

Pay 'n Save
Corporation

Annual Report
for the year ended January 29, 1983

ANNUAL REPORT

ANNUAL REPORTS
PAY'n SAVE Corp. 1983
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for the
challenges
of
tomorrow.”

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Description of Business

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

The drug operations consist of 112 Pay 'n Save and 30 Bi-Mart drug stores. Each offers a prescription department, as well as proprietary drugs, cosmetics, sporting goods, camera and sound equipment, small household appliances, automotive accessories, stationery, toys and school supplies.

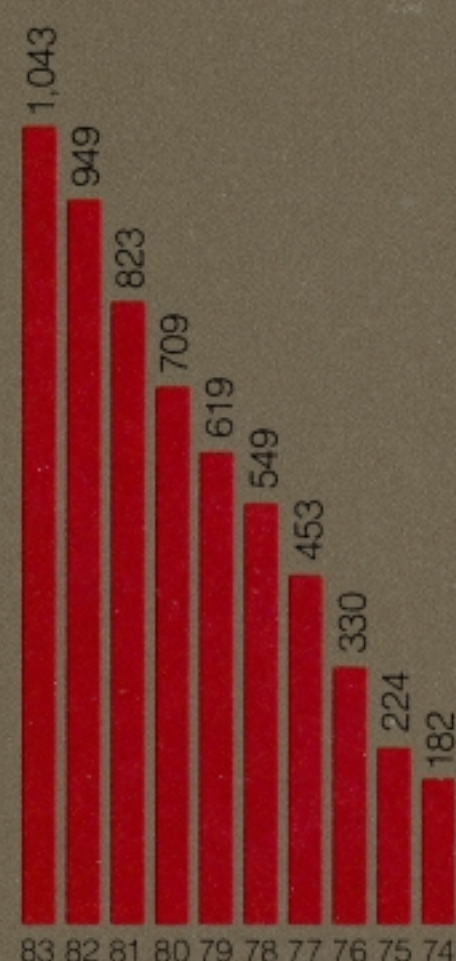
The home center division is comprised of 68 Ernst stores, three Von Tobel's, three general merchandise stores called Yard Birds and 14 Sportswest stores. Ernst and Von Tobel's carry home improvement products for the do-it-yourself customer. Ernst stores also have large indoor and outdoor garden nurseries. Sportswest carries athletic and recreational equipment and sportswear.

Twenty-four Lamonts stores make up the apparel division. They offer moderately priced, brand name clothing for the

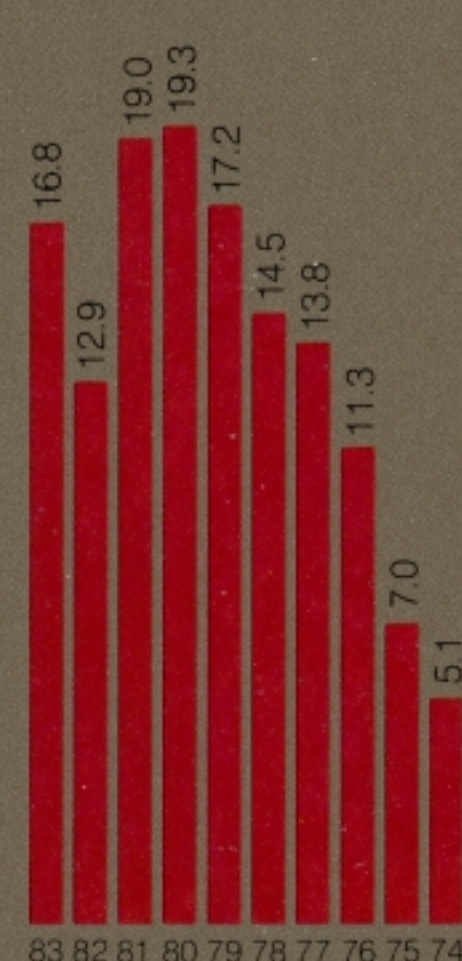
family, plus specialty departments with women's accessories, cosmetics and domestics.

The corporation was founded in 1947 with the opening of one Pay 'n Save drug store in Seattle. As of January 29, 1983, the company operates 254 stores in 10 western states.

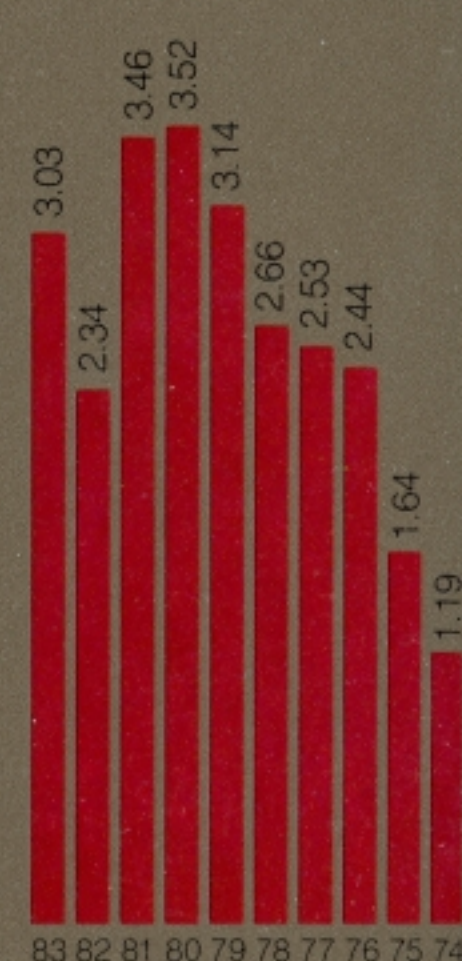
Sales
(in \$ Millions)



Net Income
(in \$ Millions)



**Net Income
per Share**
(in \$)



Financial Highlights

For the fiscal years

	1983	1982	Change	%
Net sales (thousands of dollars)	\$1,043,218	\$949,189	\$94,029	10%
Net income (thousands of dollars)	16,807	12,897	3,910	30%
Net income per share	3.03	2.34	.69	30%
Dividends per share	1.00	1.00	—	—%

Quarterly Financial Information (Unaudited)

For the year ended
January 29, 1983

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(thousands of dollars)				
Sales and other revenue	\$218,850	\$264,003	\$255,777	\$307,853
Gross profit	63,161	77,935	73,545	89,276
Net income	912	4,055	3,328	8,512
Net income per share	.17	.73	.60	1.53

For the year ended
January 30, 1982

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(thousands of dollars)				
Sales and other revenue	\$209,183	\$239,652	\$229,601	\$274,135
Gross profit	61,553	71,578	66,545	77,218
Net income	1,251	3,776	2,003	5,867
Net income per share	.23	.68	.36	1.07

By Lines of Business

	Drug			Home Center			Apparel		
	1983	1982	Change	1983	1982	Change	1983	1982	Change
Net sales									
(thousands of dollars)	\$646,475	\$585,449	10%	\$288,408	\$264,983	9%	\$108,335	\$98,757	10%
Percent of corporate total	62%	62%		28%	28%		10%	10%	
Income before income taxes									
(thousands of dollars)	\$ 15,077	\$ 12,003	26%	\$ 6,726	\$ 2,504	169%	\$ 9,185	\$ 8,722	5%
Percent of corporate total	49%	52%		22%	11%		29%	37%	
Number of stores	142	133		88	86		24	23	

Quarterly Low and High Common Stock Prices

For the fiscal years

	1983	1982
First quarter	16½ — 22½	23 — 28½
Second quarter	16⅝ — 20⅝	25½ — 29½
Third quarter	17½ — 28¼	19⅛ — 25⅞
Fourth quarter	26 — 37	20¼ — 26⅜

Stockholders and Shares

At fiscal year end

	1983	1982
Stockholders of record	5,285	5,743
Shares outstanding	5,500,321	5,499,921

Chairman's Message

We are proud to report that your company reached an important milestone during our most recent fiscal year in surpassing the \$1 billion level in sales. Sales for the year ended January 29, 1983 totaled \$1,043,218,000, which reflects a 10% increase over the \$949,189,000 sales level of a year ago. As pleased as we are at the attainment of this milestone, we are even more gratified to report that your company achieved a solid 30% increase in net income during the fiscal year. This increase comes after two consecutive years of declining income. Net income for the year amounted to \$16,807,000 as compared with \$12,897,000 a year ago. Net income per share for the year increased to \$3.03 from \$2.34. While we are pleased with these improved operating results in the face of very difficult economic circumstances, we are even more excited about the prospects for future earnings growth as the economy begins to gradually improve. This will allow the normal maturation process to accelerate in the numerous new stores which we have opened during the past several years. The expected growth of these stores has been significantly constrained during this predominantly recessionary environment that we have experienced since 1979. In addition, reduced inflation should have a positive impact on operating margins.

In analyzing our annual operating results, it is important to note that the entire increase in net income occurred during the second half of the fiscal year. While net income was flat during the first half, net income for the second half increased 50% to \$11,840,000 from \$7,870,000 a year ago. This emphasizes the emergence of what we believe will be a strong positive trend which should continue into the coming fiscal year. It is no coincidence that this trend began to emerge in the third quarter in spite of continuing weak external economic conditions, as improved financial and operating controls began to take effect.

Perhaps the single most significant element in our improved operating performance for the year was our ability to generate sales increases of approximately

7% without regard to new store growth. We regard this increase in existing store sales as an outstanding accomplishment in a severely depressed economic environment. The increase reflects a rate of sales growth substantially in excess of our internal rate of inflation.

Declining interest rates also favorably impacted income by reducing total interest expense to \$21.4 million from \$24 million last year. Borrowing levels during the year remained about the same as a year ago, reflecting continued moderation in the rate of capital expenditures. During the year, we opened 13 new stores and closed one. We are planning further reductions in our capital expenditures during the next two fiscal years. Our expansion plans presently envision the opening of six stores in each of those two years. This reduced level of expansion will allow our management resources to be more fully devoted to obtaining maximum productivity from existing stores and should be helpful in reducing our debt burden.

Before discussing a number of the important steps we have taken during the past year to ensure that your company is well positioned for meeting the challenges of tomorrow, I would like to review the importance of passing the \$1 billion milestone as we see it. While reaching \$1 billion in sales is not in itself significant without the attainment of operating results which generate an appropriate return on the equity invested by our stockholders, it is an important indicator of your company's performance in meeting its growth objectives and securing a strong presence as a major competitor in its many markets. It is also an indicator of an important level of maturity in the long term growth of your company and points out the need for management to deal with changing external and internal challenges to chart the course for a successful future. We have taken a number of steps during the year to ensure that management will continue to recognize and deal with those challenges in a timely fashion.

A very important step toward this end was the appointment of Calvin Hendricks as Vice Chairman of the Board of Directors and E. Ronald Erickson as President and Chief Operating Officer. Both of these capable individuals were previously Executive Vice Presidents of the company. Hendricks is also Chairman of a new Senior Management Committee which has become the focal point for formulation of corporate strategy and will provide for and facilitate a better coordinated planning process as well as more effective and timely decision making. The committee includes nine members of top management with responsibility for divisional operations, as well as corporate staff level positions, thereby providing for a good cross fertilization of ideas.

Since the group's formation, we have taken several steps to improve long range planning, management information systems, merchandising and distribution strategy and human resources development. Each of these four areas will require continued significant management attention to assure that we are well positioned to manage for the challenges of tomorrow.

At the operating level, merchandising and advertising activities have been restructured so that they are the direct responsibility of each individual operating division. The distribution center, which we opened in fiscal 1981 to service our Pay 'n Save Northwest region and Ernst home centers, has allowed us to make substantial progress in making certain that promotional merchandise is landed at the store level at the lowest possible cost. Distribution center operations have also been streamlined and have matured greatly in effectiveness during the past year.

I am most grateful to our more than 10,000 employees for their outstanding contributions to our improved performance during the past year.

Finally, on a personal note, I am saddened to inform you of the passing of my father, M.L. Bean, who founded our company in 1947 and who worked so closely with me and our management team in guiding the corporation until his retirement from active involvement in the business several years ago. He was an outstanding individual who made a lasting impression on all those with whom he came in contact. All of us at Pay 'n Save shall miss him.

At the present time, our economy seems to be sending signals that we are finally in the beginnings of a period of economic recovery. As we enter a period of renewed economic growth, we firmly believe that your company is well positioned to take maximum advantage of the opportunities which will be presented to it. We are prepared to successfully meet the challenges of tomorrow.



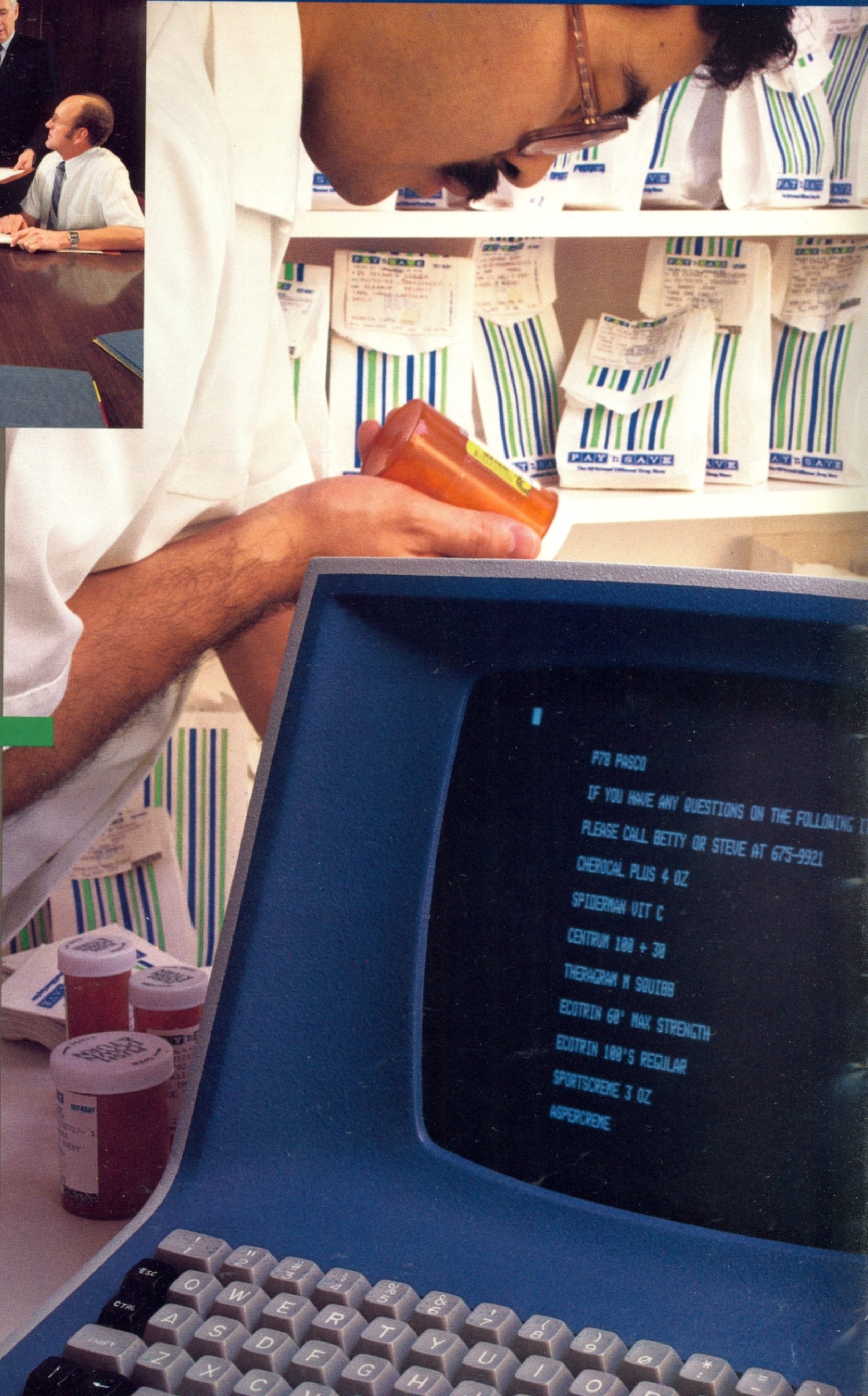
M. Lamont Bean
*Chairman of the Board and
Chief Executive Officer*





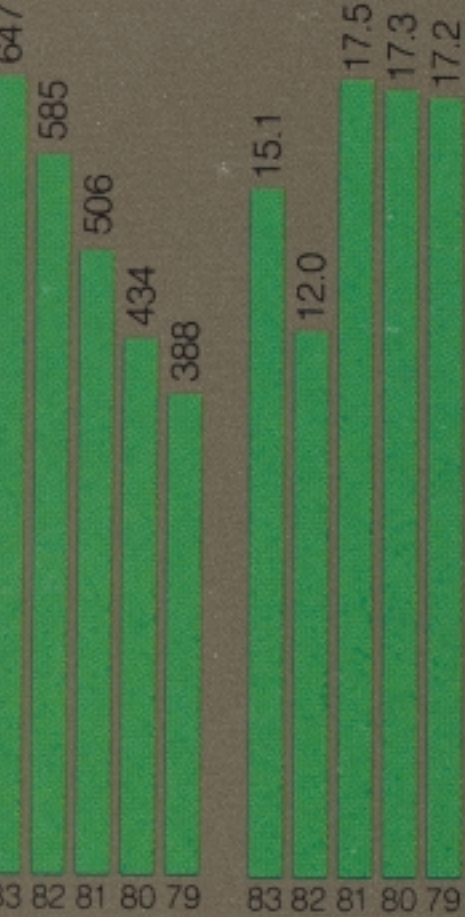
Pay 'n Save Northwest Regional Manager Stan Johnson (left) is joined by Bi-Mart President Jack Phelan, Corporation President E. Ronald Erickson and Vice Chairman of the Board Calvin Hendricks, all members of the Senior Management Committee.

Pharmacists throughout the drug division are assisted in servicing their customers by the use of pharmacy computer terminals which record and store patient profiles.



Net Sales
(in \$ Millions)

Pretax Income
(in \$ Millions)



Drug Division

Sales for the corporation's drug division, which consisted of 112 Pay 'n Save stores and 30 Bi-Mart stores at the end of fiscal 1983, increased 10% to \$646,475,000 from \$585,449,000 in fiscal 1982.

Approximately 7% of the sales increase was attributable to improved sales in existing stores with the remaining 3% resulting from new stores opened during the year.

Income before income taxes was \$15,077,000 or a 26% increase over the \$12,003,000 reported a year ago. This increase, as compared with last year, is primarily attributable to healthy increases in sales volume in existing stores coupled with good expense control. An aggressive promotional attitude and effective use of advertising were important factors in generating these increased sales in a difficult economic climate. In addition, improved budgetary techniques and financial controls were useful tools in controlling operating expenses.

Divisional sales amounted to 62% of total corporate sales and income before income taxes represented 49% of the consolidated total, in both cases about the same as last year.

During fiscal 1983, former corporate merchandise director Stan Johnson assumed new responsibilities as Pay 'n Save Northwest regional manager and also was named a corporate Vice President. The 68-store Northwest region includes all Pay 'n Save stores except those in California, Alaska and Hawaii.

With this region leading the way, the drug division emphasized a basic drug store image during the year by more prominently advertising the stores' professional pharmacies and over-the-counter (OTC) drug departments. In addition, emphasis on better methods of internal communications, improved store profiles and planograms, plus expansion of both import and private label programs all played important roles in achieving this year's improved results.

Pay 'n Save drug stores currently operate in Washington, California, Alaska, Hawaii, Idaho, Montana and Wyoming. The stores are noted for their clean-cut, low counter appearance and their well-defined merchandising departments. Each store offers a complete pharmacy as well as cameras and sound equipment, photo finishing, sporting goods, quality health and beauty aids, toiletries, small appliances, records, toys, candy, tobacco and some food items. In addition, 17 Washington state outlets now have optical departments staffed by licensed opticians.

The typical Pay 'n Save drug store has approximately 22,000 square feet of retail space. However, several stores in the states of Alaska, California and Hawaii are much larger and carry lumber, hardware and nursery products as well.

Six new Pay 'n Save stores were added during fiscal 1983 including stores in the Seattle, Washington suburb of Woodinville; Laramie, Wyoming; and outlets in the northern California communities of Clearlake, Rocklin and Red Bluff. The sixth outlet was an acquisition of an existing store in Soldotna, Alaska.

New stores scheduled to open during the current fiscal year will be located in Maui, Hawaii and Missoula, Montana. All new stores are located in attractive market areas which provide excellent long-term opportunities for the Pay 'n Save drug division.

One store, an outlet in Yuba City, California, was closed during the year due to poor operating performance.

The Bi-Mart segment of the drug division continued to be a good contributor to income in fiscal 1983 in spite of very difficult economic conditions in the state of Oregon, Bi-Mart's primary market area. Bi-Mart's continued success stemmed from emphasis on low overhead, standardization and a deep discount merchandising philosophy that has been the chain's hallmark since its inception. That philosophy has been particularly helpful in retaining market share during the current recession as many Bi-Mart customers have been significantly impacted by the troubled Oregon economy and are shopping for the best bargains.

During the fiscal year, Bi-Mart established itself for the first time in the Portland, Oregon metropolitan market area with the opening of three new stores. One store was opened within the Portland city limits; another was opened in the nearby suburban community of Gresham; and the third is in the neighboring community of Vancouver, Washington. Bi-Mart's expansion program in fiscal 1983 also included the opening of a second store in Yakima, Washington. Expansion plans for fiscal 1984 will be limited to two new stores in the Portland area.

Bi-Mart stores average approximately 30,000 square feet of selling space and each store operates a complete pharmacy and drug department. In addition, merchandise lines include camera and sound equipment, sporting goods, automotive accessories, small appliances, hardware and some food items.

This year's improvements in the drug division are indicative of the improving economic climate. A stronger economy combined with the maturing of stores added in recent years and continually improving merchandise management techniques should result in improved realization of the long-term potential of the drug division in years to come.



Pay 'n Save stores are noted for their clean-cut, low counter appearance and well-defined merchandising departments.



Senior Management Committee members including Ernst General Manager Bill Boston (far right), Vice President of Human Resources Gordon Smith (left), and Vice Chairman of the Board Calvin Hendricks (standing left) meet with Chairman of the Board M. Lamont Bean (standing right).

A proud Ernst employee receives the honor of employee of the quarter, one of several methods of recognizing outstanding performance.



ERNST
home centers
JIM
SALES SPECIAL
EMPLOYEE
OF THE
QUARTER

Net Sales
(in \$ Millions)

Pretax Income
(in \$ Millions)



Home Center Division

The home center division, which comprises 88 stores in six states, achieved sales totaling \$288,408,000, up 9% from the \$264,983,000 reported last year. Virtually all of the sales increase was attributable to improved sales in existing stores. Pre-tax income for the year was \$6,726,000, a 169% increase compared to the \$2,504,000 recorded a year earlier. The division was responsible for 28% of total corporate sales, approximately equal to last year, and 22% of consolidated pre-tax income. This represents a substantial increase over the division's 11% contribution to income a year ago, reflecting the combined impact of solid sales growth and tight controls over operating expenses.

Concerted efforts to increase and reward employee productivity at the store level, declining interest rates and a modest expansion of the housing industry were all significant contributing factors to the strong rebound in income in the home center division. In addition, the division's strong focus on being in-stock in basic merchandise and improved emphasis on service helped to build customer satisfaction.

Efforts to improve employee productivity were directed toward better scheduling of time and an emphasis on delegation and management skills at all levels of the work force. In addition, positive recognition of individual effort was emphasized in a new formalized program for recognition of outstanding effort on the part of individual employees. This program ties in with other human resource programs which are directed toward training employees to ultimately assume management responsibilities.

During the latter part of fiscal 1983, the impact of declining interest rates and the resulting increase in trading in the housing market translated into increased sales volume as buyers and sellers of homes began "fixing up" their living quarters.

The 68-store Ernst home center chain currently operates in the states of Washington, Idaho, Utah, Wyoming, Nevada and Montana. Ernst curtailed expansion during fiscal 1983 in favor of focusing attention on improving operating performance in stores opened during the past several years. Most of those stores are now well established and contributing to the profitability of the chain. Missoula, Montana will be the location of the only new Ernst outlet to open in fiscal 1984.

Ernst stores are designed to help consumers repair and modernize their homes and generally average 36,000 square feet. Product lines include tools, paint and related supplies, small appliances, electrical, plumbing and building supplies, lumber and sporting goods. Each outlet also has a nursery featuring indoor and outdoor plants as well as lawn and garden equipment and supplies.

Three Von Tobel's home improvement centers, all located in Las Vegas, are about 65,000 square feet in size and carry a product mix similar to Ernst but with greater emphasis on lumber goods. The Von Tobel's name is firmly established in the Las Vegas market with a history that dates back to 1905.

The company's three Yard Birds general merchandise stores are located in the western Washington towns of Chehalis, Olympia and Shelton.

Sportswest, the company's sporting goods stores, average 12,000 square feet. The chain's customer base includes the sports enthusiast and recreation minded individuals. Merchandise lines include snow and water skiing equipment as well as camping, hunting, fishing, hiking, golf, tennis and exercise products. The stores also stock sportswear and contain a complete sports shoe department.

During fiscal 1983, Sportswest entered the Alaska market for the first time with the opening of two new stores in Anchorage. These stores have been well received in this new market. With the opening of these outlets, the Sportswest chain now comprises a total of 14 stores. A third Anchorage outlet is planned for fiscal 1984.

Operating results for the home center division in fiscal 1983 were consistent with the plans and expectations developed a year ago. As the economy gains further strength and improved management techniques are emphasized even more, this division should continue to improve operating results.



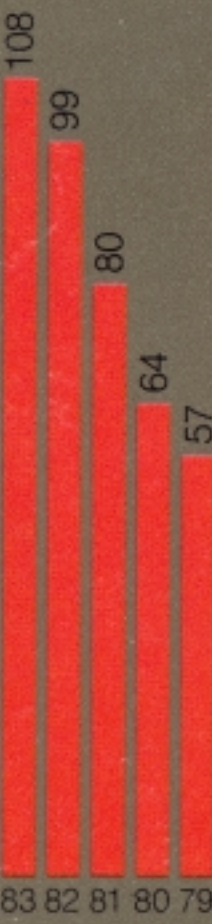
Ernst home centers feature products to help do-it-yourself consumers repair and modernize their homes.



Lamonts President Dick Curtis (second from left) discusses strategy with other Senior Management Committee members including Vice President of Administration Joe Christy (left), Vice President and Treasurer Barry Weston (standing), and Corporation President E. Ronald Erickson.

Increased television advertising has helped Lamonts establish itself as one of the best places to shop for name brand apparel in the Northwest.

Net Sales
(in \$ Millions)



Pretax Income
(in \$ Millions)



Apparel Division

Lamonts, the 24-outlet chain that comprises the corporation's apparel division, ended fiscal 1983 with sales totaling \$108,335,000 compared to \$98,757,000 in fiscal 1982, an increase of 10%. Approximately 4% of the sales increase was attributable to improved sales in existing stores with the remaining 6% resulting from new stores opened during the year. Pre-tax income was \$9,185,000 and increased a modest 5% as compared with last year's pre-tax income of \$8,722,000. The division was responsible for 10% of corporate sales and contributed 29% of the company's pre-tax profits. In spite of pressure on gross margins and sales growth in existing stores as a result of a difficult economy and strong competition for customers, Lamonts was able to surpass last year's income levels through effective merchandising and promotion, close management control over operating expenses and good inventory control.

Under the leadership of new President Dick Curtis, who was appointed to that position in July 1982, Lamonts continues to enhance its competitive posture among apparel retailers in its market areas.

Following a banner year in fiscal 1982 in which sales grew at a rate of 23% without the addition of new stores, fiscal 1983 was planned as a year to concentrate effort on further developing and strengthening operating strategies which have been successful in recent years. Facing a highly competitive market environment, Lamonts at the same time directed its efforts toward retaining gains in market share attained in past years without sacrificing gains in income. The central focus of this effort was an aggressive advertising program that included a full 52-week tab distribution and increased electronic advertising, especially television. The image presented to the buying public through this advertising is one of a value oriented supplier of mainstream fashions at moderate prices for the whole family. The advertising is aimed primarily at women who shop for relatively young families, but the strategy also attracted increasing numbers of male customers and further defined Lamonts as an excellent place to shop in the Northwest.

Much of Lamonts' success also is attributable to the maturing of the point of sale terminal register system installed in all stores in fiscal 1982. The information provided through the new system has continued to enable management to make better merchandising decisions for each individual store while improving store level inventory controls. The system also allows for more timely and consistent communication of non-merchandising information on a day to day basis between Seattle corporate headquarters and individual stores. This communication capability results in more efficient and effective operating decisions.

Averaging 50,000 square feet, Lamonts stores are modern, attractive and spacious and are arranged in such a way that customers have no trouble finding the merchandise they are looking for.

Offering shopping convenience, Lamonts outlets are located in neighborhood shopping centers or regional malls. Stores from the drug and home center divisions are also situated in many of these shopping centers and malls, giving the Corporation concentrated coverage in its various business lines in selected outstanding markets.

Lamonts added to its total store count this year with the opening of its third Anchorage, Alaska store. The new store, the 24th in the chain and the fourth in Alaska, confirmed the company's belief in the bright future of the Alaska market with a performance consistent with optimistic expectations.

Lamonts believes in another bright future as well — that of its people. During fiscal 1983, Lamonts stepped up its management training programs and increased its emphasis on recruitment of entry level personnel with management potential.

Lamonts' success in exceeding the outstanding income levels reached in fiscal 1982 in a difficult external environment was an excellent achievement. Continued strong management, intelligent merchandising, expanded use of data processing and an emphasis on qualified well trained personnel will provide the internal tools to build on this success in the future. The apparel division also is well positioned to take advantage of an improving external environment as our national and regional economies return to a period of growth.



Offering shopping convenience, the 24 Lamonts outlets are located in neighborhood shopping centers or regional malls.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Sales increased 10% in the current year as compared to the year ended January 30, 1982. Sales for the year ended January 30, 1982 increased 15% as compared to the year ended January 31, 1981. These increases reflect increased sales in existing stores of 7% in the latest fiscal year and 6% in fiscal 1982 as well as increased sales from the addition of new stores. The net increase in new stores was 12 in 1983, nine in 1982 and 34 in 1981. Sales increases include inflation related price increases, an amount which cannot be precisely measured.

Other income consists primarily of rental income from leased departments and shopping center locations, interest income and customer service charges. Other income remained relatively level in 1983 as compared to 1982. Other income increased substantially in 1982 as compared to 1981 primarily as a result of interest income earned on temporary investment of proceeds from Industrial Development Revenue Bonds during the construction period, the sale of a leasehold interest prior to the expiration of the lease term and increased rental income.

Cost of merchandise sold was 70.9% of sales for 1983, 70.8% of sales for 1982 and 70.5% of sales for 1981. The increases in the past two years are primarily attributable to selective purchasing by consumers of greater amounts of promotional merchandise as a percentage of their total purchases. Variations during each of the periods presented are also attributable to changes in merchandise mix.

Operating and administrative expenses primarily reflect growth in occupancy and personnel related costs. As a percentage of net sales, operating and administrative expenses were 24.4% in 1983 as compared to 24.5% in 1982 and 23.8% in 1981. The decrease in 1983 as compared to 1982 was primarily attributable to sales increasing at a faster rate than certain operating expenses, particularly during the latter half of the year, as a result of effective budgetary controls. The increase in 1982 as compared to 1981 is primarily attributable to sales increasing at a slower rate than certain operating expenses as a result of the national recession. The increases are also partially attributable in 1982 as compared with 1981 to higher than normal occupancy and start-up costs as a percentage of sales relating to new stores opened in 1981 and 1982.

Interest expense results from obligations under capital leases, long-term debt, and bank and commercial paper borrowings used to finance seasonal inventory fluctuations as well as for interim financing of some of the company's expansion during the past several years. Interest expense relating to capital leases amounted to \$11,458,000 in 1983, \$11,768,000 in 1982 and \$9,989,000 in 1981. Interest expense on all other debt aggregated \$9,980,000 in 1983, \$12,274,000 in 1982 and \$5,117,000 in 1981. Increased interest on capital leases in 1982 as compared with 1981 is attributable to new stores opened during both of those years which were financed by capital lease obligations. Interest on all other debt decreased in 1983 as compared with 1982 as a result of declining interest rates and increased in 1982 as compared with 1981 as a result of increasing interest rates and increased borrowing levels.

Income taxes as a percentage of income before income taxes amounted to 45.8% in 1983 as compared to 44.5% in 1982 and 44.8% in 1981. The changes in the income tax rate resulted primarily from changes in investment credit as a percentage of income before income taxes.

Net income as a percentage of net sales was 1.6% in 1983, 1.4% in 1982 and 2.3% in 1981.

During fiscal year 1983, the company generated working capital from operations of \$32,654,000 which was sufficient to finance capital expenditures of \$21,337,000, the payment of cash dividends and current maturities of long-term liabilities.

The company's maximum end-of-month borrowings (including commercial paper) under its seven year \$100,000,000 revolving credit/term loan agreement were approximately \$90,000,000 in both fiscal 1983 and fiscal 1982. Average borrowings outstanding during fiscal years 1983 and 1982 were approximately \$71,000,000 and \$69,000,000, respectively. The approximate weighted average interest rate on these borrowings was 12.77% during 1983 and 16.68% during 1982.

The company's expansion program in fiscal 1983 and 1982 was moderated substantially compared to 1981. The company plans further moderation with the opening of six new stores in fiscal 1984 and expects that cash flow from operations will be more than adequate to fund the level of capital expenditures necessary to provide for this planned level of growth.

Consolidated Statement of Income and Retained Earnings

For the fiscal years

1983

1982

1981

(thousands of dollars)

SALES AND OTHER REVENUE

Net sales	\$1,043,218	\$949,189	\$823,390
Other income	3,265	3,382	2,067
	1,046,483	952,571	825,457

COSTS AND EXPENSES

Cost of merchandise sold	739,301	672,295	580,196
Operating and administrative expenses	254,756	233,005	195,762
Interest	21,438	24,042	15,106
	1,015,495	929,342	791,064

Income before income taxes	30,988	23,229	34,393
Provision for income taxes	14,181	10,332	15,395
Net income for the year	16,807	12,897	18,998
Retained earnings at beginning of year	110,097	102,699	88,430
Cash dividends — \$1.00 (1983 and 1982) and \$.86 (1981)	(5,500)	(5,499)	(4,729)
Retained earnings at end of year	\$ 121,404	\$110,097	\$102,699
Net income per share	\$3.03	\$2.34	\$3.46

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

Consolidated Balance Sheet

Assets

	January 29, 1983	January 30, 1982
	<i>(thousands of dollars)</i>	
CURRENT ASSETS		
Cash	\$ 12,040	\$ 11,854
Receivables, less allowance for doubtful accounts of \$150,000 (1983) and \$160,000 (1982)	9,613	8,448
Recoverable store location expenditures	—	1,084
Inventories	210,907	182,019
Prepaid expenses	1,887	1,512
Total current assets	234,447	204,917
PROPERTY AND EQUIPMENT, at cost		
Land	15,140	14,075
Buildings and improvements	52,101	34,446
Furniture, fixtures and equipment	79,162	74,127
Leasehold improvements	18,831	18,012
Buildings under capital leases	118,327	120,379
Construction in progress	2,186	6,427
	285,747	267,466
Less — Accumulated depreciation and amortization	85,810	73,357
Total property and equipment	199,937	194,109
OTHER ASSETS		
Deferred income taxes	6,435	6,605
Excess of cost over net assets of acquired companies	3,372	3,482
Notes receivable and other	4,741	5,650
Total other assets	14,548	15,737
	\$448,932	\$414,763

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

Liabilities and Stockholders' Equity

	January 29, 1983	January 30, 1982
	<i>(thousands of dollars)</i>	
CURRENT LIABILITIES		
Accounts payable	\$ 68,137	\$ 51,790
Accrued payroll and related costs	9,713	7,808
Accrued expenses	14,315	12,896
Income taxes	5,809	4,283
Current maturities of long-term liabilities	4,051	3,284
Total current liabilities	102,025	80,061
 LONG-TERM LIABILITIES		
Long-term debt	80,683	79,486
Obligations under capital leases	106,384	109,077
Other	2,385	—
Total long-term liabilities	189,452	188,563
 STOCKHOLDERS' EQUITY		
Capital stock — authorized 10,000,000 shares without par value, outstanding 5,500,321 (1983) and 5,499,921 (1982)	36,051	36,042
Retained earnings	121,404	110,097
Total stockholders' equity	157,455	146,139
	\$448,932	\$414,763

Consolidated Statement of Changes in Financial Position

<i>For the fiscal year ended</i>	January 29, 1983	January 30, 1982	January 31, 1981
	<i>(thousands of dollars)</i>		
Financial resources were provided by:			
Net income	\$16,807	\$ 12,897	\$18,998
Charges (credits) not affecting working capital:			
Depreciation and amortization	15,677	14,586	12,368
Deferred income taxes	170	(1,400)	(770)
Working capital provided by operations	32,654	26,083	30,596
Increase in long-term debt	3,225	70,370	2,094
Obligations under capital leases	116	10,053	24,360
Proceeds from sale of property and equipment	527	969	4,945
Other	1,932	(1,541)	1,157
	38,454	105,934	63,152
Financial resources were used for:			
Additions to property and equipment	21,337	36,360	63,570
Current maturities of long-term liabilities	4,051	3,284	4,134
Cash dividends	5,500	5,499	4,729
	30,888	45,143	72,433
Increase (decrease) in working capital	\$ 7,566	\$ 60,791	\$(9,281)
ANALYSIS OF CHANGES IN WORKING CAPITAL			
Increase (decrease) in current assets:			
Cash	\$ 186	\$(17,786)	\$15,382
Receivables	1,165	507	2,256
Recoverable store location expenditures	(1,084)	(7,401)	6,617
Inventories	28,888	10,559	30,215
Prepaid expenses	375	(349)	766
	29,530	(14,470)	55,236
(Increase) decrease in current liabilities:			
Short-term debt	—	62,534	(39,772)
Accounts payable and accrued expenses	(19,671)	11,440	(23,663)
Income taxes	(1,526)	1,590	(469)
Current maturities of long-term liabilities	(767)	(303)	(613)
	(21,964)	75,261	(64,517)
Increase (decrease) in working capital	\$ 7,566	\$ 60,791	\$(9,281)

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

Notes to Financial Statements

Summary of Accounting Policies

Fiscal Year — The Pay 'n Save Corporation fiscal year-end is on the Saturday nearest January 31.

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

Inventories — Company inventories, valued at the lower of cost or market, comprise merchandise held for sale. Inventory values for Lamonts, Bi-Mart and Yard Birds are determined by the retail inventory method. Cost for all other inventories is determined on an identified item basis.

Recoverable Store Location Expenditures —

Recoverable store location expenditures result from construction and development costs which are paid by the company. These stores are subsequently sold and leased back, resulting in no material gain or loss to the company.

Property and Equipment — Depreciation of buildings is determined using accelerated and straight line methods over an estimated 10- to 40-year useful life. Depreciation of furniture, fixtures and equipment is determined using accelerated and straight line methods over an estimated 5- to 10-year useful life. Leasehold improvements are amortized on the straight line method over the lease period or useful life of improvement, whichever is shorter. Maintenance and repairs are charged to income. Major renewals and improvements are capitalized.

When assets are retired or disposed of, cost and accumulated depreciation of assets are eliminated from the property accounts. The resulting gains and losses are applied to income.

Accumulated amortization of buildings under capital leases was \$28,935,000 in 1983 and \$25,295,000 in 1982.

Interest costs on projects constructed by Pay 'n Save are capitalized as part of the historical cost of assets (\$843,000 in 1983, \$809,000 in 1982, and \$1,354,000 in 1981).

Excess of Cost Over Net Assets of Acquired Companies

— Excess of cost over value of tangible net assets acquired is being amortized over a 40-year period and results primarily from the acquisition of The Bi-Mart Company and Von Tobel's (\$4,167,000 less accumulated amortization of \$795,000).

Accounts Payable — Checks outstanding in excess of certain cash balances of \$28,744,000 in 1983 and \$15,921,000 in 1982 are included in accounts payable.

Net Income Per Share — Net income per share is based on (1) the weighted average number of shares outstanding during each year and (2) the assumption that all dilutive stock options have been exercised at the beginning of the year (or on date of grant, if granted during the year), and the proceeds used to purchase shares of the company's stock at the average market price during the year. Fully diluted net income per share is not materially different from primary net income per share.

Income Taxes

(thousands of dollars)			
Year ended			
January 29, 1983	Federal	State	Total
Current	\$14,189	\$1,220	\$15,409
Deferred	(373)		(373)
Investment credit (Flow-through method)	(765)		(765)
Employment credit	(90)		(90)
	\$12,961	\$1,220	\$14,181
Year ended			
January 30, 1982	Federal	State	Total
Current	\$11,926	\$ 925	\$12,851
Deferred	(1,636)		(1,636)
Investment credit (Flow-through method)	(773)		(773)
Employment credit	(110)		(110)
	\$ 9,407	\$ 925	\$10,332
Year ended			
January 31, 1981	Federal	State	Total
Current	\$16,467	\$1,301	\$17,768
Deferred	(961)		(961)
Investment credit (Flow-through method)	(1,314)		(1,314)
Employment credit	(98)		(98)
	\$14,094	\$1,301	\$15,395

Deferred income tax expense results primarily from the capitalization of store leases for financial reporting purposes and included approximately \$1,300,000 (1983) and \$500,000 (1982) from the use of accelerated depreciation methods for income tax purposes.

Long-Term Debt

Long-term debt is summarized as follows:

	1983	1982
(thousands of dollars)		
Notes payable to banks under \$100,000,000 revolving credit agreement, in accordance with terms described below	\$40,500	\$52,000
Commercial paper	20,765	9,962
Industrial Development Revenue Bonds, interest at 8 ⁵ / ₈ %, secured by certain real property, due in 1984	7,200	7,200
Industrial Development Revenue Bonds, interest at 67% to 68% of prime, secured by certain real property, due in 1996	11,250	11,250
Notes payable to former stockholders of Yard Birds, interest at 7%, due in annual installments through 1991	4,052	4,578
Notes payable to insurance companies, interest at 8.825%, secured by certain real property, due in annual installments through 1997	4,648	4,746
Other	3,897	1,717
	92,312	91,453
Current maturities of long-term debt	(1,916)	(1,264)
Industrial Development Revenue Bond funds held by Trustees	(9,713)	(10,703)
	\$80,683	\$79,486

Under the terms of its revolving credit agreement with a group of banks, the company may borrow up to \$100,000,000 (including commercial paper backed under the agreement) until December 31, 1985, at which time any outstanding borrowings may be converted into a term loan with annual principal payments equal to one-sixth of such outstanding borrowings due in 1986 through 1988 and the remaining one-half of such outstanding borrowings due December 31, 1989. 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 ³/₈% of the daily average unused portion of the revolving credit is payable quarterly through December 31, 1985. Prepayments on amounts borrowed prior to December 31, 1985 are

generally permitted without penalty. The agreement contains certain restrictive covenants, including the maintenance of a minimum current ratio and tangible net worth. For the fiscal year ended January 29, 1983, the company was in compliance with all covenants. Under the most restrictive of these covenants, approximately \$9,232,000 of retained earnings were not restricted as to payment of dividends at January 29, 1983. The weighted average interest rate of borrowings (including commercial paper) outstanding at January 29, 1983 was 9.53% and at January 30, 1982 was 14.17%.

The \$11,250,000 of Industrial Development Revenue Bonds due in 1996 provide for put options in fiscal years 1987 and 1992 under which the company can be required by the bondholders to redeem all or part of the outstanding bonds. The company may prepay the bonds at any time at par.

Long-term debt maturities for the five years subsequent to January 29, 1983, assuming the put options on the aforementioned Industrial Development Revenue Bonds are fully exercised in fiscal 1987, are \$1,916,000 (1984); \$8,697,000 (1985); \$882,000 (1986); \$22,409,000 (1987) and \$10,785,000 (1988).

Pension Plan

A defined benefit pension plan, funded solely by the company, covers employees who are not eligible for union pension benefits. The company makes annual contributions to the plan equal to the amounts accrued for pension expense. Pension expense for 1983, 1982, and 1981 was \$2,339,000, \$2,115,000 and \$2,300,000, respectively, which includes amortization of prior service costs over periods ranging from 15 to 40 years. A comparison of accumulated plan benefits and plan net assets for the company's pension plan as of April 30 is presented below:

	1982	1981
	<i>(thousands of dollars)</i>	
Actuarial present value of accumulated plan benefits:		
Vested	\$18,623	\$14,598
Nonvested	1,270	1,068
	<u>\$19,893</u>	<u>\$15,666</u>
Net assets available for benefits	<u>\$19,516</u>	<u>\$18,523</u>

The average rate of return used in determining the actuarial present value of accumulated plan benefits was six percent for the plan years ended April 30, 1982 and 1981.

Employee Stock Options

A non-qualified stock option plan, reserving 300,000 shares of the company's capital stock, was adopted March 10, 1980. Under this plan, the option price is to

be a nominal amount determined by the Board of Directors. Options may not be exercised for a minimum of five years, except in the case of death, disability or retirement, and expire after eight years. During the year, options for 400 shares were exercised at \$1 each and options for 7,900 shares were cancelled. Options for 78,000 shares, 70,300 shares, and 64,800 shares granted for \$1 each in years 1983, 1982 and 1981, respectively, remained outstanding at January 29, 1983.

During 1983, options for 32,400 shares expired under two stock option plans established in 1974.

Leased Property

The company leases a majority of its stores and data processing 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 the stores' 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 \$3,632,000 in 1983, \$3,835,000 in 1982 and \$2,769,000 in 1981. Sublease rental income received from buildings under capital leases was \$702,000 in 1983, \$1,048,000 in 1982 and \$846,000 in 1981.

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

For the fiscal years	Amount
	<i>(thousands of dollars)</i>
1984	\$ 13,716
1985	13,749
1986	13,619
1987	13,598
1988	13,542
Thereafter	202,335
Total minimum rental payments	270,559
Less estimated executory costs (primarily taxes and insurance)	(4,700)
Less amount representing interest	(157,340)
Present value of obligations under capital leases at January 29, 1983	108,519
Less current portion	(2,135)
Long-term obligations under capital leases	<u>\$106,384</u>
Future sublease rentals	<u>\$ 3,719</u>

Future minimum rental payments and rental expense under operating leases are as follows:

For the fiscal years	Amount
	(thousands of dollars)
1984	\$ 11,335
1985	10,960
1986	10,647
1987	10,270
1988	9,655
Thereafter	132,052
Total minimum rental payments	\$184,919
Future sublease rentals	\$ 2,433

Rental Expense

For the fiscal years	1983	1982	1981
	(thousands of dollars)		
Minimum rentals	\$11,322	\$ 9,700	\$ 8,709
Contingent rentals	2,391	1,914	1,668
Sublease rentals	(285)	(354)	(353)
	\$13,428	\$11,260	\$10,024

Transactions in Capital Stock—Increases in capital stock resulted from the exercise of employee stock options and were \$9,000 (400 shares) in 1983, \$34,000 (1,350 shares) in 1982 and \$247,000 (17,989 shares) in 1981.

Subsequent Event—At its March 10, 1983 meeting, the Board of Directors recommended that the company's stockholders increase the authorized capital stock to 20,000,000 shares and adopt a two-for-one stock split with respect to outstanding shares. These recommendations will be submitted to a vote at the company's annual meeting of stockholders on April 28, 1983. Shares and per-share amounts in this Annual Report have not been adjusted to reflect these proposed changes.

Segment Financial Data

Financial data for individual business segments is as follows:

For the year ended January 29, 1983	Drug	Home Center	Apparel	Corporate	Consolidated
	(thousands of dollars)				
Sales and other revenue	\$647,529	\$289,184	\$109,249	\$ 521	\$1,046,483
Operating profit	28,191	14,437	11,792	521	54,941
General corporate expense (net)				2,515	2,515
Interest expense					21,438
Income before income taxes					30,988
Identifiable assets	238,052	148,387	49,416	13,077	448,932
Additions to property and equipment	15,714	3,218	2,223	182	21,337
Depreciation and amortization	7,826	4,874	2,888	89	15,677
For the year ended January 30, 1982	Drug	Home Center	Apparel	Corporate	Consolidated
	(thousands of dollars)				
Sales and other revenue	\$586,490	\$265,494	\$99,974	\$ 613	\$952,571
Operating profit	25,150	12,783	11,726	613	50,272
General corporate expense (net)				3,001	3,001
Interest expense					24,042
Income before income taxes					23,229
Identifiable assets	204,375	142,886	52,615	14,887	414,763
Additions to property and equipment	18,370	12,502	5,272	216	36,360
Depreciation and amortization	6,434	4,967	3,128	57	14,586
For the year ended January 31, 1981	Drug	Home Center	Apparel	Corporate	Consolidated
	(thousands of dollars)				
Sales and other revenue	\$506,147	\$237,918	\$81,080	\$ 312	\$825,457
Operating profit	25,793	16,676	9,097	312	51,878
General corporate expense (net)				2,379	2,379
Interest expense					15,106
Income before income taxes					34,393
Identifiable assets	194,723	139,733	50,633	20,364	405,453
Additions to property and equipment	29,492	26,153	7,886	39	63,570
Depreciation and amortization	5,451	3,990	2,867	60	12,368

Financial Reporting for the Effects of Changing Prices

The following supplemental financial information is presented in accordance with Financial Accounting Standards Board Statement 33, Financial Reporting and Changing Prices. 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.

Income 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 29, 1983. 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. Present regulations do 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 1983 dollars as measured by the CPI-U. Amounts for prior years have been adjusted to average fiscal 1983 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 Income Adjusted for Changing Prices (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 29, 1983</i>			
	<i>(thousands of dollars)</i>		
Net sales	\$1,043,218	\$1,043,218	\$1,043,218
Cost of goods sold, excluding depreciation and amortization	739,161	746,988	746,625
Gross profit	304,057	296,230	296,593
Other operating expenses, excluding depreciation and amortization	239,219	239,219	239,219
Depreciation and amortization	15,677	21,153	20,572
Total operating expenses	254,896	260,372	259,791
Operating income	49,161	35,858	36,802
Other income and expense — net	18,173	18,173	18,173
Income before income taxes	30,988	17,685	18,629
Provision for income taxes	14,181	14,181	14,181
Net income	\$ 16,807	\$ 3,504	\$ 4,448
Gain from decline in purchasing power of net amounts owed		\$8,873	\$8,873
Increase in current cost of inventories and property and equipment held during the year			\$13,817
Less effects of changes in general price levels			17,628
Increase in current cost of inventories and property and equipment, net of changes in general price levels			\$(3,811)

At January 29, 1983, current cost of inventory was \$211,415,000 and current cost of property and equipment, net of accumulated depreciation, was \$284,857,000.

Five-Year Comparison of Selected Supplementary Financial Data Adjusted for Effects of Changing Prices (Unaudited)

<i>For the fiscal years</i>	1983	1982	1981	1980	1979
	<i>(Thousands of average fiscal 1983 dollars except per share figures)</i>				
Historical cost information adjusted for general inflation:					
Net sales	\$1,043,218	\$1,003,883	\$958,583	\$935,525	\$911,284
Net income (loss)	3,504	(8,646)	(3,456)	653	—
Net income (loss) per share	.63	(1.58)	(.63)	.12	—
Net assets at year end	251,647	247,553	238,532	221,838	—
Gain from decline in purchasing power of net amounts owed	8,873	18,122	22,173	21,861	—
Cash dividends per share	1.00	1.06	1.00	.95	.88
Market price per share at year end	33.88	22.78	26.30	32.95	32.94
Average consumer price index (1967 = 100)	290.0	274.2	249.1	219.8	196.9
Current cost information:					
Net income (loss)	4,448	1,534	(913)	5,066	—
Net income (loss) per share	.80	.27	(.16)	.92	—
Increase in current cost of inventories and property and equipment, net of changes in general price levels	(3,811)	(13,453)	(4,388)	(4,597)	—
Net assets at year end	237,716	240,995	243,704	228,618	—

Report of Independent Accountants

TO THE STOCKHOLDERS OF PAY 'n SAVE CORPORATION:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income and retained earnings and of changes in financial position present fairly the financial position of Pay 'n Save Corporation and its subsidiaries at January 29, 1983 and January 30, 1982 and the results of their operations and the changes in their financial position for each of the three years in the period ended January 29, 1983, 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.

Price Waterhouse

Price Waterhouse
Seattle, Washington
March 11, 1983

Ten-Year Summary

<i>For the fiscal years</i>	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974
OPERATING RESULTS										
Net sales*	\$1,043,218	\$949,189	\$823,390	\$709,064	\$618,731	\$549,380	\$453,297	\$330,083	\$223,566	\$181,723
Net income*	16,807	12,897	18,998	19,313	17,199	14,539	13,817	11,262	7,023	5,072
Net income as percentage of sales	1.61%	1.36%	2.31%	2.72%	2.78%	2.65%	3.05%	3.41%	3.14%	2.79%
Earnings on equity at beginning of year	11.50%	9.30%	15.30%	17.79%	18.24%	17.64%	19.69%	29.52%	22.02%	18.78%
COMMON STOCK										
Net income per share	\$ 3.03	\$ 2.34	\$ 3.46	\$ 3.52	\$ 3.14	\$ 2.66	\$ 2.53	\$ 2.44	\$ 1.64	\$ 1.19
Book value per share	28.63	26.57	25.22	22.66	19.88	17.34	15.17	13.02	8.92	7.52
Approximate price range of common stock	37-17	30-19	28-18	30-23	29-21	26-21	31-21	31-12	14-9	18-12
Shares outstanding	5,500	5,500	5,499	5,481	5,462	5,436	5,435	5,390	4,274	4,242
Cash dividends per share	\$ 1.00	\$ 1.00	\$.86	\$.72	\$.60	\$.50	\$.40	\$.30	\$.25	\$.20
FINANCIAL POSITION										
Total assets*	\$ 448,932	\$414,763	\$405,453	\$304,098	\$255,541	\$236,220	\$191,833	\$142,177	\$ 88,414	\$ 73,705
Working capital*	132,422	124,856	64,065	73,346	71,218	63,308	64,715	52,287	32,244	28,338
Current ratio	2.30	2.56	1.41	1.81	2.05	1.93	2.33	2.50	2.53	2.68
Long-term debt*	80,683	79,486	10,645	10,770	10,680	11,108	17,719	7,652	9,648	8,387
Obligations under capital leases*	106,384	109,077	100,779	78,333	68,765	62,815	42,781	29,479	19,541	16,527
Stockholders' equity*	157,455	146,139	138,707	124,191	108,568	94,266	82,429	70,159	38,144	31,889
CAPITALIZATION PERCENTAGE										
Long-term liabilities	54.6	56.3	44.5	41.8	42.3	44.0	42.3	34.6	43.3	43.9
Stockholders' equity	45.4	43.7	55.5	58.2	57.7	56.0	57.7	65.4	56.7	56.1
STORES IN OPERATION										
Pay 'n Save	112	107	105	89	89	90	89	81	71	66
Bi-Mart	30	26	24	23	18	17	15	13		
Ernst	68	68	64	53	47	42	39	28	25	26
Sportswest	14	12	11	10	9	9	9	8	7	5
Yard Birds	3	3	3	3	2	2	2			
Lamonts	24	23	23	19	17	15	12	10	7	6
Von Tobel's	3	3	3	2	1	1				
AVERAGE SALES PER STORE*	254	242	233	199	183	176	166	140	110	103
(based upon number of stores at end of year)	\$ 4,107	\$ 3,922	\$ 3,534	\$ 3,563	\$ 3,381	\$ 3,121	\$ 2,731	\$ 2,357	\$ 2,032	\$ 1,764

*Amounts in thousands of dollars.



Pay 'n Save Corporation's Executive Committee (from left) E. Ronald Erickson, Calvin Hendricks and M. Lamont Bean.

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 Corporation 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.

Pay 'n Save Corporation

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 of Administration

Dick Curtis†

Vice President; President of Lamonts Apparel Inc.

Walt Guidinger

Vice President of Property Development

Stan Johnson†

Vice President and Pay 'n Save Northwest Regional Manager

Jack Phelan†

Vice President; President of The Bi-Mart Company

Gordon Lee Smith†

Vice President of Human Resources

Barry D. Weston†

Vice President and Treasurer

Raymond C. Swanson

Secretary

*Executive Committee

†Senior Management Committee

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 28, 1983, beginning at 11 a.m. at the Washington Athletic Club, located at 1325 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	20	10		14	2		2		2	112
Bi-Mart	5			25							30
Ernst	44					7	10	3	2	2	68
Lamonts	16		4	1		3					24
Sportswest	12		2								14
Yard Birds	3										3
Von Tobel's									3		3
Totals	142	20	16	26	14	12	10	5	5	4	254

Tribute to Monte L. Bean



The founding Chairman of the Pay 'n Save Corporation, M.L. Bean, passed away October 16, 1982 at the age of 83.

Bean left a retailing legacy that began in 1921 when he accepted a job as a bookkeeper in a Salt Lake City grocery store. Within a year his drive and initiative brought him a promotion to manager of one of the largest volume stores in the region.

That company grew to become the largest grocery chain in the country and Bean grew right along with it. In 1929 he was made a Safeway district manager in Portland, Oregon with responsibilities for more than 200 stores and 10 wholesale houses.

He left that company in 1940 to oversee operations of a financially ailing Seattle grocery chain and soon had that company back on solid footing.

In 1947, Bean purchased a downtown Seattle drug store, thereby initiating the formation of the Pay 'n Save Corporation.

By 1959 he was concentrating all of his efforts on the expansion of Pay 'n Save which by this time had become one of the fastest growing and most successful retail corporations on the West Coast.

Bean retired as Chairman of the Board of Directors of Pay 'n Save in 1981, succeeded by M. Lamont Bean, his son, who had been President of the company since 1959.

Long active in Seattle's business affairs, Bean held memberships on numerous Boards of Directors. As a dedicated philanthropist, he devoted generous amounts of both time and money to charitable, health, civic and church activities.

A special man whose foresight created the Pay 'n Save Corporation, many of his past actions are still contributing to assure your company's strength for tomorrow.

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

MAR 29 1984

JUN 01 1985

SEP 20 1985

OCT 21 1984

OCT 23 1984

DEC 6 1985

SEP 26 1993

DEC 11 1985 RETD

FEB 28 1986

NOV 1 1984

~~MAY 3 1986 RETD~~

NOV 16 1984

23 1988

NOV 25 1994

MAY 27 1986 RETO

NOV 18 1989

DEC 19 1964

May 21 1998

21 1985

FEB 24 1986

APR 7 1989
APR 10 1989 REC'D