

**Pay'n Save
Corporation**

Annual Report
for the year ended February 2

ANNUAL REPORT

P.B.	
J.W.A.	✓
L.A.C.	✓

ANNUAL REPORTS
PAY'n SAVE Corp. 1980
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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 89 Pay 'n Save and 23 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 has two Von Tobel's, 53 Ernst stores, three large general merchandise stores called Yard Birds, and 10 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.

Nineteen Lamonts stores make up the apparel division. These offer medium-priced clothing for the family, plus specialty departments with bedding, giftware, cosmetics, and women's accessories.

The company began in 1947 when Monte L. Bean, the founder, opened a single Pay 'n Save drug store in Seattle. As of February 2, 1980, the company operated 199 stores in nine western states, with construction under way in a tenth state — Montana.

Montana (Cover)

Two drug stores and two home centers will open in the Big Sky Country in the year ahead, making Montana the tenth state on our market map.



Washington

The Evergreen State is birthplace and headquarters for the Corporation. It's also our largest market area with 57 drug, 51 home center, and 14 apparel outlets.

Financial Highlights

For the fiscal years

	1980	1979	Increase	%
Net sales (thousands of dollars)	\$709,064	\$618,731	\$90,333	15%
Net income (thousands of dollars)	19,313	17,199	2,114	12%
Net income per share	\$ 3.52	\$ 3.14	\$.38	12%

By Lines of Business

	Drug			Home Center			Apparel		
	1980	1979	Increase	1980	1979	Increase	1980	1979	Increase
Net sales (thousands of dollars)	\$433,801	\$387,560	12%	\$210,656	\$173,812	21%	\$ 64,607	\$ 57,359	13%
Percent of corporate total	61%	63%		30%	28%		9%	9%	
Income before income taxes (thousands of dollars)	\$ 17,282	\$ 17,159	1%	\$ 12,751	\$ 11,319	13%	\$ 5,329	\$ 5,001	7%
Percent of corporate total	49%	51%		36%	34%		15%	15%	
Number of stores	112	107		68	59		19	17	

Annual Dividend Per Share

	1980	1979
	\$.72 (paid \$.18 quarterly)	\$.60 (paid \$.15 quarterly)

Quarterly Low and High Bid Prices

For the fiscal years

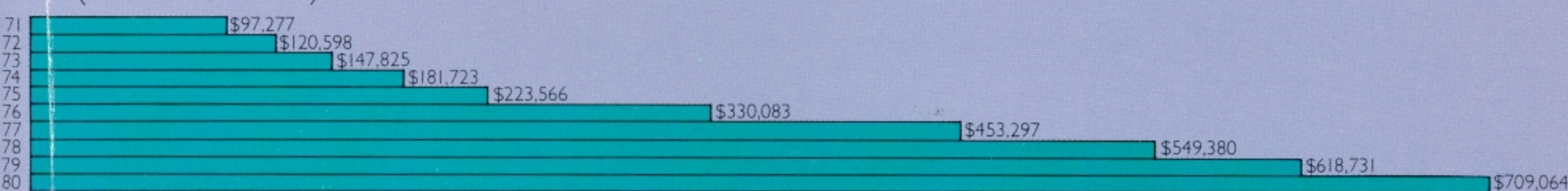
	1980	1979
First quarter	22½ — 26½	21 — 24¾
Second quarter	22¾ — 26¾	21¾ — 26¾
Third quarter	25 — 29¾	24½ — 29
Fourth quarter	26¼ — 29¼	23 — 25¾

Shareholders and Shares

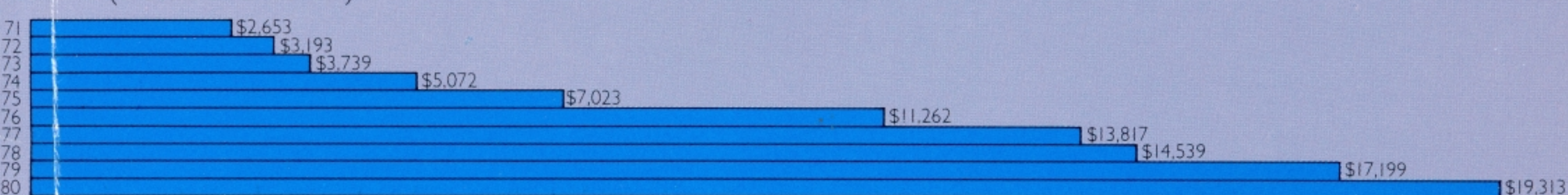
At fiscal year end

	1980	1979
Shareholders of record	6,260	6,593
Shares outstanding	5,480,582	5,461,982

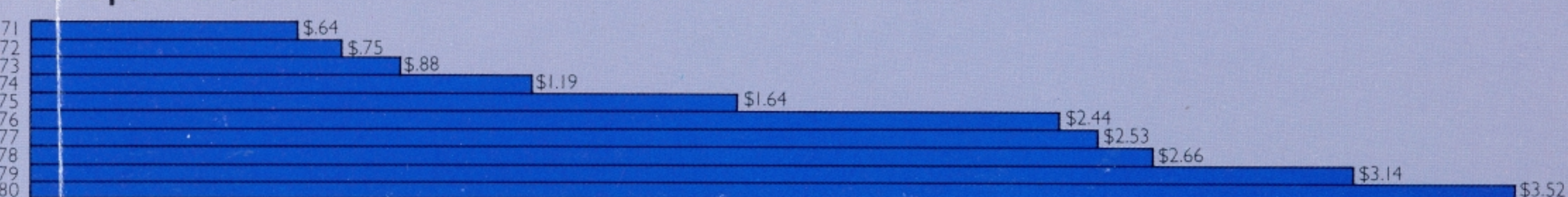
Sales (thousands of dollars)



Income (thousands of dollars)



Income per Share



President's Message

The decade of the 70's ended for us on February 2, 1980. It was an astounding ten years in all respects.

We achieved a ten-year compounded growth rate in sales of nearly 24%. Our compounded growth rate in earnings exceeded 22%. And we started the decade with 59 stores and closed with 199.

It's a track record we're proud of and one we plan to match in the 80's.

The year just ended was a good year. Once again, we reached new highs in sales, net income, and net income per share.

Sales for the year were \$709,064,000, up 15% from the previous year.

Net income was \$19,313,000, an increase of 12%.

Net income per share was \$3.52, also a 12% increase.

Our first three quarters were excellent. So good, in fact, that they carried us through a fourth quarter that bore the brunt of lower gross margins, inflationary operating costs, rising interest rates, and the costs associated with opening new stores.

And the problems of the fourth quarter didn't all magically disappear with the hanging of a new calendar.

Although there is general agreement that economic conditions will improve by mid 1980, when interest rates are expected to ease downward, the experts are predicting a continuation of the inflation spiral.

Hand in hand with this — and contributing to the dilemma — labor costs, industry wide, will escalate significantly. Several of our major labor contracts are up for renewal,

California The Golden Gate opened for us in 1971, when we acquired 14 drug outlets owned by Safeway. We now have 16 drug stores in Northern California.



Hawaii Six drug stores serve the islands of Oahu and Hawaii.

and for hourly and salaried employees alike, the company faces the responsibility of helping our people keep up with the rising cost of living.

Also, we're committed to an aggressive expansion program in the new fiscal year.

Twenty-seven new stores and one replacement unit are scheduled to open. It's an ambitious schedule under the present circumstances, but in the context of our long-range master plan, it's the key to continued earnings growth.

And we believe there are a lot of positive factors that will help us succeed with our expansion plans and contribute to another successful year for the Corporation.

Let's take a look at them.

The Pacific Northwest and Intermountain States, where the majority of our stores are located, appear likely to maintain healthy retail economies.

Our internal cash flow is strong enough to support a major portion of our expansion, enabling us to keep a reasonable limit on long-term debt and the unreasonable interest rates that now come with it.

We have the buffer of diversified operations. When economic conditions cause one line of business to slow down, the very same factors may cause another to charge ahead.

For example, a family feeling the inflation pinch may cut back on apparel purchases, but spend more of its disposable income on do-it-yourself home repair or improvement projects.

However, our ace in the hole is our management team. Our divisional and district

executives are seasoned and aggressive retailers. They know their markets and they know how to move merchandise. And they are stepping into the new year more resolved than ever to keep inventories trim and operations tight.

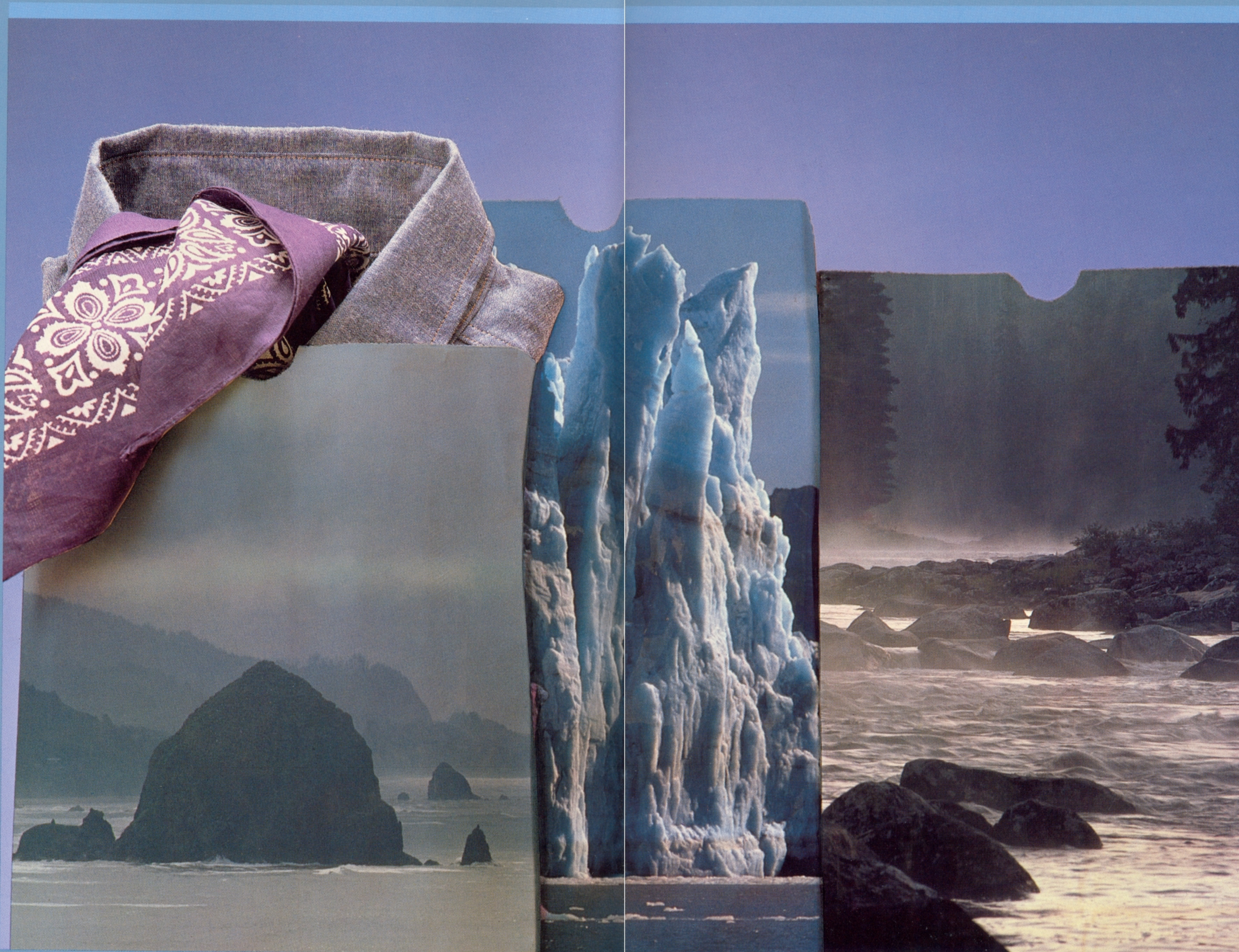
In this commitment, they are supported by the best store and department managers in the country — men and women who have come up through the ranks thoroughly grounded in every aspect of running a Pay 'n Save Corporation store.

Our corporate stores are divided into three basic areas of operation — drug, home center, and apparel.

Sales were up a respectable 12% in our drug store operations, but pre-tax profits increased only 1% over the previous year. Sales for the year came to \$433,801,000 and accounted for 61% of our corporate total. Pre-tax profits were \$17,282,000, contributing 49% of the corporate total. Our drug operations consisted of 89 Pay 'n Save outlets and 23 Bi-Mart discount drug stores at year end.

Our home center operations — 53 Ernst Home Centers, two Von Tobel's, ten Sportswest sporting goods stores and three general merchandise stores named Yard Birds — closed the year with a 21% increase in sales and a 13% increase in pre-tax profits. Representing 30% of the corporate total, sales were \$210,656,000, and earnings were \$12,751,000, or 36% of the corporate total.

Our Lamonts apparel operations also performed impressively contributing 15% of corporate profits on 9% of sales. Sales increased 13% over the previous year to a



Oregon

In this state — our second largest market and the home base for Bi-Mart — there are 22 drug stores, one home center and one apparel store.

Alaska

It's the largest state in the Union, and we're the largest retailer in the state with 11 drug, home center, and apparel stores in Anchorage and Fairbanks.

Idaho

Our eight drug, home center and apparel stores are located from the panhandle to the southern border.

new high of \$64,607,000. And earnings before taxes increased 7% to \$5,329,000.

New stores were brought on line in all divisions during the year.

Ten outlets were added to our drug divisions. Three Pay 'n Saves opened in Washington, and one each in Hawaii and California. Five Bi-Marts opened — one in Washington and four in Oregon.

Four Ernst Home Centers opened in Washington and two in Utah, and a new Sportswest store opened in Seattle. A second Von Tobel's home center opened in Las Vegas, and a third Yard Birds was brought on line in Washington as the result of a minor acquisition.

Our Lamonts division increased by two stores, both in Washington.

In January, we began the site work on a new 270,000-square-foot Distribution Center, scheduled for completion in September. Located in Auburn, 25 miles south of Seattle, the D.C. is convenient to interstate truck and rail routes. It will replace two smaller facilities, also south of Seattle, which we are rapidly outgrowing, and it will allow us to take greater advantage of certain merchandise buys, including imports. Other than that, the new D.C. represents no significant change in our merchandising procedures.

Expanded training programs have been set up to insure a constant supply of the kind of retail talent essential to meet our future needs.

Recruiting promising people into our company, and identifying and developing the untapped potential of people already on the payroll is the first step.

These employees are then put through an intensive management training program that provides on-the-job training in each facet of store operations. It also brings the trainees into corporate headquarters to participate in group seminars, conducted by key executives, to broaden their knowledge of corporate policies and procedures.

The end result for the Corporation is a reservoir of skilled retailers ready to assume the management responsibilities of our expanding operations.

Expansion plans for the new fiscal year will be well underway by the time you receive this annual report. New stores will open in eight states.

In Washington, our home base, a total of 13 stores will be brought on line, all in the western portion of the state. The count includes six Pay 'n Save drug stores, three Ernst Home Centers, two Lamonts, one Sportswest, and one Bi-Mart.

An Ernst Home Center will open in Boise, Idaho, and an Ernst and Lamonts are slated for Moscow.

In Alaska, a Lamonts will open in Anchorage, along with a Pay 'n Save which is a replacement unit. A Pay 'n Save will open in Hawaii on the island of Kauai. Another Bi-Mart will open in Oregon, this one in the town of Hillsboro.

Two Ernsts are slated for Utah, and Nevada will see a new Ernst in Sparks and a Von Tobel's in Las Vegas.

But our biggest expansion news is our entry into the state of Montana. Four stores will open in that state this year — a Pay 'n Save and an Ernst in



Wyoming

A combination drug and home center opened in Rock Springs in 1978, our single outlet in Wyoming.



Utah

The eight home centers in Utah are all located within 90 miles of Salt Lake City.

Nevada

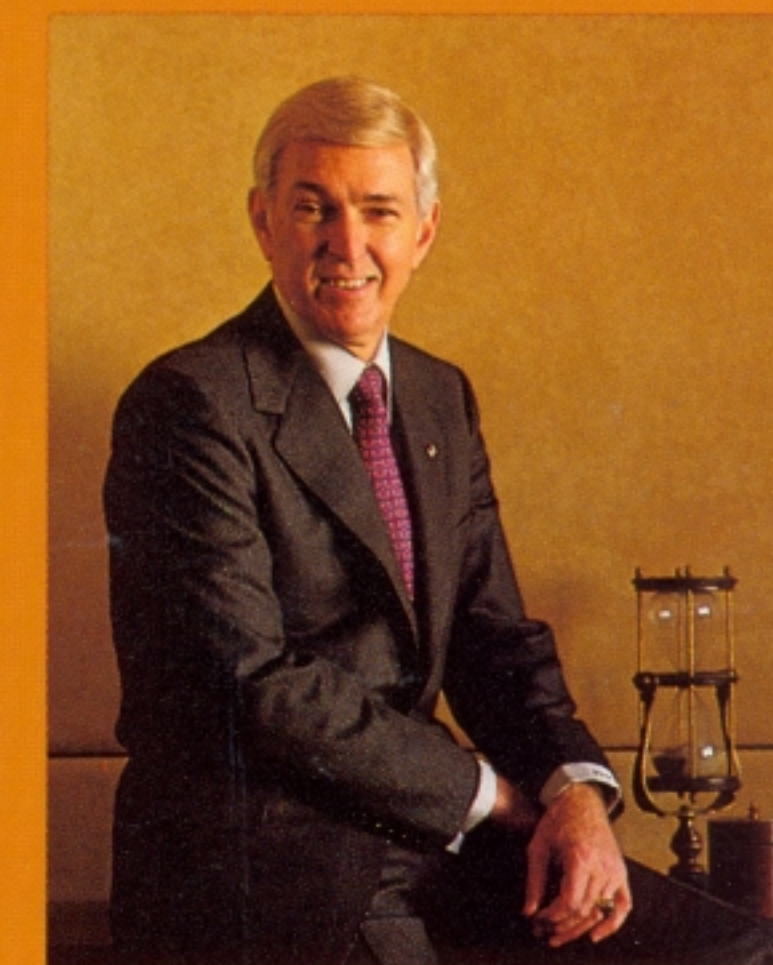
Two Von Tobel's home centers serve Las Vegas and an Ernst is located in Reno.

Great Falls in the spring, and one of each in Bozeman in the fall. Future plans call for more drug stores and home centers in cities such as Billings, Helena, Missoula, and Butte.

We're very excited about our expansion into Montana. We see it as another strong link in our intermountain market program and we believe the economy and communities of Montana are a good focus for our retailing objectives.

We have this same regard for all our market areas. The freshness, vigor, and diversity that emanates from the state photographs in this annual report are characteristic of these regions — and they are qualities found in more than the scenery. They're the flavor of the towns and cities, businesses and industries, the way of life, the people.

We're proud to be a part of it. And we hope we contribute to it.



M. Lamont Bean

M. Lamont Bean
President and
Chief Executive Officer

Five-Year Summary of Operations

For the fiscal years

	1980	1979	1978	1977	1976
	(thousands of dollars)				
SALES AND OTHER REVENUE					
Net sales	\$709,064	\$618,731	\$549,380	\$453,297	\$330,083
Interest and other income	2,416	2,466	2,948	2,387	1,769
	<u>711,480</u>	<u>621,197</u>	<u>552,328</u>	<u>455,684</u>	<u>331,852</u>
COSTS AND EXPENSES					
Cost of merchandise sold	500,421	434,439	387,690	319,800	230,590
Operating and administrative expenses	165,515	144,287	128,477	104,669	76,098
Interest	10,182	8,992	8,492	5,278	3,916
	<u>676,118</u>	<u>587,718</u>	<u>524,659</u>	<u>429,747</u>	<u>310,604</u>
Income before federal and state income taxes	35,362	33,479	27,669	25,937	21,248
Provision for federal and state income taxes	16,049	16,280	13,130	12,120	9,986
Net income for the year	<u>\$ 19,313</u>	<u>\$ 17,199</u>	<u>\$ 14,539</u>	<u>\$ 13,817</u>	<u>\$ 11,262</u>
Net income per common and common equivalent share	<u>\$ 3.52</u>	<u>\$ 3.14</u>	<u>\$ 2.66</u>	<u>\$ 2.53</u>	<u>\$ 2.44</u>
Annual dividend per share	<u>\$.72</u>	<u>\$.60</u>	<u>\$.50</u>	<u>\$.40</u>	<u>\$.30</u>
Average common shares and common equivalent shares outstanding (in thousands)	<u>5,491</u>	<u>5,475</u>	<u>5,467</u>	<u>5,453</u>	<u>4,612</u>

Management's Discussion

Management's Discussion and Analysis of the Consolidated Statement of Income of Pay 'n Save Corporation, comparing the year ended February 2, 1980, to the year ended January 31, 1979, and the year ended January 31, 1979, to the year ended January 31, 1978.

Net Sales — Sales volume increased 15% in the current year as compared to the year ended January 31, 1979. Increase for the prior year amounted to 13% compared to the year ended January 31, 1978. These figures reflect the addition of new stores and increased sales in existing stores. The net increase in new stores was sixteen in 1980, seven in 1979, and ten in 1978. Sales volume gains also include inflation-related price increases, an amount which cannot be determined.

Interest and Other Income — Interest and other income consists of income from leased departments, investments, and customer service charges. Customer service charges decreased sharply in 1980 and 1979, as compared to 1978, as a result of the sale of receivables. Interest income amounted to approximately \$629,000 in 1980, \$545,000 in 1979 and \$145,000 in 1978.

Cost of Merchandise Sold — Cost of merchandise sold was 70.6% of sales for 1980, 70.2% of sales for 1979, and 70.6% for

1978. The variations are attributed to changes in merchandise mix.

Operating and Administrative Expenses — Operating and administrative expenses reflect growth in personnel, personnel-related costs, and occupancy costs. As a percentage of net sales, operating and administrative expenses remained at consistent levels of 23.3% (1980), 23.3% (1979), and 23.4% (1978).

Interest Expense — Interest expense results from seasonal inventory loans, long-term debt, and the capitalization of leases. The latter item amounted to \$8,169,000 (1980), \$7,378,000 (1979), and \$6,331,000 (1978). Outstanding long-term debt and interest rate averages for the last three years were approximately \$11,843,000 at 8.05% (1980), \$12,636,000 at 7.86% (1979) and \$18,717,000 at 7.60% (1978).

Provision for Income Taxes — The tax rate decreased to 45.4% in 1980, as compared to 48.6% in 1979 and 47.5% in 1978. The fluctuations result from changes in federal tax rates and tax credits used.

Net income — Net income as a percentage of net sales was 2.7% (1980), 2.8% (1979), and 2.6% (1978).

Consolidated Statement of Income and Retained Earnings

For the fiscal years

1980

1979

(thousands of dollars)

SALES AND OTHER REVENUE

Net sales	\$709,064	\$618,731
Interest and other income	2,416	2,466
	711,480	621,197

COSTS AND EXPENSES

Cost of merchandise sold	500,421	434,439
Operating and administrative expenses	165,515	144,287
Interest	10,182	8,992
	676,118	587,718

Income before federal and state income taxes	35,362	33,479
Provision for federal and state income taxes	16,049	16,280
Net income for the year	19,313	17,199
Retained earnings at beginning of year	73,062	59,133
Cash dividends — \$.72 (1980) and \$.60 (1979)	(3,945)	(3,270)
Retained earnings at end of year	\$ 88,430	\$ 73,062
Net income per common and common equivalent share	\$ 3.52	\$ 3.14

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

Income By Lines of Business

PERCENTAGE OF SALES BY DIVISIONS

For the fiscal years

	1980	1979	1978	1977	1976
Drug Division	61.18	62.64	64.32	68.90	69.70
Home Center Division	29.71	28.09	27.53	23.24	21.69
Apparel Division	9.11	9.27	8.15	7.86	8.61

PERCENTAGE OF INCOME BEFORE INCOME TAXES BY DIVISIONS

For the fiscal years

	1980	1979	1978	1977	1976
Drug Division	48.87	51.26	50.36	55.87	53.22
Home Center Division	36.06	33.81	36.95	27.76	29.67
Apparel Division	15.07	14.93	12.69	16.37	17.11

See page 15 for Segment Financial Data for 1980, 1979, and 1978.

Consolidated Balance Sheet

Assets

February 2,
1980

January 31,
1979

(thousands of dollars)

CURRENT ASSETS

Cash and temporary investments	\$ 3,525	\$ 2,579
Notes receivable	1,041	870
Accounts receivable, less allowance for doubtful accounts of \$535,000 (1979)	4,644	4,598
Recoverable store location expenditures	1,868	
Inventories	141,245	119,665
Prepaid insurance and miscellaneous	1,095	769
Total current assets	<u>153,418</u>	<u>128,481</u>

PROPERTY, PLANT, AND EQUIPMENT, at cost

Buildings	11,345	6,327
Furniture, fixtures, and equipment	50,757	43,629
Leasehold improvements	13,515	13,193
	<u>75,617</u>	<u>63,149</u>
Less — Accumulated depreciation and amortization	31,882	26,858
	<u>43,735</u>	<u>36,291</u>
Land	9,848	5,787
Construction in progress	3,440	1,188
Buildings under capital leases, less accumulated amortization of \$17,171,000 (1980) and \$14,209,000 (1979)	69,713	62,189
Total property, plant, and equipment	<u>126,736</u>	<u>105,455</u>

OTHER ASSETS

Notes receivable	3,926	2,992
Investment in common stock	687	508
Deferred income taxes	4,435	3,571
Cash value of life insurance and other	461	456
Total other assets	<u>9,509</u>	<u>7,527</u>

EXCESS OF COST OVER NET ASSETS OF ACQUIRED COMPANIES	<u>3,703</u>	<u>3,813</u>
	<u>\$293,366</u>	<u>\$245,276</u>

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

Liabilities

February 2,
1980

January 31,
1979

(thousands of dollars)

CURRENT LIABILITIES

Short-term indebtedness	\$ 22,762	\$ 5,000
Accounts payable	34,176	29,112
Withheld and accrued taxes	4,498	3,968
Accrued salaries and bonuses	4,803	4,647
Accrued rent, pension, and other expenses	6,061	4,861
Federal and state income taxes	5,404	7,592
Current maturities of long-term indebtedness	868	800
Current maturities of obligations under capital leases	1,500	1,283
Total current liabilities	<u>80,072</u>	<u>57,263</u>

NON-CURRENT LIABILITIES

Long-term indebtedness, less current maturities	10,770	10,680
Obligations under capital leases, less current maturities	78,333	68,765
Total non-current liabilities	<u>89,103</u>	<u>79,445</u>

STOCKHOLDERS' EQUITY

Capital stock — authorized 10,000,000 shares without par value, outstanding 5,480,582 (1980) and 5,461, 982 (1979)	35,761	35,506
Retained earnings	88,430	73,062
Total stockholders' equity	<u>124,191</u>	<u>108,568</u>
	<u>\$293,366</u>	<u>\$245,276</u>

Consolidated Statement of Changes in Financial Position

For the fiscal years

February 2,
1980

January 31,
1979

(thousands of dollars)

Financial resources were provided by:

Net income	\$19,313	\$17,199
Add (deduct) income charges not affecting working capital in the period —		
Depreciation and amortization including capital leases	9,457	8,807
Amortization of excess of cost over net assets of acquired companies and other assets	114	122
Deferred income taxes	(864)	(699)
Working capital provided by operations for the year	28,020	25,429
Increase in long-term debt	1,249	96
Reduction of fixed and other assets resulting from the sale of Pay 'n Save, Ltd.		1,691
Obligations under capitalized leases	11,015	8,235
Proceeds from sale of capital assets	3,699	257
Proceeds from stock options	255	373
Decrease in non-current notes receivable	482	92
Total	44,720	36,173

Financial resources were used for:

Acquisition of property and equipment	23,422	11,892
Leased buildings under capital leases	11,015	8,235
Long-term debt paid or coming due currently	1,159	523
Obligations under capital leases coming due currently	1,447	2,285
Cash dividends	3,945	3,270
Increase in non-current notes receivable	1,416	1,937
Miscellaneous, net	188	121
Total	42,592	28,263

Increase in working capital	\$ 2,128	\$ 7,910
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ANALYSIS OF CHANGES IN WORKING CAPITAL

Increase (decrease) in current assets:

Cash and temporary investments	\$ 946	\$ (369)
Receivables	217	(16,927)
Recoverable store location expenditures	1,868	
Inventories	21,580	14,498
Other	326	(60)
	24,937	(2,858)

Increase (decrease) in current liabilities:

Short-term indebtedness	17,762	(14,920)
Accounts payable and accrued expenses	6,950	6,982
Current maturities of long-term debt and obligations under capital leases	285	(5,742)
Federal and state income taxes	(2,188)	2,912
	22,809	(10,768)

Increase in working capital	\$ 2,128	\$ 7,910
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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 changed its fiscal year end from January 31 to 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 the 150% declining balance or straight line method, over an estimated 15- to 30-year useful life range. Depreciation of furniture, fixtures, and equipment is determined using predominantly the double declining method, over an estimated 8- to 10-year useful life range. Leasehold improvements are amortized on the straight line method, over lease period or useful life of improvement, whichever is shorter. Maintenance and repairs are charged to income. Major renewals and improvements are capitalized. Interest costs on two projects constructed by Pay 'n Save were capitalized as part of the historical cost of the assets (\$263,000 in 1980). When assets are retired or disposed, cost and accumulated depreciation of assets are eliminated from the property accounts. The resulting gains and losses are applied to income. The accompanying consolidated balance sheet includes assets and liabilities for stores under capital leases, as defined by financial accounting standards.

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 \$464,000).

Earnings Per Share — Earnings per share have been 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 earnings per share are not materially different from primary earnings per share.

Income Taxes

(thousands of dollars)			
Year ended February 2, 1980	Federal	State	Total
Current	\$16,756	\$1,158	\$17,914
Deferred	(984)		(984)
Investment Credit			
(Flow-Through Method)	(841)		(841)
Employment Credit	(40)		(40)
	<u>\$14,891</u>	<u>\$1,158</u>	<u>\$16,049</u>

(thousands of dollars)			
Year ended January 31, 1979	Federal	State	Total
Current	\$18,858	\$1,352	\$20,210
Deferred	(3,165)	(150)	(3,315)
Investment Credit			
(Flow-Through Method)	(515)		(515)
Employment Credit	(100)		(100)
	<u>\$15,078</u>	<u>\$1,202</u>	<u>\$16,280</u>

Deferred income tax expense results from the capitalization of store leases, and, in 1979, included \$2,377,000 from the use of the installment method of reporting sales. This creates timing differences in the recognition of income for tax and financial statement purposes.

Long-Term Indebtedness

For the fiscal years	1980	1979
(thousands of dollars)		
Former stockholders of Yard Birds	\$ 5,529	\$ 5,958
Insurance companies	4,907	4,977
Others	1,202	545
	<u>11,638</u>	<u>11,480</u>
Less current maturities	868	800
	<u>\$10,770</u>	<u>\$10,680</u>

The notes payable to former stockholders of Yard Birds bear interest at 7%, and are due in annual installments to 1991. Notes payable to insurance companies are secured by real property. Annual installments are payable through 1997 at 8.825% interest.

Summary of Maturities Over a Five-Year Period

For the Fiscal Years	(thousands of dollars)
1981	\$868
1982	909
1983	877
1984	856
1985	749

Short-Term Indebtedness

Short-term indebtedness at February 2, 1980, consisted of a bank note of \$4,000,000 and commercial paper of \$18,762,000. Corporate policy is to maintain bank lines of credit at least equal to outstanding commercial paper. The company had unused lines totaling \$22,000,000 at February 2, 1980. Commitment fees ranged up to 1/4 of 1% of the unused portion.

The company's maximum short-term obligations (including commercial paper), at the end of any month during the years ended February 2, 1980, and January 31, 1979, respectively, were \$26,000,000 and \$15,000,000. Average amounts outstanding during each year were approximately \$9,700,000 and \$7,000,000. Interest rates on short-term obligations at February 2, 1980, and January 31, 1979, averaged 13.85% and 10.75% respectively. Approximate weighted average interest rate was 12.45% during the current year and 7.9% the preceding year (computed by number of days each interest rate was in effect).

Employee Stock Options

A qualified stock option plan, reserving 150,000 shares of the company's capital stock, was adopted March 2, 1973. No options were granted during the year and no further options will be granted under the plan.

Under the plan, option prices may not be less than the market value of the shares at the date of grant. Options may not be granted to one employee in excess of 7,499 shares; may not be exercised for a minimum of two years; and expire after five years. Options for 18,600 shares were exercised during the year at an average price of \$13.71, or a total of \$255,000. Options for 10,200 shares were cancelled or expired. Options outstanding and exercisable at February 2, 1980, were as follows:

Granted during years ended January 31	Number of shares	Option price per share	Total
			(thousands of dollars)
1976	21,450	\$13.75	\$295
1977	27,450	27.125	745
1978	35,200	25.50	898

The president does not participate in the qualified stock option plan and has been granted options for 8,000 shares. During the year, the president did not exercise any options. Options for 4,000 shares remain outstanding as of February 2, 1980, at the following prices (2,000 shares each year): 1977, \$27.125; 1978, \$25.50.

Pension Plan

A pension plan, funded entirely by the company, covers employees who are not eligible for union pension benefits. It is the company's policy to fund pension costs accrued. Pension expenses for the years ended February 2, 1980, and January 31, 1979, respectively, were \$1,700,000 and \$1,600,000. Plan contributions represent normal costs and amortization of prior service costs over periods ranging from 15 to 40 years. Unfunded prior service costs approximated \$8,500,000 at February 2, 1980.

Transactions in Capital Stock

	Shares	Amount
		(thousands of dollars)
Balance, January 31, 1978	5,435,892	\$35,133
Exercise of employee stock options	26,090	373
Balance, January 31, 1979	5,461,982	35,506
Exercise of employee stock options	18,600	255
Balance, February 2, 1980	5,480,582	\$35,761

Leased Property

The company leases a majority of its stores, as well as transportation 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 \$2,794,000 in 1980 and \$2,575,000 in 1979. Sublease rental income received from buildings under capital leases was \$782,000 in 1980 and \$776,000 in 1979.

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

For the fiscal years	Amount
	(thousands of dollars)
1981	\$ 10,351
1982	10,429
1983	10,418
1984	10,402
1985	10,296
Thereafter	163,076
Total minimum rental payments	214,972
Less estimated executory costs (primarily taxes and insurance)	(4,966)
Less amount representing interest	(130,173)
Present value of obligations under capital leases at February 2, 1980	79,833
Less current portion	(1,500)
Long-term obligations under capital leases	\$ 78,333
Future sublease rentals	\$ 1,835

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

Future Minimum Rentals

For the fiscal years	(thousands of dollars)
1981	\$ 6,405
1982	6,304
1983	5,877
1984	5,737
1985	5,444
Thereafter	73,279
Total minimum rental payments	\$103,046
Future sublease rentals	\$ 196

Rental Expense

For the fiscal years	1980	1979
	(thousands of dollars)	
Minimum rentals	\$6,861	\$5,954
Contingent rentals	1,707	1,303
Sublease rentals	(301)	(249)
	<u>\$8,267</u>	<u>\$7,008</u>

Quarterly Financial Information (Unaudited)

For the year ended February 2, 1980	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	For the year ended January 31, 1979	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(thousands of dollars)					(thousands of dollars)				
Sales and other revenue	\$141,949	\$172,540	\$168,507	\$228,484	Sales and other revenue	\$128,916	\$150,268	\$147,621	\$194,392
Gross profit	41,451	51,283	50,240	65,669	Gross profit	38,173	45,438	43,717	56,964
Net income	2,114	5,425	4,110	7,664	Net income	1,796	4,440	3,556	7,407
Net income per share39	.99	.75	1.39	Net income per share33	.81	.65	1.35

Segment Financial Data

Segment financial data, in accordance with a financial accounting standard, are as follows:

For the year ended February 2, 1980	Drug	Home Center	Apparel	Corporate	Consolidated
(thousands of dollars)					
Sales and other revenue	\$434,082	\$211,302	\$65,470	\$ 626	\$711,480
Operating profit	22,785	16,798	7,318	626	47,527
General corporate expense (net)				1,983	1,983
Interest expense					10,182
Income before income taxes					35,362
Identifiable assets	136,108	92,647	51,948	12,663	293,366
Additions to property, plant, and equipment	10,803	7,571	4,664	384	23,422
Additions to buildings under capital leases	3,733	7,282			11,015
Depreciation and amortization	4,060	2,990	2,349	58	9,457
For the year ended January 31, 1979	Drug	Home Center	Apparel	Corporate	Consolidated
(thousands of dollars)					
Sales and other revenue	\$388,055	\$174,485	\$58,102	\$ 555	\$621,197
Operating profit	21,903	14,408	6,924	555	43,790
General corporate expense (net)				1,319	1,319
Interest expense					8,992
Income before income taxes					33,479
Identifiable assets	118,818	77,351	37,581	11,526	245,276
Additions to property, plant, and equipment	4,524	3,608	1,453	2,307	11,892
Additions to buildings under capital leases	1,933	4,248	2,054		8,235
Depreciation and amortization	3,875	2,485	2,389	58	8,807
For the year ended January 31, 1978	Drug	Home Center	Apparel	Corporate	Consolidated
(thousands of dollars)					
Sales and other revenue	\$354,530	\$152,332	\$45,321	\$ 145	\$552,328
Operating profit	18,945	13,131	4,863	145	37,084
General corporate expense (net)				923	923
Interest expense					8,492
Income before income taxes					27,669
Identifiable assets	118,104	72,739	38,887	6,490	236,220
Additions to property, plant, and equipment	3,141	4,254	4,073	180	11,648
Additions to buildings under capital leases	7,686	4,704	9,040		21,430
Depreciation and amortization	4,264	2,430	1,640	23	8,357

Financial Reporting for the Effects of Changing Prices (Unaudited)

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 produce restated financial information that discloses the effects of inflation utilizing the Consumer Price Index for All Urban Consumers (CPI-U) and the effects of changes in specific prices (current cost) utilizing methods of indexation and direct pricing.

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, plant, and equipment and the related depreciation and amortization expense are estimates of what the company's existing assets would cost at February 2, 1980. 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 five-year comparison shows the effect of adjusting historical net sales and cash dividends declared per common share to dollar amounts expressed in terms of average Fiscal 1980 dollars and the market price per common share to year end dollars as measured by the CPI-U.

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 Changing Prices (Unaudited)

	As reported in the Primary Financial Statements	Adjusted for General Inflation	Adjusted for Changes in Specific Prices (Current Costs)
For the year ended February 2, 1980			
		(thousands of dollars)	
Net sales	\$709,064	\$709,064	\$709,064
Cost of goods sold, excluding depreciation and amortization	500,327	516,140	513,487
Gross profit	208,737	192,924	195,577
Other operating expenses, excluding depreciation and amortization	155,924	155,924	155,924
Depreciation and amortization	9,686	12,691	13,110
Total other operating expenses	165,610	168,615	169,034
Operating income	43,127	24,309	26,543
Other (income) or expense — Net	7,765	7,765	7,765
Income before income taxes	35,362	16,544	18,778
Provision for income taxes	16,049	16,049	16,049
Net income	\$ 19,313	\$ 495	\$ 2,729
Gain from decline in purchasing power of net amounts owed		\$ 16,569	\$ 16,569
Increase in general price level of inventories, and property, plant, and equipment held during the year			\$ 32,569
Effect of increase in specific prices (current cost)			29,953
Excess of increase in general price level over increase in specific prices			\$ 2,616
At February 2, 1980, current cost of inventory was \$142,069,000 and current cost of property, plant, and equipment, net of accumulated depreciation, was \$182,104,000.			

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

For the fiscal years	1980	1979	1978	1977	1976
	(Thousands of average fiscal 1980 dollars)				
Net sales	\$709,064	\$689,143	\$660,135	\$580,673	\$446,569
Historical cost information adjusted for general inflation:					
Net income	\$ 495				
Net income per common and common equivalent share	\$.09				
Net assets at year end	\$168,138				
Gain from decline in purchasing power of net amounts owed	\$ 16,569				
Cash dividends declared per common share	\$.72	\$.67	\$.60	\$.51	\$.41
Market price per common share at year end	\$ 26.50	\$ 26.35	\$ 29.43	\$ 33.42	\$ 40.88
Current cost information:					
Net income	\$ 2,729				
Net income per common and common equivalent share	\$.50				
Excess of increase in specific prices over increase in the general price level	\$ 2,616				
Net assets at year end	\$173,277				
Average consumer price index (1967 = 100)	219.3	196.9	182.5	171.2	162.1

Report of Independent Accountants

TO THE STOCKHOLDERS
OF PAY 'N SAVE CORPORATION:

In our opinion, the accompanying consolidated balance sheets 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 February 2, 1980, and January 31, 1979, and the results of their operations and the changes in their financial position for the years

Seattle, Washington
March 12, 1980

then ended, 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 & CO.

Ten-Year Summary of Operations

For the fiscal years	1980	1979	1978	1977
OPERATING RESULTS				
Net sales*	\$709,064	\$618,731	\$549,380	\$453,297
Net income*	19,313	17,199	14,539	13,817
Net income as percentage of sales	2.72%	2.78%	2.65%	3.05%
Earnings on equity at beginning of year	17.79%	18.24%	17.64%	19.69%
COMMON STOCK				
Net income per common and common equivalent share	\$ 3.52	\$ 3.14	\$ 2.66	\$ 2.53
Book value per share	22.66	19.88	17.34	15.17
Approximate price range of common stock	30-23	29-21	26-21	31-21
Shares outstanding (end of year)†	5,481	5,462	5,436	5,435
Cash dividends per share	\$.72	\$.60	\$.50	\$.40
FINANCIAL POSITION				
Working capital*	\$ 73,346	\$ 71,218	\$ 63,308	\$ 64,715
Current ratio	1.92	2.24	1.93	2.33
Long-term debt*	10,770	10,680	11,108	17,719
Obligations under capital leases*	78,333	68,765	62,815	42,781
Stockholders' equity*	124,191	108,568	94,266	82,429
CAPITALIZATION PERCENTAGE				
Long-term debt	5.1	5.7	6.6	12.4
Obligations under capital leases	36.7	36.6	37.4	29.9
Stockholders' equity	58.2	57.7	56.0	57.7
STORES IN OPERATION				
Pay 'n Save	89	89	90	89
Bi-Mart	23	18	17	15
Ernst	53	47	42	39
Sportswest	10	9	9	9
Yard Birds	3	2	2	2
Lamonts	19	17	15	12
Von Tobel's	2	1	1	
	199	183	176	166
AVERAGE SALES PER STORE*				
(based upon number of stores at end of the year)	\$ 3,563	\$ 3,381	\$ 3,121	\$ 2,731

* Amounts in thousands of dollars.
† Thousands of shares outstanding, adjusted to give effect to stock splits in 1973.

	1976	1975	1974	1973	1972	1971
OPERATING RESULTS						
Net sales*	\$330,083	\$223,566	\$181,723	\$147,825	\$120,598	\$ 97,277
Net income*	11,262	7,023	5,072	3,739	3,193	2,653
Net income as percentage of sales	3.41%	3.14%	2.79%	2.53%	2.65%	2.73%
Earnings on equity at beginning of year	29.52%	22.02%	18.78%	15.77%	15.03%	13.90%
COMMON STOCK						
Net income per common and common equivalent share	\$ 2.44	\$ 1.64	\$ 1.19	\$.88	\$.75	\$.64
Book value per share	13.02	8.92	7.52	6.43	5.71	5.11
Approximate price range of common stock	31-12	14-9	18-12	22-17	18-8	11-5
Shares outstanding (end of year)†	5,390	4,274	4,242	4,202	4,156	4,156
Cash dividends per share	\$.30	\$.25	\$.20	\$.18	\$.175	\$.15
FINANCIAL POSITION						
Working capital*	\$ 52,287	\$ 32,244	\$ 28,338	\$ 20,347	\$ 19,260	\$ 17,868
Current ratio	2.50	2.53	2.68	2.30	2.63	3.58
Long-term debt*	7,652	9,648	8,387	1,633	1,907	2,174
Obligations under capital leases*	29,479	19,541	16,527	14,107	10,603	9,873
Stockholders' equity*	70,159	38,144	31,889	27,012	23,716	21,250
CAPITALIZATION PERCENTAGE						
Long-term debt	7.1	14.3	14.8	3.8	5.3	6.5
Obligations under capital leases	27.5	29.0	29.1	33.0	29.3	29.7
Stockholders' equity	65.4	56.7	56.1	63.2	65.4	63.8
STORES IN OPERATION						
Pay 'n Save	81	71	66	61	55	40
Bi-Mart	13					
Ernst	28	25	26	23	21	21
Sportswest	8	7	5			
Yard Birds						
Lamonts	10	7	6	5	5	5
Von Tobel's						
	140	110	103	89	81	66
AVERAGE SALES PER STORE*						
(based upon number of stores at end of the year)	\$ 2,357	\$ 2,032	\$ 1,764	\$ 1,661	\$ 1,489	\$ 1,474

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





Officers

Monte L. Bean (photo)
*Founder and
Chairman of the Board*
M. Lamont Bean*
*President and
Chief Executive Officer*
E. R. Erickson*
*Executive Vice President,
Operations*
Calvin Hendricks*
*Executive Vice President,
Administration*
Thomas R. Lawrenson
Senior Vice President
Joseph J. Petrino
Vice President
J. Kenneth Green
Vice President
Jack Phelan
Vice President
Walter R. Guidinger
Vice President
Raymond C. Swanson
Secretary
Joseph Christy
*Treasurer and Assistant
Secretary*
Jennie K. Hauge
Assistant Treasurer

*Executive Committee

Directors

Monte L. Bean
M. Lamont Bean
Joshua Green, Jr.
*Chairman of the Board of
Peoples National Bank of
Washington and a Director
and President of the
Joshua Green Corporation
whose principal business
is stock and real property
investments.*
James H. Clawson
*Retired. Previously President
and Chairman of the
Board of Puget Sound
Power and Light Company.*
E. R. Erickson
Calvin Hendricks
Raymond C. Swanson
*Partner in the law firm of Ryan,
Swanson, Hendel & Cleveland.*

	Washington	California	Alaska	Oregon	Hawaii	Idaho	Utah	Nevada	Wyoming	Total
Pay 'n Save Drug Stores	54	16	9	2	6	2				89
Bi-Mart Drug Stores	3			20						23
Ernst Home Centers	38			1		4	8	1	1	53
Lamonts	14		2	1		2				19
Sportswest	10									10
Yard Birds	3									3
Von Tobel's								2		2
Totals	122	16	11	24	6	8	8	3	1	199

Corporate Headquarters

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

Annual Meeting

April 24, 1980, at 11 a.m.
Washington Athletic Club
1325 Sixth Avenue
Seattle, Washington

Transfer Agents

Corporate Trust Department
Peoples National Bank
Seattle, Washington

Bradford Trust Company
New York, New York

Independent Accountants

Price Waterhouse & Co.
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, Executive Vice
President, Administration.

General Information

For general information about
Pay 'n Save Corporation,
please contact Patricia Walsh Rao,
Public Relations Director.

MAY 13 1986

MAY 13 1986 RETD

MAY 29 1987
MAY 29 1987 RETD

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