

Pay 'N Save tops its sales mark, expands

News of the Pay 'N Save Corp.'s Inc., Bellevue. Architect for the record sales and earnings for 1977 project is Doug Mulvaney, Seattle.

79 Pretty Up Show

This year's free Show Me How Fair, with over 25 schools and 160 demonstration booths, will be open to the public from 4 to 10 p.m. tropical plants for home and office, projects with dried flowers, backyard orchards, exterior landscaping and much Ackerley C tions and th of Western W newspapers.

Pay 'n Save profits up

Pay 'n Save Corp. reported third-quarter profits up 8 percent from a year earlier on a 10 percent gain in

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Vibrant Performance of Drug-Chain Stocks Is Seen Continuing Even if Economy Slows

By STANLEY H. SLOM

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Lamonts

By DUANE DOZIER
Of the Herald-Republic

Union Gap

The addition of Lamonts Apparel c., a major Northwest retail chain, to

Seattle-based subsidiary of Pay 'n Save Corp., which also operates Bi-Mart, Ernst, Malmo and other businesses.

The family apparel store chain was

years ago, there were no Lamonts stores east of the Cascade Mountains, but now, there is one in Spokane and the Wenatchee area.

McConaghy called the Valley Mall

Valley Mall officials expect new store to boost growth

Ernst Opens

The splitleaf philodendrons the proverbial hot cakes at opening of the Ernst Home C.

Do-it-themselfers crowd Coliseum fair

Several thousand persons drifted through the Seattle Center Coliseum yesterday, poking at displays and collecting bargain

Pay 'n Save Corp. forms new divisions

SEATTLE — The Pay 'n Save Corporation has created a new high-level executive position and has enlit the Pay 'n Save

Pay. 'n Save Northern Division consisted of 66 outlets in W Oregon, Idaho, Alaska and Hawa

Pay 'n Save to Be First Retailer Na On Face of Visa

Bank Will Purchase C Charge Accounts and Credit Cards to Cust

By a WALL STREET JOURNAL Staff SEATTLE—Pay 'n Save Corp. Rainier National Bank will be the participants in a new credit-card program sponsored by Visa.

ANNUAL REPORTS
PAY'n SAVE Corp. 1979
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Pay'n Save Corporation

Annual Report for the Year Ending January 31, 1979

BUSINESS ADMINISTRATION
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Contents

DESCRIPTION OF BUSINESS

Pay 'n Save is a Washington Corporation with three basic retail operations — drugs, home centers, and apparel stores.

The drug operations consist of 89 Pay 'n Save and 18 Bi-Mart drug stores, each offering 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 one Von Tobel's and 47 Ernst stores, two large general merchandise stores called Yard Birds, and nine 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.

Our 17 Lamonts stores make up the apparel division. These offer medium priced clothing for the family, plus specialty departments with women's accessories, bedding, giftware, and cosmetics.

The company began in 1947 when Monte L. Bean, the founder, opened a single Pay 'n Save drug store in Seattle. As of January 31, 1979, the company operated 183 stores in nine western states.



Monte L. Bean
Founder and Chairman
of the Board

Financial Highlights	1
1979 Report to Shareholders	3
Financial Review	12
Directory	25

Financial Highlights

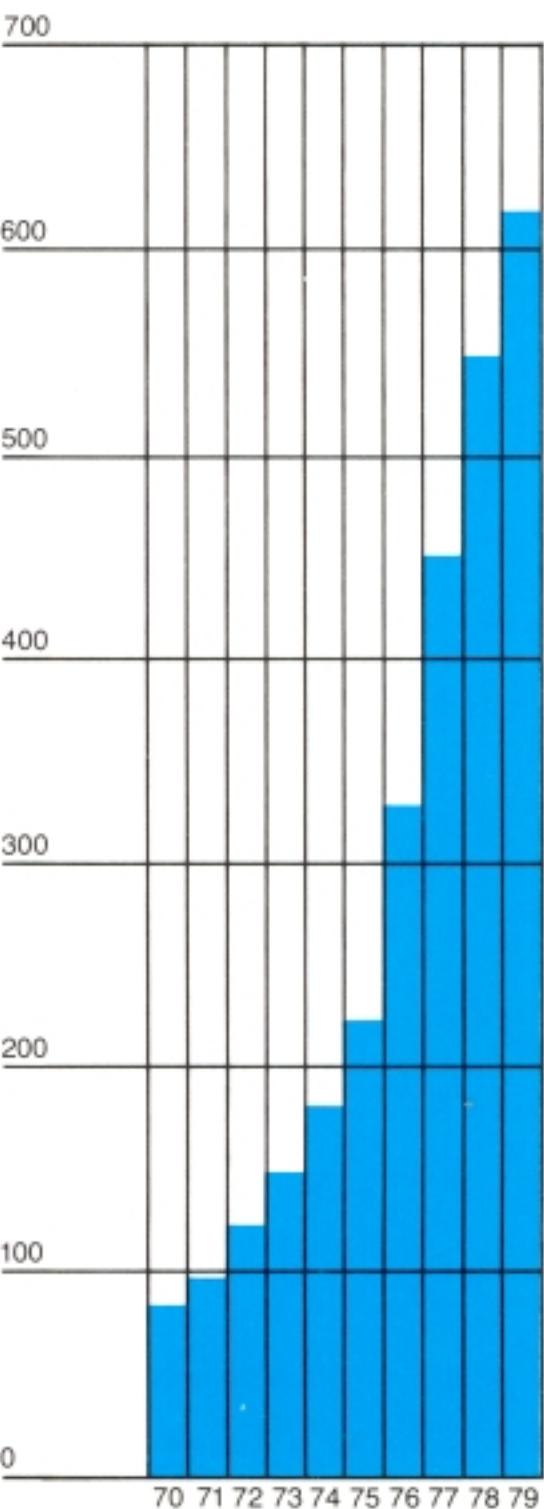
Years ended January 31	1979	1978	Increase	
Net Sales	\$618,730,414	\$549,380,517	\$69,349,897	13%
Net Income	17,198,549	14,539,275	2,659,274	18%
Net Income Per Share	\$3.14	\$2.66	\$.48	18%

Annual Dividend	
1979	\$.60 (paid \$.15 quarterly)
1978	\$.50 (paid \$.125 quarterly)

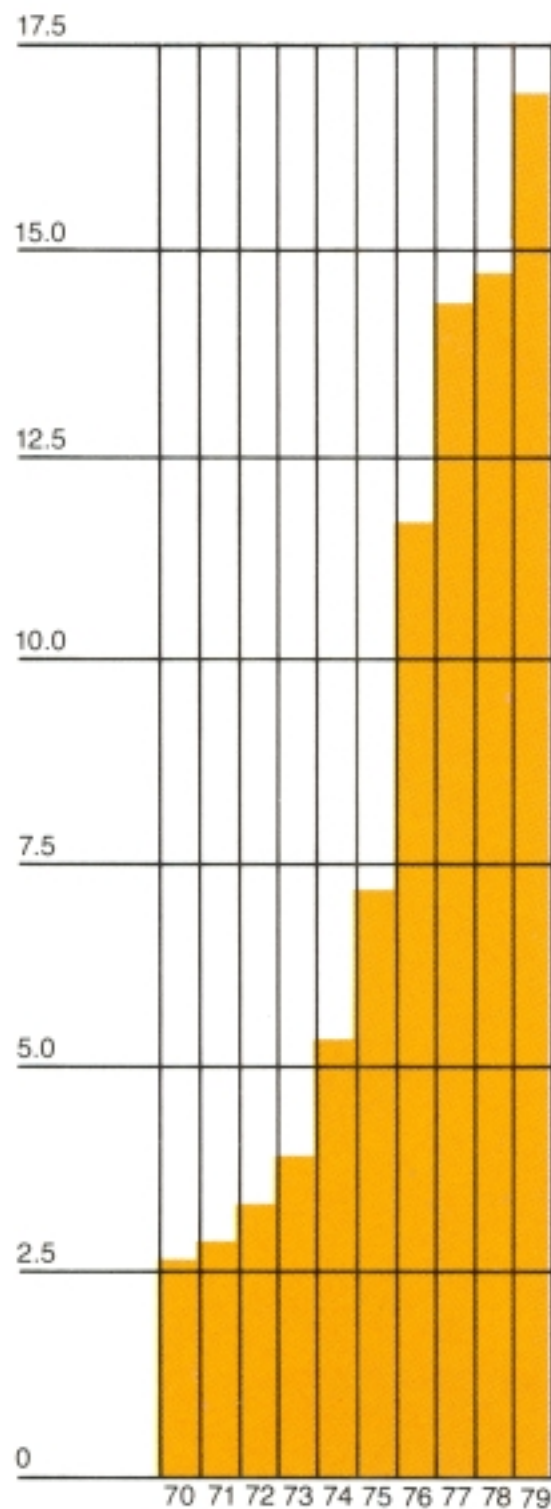
Years ended January 31	1979	1978
First Quarter	21 — 24¾	24⅛ — 26⅛
Second Quarter	21¾ — 26¾	20¾ — 25¾
Third Quarter	24⅝ — 29	21½ — 25
Fourth Quarter	23 — 25¾	22⅝ — 26¼

Years ended January 31	1979	1978
Shareholders of record	6,593	6,492
Shares outstanding	5,461,982	5,435,892

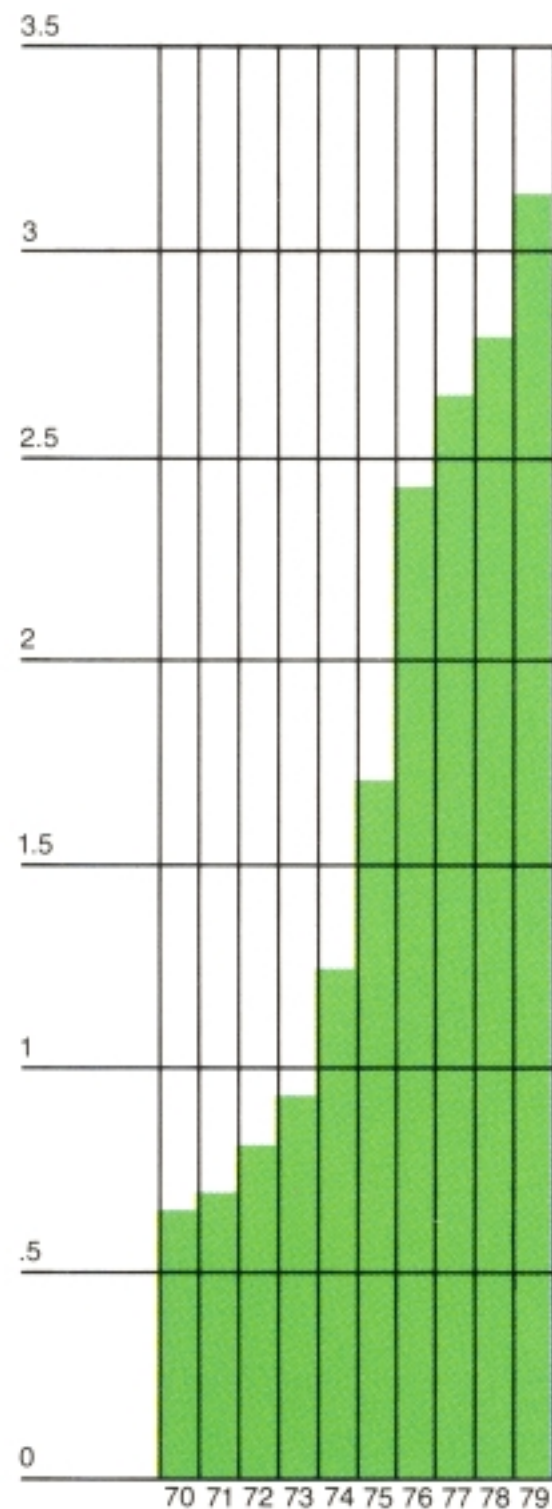
Net Sales (in millions)



Net Income (in millions)



Net Income per Share





1979 Annual Report to Shareholders

By M. Lamont Bean, president

Those of us who steered corporations through the unpredictable climate of the past ten years met some interesting hurdles. In a decade where headlines talked of Viet Nam, Watergate, the Middle East, energy crises, rampant taxes, and inflation — the trust and confidence of the American people in some of this country's oldest institutions were badly eroded. And it is nothing less than understatement to say that business felt the impact of these events.

That's why I'm foregoing the traditional one-page "President's Message" in this year's Annual Report. I want to take the time and space to personally review in greater detail the significant aspects of the year we call Fiscal 1979. But I also want to review the overall position of the Pay 'n Save Corporation as we near the close of this complex decade we know as the '70s.

You see, in spite of the business and social environment, or maybe because we were inspired to stand a little taller against it, Pay 'n Save wrote its own headlines. And they were good news. Fiscal 1979 turned out to be the best year in our history. The troublesome '70s proved to be our best decade.

Our Fiscal Year began February 1, 1978, and ended January 31, 1979. The financial headlines for this period read as follows:

Sales reached an all-time high of \$618,730,414, up 13% over last year.

Left to right: Cal Hendricks (executive v.p., administration), Ron Erickson (executive v.p., operations), M. Lamont Bean (president), and Tom Lawrenson (senior v.p.) meet to review plans for a new store.

Net income increased to \$17,198,549, up 18%.

Income per share rose to \$3.14, up 18% over last year.

And dividends this year came to \$.60 per share, up 20%.

The gratifying figures for Fiscal 1979 are largely the result of an excellent fourth

marketing strategies . . . and our commitment to community involvement.

GROWTH

We thought we were riding pretty high at the start of this

'Most Successful Year' For Pay 'n Save Corp.

The 180-store Pay 'n Save Corp. turned in the most successful year in its 32-year history during 1978, said the company because of a "very strong" fourth quarter.

Net income increased 18 percent from the \$14.5 million or \$2.66 per share on sales of \$549.4 million recorded in the previous fiscal year.

quarter, one in which sales totaled \$193,654,522, up 13% over the fourth quarter of Fiscal 1978, and net income was \$7,406,402, up 27%.

It was a great way to close the books on the year — especially after its slow start. But it wasn't only the financial picture that made it a good year. Fiscal 1979 was also one in which we began to see and enjoy the results and rewards of programs set in motion during the entire decade.

I'm talking about growth goals . . . the diversification of our operations . . . employee training . . . equal employment opportunity . . .

decade when we reported sales of \$84,335,000, income before taxes of \$2,561,000, and income per share of 61¢, for the year ended January 31, 1970. At that time we had roughly 2,000 employees working in 59 stores.

But we wanted to ride higher. So we set wheels in motion that now have our sales edging their way steadily toward the billion dollar mark. And today it takes more than 8,000 employees to ring the cash registers and to oil and run the machinery of more than 180 drug, home center, and apparel stores.

Talented and adequate

supervision of those employees and that machinery is essential to our growth and success. That's why, from day one, we've kept a watchful eye on the size of our management ranks, knowing they must be neither too large — nor too small.

In Fiscal 1979, we found it time, once again, to broaden the top of the management pyramid to put it in better proportion to the base.

We asked Tom Lawrenson, former Ernst division manager, to assume the newly created position of senior vice president, assisting the executive vice president of operations, Ron Erickson, by overseeing the management of the Pay 'n Save and Ernst divisions.

To help Tom get a firm handle on his new responsibilities, we redivided the 89-store Pay 'n Save divisions from two into three. We also promoted some talented and dedicated people to our corps of division and general managers — people you will meet later in this report.

Every time we've interposed new layers of management, I've been among those to worry aloud whether such changes might muddle our communications or slow our response time. I'm delighted to say that has never happened.

Despite growth, we remain a company that's informal, fast-moving, and flexible. Ponderous decision-making procedures and rigid chains of command just are not our style. Neither are unreasonable numbers of committees and sub-committees created out of fear of mistakes.

"Pay 'n Save wrote its own headlines. And they were good news. Fiscal 1979 turned out to be our best year. The troublesome '70s proved to be our best decade."

That doesn't mean we don't make mistakes. We do. And we correct them. But we minimize them as much as possible, by doing such things as listening carefully to those employees who are in direct contact with our customers.

We are continually striving for an atmosphere of open communication between our sales clerks and store managers. The managers, in turn, know they have a direct line to corporate headquarters.

Perhaps this is a good time and place to put on record my firm belief that growth in this business has more to do with human resources than with any other single factor. I know it's fashionable these days for CEOs to talk in the annual report about how people-oriented their business is. In retailing, it's literally the truth. Money and markets can always be found. But no store should open without the seasoned, self-motivated staff needed to get operations "in the black" at the earliest possible moment.

The best of such people work hard for fast promotion and will only stay with a company that provides the opportunities they expect. So, we build new stores not only to expand sales and profits, but also to open career paths. Six or seven of our best people move up to greater responsibility every time we cut a ribbon. At least three times that many change jobs and gain experience that — along with our training programs — will help qualify them for promotion later.

Providing such opportunities over the years has given us a marvelous talent bank of store

managers, assistant store managers, and department managers. With their help, we plan to open about 18 new outlets in Fiscal 1980 and about the same number in Fiscal 1981.

A fast pace, indeed, but we have the people we need to do the job.

DIVERSIFICATION

Someone will be interviewing us for the first time. It may be a writer with one of the trade journals. Or it may be an investment analyst. Sooner or later,

Bi-Mart opens

course. When one area of operations slowed down, another would soar. We seem to have hit upon a retailing combination that can carry us through those economic changes beyond our control.

It has been especially satisfying to be firmly established with our home center operations in a day and age when construction and labor costs are turning countless home owners into do-it-yourself experts, who find the tools and

Pay N Save construction on schedule

LACEY — Construction on a new Pay N Save store

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the questions get around to the diversity of our operations.

"Why are you diversified?"

"How can one corporation have the expertise to successfully manage a variety of operations?"

Our answer is unwavering. We believe our diversity makes it possible for us to run a more flexible corporation and therefore a more stable one. The economic climate of the '70s seems to prove our case.

During a decade of national economic ups and downs, Pay 'n Save sales and income charted a steady, upward

materials for their projects in our well-stocked stores.

Experts. That's also a fair label for the many capable and talented people who manage our various operations. Each is highly knowledgeable in a special area of retailing. But each also understands and uses the broader retailing practices we apply to all of our operations. And this capacity guarantees our success as diversified retailers.

Let's take a closer look at our three areas of operations — and how they performed in Fiscal 1979.

stores. In Fiscal 1980, we will open three Pay 'n Saves in Washington, one in California, and one in Hawaii.

At the close of Fiscal 1979, we had a total of 89 Pay 'n Save stores, with 69 located in the Northern Division and 20 in the Southern. As expansion plans pushed the Northern Division total even higher, we knew the chain had to be regrouped.

In October, the two former divisions were split into three new ones. The Seattle/Alaska Division with 35 outlets is headed by vice president and division manager Joe Petrino,

DRUG STORE OPERATIONS

In a year marked by management changes and continuing growth, drug store sales totaled \$387,559,817, a 10% increase over last year's \$353,369,504. Pre-tax profits were \$17,158,899, up 23% over Fiscal 1978.

Drug store operations accounted for 63% of the total corporate sales for the year, and 51% of profits.

Drug store operations consist of Pay 'n Save drug stores and Bi-Mart discount drug stores.

Four new Pay 'n Saves were opened in Western Washington during Fiscal 1979, and we sold our five Canadian

Gloria Najera, cosmetics department manager, Pay 'n Save #52.



Ryder Fladhus, floor specialist, Ernst #205.



“We build new stores not only to expand sales and profits, but also to open career paths. Six or seven of our best people move up to greater responsibility every time we cut a ribbon.”

who previously headed the Northern Division.

The 25-store California/Hawaii Division is managed by C. B. “Mac” McKerney. Mac previously managed what was our Southern Division.

Art McKerney, formerly a Pay ’n Save district manager, is division manager of the new Northwest Division with 29 stores in Washington, Oregon, and Idaho.

Bi-Mart has enjoyed a substantial growth since its acquisition by the Pay ’n Save Corporation in 1975. There were 13 stores then. Now there are 18 — 16 in Oregon and two in Washington.

Two Oregon stores were opened in Fiscal 1979, in Medford and Ontario. In Fiscal 1980, we’ll open three more in Oregon, and another one in Washington.

HOME CENTER OPERATIONS

Home Center operations absorbed a 12% growth in number of stores over the last year, and went on to post record sales of \$173,812,130, a 15% gain over Fiscal 1978. Net income before taxes was \$11,319,193, up 10% over the previous year’s \$10,223,800.

Home Centers contributed 28% of total corporate sales, and accounted for 34% of total income.

Home Center operations include 47 Ernst Home Centers, nine Sportswest stores, two Yard Birds, and one Von Tobel’s. The 59-store total reflects the addition of five Ernst outlets during Fiscal 1979.

The year’s most notable opening was in Wyoming — a new market for us — where we cut the ribbon for a combination home center and drug store at Rock Springs. This is the first combination store to open under the Ernst name, and we are pleased with its progress.

Four Ernst stores also opened in Western Washington during Fiscal 1979. In the year ahead, we will open eight more.

Expansion in the state of Washington will pretty well parallel what has taken place in

Ernst Opens

The splitleaf philodendrons the proverbial hot cakes at opening of the Ernst Home C

the Pay ’n Save chain, with three stores planned in the Puget Sound area and two in Eastern Washington. We also will open two in Utah and relocate a third. And we will add another Von Tobel’s to the lineup with the opening of a second unit in Las Vegas.

Bill Boston, a 16-year Ernst veteran, has been named to succeed Tom Lawrenson as Ernst division manager. Bill comes to the job directly from management of one of Ernst’s most profitable stores, the University Village store in Seattle.

We also have three general managers in the home center division. They are Stan

Johnson of Sportswest, George Lee of Yard Birds, and Jim Martin of Von Tobel’s.

APPAREL OPERATIONS

Vice president and Lamonts division manager Ken Green reported a 28% rise in sales for the year of \$12,567,226. Profits were an astounding \$5,000,457, up 42% over Fiscal 1978. Lamonts sales represented 9% of the corporate total, its profits 15%.

This was a lively perfor-

drawing boards in our property development office, generate a constant air of excitement at our headquarters in Seattle.

But the documents and memos that scale our growth projections are meaningless without counterparts that estimate our personnel projections — especially well-trained management personnel.

However, these projections show us that we are getting so large that we no longer can wait for future management talent to simply walk through

Do-it-themselfers crowd Coliseum fair

Several thousand persons drifted through the Seattle Center Coliseum yesterday, poking at displays and collecting bargain

mance heralding an encouraging recovery from the division’s absorption of growth in Fiscal 1978.

Today there are 17 Lamonts stores in Washington, Idaho, Alaska, and — for the first time last year — Oregon. We also opened a store in Wenatchee, Washington, last year. At the close of Fiscal 1980, there will be 19 with the opening of two more in Washington.

TRAINING AND RECRUITING

The frequent openings of new stores, and the plans for more that stretch across the

the door. We must reach out to colleges and universities in our marketing areas, seeking bright, young people, who want careers in retailing, to apply for our new management trainee program.

This program, which also is available to qualified employees in our stores, will make no one a store manager overnight. But it will accelerate progress toward such a career milestone for the individual with ability, intelligence, and initiative.

And it’s not the only ace we have in the hole. We’ve developed a number of training programs in the past several years for all levels of employees. These include product knowl-

"It's a way of saying to the communities we serve, we care about you as people, not just as consumers. We are interested in you as a community, not just as a market."

edge courses for salesclerks, methods and procedures classes for potential department managers, mid-management training for assistant managers, and management profile seminars for store managers.

It's all part of our commitment to keep the best people we have moving ahead, satisfied, and loyal to our Corporation.

EQUAL OPPORTUNITY

All our talk about opportunity at Pay 'n Save is meaningless if we fail to guarantee equal opportunity.

We have recruitment and hiring programs in gear that move women and minorities into a system of upward mobility. And we have goals for each of our stores so that their employee population will bear a reasonable resemblance to that of the community in which the store operates.

Overall, we are at about 9% minority population at this time. If we are to match the population average of all our markets, we need to reach 12%.

MARKETING STRATEGIES

Knowing the population mix of our market areas is important if we are to meet EEO and other human resource goals. It's also important in planning our marketing strategies. So are many other factors.

For example, we won't even consider opening a store in a particular market until

we've found a site that can pass our four-point test with flying colors. It must score high in terms of (1) surrounding population, (2) visibility, (3) accessibility, and (4) existing competition.

Once a store is ready to open, we need answers about the reading, listening, and viewing habits of the community before we can launch an intelligent advertising program and make good media buys.

And knowledge of the population, our competition, products, and pricing are all

people grooming. They learned a great deal about home improvement products and techniques, at no cost to them and with no pressure to buy.

We now do five fairs a year in four cities — Seattle, Sacramento, Salt Lake, and Spokane.

COMMUNITY INVOLVEMENT

The towns and cities in which we operate stores are the same towns and cities in

Mr. Yuk stickers are available free at all Pay 'n Save drug stores.

We got involved in this preventive campaign because we wanted to do something about the accidental misuse of poisonous household products. It was a way of saying to the communities we serve, "We care about you as people, not just as consumers. We are interested in you as a community, not just as a market."

We're finding other ways to say the same thing.

Studies show that people

Lamonts Valley Mall officials expect new store to boost growth

By DUANE DOZIER
Of the Herald-Republic

Union Gap
The addition of Lamonts Apparel
c., a major Northwest retail chain, to

Seattle-based subsidiary of Pay 'n Save Corp., which also operates Bi-Mart, Ernst, Malmo and other businesses.

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years ago, there were no Lamonts stores east of the Cascade Mountains, but now, there is one in Spokane and the Wenatchee area.

McConaghy called the Valley Mall

essential to setting up the special promotions created to bring people into our stores and move merchandise out.

Sometimes the promotional programs we undertake have an *indirect* bearing on the sale of merchandise. They are organized for other valid reasons, such as generating good will, creating a good public image, or to educate the consumer.

Consumer education is the prime reason behind our Do-It-Yourself and Show-Me-How Fairs, fast becoming a tradition in our home center markets. These fairs drew over 700,000 people in 1978. Fairgoers saw demonstrations and schools on topics such as wallpapering, room remodeling, gardening, cooking, pet grooming, and

which we, our employees, our shareholders, our suppliers — and the families of all these people — live and work and play.

The Pay 'n Save Corporation, like any individual citizen, must care about and contribute to the well-being of its towns and cities. So beyond the programs done for marketing purposes, there are those we do out of a sense of community citizenship — programs like Mr. Yuk.

Yuk is the face on the sticker we want parents to put on every medicine bottle and can of cleaner in the house. If they or their children have seen our TV ads and billboards, they know the ugly face means "don't touch!"

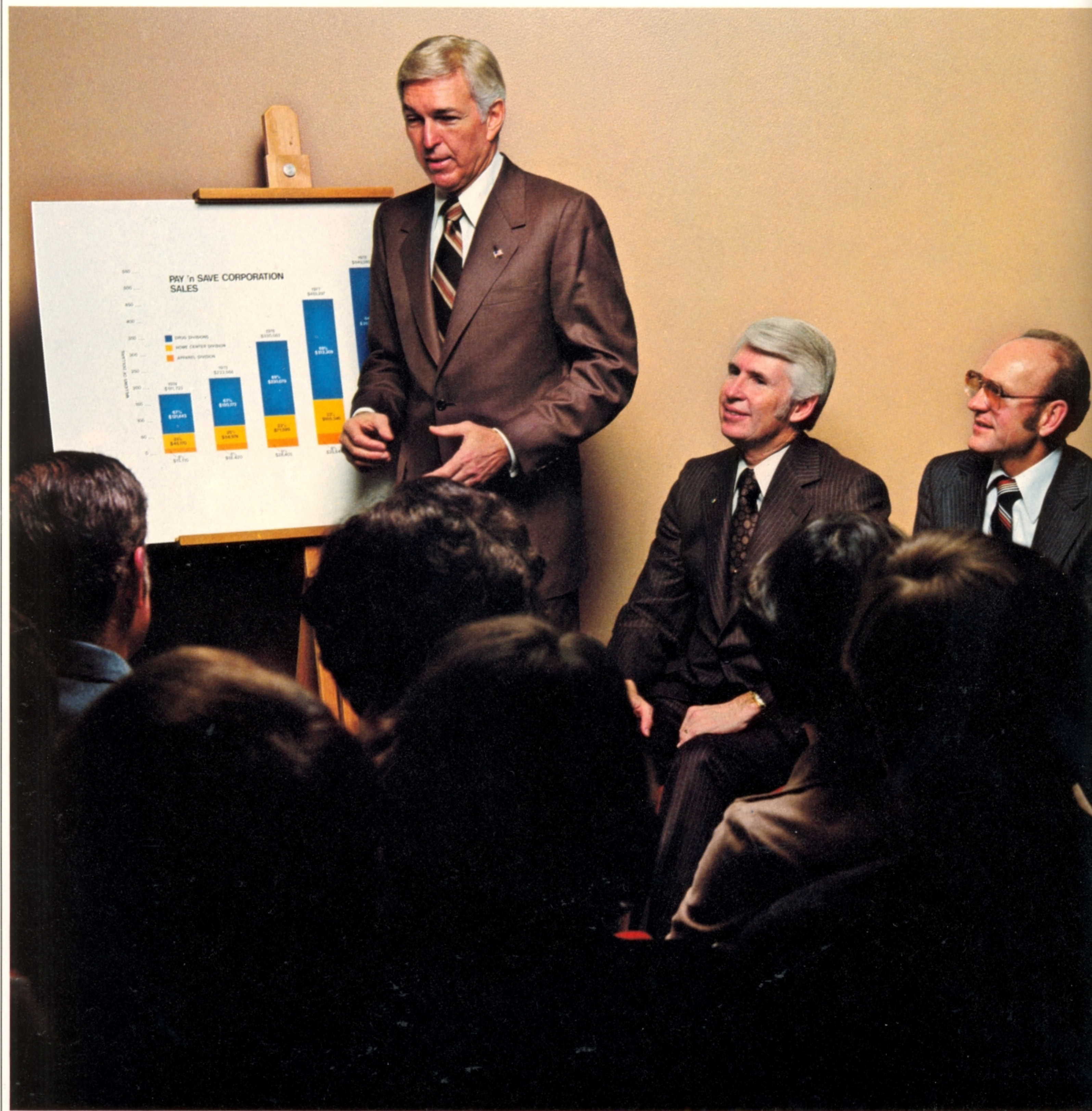
taking medicines prescribed by more than one doctor or dentist run close to an eight percent risk of suffering an adverse drug interaction.

In June, we began our Patient Protection Program, a computerized system for keeping track of our customers' prescriptions and warning them of possible drug interactions. Our customers' records are fed into this system whenever they fill a prescription at any of 50 Pay 'n Save drug stores in Washington, Idaho, and Oregon.

The system was expensive, but is paying for itself in remarkable overall efficiency. It prints labels and provides weekly drug-price updates and refill information. It has cut the time needed to fill a prescription in

Kathleen Hogrefe, sales clerk, Lamonts #528.





"Preparation for change, as well as flexibility, are the messages I am continually preaching to our management staff. These qualities are the core of our past success — and the key to the future."

half. And the warning function is priceless.

Our efforts to get involved in community life centered on culture and recreation as well as health and safety.

Ernst, Pay 'n Save, Bi-Mart, and Yard Birds stores all served as official Tut information centers during the Treasures of Tutankhamun exhibition at the Seattle Art Museum. Eye-catching pyramids in each outlet drew people to brochures giving ticket information and the history of the pharaoh's treasure. Our stores provided an important conduit for exhibit information in Hawaii, Idaho, Nevada, Oregon, Utah, and outstate Washington, where interest in Tut was high but information less available than in Seattle.

We played an active role this year in Washington's recreational fishing program. In a co-operative venture with the State Department of Fisheries, Pay 'n Save donated operational funds to plant more than 3,000,000 salmon in Puget Sound waters. The salmon were reared at Allison Springs, a former trout farm near Olympia managed by the Fisheries Department.

The company sponsored 10,000-Meter Runs for women in Seattle and Honolulu. Kids enjoyed our Old Woody pitching contests, and learned something about safety on wheels at our biking events.

Left to right: Top executive officers M. Lamont Bean, Ron Erickson, and Cal Hendricks participate in a training session for management level employees.

Olympic medalists Mark Spitz and Steve Furness demonstrated swimming techniques at special swim clinics, and greeted fans at autograph sessions in our Sports-west stores.

Pay 'n Save Corporation and its employees did their share, and more, for the United Way drives of 1978.

And programs like the 60+ Club, a discount prescription plan for older people, combine marketing tools with a way of meeting the needs of senior

The trend is to read labels and examine details. People are looking up product ratings in consumer magazines. They are asking sales people about durability and safety.

And they are changing the definition of "good service." It still means courtesy, a smile, and knowledge of the store and products. But, to more and more people, "good" service means "fast" service.

The customer of the '80s will be a busier person, one whose life-style includes more

core of our past success — and the key to the future.

The '80s — and, more importantly, the customer and employee of the '80s — await us with new and unknown challenges.

Pay 'n Save Corporation is ready to play and win the game.

M. Lamont Bean

—M. Lamont Bean
President and Chief
Executive Officer

2,000 expected for women's run

The second annual Sportswest women's 10,000 meter run will be held Aug. 12 at Seward Park beginning at 9 a.m.

The registration deadline is Mon-

Goodall is a former national champion ranked fourth in the world in the 10,000 meter. Saefer is eighth in the nation 5,000 meters with a 16:05.9 t-

customers on fixed incomes.

The communities we serve have given us much. We're attempting to give something in return. In doing so, we try to have some fun, and help our neighbors (and ourselves!) become just a little healthier, happier, — and wiser.

THE CUSTOMER OF THE '80s

The changes that occurred during the '70s are indicators of the future. The past ten years saw the rise of a whole new national vocabulary peppered with words like "consumerism" and "environmentalist."

I foresee that the decade of the '80s will find consumers placing even greater emphasis on product quality and the social responsibility of those involved in the free enterprise system.

activity — and consumer authority — than ever before. The store he or she patronizes will be a convenient and pleasant and efficient place to shop.

By the same token, the employees who wait on these customers will have their own concerns and demands.

Career satisfaction will be coupled with a desire for more leisure time. Personal and family priorities will come more and more to the forefront.

And the rampant changes in the fabric of American life-style will be seen increasingly in the personnel and operational procedures of businesses like ours. But they will create no great ripples if we are prepared.

Preparation for change, as well as flexibility, are the messages I am continually preaching to our management staff. These qualities are the

Five-Year Summary of Operations

For the years ended January 31

1979

1978

1977

1976

1975

(thousands of dollars)

SALES AND OTHER REVENUE

Net sales	\$618,731	\$549,380	\$453,297	\$330,083	\$223,566
Interest and other income	2,466	2,948	2,387	1,769	995
	<u>621,197</u>	<u>552,328</u>	<u>455,684</u>	<u>331,852</u>	<u>224,561</u>

COSTS AND EXPENSES

Cost of merchandise sold	434,439	387,690	319,800	230,590	154,265
Operating and administrative expenses	144,287	128,477	104,669	76,098	53,789
Interest	8,992	8,492	5,278	3,916	3,069
	<u>587,718</u>	<u>524,659</u>	<u>429,747</u>	<u>310,604</u>	<u>211,123</u>
Income before federal and state income taxes	33,479	27,669	25,937	21,248	13,438
Provision for federal and state income taxes	16,280	13,130	12,120	9,986	6,415
Net income for the year	<u>\$ 17,199</u>	<u>\$ 14,539</u>	<u>\$ 13,817</u>	<u>\$ 11,262</u>	<u>\$ 7,023</u>
Net income per common and common equivalent share	<u>\$ 3.14</u>	<u>\$ 2.66</u>	<u>\$ 2.53</u>	<u>\$ 2.44</u>	<u>\$ 1.64</u>

Restated for change in accounting for leases

Management's Discussion

Management's Discussion and Analysis of the Consolidated Statement of Income of Pay 'n Save Corporation, comparing the year ended January 31, 1979, to the year ended January 31, 1978, and the year ended January 31, 1978, to the year ended January 31, 1977.

Net Sales — Sales volume increased 13% in the current year as compared to the year ended January 31, 1978. Increase for the prior year amounted to 21% compared to the year ended January 31, 1977. These figures reflect the addition of new stores and increased sales in existing stores. The net increase in new stores was seven in 1979, 10 in 1978 and 26 in 1977. 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, income from investments, and customer service charges. Customer service charges decreased sharply in 1979 as a result of the sale of receivables. Interest income amounted to approximately \$545,000 in 1979, \$145,000 in 1978, and \$325,000 in 1977.

Cost of Merchandise Sold — Cost of merchandise sold was 70.2% of sales for 1979 and 70.6% for each of the years ended January 31, 1978 and 1977. The decrease in 1979 is attributed to change in product mix and the maturity of stores.

Operating and Administrative Expense — Operating and administrative expenses reflect growth in personnel, personnel-related costs, and occupancy costs. As a percentage of net sales, operating and administrative expenses were 23.3% (1979), 23.4% (1978), and 23.1% (1977). The increase from 23.1% in 1977 can be attributed to increased occupancy costs.

Interest Expense — Interest expense results from seasonal inventory loans, long-term debt, and the capitalization of leases. The latter item amounted to \$7,378,000 (1979), \$6,331,000 (1978), and \$3,991,000 (1977). Outstanding long-term debt and interest rate averages for the last three years were approximately \$12,636,000 at 7.86% (1979), \$18,717,000 at 7.60% (1978), and \$15,307,000 at 7.25% (1977).

Provision for Income Taxes — The tax rate increased to 48.6% in 1979 as compared to 47.5% in 1978 and 46.7% in 1977. Reduction in investment tax credit and increase in state taxes account for the increases. Additionally, 1979 includes a one-time provision amounting to \$154,000, which is related to the sale of our five Canadian stores.

Net Income — Net income as a percentage of net sales was 2.8% (1979), 2.6% (1978), and 3.0% (1977).

Consolidated Statement of Income and Retained Earnings

For the years ended January 31

	1979	1978
	<i>(thousands of dollars)</i>	
SALES AND OTHER REVENUE		
Net sales	\$618,731	\$549,380
Interest and other income	<u>2,466</u>	<u>2,948</u>
	<u>621,197</u>	<u>552,328</u>
COSTS AND EXPENSES		
Cost of merchandise sold	434,439	387,690
Operating and administrative expenses	144,287	128,477
Interest	<u>8,992</u>	<u>8,492</u>
	<u>587,718</u>	<u>524,659</u>
Income before federal and state income taxes	33,479	27,669
Provision for federal and state income taxes	<u>16,280</u>	<u>13,130</u>
Net income for the year	17,199	14,539
Retained earnings at beginning of year	59,133	47,311
Cash dividends — \$.60 and \$.50 for years ended January 31, 1979 and 1978, respectively	<u>(3,270)</u>	<u>(2,717)</u>
Retained earnings at end of year	<u>\$ 73,062</u>	<u>\$ 59,133</u>
Net income per common and common equivalent share	<u>\$3.14</u>	<u>\$2.66</u>

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

Income By Lines of Business

PERCENTAGE OF SALES BY DIVISIONS

For the years ended January 31	1979	1978	1977	1976	1975
Drug Divisions	62.64	64.32	68.90	69.70	67.17
Home Center Division	28.09	27.53	23.24	21.69	24.59
Apparel Division	9.27	8.15	7.86	8.61	8.24

PERCENTAGE OF INCOME BEFORE INCOME TAXES BY DIVISIONS

For the years ended January 31	1979	1978	1977	1976	1975
Drug Divisions	51.26	50.36	55.87	53.22	48.30
Home Center Division	33.81	36.95	27.76	29.67	37.59
Apparel Division	14.93	12.69	16.37	17.11	14.11

See page 21 for Segment Financial Data for 1979 and 1978.

Restated for change in accounting for leases

Consolidated Balance Sheet

ASSETS

January 31

	1979	1978
	<i>(thousands of dollars)</i>	
CURRENT ASSETS		
Cash and temporary investments	\$ 2,579	\$ 2,948
Notes receivable	870	543
Accounts receivable, less allowance for doubtful accounts of \$535,000 and \$842,000 respectively ..	4,598	21,852
Inventories, at lower of cost or market	119,665	105,167
Prepaid insurance and miscellaneous	769	829
Total current assets	<u>\$128,481</u>	<u>\$131,339</u>
PROPERTY, PLANT AND EQUIPMENT, at cost		
Buildings	6,327	5,329
Furniture, fixtures and equipment	43,629	39,264
Leasehold improvements	13,193	12,574
	<u>63,149</u>	<u>57,167</u>
Less — Accumulated depreciation and amortization	26,858	21,307
	<u>36,291</u>	<u>35,860</u>
Land	5,787	2,084
Buildings under construction	1,188	
Buildings under capital leases, less accumulated amortization of \$14,209,000 and \$12,159,000, respectively	62,189	58,137
	<u>105,455</u>	<u>96,081</u>
OTHER ASSETS		
Notes receivable	2,992	1,148
Investment in common stock	508	448
Deferred income taxes	3,571	2,872
Cash value of life insurance and other	456	399
	<u>7,527</u>	<u>4,867</u>
EXCESS OF COST OVER NET ASSETS OF ACQUIRED COMPANIES	<u>3,813</u>	<u>3,933</u>
	<u>\$245,276</u>	<u>\$236,220</u>

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

LIABILITIES

January 31

1979

1978

(thousands of dollars)

CURRENT LIABILITIES:

Notes payable	\$ 5,000	\$ 19,920
Accounts payable	29,112	23,973
Withheld and accrued taxes	3,968	3,657
Accrued salaries and bonuses	4,647	3,448
Accrued rent, pension and other expenses	4,861	4,528
Federal and state income taxes	7,592	2,401
Deferred income taxes		2,279
Current maturities of long-term indebtedness	800	6,608
Current portion of obligations under capital leases	1,283	1,217
Total current liabilities	<u>57,263</u>	<u>68,031</u>

NON-CURRENT LIABILITIES:

Long-term indebtedness, less current maturities	10,680	11,108
Obligations under capital leases, less current maturities	<u>68,765</u>	<u>62,815</u>
Total non-current liabilities	<u>79,445</u>	<u>73,923</u>

STOCKHOLDERS' EQUITY:

Capital stock - authorized 10,000,000 shares without par value, outstanding, 5,461,982 and 5,435,892 respectively	35,506	35,133
Retained earnings	<u>73,062</u>	<u>59,133</u>
Total stockholders' equity	<u>108,568</u>	<u>94,266</u>
	<u>\$245,276</u>	<u>\$236,220</u>

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

Consolidated Statement of Changes in Financial Position

For the years ended January 31

1979

1978

(thousands of dollars)

Financial resources were provided by:

Net income	\$17,199	\$14,539
Add (deduct) income charges not affecting working capital in the period—		
Depreciation and amortization including capital leases	8,807	8,357
Amortization of excess of cost over net assets of acquired companies and other assets	122	131
Deferred income taxes, non-current	(699)	(767)
Working capital provided by operations for the year	25,429	22,260
Increase in long-term debt	96	
Reduction of fixed and other assets resulting from the sale of Pay 'n Save Ltd.	1,691	
Obligations under capitalized leases	8,235	21,430
Proceeds from sale of capital assets	257	700
Proceeds from stock options	373	16
Decrease in non-current notes receivable	92	51
TOTAL	36,173	44,457

Financial resources were used for:

Acquisition of property and equipment	11,892	11,648
Leased buildings under capital leases	8,235	21,430
Investment in common stock		448
Excess of cost over the net assets acquired		552
Long-term debt paid or coming due currently	523	6,610
Obligations under capital leases coming due currently	2,285	1,396
Cash dividends	3,270	2,717
Increase in non-current notes receivable	1,937	979
Miscellaneous, net	121	82
TOTAL	28,263	45,862

Increase (decrease) in working capital	\$7,910	\$(1,405)
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ANALYSIS OF CHANGES IN WORKING CAPITAL

Increase (decrease) in current assets:

Cash and temporary investments	\$ (369)	\$ (447)
Receivables	(16,927)	(39)
Inventories	14,498	18,327
Other	(60)	20
	(2,858)	17,861

Increase (decrease) in current liabilities:

Notes payable	(14,920)	6,920
Accounts payable and accrued expenses	6,982	4,781
Current maturities of long-term debt and obligations under capital leases	(5,742)	4,803
Federal and state income taxes	2,912	2,762
	(10,768)	19,266

Increase (decrease) in working capital	\$7,910	\$(1,405)
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The accompanying notes are an integral part of these financial statements.

Notes to Financial Statements

Summary of Accounting Policies

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.

Cash and Temporary Investments — Cash and temporary investments include commercial paper totalling \$5,000,000 at January 31, 1979. Temporary investments are valued at cost, which approximates market.

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.

Property and Equipment — Depreciation of buildings is determined using the 150% declining balance 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. 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 a recent financial accounting standard.

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 net of accumulated amortization of \$354,000).

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 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.

Change in Accounting for Leases

Beginning in 1978, the company adopted the Statement of Financial Accounting Standards No. 13 for leased stores opened in 1978 and after. During the fourth quarter of 1979, the company adopted this Accounting Standard for leased stores opened prior to 1978. This Standard defines two types of leases: capital and operating. Capital leases transfer substantially all of the benefits and risks of ownership of the leased property to the company. Accordingly, capital leases are accounted for as assets financed by related debt obligations. All other types of leases are operating leases and related rentals are accounted for as operating expenses. Under the accounting method previously followed, leases were accounted for as operating leases.

All financial statements have been restated to apply this accounting method retroactively. Net income for the year ended January 31, 1979, was reduced \$493,000 or \$.09 per share as a result of application of this method. The retroactive adjustment to retained earnings at the beginning of 1978 was a reduction of \$2,434,000. The following is an analysis of the effect on earnings for the year ended January 31, 1978:

	(thousands of dollars)	
	Net Income	Income Per Share
As previously reported	\$15,193	\$2.78
Adjustment for effect of change in accounting for leases	654	.12
As restated	<u>\$14,539</u>	<u>\$2.66</u>

Income Taxes

(thousands of dollars)				(thousands of dollars)			
Year ended January 31, 1979	Federal	State	Total	Year ended January 31, 1978	Federal	State	Total
Current	\$18,858	\$1,352	\$20,210	Current	\$12,832	\$ 991	\$13,823
Deferred	(3,165)	(150)	(3,315)	Deferred	87	50	137
Investment Credit				Investment Credit			
(Flow-Through Method)	(515)		(515)	(Flow-Through Method)	(730)		(730)
Employment Credit	(100)		(100)	Employment Credit	(100)		(100)
	<u>\$15,078</u>	<u>\$1,202</u>	<u>\$16,280</u>		<u>\$12,089</u>	<u>\$1,041</u>	<u>\$13,130</u>

Deferred income tax expense results primarily from the use of the installment method of reporting sales and the capitalization of store leases. These methods create a timing difference in the recognition of income for tax and financial statement purposes.

Sale of Accounts Receivable

Effective March 31, 1978, the company sold substantially all of its accounts receivable in a cash transaction with a bank. By agreement, the bank will purchase ongoing accounts receivable on a discounted basis without recourse.

Long-Term Indebtedness

January 31	1979	1978
	<i>(thousands of dollars)</i>	
Bank notes		\$ 6,100
Former stockholders of Yard Birds	\$ 5,958	6,359
Insurance companies	4,977	5,041
Others	545	217
	11,480	17,717
Less current maturities	800	6,609
	<u>\$10,680</u>	<u>\$11,108</u>

Two notes payable to former stockholders of Yard Birds, secured by letters of credit, bear interest at 7%. One note requires annual principal and interest payments of \$400,000 (through 1991). The other note requires annual principal and interest payments of approximately \$446,000 (through 1986). Requirements of the purchase agreement include maintenance of a \$60,000,000 minimum net worth and a \$40,000,000 minimum working capital.

Notes payable to insurance companies are secured by real and personal property. Annual installments, payable through 1997 at 8.825% interest, are \$506,000, including interest.

Other notes and contracts bear interest at rates ranging from 6% to 8.5%.

Summary of Maturities Over a Five-Year Period

Years ending January 31	<i>(thousands of dollars)</i>
1980	\$800
1981	577
1982	618
1983	657
1984	700

Short-Term Indebtedness

Notes payable at January 31, 1979, consisted of a bank note of \$5,000,000. Corporate policy is to maintain bank lines of credit at least equal to outstanding commercial paper. The company had unused credit lines totaling \$20,000,000 at January 31, 1979. Commitment fees ranged up to ¼ 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 January 31, 1979, and 1978, respectively, were \$15,000,000 and \$25,000,000. Average amounts outstanding during each year were approximately \$7,000,000 and \$16,000,000. Interest rates on short-term obligations at January 31, 1979 and 1978, averaged 10.75% and 7.2% respectively. Approximate weighted average interest rate was 7.9% during the current year and 6.5% 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 22,090 shares were exercised during the year at an average price of \$14.38, or a total of \$317,549. Options for 10,510 shares were cancelled or expired. Options outstanding at January 31, 1979, of which 74,100 were exercisable at that date, were as follows:

Granted during years ended January 31	Number of shares	Option price per shares	Total
			(thousands of dollars)
1975	20,150	\$13.625	\$275
1976	24,300	13.75	334
1977	29,650	27.125	804
1978	38,800	25.50	989

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 exercised options for 4,000 shares at an average price of \$13.687 per share, or a total of \$54,750. Options for 4,000 shares remain outstanding as of January 31, 1979, 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 January 31, 1979, and January 31, 1978, respectively, were \$1,600,000 and \$1,800,000. Plan contributions represent normal costs and amortization of prior service costs over periods ranging from 15 to 40 years. Unfunded liability approximated \$3,600,000 at January 31, 1979, and \$10,045,000 at January 31, 1978. The unfunded liability decreased primarily due to a change in the actuarial cost method.

Transactions in Capital Stock

Capital Stock	Shares	Amount
		(thousands of dollars)
Balance, January 31, 1977	5,434,692	\$35,117
Exercise of employee stock options	1,200	16
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

Leased Property

As explained in the note "Change in Accounting for Leases," the company now classifies leases two ways: capital and operating.

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 store's sales in excess of a stipulated minimum). The majority of lease agreements cover periods from twenty to thirty years, with three to five renewal options of five years each. However the company has a significant number of earlier leases covering shorter periods, with fewer renewal options.

Contingent rentals including taxes and insurance paid on capital leases were \$2,575,000 in 1979 and \$2,211,000 in 1978.

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

Years ending January 31	Amount
	(thousands of dollars)
1980	\$ 9,115
1981	9,278
1982	9,313
1983	9,279
1984	9,249
Thereafter	145,308
Total minimum rental payments	191,542
Less estimated executory costs (primarily taxes and insurance)	(5,050)
Less amount representing interest	(116,444)
Present value of obligations under capital leases at January 31, 1979	70,048
Less current portion	(1,283)
Long-term obligations under capital leases	\$ 68,765
Future sublease rentals	\$2,034

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

Future Minimum Rentals		Rental Expense		
Years ending January 31		Years ended January 31	1979	1978
	(thousands of dollars)		(thousands of dollars)	
1980	\$ 5,449	Minimum rentals	\$5,954	\$5,155
1981	5,309	Contingent rentals	1,303	1,161
1982	5,204	Sublease rentals	(249)	(244)
1983	4,773		<u>\$7,008</u>	<u>\$6,072</u>
1984	4,632			
Thereafter	57,238			
Total minimum rental payments	<u>\$82,605</u>			
Future sublease rentals	<u>\$ 260</u>			

Quarterly Financial Information (Unaudited)

For the year ended January 31, 1979	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(thousands of dollars)			
Sales and other revenue	\$128,916	\$150,268	\$147,621	\$194,392
Gross profit	38,173	45,438	43,717	56,964
Income before tax	3,390	8,797	6,681	14,611
Net income	1,796	4,440	3,556	7,407
Net income per share33	.81	.65	1.35
For the year ended January 31, 1978	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(thousands of dollars)			
Sales and other revenue	\$112,935	\$131,760	\$134,955	\$172,678
Gross profit	33,173	39,552	40,055	48,910
Income before tax	3,551	6,707	6,175	11,236
Net income	1,873	3,547	3,285	5,834
Net income per share34	.65	.60	1.07

The change in accounting for leases reduced quarterly financial results as follows:

Quarter 1979	Income Before Tax	Net Income	Net Income Per Share
	(thousands of dollars)		
First	\$303	\$158	\$.03
Second	107	55	.01
Third	284	147	.03
Fourth	256	133	.02
Quarter 1978			
First	\$362	\$188	\$.04
Second	288	150	.03
Third	300	156	.03
Fourth	308	160	.02

Segment Financial Data

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

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

Replacement Cost Data (Unaudited)

As required by the Securities and Exchange Commission, the company has developed replacement cost data. The data include replacement cost of inventories, property, and equipment. Also included is the approximate cost of merchandise sold and depreciation for the years ended January 31, 1979 and 1978. Merchandise inventories are replaced several times during the year and therefore the inflation impact is not significant. Replacement cost of property and equipment is greater than historical cost and, as a result, depreciation and amortization would be greater than amounts recorded in the financial statements. This information and an explanation of the method used in deriving the estimates is included in the company's Form 10-K.

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 January 31, 1979 and 1978, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for leases as described on page 17 of the financial statements. 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.

Seattle, Washington
March 12, 1979

Ten-Year Summary of Operations

For the years ended January 31	1979	1978	1977	1976
OPERATING RESULTS				
Net sales*	\$618,731	\$549,380	\$453,297	\$330,083
Net income*‡	17,199	14,539	13,817	11,262
Net income as a percentage of sales	2.78%	2.65%	3.05%	3.41%
Earnings on equity at beginning of year	18.24%	17.64%	19.69%	29.52%
COMMON STOCK				
Net income per common and common equivalent share‡	\$ 3.14	\$ 2.66	\$ 2.53	\$ 2.44
Book value per share	19.88	17.34	15.17	13.02
Approximate price range of common stock	29-21	26-21	31-21	31-12
Shares outstanding (end of year) †	5,462	5,436	5,435	5,390
Cash dividends	\$.60	\$.50	\$.40	\$.30
FINANCIAL POSITION				
Working capital*	\$ 71,218	\$ 63,308	\$ 64,715	\$ 52,287
Current ratio	2.24	1.93	2.33	2.50
Long-term debt*	10,680	11,108	17,719	7,652
Obligations under capital leases*	68,765	62,815	42,781	29,479
Stockholders' equity*	108,568	94,266	82,429	70,159
CAPITALIZATION PERCENTAGE				
Long-term debt	5.7	6.6	12.4	7.1
Obligations under capital leases	36.6	37.4	29.9	27.5
Stockholders' equity	57.7	56.0	57.7	65.4
STORES IN OPERATION				
Pay 'n Save Drug	89	90	89	81
Bi-Mart Stores	18	17	15	13
Ernst-Malmo Home Centers	47	42	39	28
Sportswest	9	9	9	8
Yard Birds	2	2	2	
Lamonts	17	15	12	10
Von Tobel's	1	1		
	183	176	166	140
AVERAGE SALES PER STORE				
(based upon number of stores at end of the year*)	\$ 3,381	\$ 3,121	\$ 2,731	\$ 2,357

Restated for change in accounting for leases.

*Amounts in thousands of dollars.

†Thousands of shares outstanding, adjusted to give effect to stock splits in 1973.

‡Includes extraordinary income or unusual items of \$152,000 or \$.04 per share in 1970, \$150,000 or \$.04 per share in 1971 and \$259,624 or \$.06 per share in 1974.

1975	1974	1973	1972	1971	1970
\$223,566	\$181,723	\$147,825	\$120,598	\$97,277	\$84,335
7,023	5,072	3,739	3,193	2,653	2,561
3.14%	2.79%	2.53%	2.65%	2.73%	3.04%
22.02%	18.78%	15.77%	15.03%	13.90%	15.12%
\$ 1.64	\$ 1.19	\$.88	\$.75	\$.64	\$.61
8.92	7.52	6.43	5.71	5.11	4.63
14-9	18-12	22-17	18-8	11-5	14-9
4,274	4,242	4,202	4,156	4,156	4,118
\$.25	\$.20	\$.18	\$.175	\$.15	\$.125
\$ 32,244	\$ 28,338	\$ 20,347	\$ 19,260	\$17,868	\$17,167
2.53	2.68	2.30	2.63	3.58	3.48
9,648	8,387	1,633	1,907	2,174	2,393
19,541	16,527	14,107	10,603	9,873	7,169
38,144	31,889	27,012	23,716	21,250	19,084
14.3	14.8	3.8	5.3	6.5	8.4
29.0	29.1	33.0	29.3	29.7	25.0
56.7	56.1	63.2	65.4	63.8	66.6
71	66	61	55	40	36
25	26	23	21	21	19
7	5				
7	6	5	5	5	4
110	103	89	81	66	59
\$ 2,032	\$ 1,764	\$ 1,661	\$ 1,489	\$ 1,474	\$ 1,429



Clockwise from far left, back row: Walt Guidinger, vice president and director of property development; Jim Martin, Von Tobel's general manager; Jack Phelan, vice president and Bi-Mart division manager; Stan Johnson, Sportswest division general manager; Ken Green, vice president and Lamonts division manager; Joe Christy, controller and treasurer; Bill Boston, Ernst division manager; Art McKerney, Pay 'n Save Northwest division manager; C. B. "Mac" McKerney, Pay 'n Save California/Hawaii division manager; George Lee, Yard Birds general manager, and Joe Petrino, vice president and Pay 'n Save Seattle/Alaska division manager.

OFFICERS

Monte L. Bean
Chairman of the Board
M. Lamont Bean*
President
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 law firm of Ryan, Swanson, Hendel & Cleveland.

CORPORATE HEADQUARTERS

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

ANNUAL MEETING

April 26, 1979, at 11 a.m.
Washington Athletic Club
1325 Sixth Avenue
Seattle, Washington

TRANSFER AGENTS

Corporate Trust Department
Peoples National Bank
Seattle, Washington 98101

Bradford Trust Company
New York, New York

INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Price Waterhouse & Co.
Seattle, Washington 98161

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 Rao, Public Relations Director.

	Washington	California	Oregon	Alaska	Idaho	Utah	Hawaii	Nevada	Wyoming	TOTAL
Pay 'n Save Drug Stores	51	20	2	9	2		5			89
Ernst Home Centers	34		1		4	6		1	1	47
Bi-Mart Drug Stores	2		16							18
Lamonts Apparel Stores	12		1	2	2					17
Sportswest	9									9
Yard Birds Stores	2									2
Von Tobel's Home Center								1		1
TOTAL	110	20	20	11	8	6	5	2	1	183

APR 7 1989

APR 10 1989

Pay 'N Save sales pass half-billion

ales passed the half-
on dollar mark for the
time in Pay 'N Save
's history during the

Cal-Expo to Have Show-Me-How Fair

What do solar energy, fur-
niture refinishing, and a teen's
first make-up all have in
on?

Systems will be discussed at
length in two other schools.
Energy efficient fireplaces,
up to 11

Miss America appears at

of the country's
recognizable
y symbols, Miss
rica's Kylene

of dozens of national
and international
cosmetic companies
gathered at the event.

everything from basics
in skin care to the latest
advances in cosmetics,
hair coloring, styling
techniques and beauty
sids.

Coliseum to
autographs and a
questions Saturda
Sunday, Jan. 27 at
Other Pretty
atures include

to be

in new center

A \$3 million investment, the
Gateway Plaza shopping

come off Gateway Boulevard,
with another entrance-exit on

2,000 expected for women's run

The second annual Sportswest
women's 10,000 meter run will be
held Aug. 12 at Seward Park begin-
ning at 9 a.m.

The registration deadline is Mon-
day. Entry forms may be picked up
at all Sportswest stores. There is a
\$3 entry fee and each applicant will
receive a pair of running shorts.

Goodall is a former national
champion ranked fourth in
world in the 10,000 meter.
Saefer is eighth in the nation
5,000 meters with a 16:05.9 t

Cook, who set an A
10,000-meter record in 1975,
fifth in this year's nation
championships.

Pay 'N Save plans new store

News of the Pay 'N Save Corp.'s
record sales and earnings for 1977
came in conjunction with plans for
two new Valley projects in 1978.

is United Western Construction, Bel-
levue. Developer is Loveless-Powell,
Inc., Bellevue. Architect for the
project is Doug Mulvaney, Seattle.

statement showed a 6 percent
growth in income over 1976 and a 21
percent increase in sales. Income for
the year was \$15,193,373 and sales

stores, the company will e
operations into Wyoming
stores in California, Ore,
Nevada.

Pay 'n Save's sales ahead of last year's record pace

SEATTLE — Third-
quarter sales for the 183-store
Pay 'n Save Corp. increased
nearly \$13 million, or 10 per-

68 cents, compared with 63
cents last year.

On Nov. 10, Pay 'n Save's
board of directors declared a

Lamonts Apparel Latest Store To Go in Palouse Empire Mall

Lamonts Apparel, a division of
Pay'n Save Corp., will open in late
1979 in the Palouse Empire Mall, mall
developer Earl McCarthy of Spokane

and mall architect is Richard
Salsbury of Construction Manage-
ment West, Inc., of Spokane.

Emphasis will be on sports and