.99</b>	.43	(.53)	(.15)	.22
Net assets at year end	<b>318,680</b>	271,450	264,947	257,945	241,981
Gain from decline in purchasing power of net amounts owed	<b>9,205</b>	9,499	19,492	23,689	23,096
Cash dividends per share	<b>.54½</b>	.52	.55	.52	.49
Market price per share at year end	<b>20.04</b>	17.30	11.76	13.57	17.00
Average consumer price index (1967 = 100)	<b>299.3</b>	290.0	274.2	249.1	219.8
Current cost information:					
Earnings	<b>\$ 14,158</b>	\$ 6,929	\$ 3,696	\$ 1,010	\$ 7,627
Earnings per share	<b>.95</b>	.50	.27	.07	.55
Increase in current cost of inventories and property and equipment, net of changes in general price levels	<b>(1,474)</b>	(3,846)	(14,623)	(5,064)	(4,800)
Net assets at year end	<b>308,272</b>	256,767	257,771	263,248	249,146



TEN-YEAR  
SUMMARY

For the fiscal years

	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975
<b>Operating Results</b>										
Sales*	\$1,220,521	\$1,091,287	\$992,326	\$860,888	\$742,003	\$646,366	\$572,321	\$472,737	\$345,669	\$236,388
Earnings*†	30,104	19,593	15,250	21,215	21,796	19,086	16,180	15,078	12,289	8,010
Earnings as percentage of sales†	2.47%	1.80%	1.54%	2.46%	2.94%	2.95%	2.83%	3.19%	3.56%	3.39%
Earnings on average stockholders' equity†	15.66%	12.34%	10.23%	15.21%	17.49%	17.54%	17.22%	18.79%	21.48%	21.60%
<b>Common Stock</b>										
Earnings per share†	\$ 2.02	\$ 1.41	\$ 1.10	\$ 1.54	\$ 1.58	\$ 1.39	\$ 1.18	\$ 1.10	\$ 1.02	\$ .71
Book value per share	14.37	12.00	11.01	10.60	9.64	8.49	7.40	6.35	5.43	3.59
Approximate price range of common stock	29-16	19-8	15-10	14-9	15-11	15-11	13-10	16-10	16-6	7-4
Shares outstanding*	15,231	13,800	13,799	13,796	13,760	13,723	13,671	13,668	13,578	11,347
Cash dividends per share	\$ .545	\$ .50	\$ .50	\$ .43	\$ .36	\$ .30	\$ .25	\$ .20	\$ .15	\$ .125
<b>Financial Position</b>										
Total assets*	\$ 490,749	\$ 468,118	\$431,196	\$422,813	\$319,925	\$269,874	\$248,169	\$200,500	\$149,032	\$ 94,561
Working capital*	130,675	138,562	129,466	68,783	80,578	77,868	69,564	68,542	55,762	34,696
Current ratio	2.00	2.29	2.53	1.43	1.86	2.11	2.00	2.36	2.55	2.54
Long-term debt*	\$ 30,839	\$ 86,628	\$ 85,637	\$ 16,212	\$ 15,446	\$ 14,560	\$ 14,310	\$ 20,495	\$ 9,871	\$ 11,758
Obligations under capital leases*	106,323	106,384	109,077	100,779	78,333	68,765	62,815	42,781	29,479	19,541
Stockholders' equity*	218,905	165,640	151,864	146,288	132,699	116,522	101,147	86,720	73,739	40,697
<b>Capitalization Percentage</b>										
Long-term liabilities	39.2	54.1	56.2	44.4	41.4	41.7	43.3	42.2	34.8	43.5
Stockholders' equity	60.8	45.9	43.8	55.6	58.6	58.3	56.7	57.8	65.2	56.5
<b>Stores in Operation</b>										
<b>Drug Division</b>										
Pay 'n Save	111	112	107	105	89	89	90	89	81	71
Bi-Mart	32	30	26	24	23	18	17	15	13	
<b>Home Center Division</b>										
Ernst	69	68	68	64	53	47	42	39	28	25
Sportswest	15	14	12	11	10	9	9	9	8	7
Von Tobel's	3	3	3	3	2	1	1			
Yard Birds	3	3	3	3	3	2	2	2		
<b>Apparel Division</b>										
Lamonts	24	24	23	23	19	17	15	12	10	7
<b>Auto Specialty Division</b>										
Schuck's	58	53	51	51	46	44	38	35	29	26
	315	307	293	284	245	227	214	201	169	136

All information has been restated to reflect the two-for-one stock split of May 1983 and the acquisition of Schuck's Auto Supply, Inc. in January 1984 in a pooling of interests transaction.

\*Amounts in thousands

†Amounts and percentages for 1978 to 1981 have been adjusted to include pro forma income tax expense for Schuck's. During 1978 to 1981, Schuck's was a "Sub-chapter S" corporation and its income taxes were paid by its stockholders rather than by Schuck's. The Company's actual earnings (in thousands), which reflect no income tax expense on the earnings of Schuck's, were \$22,559 (1981), \$23,487 (1980), \$20,563 (1979) and \$17,524 (1978). Earnings per share without this pro forma income tax provision were \$1.64 (1981), \$1.70 (1980), \$1.50 (1979), and \$1.28 (1978).



# DIRECTORS & OFFICERS

## Directors

### M. Lamont Bean

Elected to the Board in 1952. Began working for the Company in 1948 and named General Manager in 1953. Appointed President in 1959 and elected to the Executive Committee in 1972. Named Chairman of the Board in 1980.

### Fenwick J. Crane

Elected to the Board in 1981. President and Chairman of the Board for Family Life Insurance Company headquartered in Seattle, a subsidiary of Merrill Lynch & Co., Inc. He is a Director of Merrill Lynch & Co., Inc. and also a Trustee for Prudential Mutual Savings Bank of Seattle.

### E. Ronald Erickson

Elected to the Board in 1967. Began working for the Company in 1954. Assigned to Ernst home center division as Assistant General Manager in 1960 and was named General Manager in 1965. Elected a Vice President in 1967 and a member of the Executive Committee in 1972. Named Executive Vice President of Operations in 1975. Appointed President in 1982.

### Calvin Hendricks

Elected to the Board in 1967. Joined the Company in 1962 as Controller and the following year was appointed Treasurer/Controller. Elected a Vice President and a member of the Executive Committee in 1972. Appointed Executive Vice President of Administration in 1975. Named Vice Chairman of the Board in 1982.

### Earl W. Smith

Elected to the Board in 1981. A Seattle management consultant, retired Chairman, President and, currently, a member of the Board of Directors of Allied Supermarkets, Inc. based in Livonia, Michigan. Previously served as Vice President and Regional Manager for Safeway Stores, Inc.

### Raymond C. Swanson

Elected to the Board in 1974. Partner in the Seattle law firm of Ryan, Swanson, Hendel & Cleveland.

## Officers

### M. Lamont Bean\*

Chairman of the Board and Chief Executive Officer

### Calvin Hendricks\*†

Vice Chairman of the Board and Chief Financial Officer

### E. Ronald Erickson\*†

President and Chief Operating Officer

### Bill Boston†

Vice President and Ernst General Manager

### Joseph Christy†

Vice President; also President of Northwestern Drug Company

### Dick Curtis†

Vice President; also President of Lamonts Apparel Inc.

### Walt Guidinger

Vice President of Property Development

### Stan Johnson†

Vice President and Pay 'n Save Northwest Regional Manager

### Tom Lawrenson

Vice President and Von Tobel's General Manager

### Verne Netzer†

Vice President of Real Estate

### Jack Phelan†

Vice President; also President of The Bi-Mart Company

### Gordon Lee Smith†

Vice President of Human Resources

### Barry D. Weston†

Vice President and Treasurer

### Debbie O'Brien

Assistant Treasurer

### Kristopher Galvin

Controller

### Michael T. Crewdson

Assistant Controller

### Raymond C. Swanson

Secretary

### David LaBau

Assistant Secretary

### Tom Grimm†

President of Price Savers Wholesale Club

### Howard E. Jones†

President of Schuck's Auto Supply, Inc.

*\*Executive Committee*

*†Senior Management Committee*



# CORPORATE INFORMATION



## Corporate Headquarters

Pay 'n Save Corporation  
1511 Sixth Avenue  
Seattle, Washington 98101

## Transfer Agents

Peoples National  
Bank of Washington  
Seattle, Washington

Bradford Trust Co.  
New York, New York

## Independent Accountants

Price Waterhouse  
Seattle, Washington

## Annual Meeting

The annual meeting will be held April 26, 1984, beginning at 11 a.m. at the Seattle Sheraton Hotel, located at 1400 Sixth Avenue, Seattle, Washington.

## O-T-C Market

Pay 'n Save Corporation Common Stock is traded Over-the-Counter and quoted daily in leading financial publications. NASDAQ Symbol: PAYN

## SEC Form 10-K

For copies of the Annual Report to the Securities and Exchange Commission on Form 10-K and other financial information about Pay 'n Save Corporation, please contact: Calvin Hendricks, Vice Chairman and Chief Financial Officer.

## General Information

For general information about Pay 'n Save Corporation, please contact Jim Konschuh, Public Relations Director.

## Store Count By State and Division

	Washington	California	Alaska	Oregon	Hawaii	Idaho	Utah	Montana	Nevada	Wyoming	Total
Pay 'n Save	62	17	10		15	2		3		2	111
Bi-Mart	5			27							32
Ernst	44					7	10	4	2	2	69
Lamonts	16		4	1		3					24
Schuck's	46			9		3					58
Sportswest	12		3								15
Yard Birds	3										3
Von Tobel's									3		3
TOTALS	188	17	17	37	15	15	10	7	5	4	315



Pay 'n Save Corporation  
1511 Sixth Avenue  
Seattle, Washington 98101

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MAY 13 1986

MAY 16 1986

MAR 5 1987

1987

MAY 21 1986 RETD

MAY 5 1987 RETD

1987 RETD

MAY 30 1986

JUN 2 1986 RETD

JUN 6 1986

NOV 7 1986

JUN - 6 1986 RETD

FEB 9 1987

FEB 9 1987

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1987