

Pay 'n Save Corporation

ANNUAL REPORT for the year ended January 31

ANNUAL REPORTS

PAY'n SAVE Corp. 1976

Foster Business Library
University of Washington

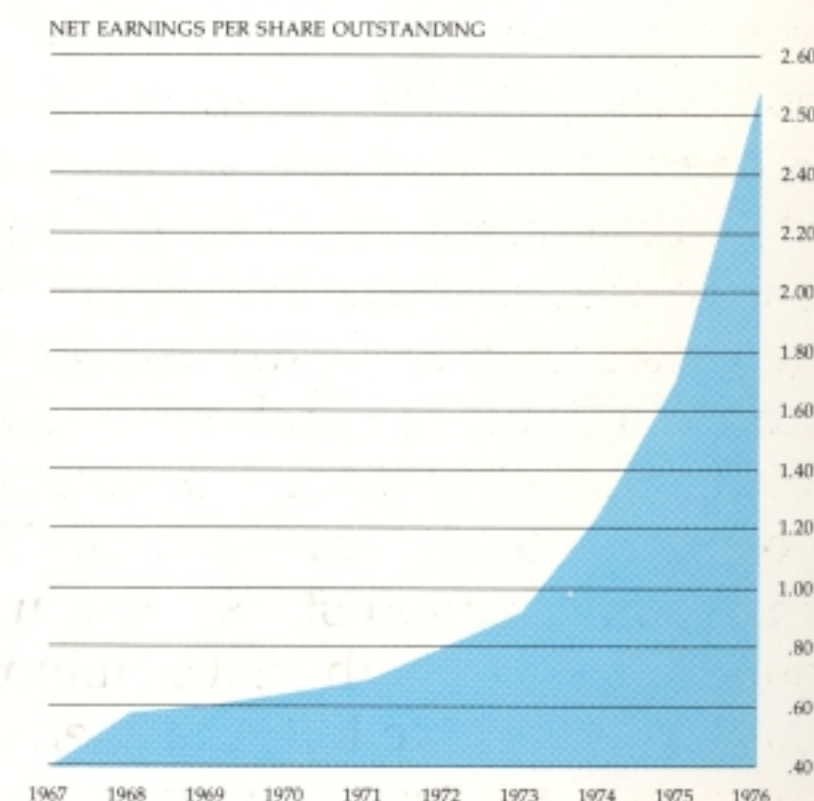
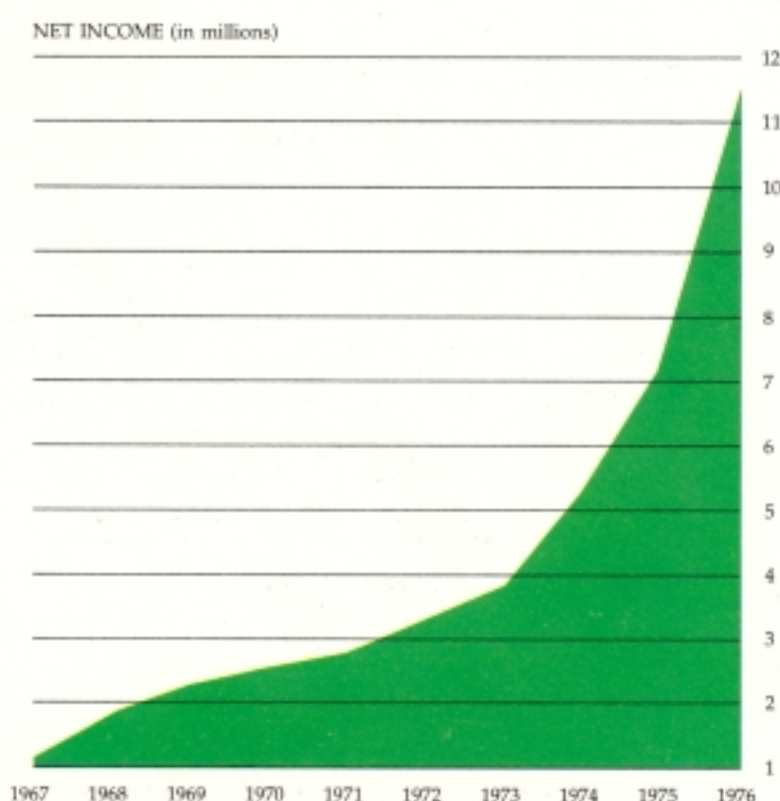


BUSINESS ADMINISTRATION
LIBRARY
UNIVERSITY OF WASHINGTON

PAY'n SAVE CORPORATION

Consolidated Financial Highlights

For the Year Ended January 31,	1976	1975	Increase	%
Net Sales	\$330,083,444	\$223,566,284	\$106,517,160	48%
Net Income	11,655,507	7,282,693	4,372,814	60%
Net Income per share	\$2.53	\$1.70	\$.83	49%



Stock Price and Dividend Data

STOCK: Traded Over-the-Counter
NASDAQ Symbol: PAYN

DIVIDENDS:

Year Ended
January 31

1976 30¢ Cash Dividend Annual
Paid Semi-Annual
1975 25¢ Cash Dividend Annual
Paid Semi-Annual

Quarterly High and Low Bid Prices

Year Ended January 31

	1976	1975
1st Qtr.	20 ¹ / ₄ -12 ¹ / ₂	14 ¹ / ₄ -12 ⁵ / ₈
2nd Qtr.	22 ³ / ₄ -17 ¹ / ₂	14 ¹ / ₂ -11 ³ / ₈
3rd Qtr.	22-16 ⁷ / ₈	14 ³ / ₈ -10
4th Qtr.	30 ⁷ / ₈ -22	12 ⁵ / ₈ - 8 ³ / ₄

Shareholders and Shares

January 31	1976	1975
Shareholders of record	6,033	5,797
Shares outstanding	5,389,575	4,274,075

ANNUAL REPORT TO PAY'n SAVE SHAREHOLDERS:

Fiscal 1976 was an exciting, record-breaking year for the Pay'n Save Corporation.

We opened 18 new stores (including one replacement unit), more than in any previous year in our history. We acquired the very successful Bi-Mart chain, consisting of 12 drug stores in Oregon and one in Washington. We broke into new market areas, establishing stores in Southern Idaho and Utah. We further strengthen our financial position with the sale of 1,100,000 shares of common stock. And not only did we pass the \$300 million mark in sales, we left it far behind, topping our sales of last year by a solid \$106 million.

Sales were \$330,083,444, up 48 percent.

Net income was \$11,655,507, up 60 percent.

Net income per share was \$2.53, up 49 percent.*

And dividends were increased last year from 25 cents to 30 cents per share and a total of \$1,282,436 was paid.

These are very satisfying milestones. But we are not stopping here.

In February 1976, the Board of Directors elected to increase the annual dividend rate to an all time

high of 40 cents per share and to pay on a quarterly rather than a semiannual basis. The first quarterly dividend of ten cents per share was paid in March.

The larger dividends are the result of last year's successful growth record. And growth next year will continue. Our game plan calls for the opening of approximately 24 new stores. A summary of new stores is included later in this report.

Further expansion in Utah, particularly in the Salt Lake City area, is an important part of our planning. The market has been analyzed and is large enough to support growth. Five Ernst Home Centers will open there in Fiscal 1977.

In Utah, we're using the same basic store format and merchandising methods established in our West Coast operations. We are deeply gratified by the confidence expressed by most of our major suppliers, who chose to extend their own reach to meet our needs. And we've experienced rapid customer acceptance of our store design. People everywhere seem to respond favorably to the clean, orderly, colorful, and comfortable shopping environment that has become our trademark. They also appreciate the convenience we build into our stores, as well as the convenience of our locations.

Basic human concerns about land use and environmental protection seem to favor the concept of the community shopping center. Our record of success in such locations makes us a favored candidate among building owners and land developers.

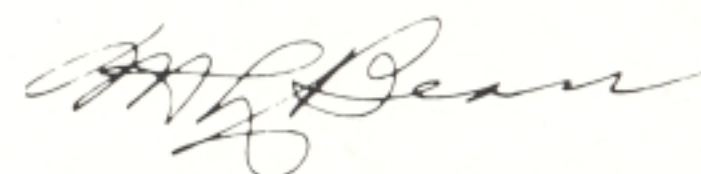
In short, we have an increasing number of attractive opportunities in areas where our experience and capabilities are unique. And we are in an excellent position to take advantage of those opportunities.

Our financial condition is strong, with the extra muscle required for growth.

We have a seasoned management team, excited and challenged by our expansion plans, and motivated to do the job profitably.

And most important, we have the support of loyal customers, dependable suppliers, dedicated employees, and confident shareholders.

It's a formula for success.



M. L. Bean
Chairman of the Board



M. Lamont Bean
President

Monte L. Bean
Founder and
Chairman of the Board



M. Lamont Bean
President



E. R. Erickson
Executive Vice President
Operations



Calvin Hendricks
Executive Vice President
Administration

*Net income per share was calculated on the basis of weighted average shares outstanding with the 1,100,000 shares issued last October taken into account.

PAY'n SAVE CORPORATION

REVIEW OF THE DIVISIONS

All divisions achieved solid gains during the year, serving more customers in more communities with more goods than ever before in our history.



Paul R. Ross
Vice President
Pay'n Save
Southern Division

Joseph J. Petrino
Vice President
Pay'n Save
Northern Division

Jack Phelan
Vice President
of Bi-Mart

Thomas R. Lawrenson
Vice President
Ernst Home Center
Division



J. Kenneth Green
Vice President
Lamonts Apparel
Division

Pay'n Save Drug Stores

	Year Ended January 31	
	1976	1975
Sales	\$191,599,955	\$150,171,815
% Corporate Sales	58%	67%
Income Before Income Taxes	9,938,504	6,881,848
% Corporate Income	45%	49%
Stores in Operation	81	71

In the drug division alone, we cut the ribbons on ten new stores last year. And we have the scissors sharpened for ten more next year.

By any standard, this is a dramatic rate of growth. But it is preceded by several months of very undramatic, calculated planning — planning based on 29 years of expansion experience.

To assure orderly and profitable expansion, each new store is "opened" on paper long before the actual event, with staffing, inventory, advertising, and merchandising schedules all systematically worked out in advance.

This kind of preparation pays off. During a single month in 1975, we opened three stores in three different cities without a hitch.

Although we still are not in the black in our Northern California stores, we continued to move closer to that goal last year. We

remain confident that total profitability is only a matter of time and continued hard work in this strong market area.

There are no plans for more California stores in Fiscal 1977. However, four new units were brought on line last year, two of them combination stores.

With the combination concept, we house several kinds of stores under Pay'n Save signage and a single roof — a drug store and home and garden centers. We are finding good customer reception to the combo store and our plans call for two more next year, one in Alaska and one in Hawaii.

We also have plans to open another regular store in Hawaii, as well as six in Washington, and one in Idaho.

Although many economic observers expressed uncertainty about the business climate during last year, as a rule our customers did not. They continued what has become a long-term trend toward more thoughtful shopping, seeking solid value and comparing purchase options in a careful and thorough manner. This trend seems to apply across the board, including not only necessary and utilitarian items, such as health care products, but also



discretionary articles such as cosmetics, and big ticket purchases such as cameras and citizen band radios.

We supported this trend, offering solid value and knowledgeable product information.

It's one of the things we have going for us — our awareness of what the customer wants and our readiness to provide it.

Another strong card is our own Pay'n Save people. In staffing our stores, we look for quality personnel — people who like people and who like to be of service.

Customer service is our by-word. And we at Pay'n Save understand a very important fact: the best service comes as a result of flawless teamwork that encompasses the entire corporation from the clerk on the floor to the chairman of the board.

Bi-Mart Drug Stores

	Six Months Ended January 31
	1976 1975
Sales	\$38,479,596
% Corporate Sales	11%
Income Before Income Taxes	1,849,868
% Corporate Income	8%
Stores in Operation	13

In a single step, the Corporation gained a strong position in Oregon with the purchase of the Bi-Mart chain of 13 drug stores and the retention of Bi-Mart's excellent management team.

The corporate match is almost perfect.

Bi-Mart has a similar success story in terms of sales, growth, and profits. There is no geographical overlap. And from the standpoint of product mix, the fit is just as good.

Like Pay'n Save, each Bi-Mart has a prescription department, employing registered pharmacists, and all offer a wide selection of proprietary drugs, cosmetics, and toiletries.

Other parallel product lines include housewares, small appliances, hardware, sporting goods, automotive accessories, camera equipment, toys, records, tobacco, and some food items.

Unlike Pay'n Save, however, Bi-Mart stores also offer beer and wine and a line of major appliances.

Also unlike Pay'n Save, Bi-Mart is a discount chain. Family membership cards are sold and overhead is cut to "barebones", resulting in a store interior greatly different from those of the other company divisions. But

customers have readily accepted these conditions because of the savings they realize on quality Bi-Mart merchandise.

Ernst-Malmo Home Centers

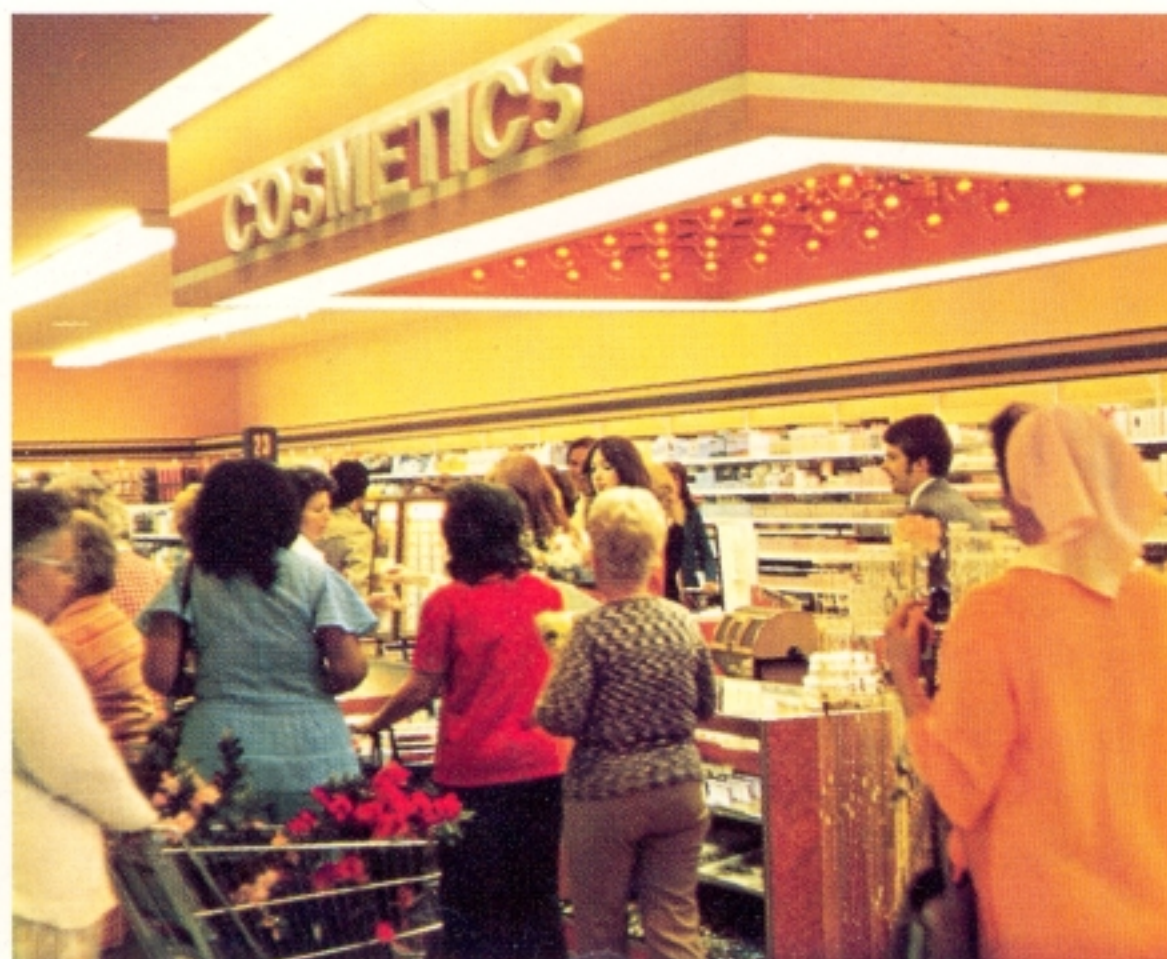
(Including sporting goods stores)

	Year Ended January 31
	1976 1975
Sales	\$71,598,948 \$54,973,920
% Corporate Sales	22% 25%
Income Before Income Taxes	6,434,026 5,136,656
% Corporate Income	30% 37%
Stores in Operation	36 32

We moved into new market areas during the past year, opening stores in Pocatello, Idaho, and Salt Lake City, Utah. Both operations have enjoyed early customer acceptance, and both market areas — Utah and Southern Idaho — appear to offer excellent opportunities for expansion. Our plans call for two more stores in Idaho and five in Utah.

With three new stores also scheduled in Washington, altogether we are making plans for 10 grand openings in Fiscal 1977.

We are excited about our expansion into new market areas. We find these markets filled with our kind of customer — people who take pride in their homes and find satisfaction in developing



PAY'n SAVE CORPORATION

do-it-yourself skills. They also are people who are looking beyond price for quality and value.

One of the more apparent trends over recent months has been to more selective buying. People are investing in quality tools and hardware, seeking lasting value. It's a trend that extends to our other merchandise lines — lumber, paint, housewares, nursery — and it's stimulated by a changing economy that makes the professional carpenter or bricklayer too expensive for the average homeowner's taste.

The maturing of the do-it-yourself market has obvious direct benefit to Ernst. And there is evidence that what we are seeing is a long term trend. For example, community colleges increasingly offer special courses in just about every skill associated with home ownership, from appliance repair to plumbing. Our own educational efforts along this line are more popular than ever. In addition to the special clinics at our stores, we sponsor a show-me-how garden and patio fair in the Spring and a do-it-yourself home improvement fair in the Fall. The most recent fair in Seattle drew over 100,000 persons.

The instruction we offer customers through clinics and fairs is

supported by a continuing program of employee education. With the help of our suppliers, we are constantly training and updating them in product knowledge. Our employees become home center experts, on call to the customer who wants a more thorough understanding of the product being purchased and the way to use it most effectively.

This same expertise is available to the customers of our Sports West and Sportsland Stores. Employees, who are involved in sports themselves, can answer most customer questions on a firsthand basis, drawing on their own experience with the equipment and sportswear.

Sports West had an excellent year, with one new store brought on line and plans underway for two new stores in the Puget Sound area in the coming months.

Like our Ernst Home Centers, Sports West stores remain in the forefront of a marketing trend as more people turn to sports and the outdoors in their leisure time. At our stores, recreational equipment is presented in a modern, sophisticated shopping environment. There just aren't any other family sporting goods stores that offer this combination of shopping comfort and skilled

service, and we expect a continued favorable customer response to it.

Lamonts Apparel Stores

	Year Ended January 31	
	1976	1975
Sales	\$28,404,945	\$18,420,549
% Corporate Sales	9%	8%
Income Before Income Taxes	3,783,109	1,919,189
% Corporate Income	17%	14%
Stores in Operation	10	7

By any measurement, including sales, profits, and growth, Fiscal 1976 was a record year for Lamonts.

We opened three new stores during the year, and with the opening of the third one, we had ten Lamonts in operation — exactly twice the number on line just 25 months earlier.

And we're preparing for continued growth in the months to come with five stores in various stages of planning and development in Washington, Idaho, and Alaska. One, or perhaps two, of these will open this year.

We look forward to the future with a great deal of enthusiasm, recognizing the challenge of rapid growth and assuring success through careful planning now.



We've undertaken several new programs to avoid growing pains, including formal training to bring new employees up to speed quickly and also organizational refinements designed to give more growing room within the system for promising employees. These programs provide a way to expose employees to a wider range of experiences, faster, and also to extend the capabilities of the seasoned managers now running the business.

As we grow, we are careful to keep our antenna pointed in the direction of our customers — a habit we developed long ago.

We recently asked an independent agency to conduct a survey to learn if the consumer sees us as we see ourselves. In the subsequent interviews, the consumer study groups were quite specific about what they like — and don't like — about shopping.

They like stores that are tastefully laid out, bright, with attractive displays. They appreciate those qualities at Lamonts as well as the informal atmosphere that encourages shoppers to "come as they are" when it's convenient for them. They like that word, "convenient," and use it to describe everything from handy parking to the ability to pay for

their goods at a single register rather than having to stop at several different registers as most other department stores require.

They also appreciate that we sell brand names, promote them through credible advertising, and offer a wide selection of family apparel lines. Good service from friendly, helpful sales people is another area where we rate high.

Overall, we found customer reception of the kind of shopping experience Lamonts offer to be excellent. Yes, admittedly, the survey uncovered a few weak points, too. But, they will be resolved by the key element in our planning for the future — to identify and change where we are slightly off target, but to keep on doing what we are doing right.



MANAGING FOR GROWTH

Part of the challenge of running this business today is preparing to run a bigger one tomorrow.

Although the immediate concern of this annual report is the fiscal period just ended, your Company's orientation remains toward the future. In fact, much of management's activities in the last 12 months have involved preparation for the next two to four years.

Planning ahead is increasingly important, for familiar reasons, such as competition, market changes, and land development patterns.

It's also important for some new reasons, including changes in land-use restrictions, environmental impact statements, and transportation patterns.

In addition, as our size increases, the same percentage gains in new stores brought on line require vastly greater amounts of just about everything, from capital to middle management people.

What it all boils down to is a strategy for growth. Continued, orderly, profitable growth. And we've developed our strategy out of 29 years of expansion experience and management expertise.

Selecting the right site.

From lease signing to grand opening, we find it takes about a year to open a store. It's an even longer period from the first look at a market to the selection of a site.

Before a site is seriously considered as a location for one of our stores, it must pass a four-point test with flying colors. We analyze it carefully in terms of surrounding population, visibility, accessibility, and competition.

And always, a physical inspection of the site is conducted by the entire Executive Committee before any binding agreement is made.

We consider the function of site selection so important to the future of the Corporation that we have made it the chief responsibility of Walt Guidinger, vice president and director of development.

Walt likes to describe the complicated science — and art — of site selection in down-to-earth terms. "We do our homework scrupulously. We study our data carefully. Then, as a management team, we make the right decision."

Financially strong.

We have never been as strong and viable financially as we are now. And it's our conviction that this is a growing strength.

As of year end, our working capital was \$53,510,000, compared to \$33,255,000 last year.

Our current ratio was 2.59 compared to 2.66 last year.

Our long-term debt was \$7,652,000, compared to \$9,648,000 last year.

And stockholders' equity rose to \$72,070,000, compared to \$39,661,000 last year.

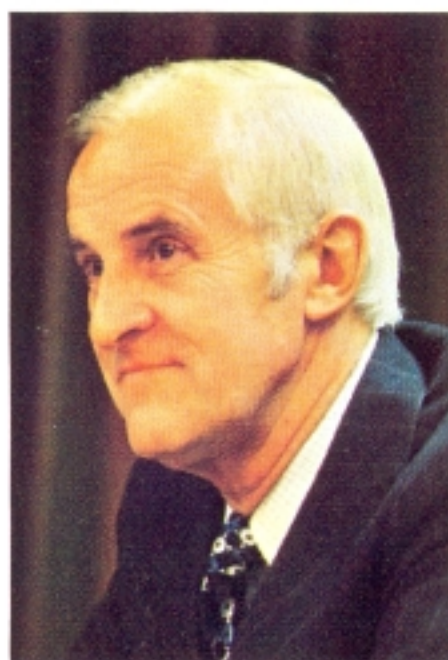
We gained extra muscle with the sale of 1,100,000 shares of common stock last October. This offering generated over \$22,000,000. Of this, \$9,000,000 was used to fund the Bi-Mart purchase, \$7,000,000 repaid short-term bank borrowings, and the balance became earmarked for future expansion.

Pay'n Save People

Retailing means people — and retailing is 100 percent of our business. We are, by our very nature, a people-oriented company.

Among the strengths we have been able to draw on in expanding our organization has been dedicated managers who have grown within the company to higher and higher levels of responsibility.

Company policy has provided the environment for growth. Historically, promotions have been within the Company and corporate growth has been rapid enough to



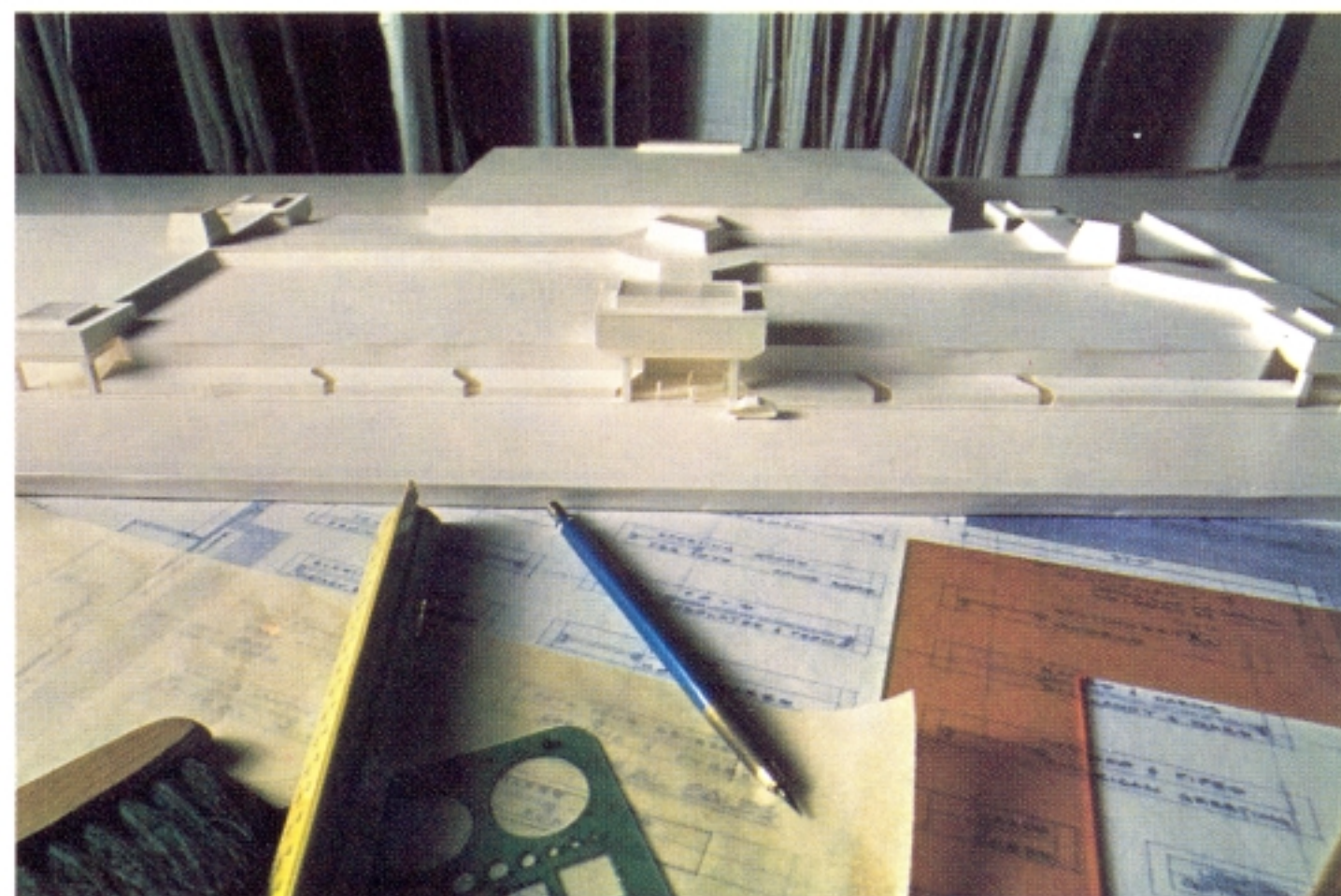
Walter R. Guidinger
Vice President
Development



Joseph Christy
Treasurer & Controller



Dale Collette
Training Director



provide expanding opportunity for individuals willing and able to accept new levels of responsibility.

With the exception of certain staff professionals, all Pay'n Save management personnel come from within the ranks of the organization. Although somewhat unusual, at least in terms of the policies of many corporations of similar size, the restriction to promotion within has been one of our major strengths and, in the last few years, a growing advantage.

We have developed performance measurements for just about every activity we can isolate and measure, and then established a system of rewards for superior performance. The result is that our employees are highly motivated.

Another major policy is that each management assignment carries with it clearly defined authority and accountability. The intent is to give the manager as much room as possible to apply his energy and creativity to the job. Doing so gives the manager a proprietary interest in his work. One of the best ways we've found to assure growth of the Company is to cultivate growth in the people who are, in fact, the Company.

A structure for growth

The Corporation is organized in a

classic pyramid pattern: a firm and broad base of store managers; a district organization that groups stores by geography and type so that store managers can work together on common problems and opportunities; and finally, business divisions operated by corporate vice presidents.

A three-man Executive Committee functions at corporate level.

The full Executive Committee and the division managers conduct a weekly review of each store's performance, concentrating on sales, inventory, and personnel costs — the key variables for retailing.

Measurement is constant, with current performance considered against the manager's own rolling quarterly forecasts.

Day to day concerns are dealt with at a level as close to the source as possible, with younger managers having continuous access to more experienced staff at district and division levels. There is motivation throughout the system to make problems visible at the earliest moment and to deal with them decisively at the closest level.

Looking ahead

Selecting the right site. Maintaining financial strength. Motivating people. Structuring for growth. All

of this combined is our formula for success.

We've set our goals. They're ambitious. But they also are carefully calculated and realistic.

Stated specifically, if all goes as planned, next year we will open ten more Pay'n Save stores, one Bi-Mart store, ten Ernst Home Centers, two Sports West stores, and one, if not two, Lamonts.

Pay'n Save store openings are scheduled in Anchorage, Alaska; Mililani and Temple Valley, Hawaii; Moscow, Idaho; and Pasco, Green Firs, Redmond, Moses Lake, Seatac Village, and Aberdeen, Washington.

Ernst Home Centers will open in Twin Falls and Nampa, Idaho; Granger, Centerville, Midvale, Orem, and Logan, Utah; and Kent, Aberdeen and Bellevue, (a replacement), Washington.

Ballard and Seatac Village in Washington are the planned locations for new Sports West stores.

One Lamonts will open in Pocatello and possibly another in Seattle.

And a Bi-Mart store is scheduled to open in Pendleton, Oregon.

Like Fiscal 1976, 1977 promises to be another exciting year. We invite you, our shareholders to come and help us cut the ribbons.



PAY'n SAVE CORPORATION
and Subsidiary Companies

FIVE-YEAR
SUMMARY OF
OPERATIONS

For the Year Ended January 31,	1976	1975	1974	1973	1972
Sales and other revenue					
Net sales	\$330,083,444	\$223,566,284	\$181,723,203	\$147,825,128	\$120,598,101
Interest and other income	1,769,207	995,053	1,165,947	820,590	856,107
	<u>331,852,651</u>	<u>224,561,337</u>	<u>182,889,150</u>	<u>148,645,718</u>	<u>121,454,208</u>
Costs and expenses					
Cost of merchandise sold	230,590,027	154,265,616	126,649,422	103,802,281	84,881,390
Operating and administrative expenses	78,128,772	55,297,365	45,688,072	37,158,703	29,921,180
Interest	1,128,345	1,060,663	635,767	287,307	308,722
	<u>309,847,144</u>	<u>210,623,644</u>	<u>172,973,261</u>	<u>141,248,291</u>	<u>115,111,292</u>
Income before federal and state income taxes	22,005,507	13,937,693	9,915,889	7,397,427	6,342,916
Provision for federal and state income taxes	10,350,000	6,655,000	4,612,000	3,465,000	2,974,000
Net income for the year	<u>\$11,655,507</u>	<u>7,282,693</u>	<u>5,303,889</u>	<u>3,932,427</u>	<u>3,368,916</u>
Net income per common and common equivalent share	<u>\$2.53</u>	<u>\$1.70</u>	<u>\$1.24</u>	<u>\$.92</u>	<u>\$.80</u>

Management's Discussion
and Analysis of the Statement
of Consolidated Income of
Pay'n Save Corporation

Comparison of the year ended
January 31, 1976 to the year
ended January 31, 1975 and the
year ended January 31, 1975 to
the year ended January 31, 1974

Net Sales

Sales volume increased approximately 48% in the current year in comparison to the year ended January 31, 1975 and increased approximately 23% in the prior year in comparison to the year ended January 31, 1974. The above sales increases are due to greater physical volume from existing stores and the addition of new stores. The increases also include inflation-related price increases, the amount of which cannot be determined. The new stores (net of closure) were 30 in 1976, seven in 1975 and 14 in 1974. The 1976 addition includes the August 3, 1975 acquisition of 13 Bi-Mart drug stores and the 1974 addition includes the acquisition of five sporting goods stores. Of the 48% sales increase in 1976, 17% can be attributed to the addition of the Bi-Mart drug stores.

Interest and Other Income

Interest and other income consist

principally of customer service charges and income from leased departments. Both have increased as charge sales and the number of stores have increased. The year 1976 includes interest income of approximately \$139,000 from short term investments. The year ended January 31, 1974 includes an unusual gain of approximately \$346,000 from the sale of an investment.

Cost of Merchandise Sold

The cost of merchandise sold increased to 69.9% in the current year in comparison to 69.0% for the year ended January 31, 1975. This increase can primarily be attributed to lower gross margins generated by the Bi-Mart drug stores. The cost of merchandise sold as a percentage of sales decreased to 69.0% for the year ended January 31, 1975 in comparison to 69.7% for the year ended January 31, 1974. The decrease resulted primarily from changes in product sales mix.

Operating and Administrative
Expense

Operating and administrative expenses reflect growth in personnel, personnel related costs and occupancy costs consistent with the higher level of operations. As a percentage of net sales, operating and administrative expenses were 23.7% (1976), 24.7% (1975) and 25.1% (1974). These expenses have not increased quite as rapidly as growth in sales primarily due to their semi-fixed nature.

Interest Expense

Interest expense increased in the current year as compared to the year ended January 31, 1975. The increase resulted from increased borrowing for expansion prior to the October, 1975 equity offering. Interest expense increased in the year ended January 31, 1975 as compared to the year ended January 31, 1974 due to higher interest rates and increased borrowing for expansion. The

average of long-term debt and current bank borrowing outstanding during the last three years was approximately \$10,851,000 (1976), \$10,600,000 (1975) and \$7,746,000 (1974). Approximate average interest rates for the three years were 7.70%, 10.42% and 7.67%, respectively.

Provision for Income Taxes

The tax rate declined to 47.0% in the current year as compared to 47.7% in the year ended January 31, 1975. The decrease results from an increase in the investment tax credit. The effective income tax rate increased to 47.7% in the year ended January 31, 1975 from 46.5% for the year ended January 31, 1974 primarily as a result of increased state income taxes.

Net Income

Primarily as a result of the factors discussed above, net earnings as a percentage of net sales continued to increase to 3.5% (1976), 3.3% (1975) and 2.9% (1974).

PAY'n SAVE CORPORATION and Subsidiary Companies

INCOME BY LINES OF BUSINESS

Percentage of Sales by Divisions.
For the Year Ended January 31,

	1976	1975	1974	1973	1972
Drug Division	69.70	67.17	66.83	69.94	68.35
Hardware Division	21.69	24.59	24.86	22.08	23.41
Apparel Division	8.61	8.24	8.31	7.98	8.24

Percentage of Income before Income taxes and
Extraordinary Items by Divisions.

	1976	1975	1974	1973	1972
Drug Division	53.57	49.42	44.04	47.54	55.75
Hardware Division	29.24	36.82	33.50	35.61	34.73
Apparel Division	17.19	13.76	18.97	16.63	9.30

DESCRIPTION OF BUSINESS

Pay'n Save Corporation, a Washington corporation, operates retail drug, home centers, sporting goods and apparel stores. The Company began as a single drug store in Seattle, Washington in 1947. Since that time the Company has expanded its business internally and by acquisition, diversifying both geographically and by type of retail stores operated. The Company, as of January 31, 1976, operated 140 stores through drug, home center (including sporting goods) and apparel divisions. The stores are located in the states of Washington, California, Alaska, Oregon, Hawaii, Idaho and Utah and in Canada.

Drug stores are operated under the names of Pay'n Save and Bi-Mart. All drug stores have prescription

departments employing registered pharmacists and feature a wide selection of proprietary drugs, cosmetics and toiletries. In addition, these stores carry small household appliances and supplies, cameras (including photofinishing), sound equipment, sporting goods, tobacco, stationery, school supplies, baby supplies, toys and limited food items. The Bi-Mart stores also carry a line of major appliances. Bi-Mart stores are operated on a membership basis. Lifetime membership cards are issued for a one-time payment of \$2.00.

The home centers operate under the name of Ernst-Malmo and sell a wide variety of hardware items, tools, sporting goods, paint and related supplies, small household appliances and equipment, electrical plumbing and building supplies, and automotive accessories. All stores cater to the

needs of the do-it-yourself customer, selling practically all items necessary to repair, modernize and expand the home. Most stores sell pre-cut lumber and have nursery departments which sell plants, shrubs, flowers, insecticides, fertilizers, garden tools and related merchandise.

The sporting good stores operate under the names of Sportsland or Sports West and carry fishing tackle, guns, skis, golf equipment, tennis and a variety of related merchandise. Some stores sell active sportswear.

The apparel stores range in size from 40,000 square feet to 80,000 square feet and sell primarily nationally brand lines of mens, womens, childrens and infants medium-priced clothing. Strong emphasis is placed on sportswear and casual wear. The stores also sell apparel accessories, bedding, linen, gifts and cosmetics.

PAY'n SAVE CORPORATION and Subsidiary Companies

STATEMENT OF CONSOLIDATED INCOME AND RETAINED EARNINGS

For the Year Ended January 31	1976	1975
Sales and other revenue		
Net sales	\$330,083,444	\$223,566,284
Interest and other income	<u>1,769,207</u>	<u>995,053</u>
	<u>331,852,651</u>	<u>224,561,337</u>
Costs and expenses		
Costs of merchandise sold	230,590,027	154,265,616
Operating and administrative expenses	78,128,772	55,297,365
Interest	<u>1,128,345</u>	<u>1,060,663</u>
	<u>309,847,144</u>	<u>210,623,644</u>
Income before federal and state income taxes .	22,005,507	13,937,693
Provision for federal and state income taxes— Notes 1 & 3	<u>10,350,000</u>	<u>6,655,000</u>
Net income for the year	11,655,507	7,282,693
Retained earnings at beginning of year	27,195,106	20,975,840
Cash dividends—\$.30 and \$.25 for years ended January 31, 1976 and 1975, respectively	<u>(1,282,436)</u>	<u>(1,063,427)</u>
Retained earnings at end of year	<u>\$37,568,177</u>	<u>\$27,195,106</u>
Net income per common and common equivalent share—Note 1	<u>\$2.53</u>	<u>\$1.70</u>

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

AUDITOR'S OPINION

*To the Stockholders
of Pay'n Save Corporation:*

In our opinion, the accompanying consolidated balance sheets, the related statements of consolidated income and retained earnings and of consolidated changes in financial position present fairly the financial position of Pay'n Save Corporation and its subsidiaries at January 31, 1976 and 1975, the results of their operations and the changes in financial position for the years 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.

Seattle, Washington,
March 11, 1976

Price Waterhouse & Co.

PAY'n SAVE CORPORATION
and Subsidiary Companies

**CONSOLIDATED
BALANCE
SHEET**

ASSETS	January 31,	1976	1975
CURRENT ASSETS			
Cash	\$	2,906,612	\$ 898,503
U.S. Government and other securities— at cost, which approximates market		16,028,235	
Note receivable		229,898	
Accounts receivable, less allowance for doubtful accounts in 1975 of \$424,691, (for 1976 see Note 9)		1,273,561	11,021,706
Recoverable store location expenditures		1,670,670	643,749
Inventories, at lower of cost or market—Note 1		64,146,890	40,583,604
Prepaid insurance and miscellaneous		918,691	177,566
Total current assets		87,174,557	53,325,128
INVESTMENTS, at cost			
Cash value of life insurance		192,726	167,630
Other investments		5,328	5,328
		198,054	172,958
PROPERTY, PLANT AND EQUIPMENT, at cost— Note 1			
Buildings		600,326	
Furniture, fixtures and equipment		24,892,266	17,603,802
Leasehold improvements		8,296,110	6,228,376
		33,788,702	23,832,178
Less—Accumulated depreciation and amortization		12,612,145	8,942,134
		21,176,557	14,890,044
Land		1,127,648	792,506
		22,304,205	15,682,550
EXCESS OF COST OVER NET ASSETS OF ACQUIRED COMPANIES AND OTHER ASSETS—NOTE 1			
		3,709,217	198,122
		<u>\$113,386,033</u>	<u>\$ 69,378,758</u>

LIABILITIES	January 31,	1976	1975
CURRENT LIABILITIES			
Notes payable—Note 4	\$	761,310	
Accounts payable		19,172,595	\$12,210,643
Withheld and accrued taxes		2,406,739	1,903,664
Accrued salaries and bonuses		1,840,591	1,355,876
Rent, pension, and other accrued expenses		2,288,400	1,485,989
Current maturities on long-term indebtedness— Note 4		3,779,521	772,545
Federal and state income taxes		3,415,773	2,341,059
Total current liabilities		<u>33,664,929</u>	<u>20,069,776</u>
LONG-TERM INDEBTEDNESS, less current maturities—Note 4			
		<u>7,651,506</u>	<u>9,647,664</u>
STOCKHOLDERS' EQUITY—Notes 4, 5, & 7			
Capital stock—authorized 10,000,000 shares without par value; outstanding 5,389,575 and 4,274,075 shares, respectively		34,501,421	12,466,212
Retained earnings		<u>37,568,177</u>	<u>27,195,106</u>
		<u>72,069,598</u>	<u>39,661,318</u>
COMMITMENTS AND CONTINGENCIES— Notes 8 & 10			
		<u>\$113,386,033</u>	<u>\$ 69,378,758</u>

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

PAY'n SAVE CORPORATION and Subsidiary Companies

STATEMENT OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

For the Year Ended January 31	1976	1975
Financial resources were provided by		
Net income	\$11,655,507	\$ 7,282,693
Add income charges not affecting working capital in the year		
Depreciation	2,891,196	2,171,779
Amortization of excess of cost over net assets of acquired companies and other assets	77,612	32,611
Working capital provided by operations for the year	14,624,315	9,487,083
Proceeds from long-term debt, including \$213,870 assumed in the Bi-Mart acquisition in 1976	2,820,599	2,033,370
Proceeds of stock options	130,139	295,738
Proceeds from sale of stock	21,905,070	
Miscellaneous, net	10,326	(17,068)
Total	39,490,449	11,799,123
Financial resources were used for		
Acquisition of property and equipment, including \$1,535,574 relating to the Bi-Mart acquisition in 1976	9,521,861	5,943,566
Excess of cost over the net assets of Bi-Mart	3,615,119	
Long-term debt paid or coming due currently	4,816,757	772,545
Cash dividends	1,282,436	1,063,427
Total	19,236,173	7,779,538
Increase in working capital including \$3,715,138 in 1976 of working capital of Bi-Mart at acquisition	\$20,254,276	\$ 4,019,585
ANALYSIS OF CHANGES IN WORKING CAPITAL		
Increase (decrease) in current assets		
Cash	\$ 2,008,109	\$ 41,038
U.S. Government and other securities	16,028,235	
Receivables	(8,491,326)	2,138,942
Inventories	23,563,286	5,995,484
Other	741,125	(90,384)
	33,849,429	8,085,080
Increase (decrease) in current liabilities		
Notes payable	761,310	(1,000,000)
Accounts payable and accrued expenses	8,752,153	3,364,849
Current maturities on long-term debt	3,006,976	526,373
Federal and state income taxes	1,074,714	1,174,273
	13,595,153	4,065,495
Increase in working capital	\$20,254,276	\$ 4,019,585

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

NOTES TO FINANCIAL STATEMENT

Years Ended January 31, 1976 and 1975

NOTE 1 - Accounting Principles

The significant accounting policies applied in the financial statements follow:

Basis of Consolidation—The financial statements include the accounts of Pay'n Save Corporation and its subsidiaries, all of which are wholly-owned. All material intercompany transactions and profits are eliminated in consolidation.

Foreign Exchange—Adjustments resulting from translation of the accounts of the company's Canadian subsidiary into United States dollars have not been material and are credited or charged to income on a current basis.

Inventories—The company's inventories comprise merchandise held for sale and are valued at the lower of cost or market. Cost is determined on an identified item basis except for apparel store inventories for which cost is determined by the retail inventory method, and The Bi-Mart Company inventories for which cost is determined predominantly at the retail price less computed departmental average gross profit percentages for the year.

Property and Equipment—Provision is made for depreciation of buildings predominantly by the 150% declining balance method over estimated useful lives ranging from 15 to 30 years. Provision is made for depreciation of furniture, fixtures and equipment predominantly by the double declining method over estimated useful lives ranging from eight to ten years. The company's operations are conducted on leased premises and the cost of leasehold improvements is amortized by the straight line method over the period of the respective leases or the useful lives of the improvements, whichever is shorter. Maintenance and repairs are charged to income and renewals and betterments are capitalized. Cost and accumulated depreciation in respect to assets retired or otherwise disposed of are eliminated from the property accounts at the time of retirement or sale and the resulting gain or loss is applied to income.

Income Taxes—The investment tax credit is applied in reduction of the provision for income taxes in the year in which the credit arises.

Excess of Cost over Net Assets of Acquired Companies—The excess of cost over value of tangible net assets acquired resulting from the acquisition of The Bi-Mart Company (\$3,615,119) (Note 2) is being amortized over a forty-year period (\$45,190 in year ending January 31, 1976).

Earnings Per Share—Earnings per common and common equivalent share have been based on the weighted average number of shares outstanding during each year and the assumption that all stock options had been exercised at the beginning of the year (or date of grant, if during the year) and the proceeds used to

purchase shares of the company's common stock at the average market price during the year. Fully diluted earnings per share are not materially different from primary earnings per share.

NOTE 2 - Acquisition of The Bi-Mart Company

In August 1975, the company acquired all of the outstanding capital stock of The Bi-Mart Company for \$9,000,000. Of this amount, \$6,393,271 has been paid as of January 31, 1976 and the remaining \$2,606,729 is due on January 2, 1977 (Note 4). The Bi-Mart Company operates 13 drug stores, primarily in Oregon, selling brand name merchandise using a discount pricing concept.

This acquisition has been accounted for as a purchase and accordingly, the statement of consolidated income and retained earnings includes the results of The Bi-Mart Company operations only since acquisition (August 3). Had The Bi-Mart Company been acquired as of February 1, 1974 and had sufficient shares (452,000) been issued at the actual per share amount realized in the public offering (Note 7) to pay the acquisition cost, the results of operations on a pro forma basis for fiscal 1975 and fiscal 1976 would have been approximately as follows:

Year Ended January 31	1976	1975
(000 omitted except earnings per share)		
Sales and other revenue:		
Net sales	\$363,219	\$282,948
Other income	1,893	1,251
	<u>365,112</u>	<u>284,199</u>
Costs and expenses:		
Cost of merchandise sold .	256,723	201,106
Operating and administrative expense	84,077	65,650
Interest	1,113	1,134
	<u>341,913</u>	<u>267,890</u>
Income before income taxes .	23,199	16,309
Income taxes	10,957	7,878
Net income	<u>\$ 12,242</u>	<u>\$ 8,431</u>
Earnings per share	<u>2.48</u>	<u>1.78</u>

NOTE 3 - Income Taxes

The income tax provisions comprise:

Year Ended January 31	1976	1975
Federal	\$ 9,660,000	\$ 6,327,000
State	690,000	328,000
	<u>\$10,350,000</u>	<u>\$ 6,655,000</u>

The investment tax credit amounted to approximately \$521,000 and \$240,000 for the years ended January 31, 1976 and 1975, respectively.

There are cumulative undistributed earnings of subsidiaries amounting to approximately \$617,000 at January 31, 1976 on which deferred income taxes have not

PAY'n SAVE CORPORATION and Subsidiary Companies

been provided in as much as these earnings have been reinvested for an indefinite period of time.

NOTE 4 - Indebtedness

Long-term indebtedness comprised the following notes and contracts payable:

Year Ended January 31	1976	1975
Payee		
Banks	\$ 8,500,000	\$ 9,000,000
Former Stockholders of The Bi-Mart Company (Note 2)	2,606,729	—
Insurance Companies .	—	1,275,000
Others	324,298	145,209
	<u>11,431,027</u>	<u>10,420,209</u>
Less Current Maturities .	<u>3,779,521</u>	<u>772,545</u>
	<u>\$ 7,651,506</u>	<u>\$ 9,647,664</u>

The notes payable to banks are unsecured. The interest charges on the notes were at $\frac{1}{4}$ of 1% over prime up to October 1, 1975 and at $\frac{1}{2}$ of 1% over prime thereafter (January 31, 1976 interest rate was $7\frac{1}{4}\%$). The principal payments are due in quarterly installments commencing October 1, 1975 with the balance due in full October 1, 1978. The various financing agreements place restrictions on creation of additional debt and require that net worth not be reduced below \$27,000,000 plus 50% of earnings after January 31, 1973 or \$39,121,044 at January 31, 1976. Additionally, the agreements require net working capital of not less than \$30,000,000 and a current ratio of not less than 1.6 to 1. Further, demand deposit accounts must be maintained with banks at traditional levels.

The note payable to the former stockholders of The Bi-Mart Company bears interest at 7% and is secured by the capital stock of The Bi-Mart Company. Notes and contracts payable to others bear interest at rates ranging from 4% to 7.5%.

A summary of maturities for the five years ending January 31, 1981 follows:

Year Ended	January 31	Amount
	1977	\$3,779,521
	1978	1,352,205
	1979	6,138,400
	1980	23,849
	1981	25,531

The Company's maximum short-term borrowings at any month ended during the years ended January 31, 1976 and 1975, respectively, were \$17,314,000 and \$3,000,000 and the average amount outstanding during such year was approximately \$5,302,000 and \$1,333,000. The interest rate on short-term borrowing at January 31, 1976 averaged 9%. The approximate weighted average interest rate on short-term borrowings was 7.7% in the current year and 10.8% in the preceding year, computed

on the basis of the number of days each interest rate was in effect.

NOTE 5 - Employee Stock Options

The company adopted a Qualified Stock Option Plan on March 2, 1973 whereby 150,000 shares of the company's capital stock have been reserved. Options have been granted in prior years for all shares reserved under a 1967 plan. Option prices under the new plan may not be less than the market value of the shares at the time of grant. Options may not be granted for more than 7,499 shares to one person, may not be exercised for two years and expire after five years. Options for 27,850 shares were granted during the year under the 1973 plan, 400 were cancelled due to terminations and 300 were exercised at a price of \$14.50 per share. Options for 15,200 shares under the 1967 plan were exercised during the year at an average price of \$8.28 or a total of \$125,788; options for 1,000 shares expired or were cancelled due to terminations. Options outstanding at January 31, 1976 of which 74,100 were exercisable at that date, were as follows:

Granted during Year Ended January 31	Number of Shares	Option Price Per Share	Total
1967 Plan			
1972	14,800	\$ 7.9375	\$117,475
1973	36,300	16.50	598,950
1973 Plan			
1974	23,000	14.50	333,500
1975	23,750	13.625	323,594
1976	27,450	13.75	377,438

The company has also granted options for 4,000 shares (2,000 shares during 1974 at an option price of \$13.625 and 2,000 shares during 1975 at an option price of \$13.75) to the President who does not participate in the Qualified Stock Option Plan.

NOTE 6 - Pension Plans

The company has three pension plans for employees who are not eligible for other pension benefits such as pensions under union contracts. One of the plans is funded by employee and company contributions, the employee portion of which is based upon compensation and the employer portion actuarially determined. The other two plans are funded entirely by company contributions.

The company's contribution to the plans amounted to \$655,000 for the year ended January 31, 1976 and \$552,000 for the year ended January 31, 1975. These contributions represent normal cost and amortization of prior service costs over periods ranging from 15 to 30 years. It is the company's policy to fund pension costs accrued. The combined unfunded liability under these plans amounted to approximately \$3,149,000 and \$2,384,000 at January 31, 1976 and 1975, respectively.

The Pension Reform Act of 1974 will make it necessary for the company to amend one of its pension plans

to meet certain requirements of the act. Management believes the effect of the change on pension expense and unfunded vested benefits in 1977 will not be significant.

NOTE 7 - Capital Stock

During the current year, the company had a public offering of 1,100,000 shares of capital stock. Transactions in capital stock for the two years ended January 31, 1976 are summarized below:

	Capital Stock Shares	Amount
Balance, January 31, 1974 ...	4,241,991	\$12,170,474
Exercise of employee stock options	32,084	295,738
Balance, January 31, 1975 ...	4,274,075	\$12,466,212
Sale of capital stock	1,100,000	21,905,070
Exercise of employee stock options	15,500	130,139
Balance, January 31, 1976 ...	5,389,575	\$34,501,421

NOTE 8 - Lease Commitments

The company's operations are conducted on leased premises and in addition the company leases certain stores fixtures and equipment. The store leases generally provide for minimum rental plus additional amounts based on a percentage of sales and cover a period from ten to thirty years with renewal options. Leases for fixtures and equipment are generally for ten years. Property taxes paid on some leases are included with rental expenses. Rental expenses amounted to \$9,593,284 and \$7,037,760 for the years ended January 31, 1976 and 1975, respectively, including excess rentals based on a percentage of sales of \$2,027,935 and \$1,650,323, respectively.

Certain of the company's leases meet the criteria of a "financing lease" as defined by the Securities and Exchange Commission to be a lease which, during the non-cancellable period, either (1) covers 75% or more of the economic life of the property or (2) has terms which assure the lessor of a full recovery of the fair market value of the property at the inception of the lease plus a reasonable return. For this purpose the company has made the assumption that leases of twenty years or more would meet the first criteria. The rental expenses relating to these leases were \$5,285,724 and \$3,597,354 for the years ended January 31, 1976 and 1975, respectively, including excess rentals based on a percentage of sales of \$790,457 and \$625,766, respectively. The present values of the aggregate minimum rental commitments relating to such financing leases were approximately \$43,480,000 and \$26,373,000 for the years ended January 31, 1976 and 1975, respectively.

Interest rates implicit in the terms of the SEC defined financing leases ranged from 3.5% to 10.4% with a weighted average interest rate of 8.5%. On the assumption that SEC defined financing leases had been capitalized (after deductions for insurance, taxes and maintenance included in rentals paid) and the related property rights amortized on a straight line basis and

interest expense computed on the basis of the present value of the declining outstanding balance of the lease commitments, net income would have been decreased approximately \$543,000 and \$310,000 for the years ended January 31, 1976 and 1975, respectively. Under such assumptions, amortization of the property rights would have amounted to \$1,728,000 and \$1,220,000 and interest expense would have amounted to \$2,779,000 and \$1,790,000 for the years ended January 31, 1976 and 1975, respectively.

Minimum rental commitments (net of immaterial sublease income) under leases in effect at January 31, 1976 are as follows:

Year Ended January 31	Fixtures and Equipment Leases	Store Premises Leases	
		All Leases	Non-capitalized Financing Leases
1977	\$24,000	\$ 7,734,000	\$ 4,889,000
1978	16,000	7,595,000	4,947,000
1979	16,000	7,529,000	4,987,000
1980	10,000	7,385,000	5,011,000
1981		7,209,000	5,011,000
1982-1986		31,978,000	24,928,000
1987-1991		24,384,000	23,211,000
1992-1996		16,790,000	16,425,000
Remainder to 2006		10,407,000	10,407,000

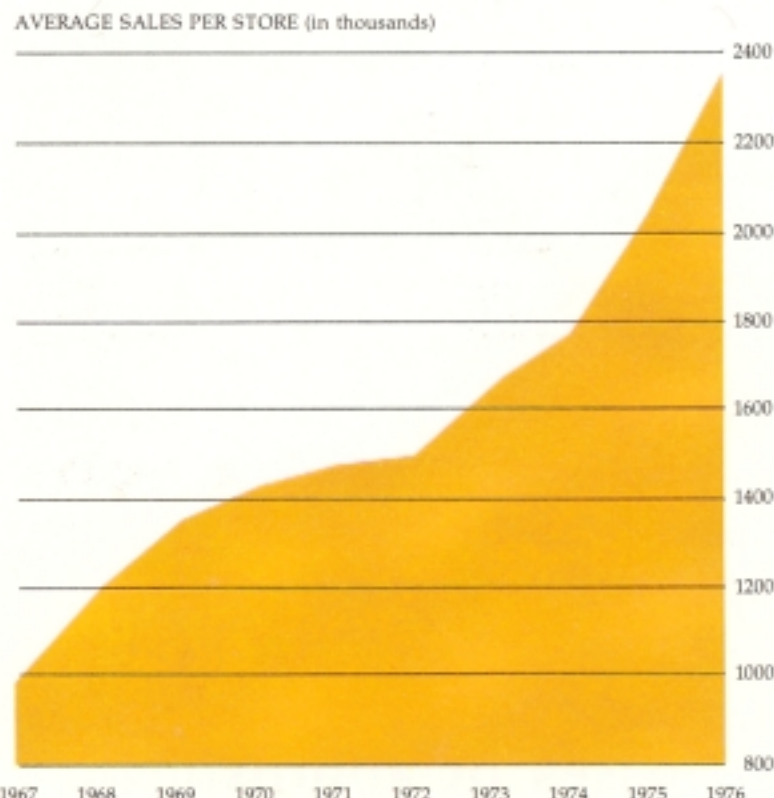
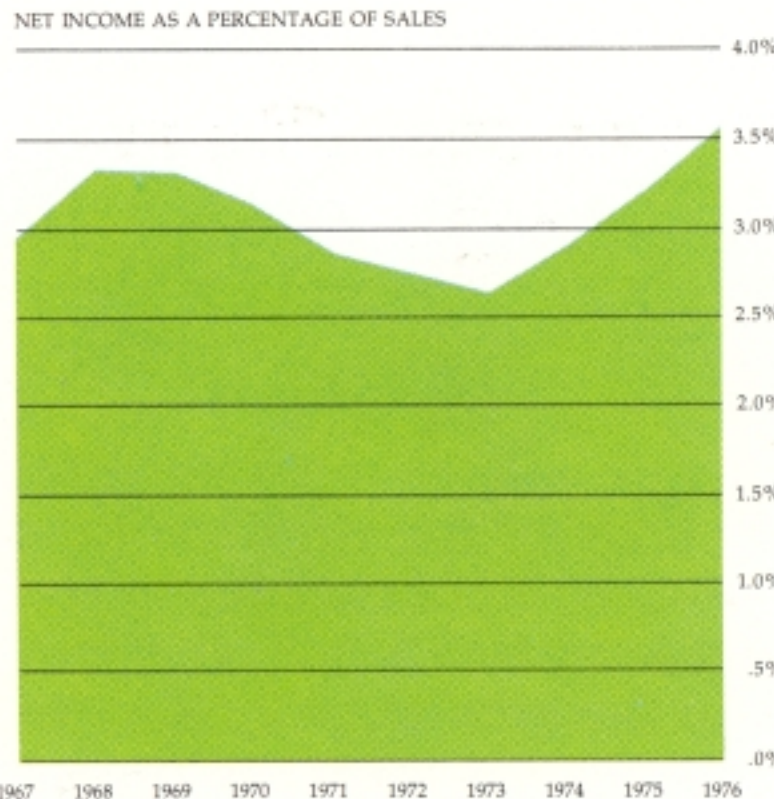
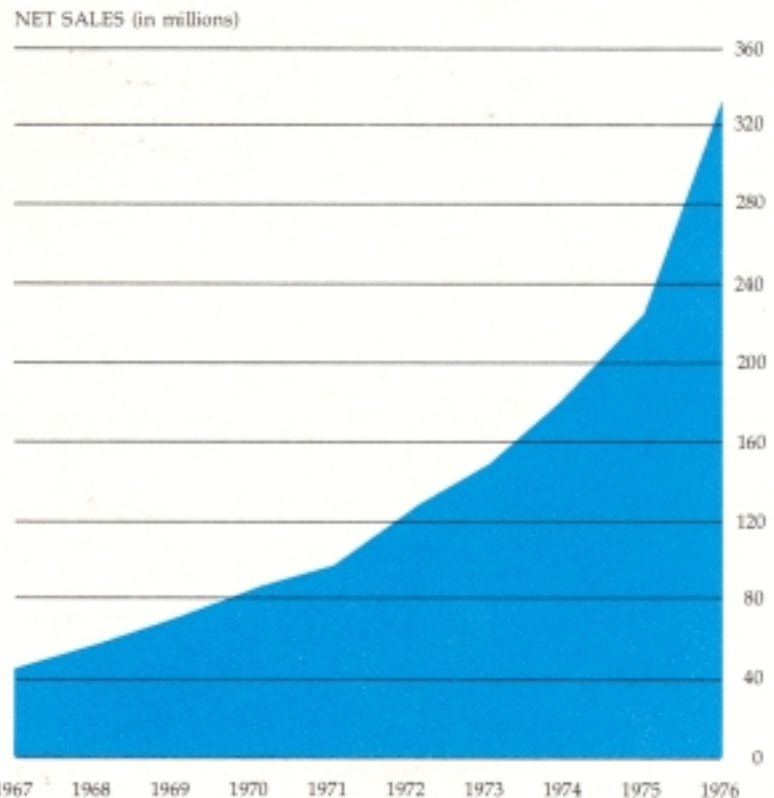
NOTE 9 - Sale of Accounts Receivable

For the fiscal year ending January 31, 1977, the company intends to change from the accrual method to the installment method of reporting sales for tax purposes. As part of a plan to accomplish such a change, the company has sold with recourse, substantially all (approximately \$12,000,000) of its trade accounts receivable as of the last day of its current fiscal year. Terms of the sales agreement with a bank call for a discount of approximately \$356,000 which is included in prepaid expenses in the balance sheet and will be amortized to operations by the interest method over the life of the receivables sold. The company will act as a servicing agent for the bank on such receivables, and customer service charges will be retained by the company. The agreement calls for the company to repurchase all receivables that have not been collected in full by January 1977; accordingly, an allowance for collection losses of approximately \$485,000 has been included in other accrued expenses.

NOTE 10 - Proposed Settlement of Class Action Suit

In a prior year a class action suit was filed against the company alleging discrimination in wages paid to females and discrimination because of sex. The company and the plaintiffs have reached a proposed settlement of the suit, and a proposed consent decree has been made available to members of the class action for their consideration. The company has established a provision for the estimated liability in the accompanying financial statements based upon the terms of the proposed consent decree.

TEN-YEAR
SUMMARY OF
OPERATIONS



PAY'n SAVE CORPORATION
and Subsidiary Companies

For the Year Ended January 31	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967
OPERATING RESULTS										
Net sales*	\$330,083	\$223,566	\$181,723	\$147,825	\$120,598	\$97,277	\$84,335	\$70,042	\$57,574	\$41,672
Net income*‡	11,656	7,283	5,304	3,932	3,369	2,806	2,664	2,360	1,949	1,230
Net income as a percentage of sales	3.53%	3.26%	2.92%	2.66%	2.79%	2.88%	3.16%	3.37%	3.39%	2.95%
Earnings on equity at beginning of year	29.39%	21.97%	18.92%	16.02%	15.38%	14.33%	15.37%	25.65%	31.39%	26.49%
COMMON STOCK										
Per common and common equivalent share—See Note 1 to financial statements‡	\$ 2.53	\$ 1.70	\$ 1.24	\$.92	\$.80	\$.68	\$.64	\$.61	\$.58	\$.40
Book value per share	13.37	9.28	7.81	6.67	5.91	5.27	4.76	4.25	2.69	2.12
Approximate price range of common stock	31-12	14-9	18-12	22-17	18-8	11-5	14-9	14-9	10-4	5-3
Shares outstanding (end of year) +	5,390	4,274	4,242	4,202	4,156	4,156	4,118	4,080	3,424	2,934
Stock dividends									5%	5%
Cash dividends	\$.30	\$.25	\$.20	\$.18	\$.175	\$.15	\$.125	\$.10		
FINANCIAL POSITION (End of Year)										
Working capital*	\$ 53,510	\$ 33,255	\$ 29,236	\$ 21,107	\$ 19,855	\$18,351	\$17,532	\$16,546	\$ 9,275	\$ 7,206
Current ratio	2.59	2.66	2.82	2.42	2.77	3.85	3.68	4.92	2.38	2.78
Long-term debt*	7,652	9,648	8,387	1,633	1,907	2,174	2,393	2,454	2,652	2,702
Stockholders' equity*	72,070	39,661	33,146	28,037	24,548	21,906	19,586	17,335	9,201	6,208
CAPITALIZATION PERCENTAGE										
Long-term debt	9.60	19.57	20.19	5.5	7.2	9.0	10.9	12.4	22.4	30.3
Stockholders' equity	90.40	80.43	79.81	94.5	92.8	91.0	89.1	87.6	77.6	69.7
STORES IN OPERATION										
Pay'n Save Drug	76	67	61	56	52	37	33	28	26	23
Pay'n Save Drug Ltd.	5	4	5	5	3	3	3	3	3	3
Ernst-Malmo Home Centers	28	25	26	23	21	21	19	17	17	16
Sports West or Sportsland	8	7	5							
Lamonts	10	7	6	5	5	5	4	4	4	
Bi-Mart	13									
Total number of stores	140	110	103	89	81	66	59	52	50	42
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	\$ 1,429	\$ 1,347	\$ 1,204	\$ 992
*Amounts in thousands of dollars. +Thousands of shares outstanding, adjusted to give effect to stock splits in 1969 and 1973. ‡Includes extraordinary income or unusual items of \$243,000 or \$.06 per share in 1969, \$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.										

PAY'n SAVE CORPORATION and Subsidiary Companies

STORE LOCATIONS

Pay'n Save

319 Pike Street, Seattle, Wa.
2711 Colby Ave., Everett, Wa.
4535 Univ. Way NE, Seattle, Wa.
412 Northgate Mall, Seattle, Wa.
1423 NW Market St., Seattle, Wa.
1400 Cornwall, Bellingham, Wa.
601 SW 150th St., Seattle, Wa.
201 S Broadway, Aberdeen, Wa.
8500 - 35th Ave. NE, Seattle, Wa.
1318 N 200th, Seattle, Wa.
1421 Lloyd Center, Portland Or.
4100 SE 82nd, Portland, Or.
Triangle Shopping Ctr., Longview, Wa.
7707 SE 27th, Mercer Island, Wa.
120 - 106th NE, Bellevue, Wa.
2707 Rainier Ave. Seattle, Wa.
202 Cross St. SE, Auburn, Wa.
17171 Bothell Way NE, Seattle, Wa.
40 Renton Village, Renton, Wa.
9071 Westwood Vill. Pl. SW, Seattle, Wa.
6111 Sixth Avenue, Tacoma, Wa.
415 S Sound Center, Lacey, Wa.
10407 Plaza Dr. SW, Tacoma, Wa.
1370 Northern Lts. Blvd., Anchorage, Ak.
4700 University Vill. Pl., Seattle, Wa.
9830 Pacific Ave. S, Tacoma, Wa.
1001 Southcenter Shpg. Ctr., Seattle, Wa.
7500 - 196th St. SW, Lynnwood, Wa.
115 Parkade Plaza, Spokane, Wa.
171 Bragaw St., Anchorage, Ak.
E 12115 Sprague Ave., Opportunity, Wa.
700 Columbia Center, Kennewick, Wa.
E 810 - 29th Ave., Spokane, Wa.
3rd & Steese Highway, Fairbanks, Ak.
1323 E Main Ave., Puyallup, Wa.
6555 SW Beaverton/Hwy., Portland, Or.
621 S Lincoln, Port Angeles, Wa.
Ninth & Gambell St., Anchorage, Ak.
4000 Manzanita, Carmichael, Ca.
2419 Del Paso Blvd., N Sacramento, Ca.
1115 W 17th St., Merced, Ca.
875 Russell Blvd., Davis, Ca.
2030 Market St., San Francisco, Ca.
3081 Stevens Creek Rd., Santa Clara, Ca.
1181 Cypress Avenue, Redding, Ca.
2801 Adeline St., Berkeley, Ca.

5260 Diamond Hts. Blvd., San Francisco, Ca.
2050 Monument Blvd., Concord, Ca.
1832 Hillsdale Avenue, San Jose, Ca.
872 N Delaware, San Mateo, Ca.
7100 Bancroft Avenue, Oakland, Ca.
9485 Village Pkwy., San Ramon, Ca.
3901 Seward Highway, Anchorage, Ak.
6000 Lindhurst Rd., Linda, Ca.
371 S McDowell Blvd., Petaluma, Ca.
9200 Rainier Ave. S, Seattle, Wa.
12531a Kingsgate Way NE, Kirkland, Wa.
242 College Way, Mt. Vernon, Wa.
848 Ala Lilikoi St., Honolulu, Ha.
11107 S Meridian, Puyallup, Wa.
210 Golf Club Road, Pleasant Hills, Ca.
1800-J Prescott Road, Modesto, Ca.
150 Marysville Plaza, Marysville, Wa.
4920a Evergreen Way, Everett, Wa.
1314 Fulton Avenue, Sacramento, Ca.
825 First Street, Gilroy, Ca.
1017 N 4th St., Coeur d'Alene, Id.
1645 140th NE, Bellevue, Wa.
2951 Railroad Ave., Pittsburg, Ca.
1291 Hilltop Drive, Redding, Ca.
7975 Greenback Lane, Citrus Hts., Ca.
Palani & Airport Rd., Kailua-Kona, Ha.
86-120 Farrington Hwy., Waianae, Oahu, Ha.
2035 Novato Blvd., Novato, Ca.
3441 Wheaton Way, Bremerton, Wa.
23636 104th Ave. SE, Kent, Wa.
326 - 7th Ave. W, Calgary, Alberta, Canada
3012 17th Ave. SE., Calgary, Alberta, Canada
6707 Elbow Dr. SW, Calgary, Alberta, Canada
8037 - 120th, Delta, British Columbia, Canada
22401 Dewdney Trunk Rd., Haney, British Columbia, Canada

Bi-Mart

2030 River Road, Eugene, Or.
1680 West 18th, Eugene, Or.
1521 Mohawk Blvd., Springfield, Or.
2045 North 9th, Corvallis, Or.
309 South 5th, Yakima, Wa.
2272 So. E. Santiam Hwy., Albany, Or.
2131 Newmark, North Bend, Or.
2280 Ashland St., Ashland, Or.
1381 NW Garden Valley Blvd., Roseburg, Or.
230 SW Redwood Hwy., Grants Pass, Or.
1920 Washburn Way, Klamath Falls, Or.
350 NE 2nd, Bend, Or.
2687 Jacksonville Hwy., Medford, Or.

Ernst-Malmo Home Centers

Sixth & Pike Street, Seattle, Wa.
800-B Yellowstone Ave, Pocatello, Id.
4704 - 25th NE, Seattle, Wa.
414 Northgate Mall, Seattle, Wa.
1401 NW Leary Way, Seattle, Wa.
7711 SE 27th, Mercer Island, Wa.
125 - 106th NE, Bellevue, Wa.
20050 Aurora Ave. N, Seattle, Wa.
2334 E. 70th So, Salt Lake City, Utah
4920 Evergreen Way, Everett, Wa.
10419 Plaza Dr. SW, Tacoma, Wa.
9109 Westwood Vill. SW, Seattle, Wa.
#60 Grady Way, Renton, Wa.
#25 South Sound Ctr., Lacey, Wa.
150 Burien Plaza SW, Seattle, Wa.
Triangle Shpg. Ctr., Longview, Wa.
Bldg. M-Crossroads Shpg. Ctr., Bellevue, Wa.
E 12105 Sprague Ave., Opportunity, Wa.
E 820 - 29th Ave., Spokane, Wa.
821 Columbia Ctr., Kennewick, Wa.
1317 E Main Ave., Puyallup, Wa.
6425 - 6th Ave., Tacoma, Wa.
2505 Main St., Union Gap, Wa.
1167 Valley River Rd., Eugene, Or.
12630a Kingsgate Way NE, Kirkland, Wa.
310 College Way, Mt. Vernon, Wa.
W 2215 Wellesley, Spokane, Wa.
3449 Wheaton Way, Bremerton, Wa.

Sports West

4740 Roosevelt Way NE. Seattle, Wa.
4538 California SW. Seattle, Wa.
508 S Third. Renton, Wa.
Crossroads Shpg. Ctr., Bellevue, Wa.
1140 Aurora Vill. Pl. N. Seattle, Wa.
12520 - 120th Ave. NE. Kirkland, Wa.
125 SW 148th. Seattle, Wa.
2500 SW Barton. Seattle, Wa.

Lamonts

460 SW 152nd, Seattle, Wa.
2700 NE Village Mall, Seattle, Wa.
17171 Bothell Way NE, Seattle, Wa.
NE 156th & 8th NE, Bellevue, Wa.
E 802 - 29th Ave., Spokane, Wa.
12601 - 120th NE, Kirkland, Wa.
900 Shadle Center, Wellesley at Alberta, Spokane, Wa.
3909 Seward Highway, Anchorage, Ak.
2500 SW Barton, Seattle, Wa.
2001 So. 320th, Federal Way, Wa.

Stores	Wash.	Calif.	Alaska	Oregon	Hawaii	Idaho	Utah	Canada	Total
Pay'n Save Drug Stores	40	24	5	3	3	1		5	81
Bi-Mart Stores	1			12					13
Ernst-Malmo									
Home Centers	25			1		1	1		28
Lamonts Apparel Stores . . .	9		1						10
Sports West									
or Sportsland	8								8
	<u>83</u>	<u>24</u>	<u>6</u>	<u>16</u>	<u>3</u>	<u>2</u>	<u>1</u>	<u>5</u>	<u>140</u>

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 since 1965. 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

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*

Joseph J. Petrino, *Vice President Pay'n Save Northern Division*

Paul R. Ross, *Vice President Pay'n Save Southern Division*

Thomas R. Lawrenson, *Vice President Ernst Home Center Division*

J. Kenneth Green, *Vice President Lamonts Apparel Division*

Walter R. Guidinger, *Vice President Development*

Raymond C. Swanson, *Secretary*

Joseph Christy, *Treasurer & Controller*

Jennie K. Hauge, *Assistant Treasurer*

Vernon S. Heggen, *Assistant Secretary*

Executive Committee

M. Lamont Bean

E. R. Erickson

Calvin Hendricks

Transfer Agents and Registrars

Peoples National Bank of Washington, Seattle, Washington
Banker's Trust Company
New York, N.Y.

Auditors

Price Waterhouse & Co.

Counsel

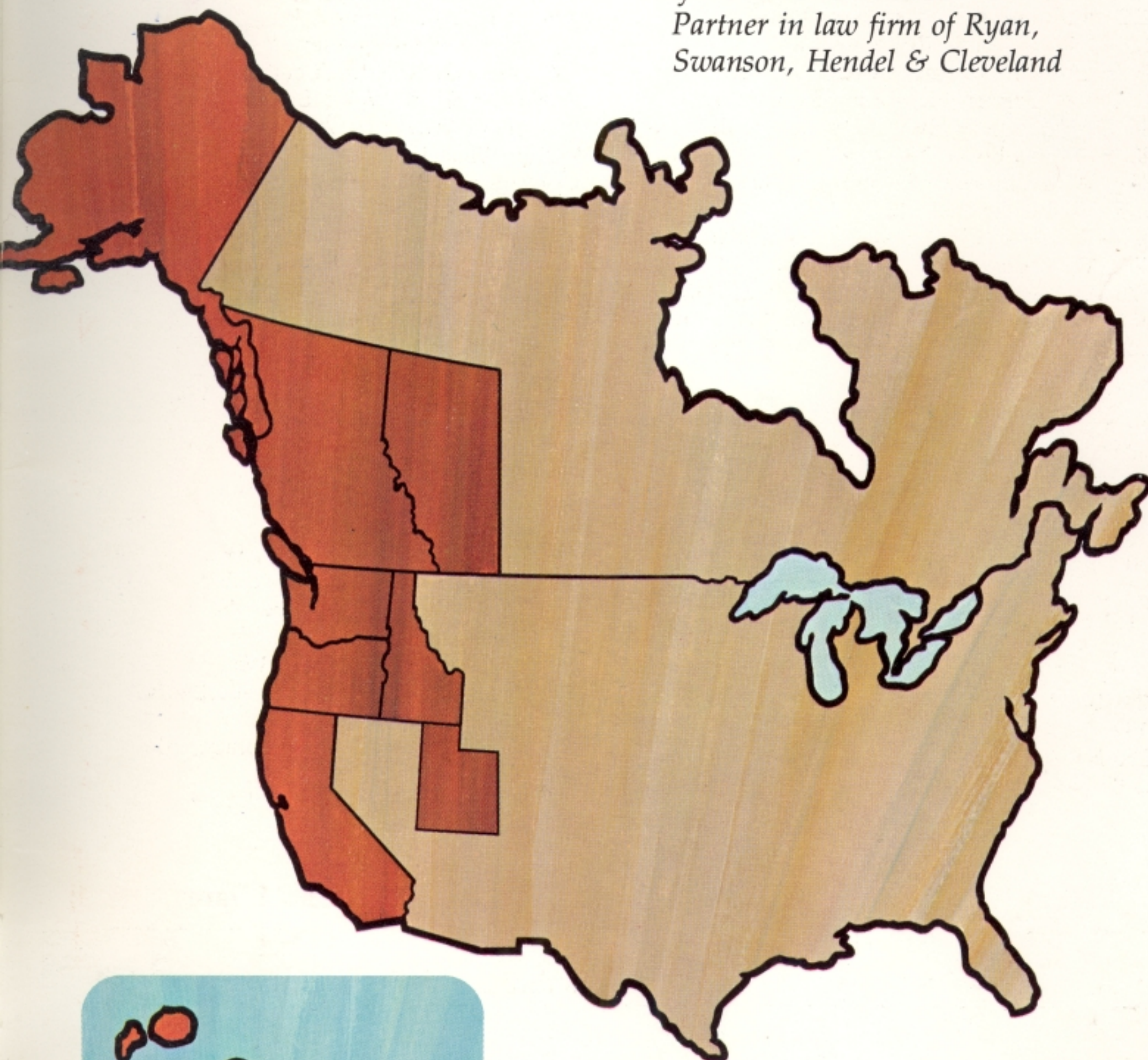
Ryan, Swanson, Hendel & Cleveland

General Offices

1511 Sixth Avenue
Seattle, Washington

Additional Information

A copy of the company's Form 10-K report for the year ended January 31, 1976 filed with the Securities and Exchange Commission is available to shareholders on request. Copies of pertinent 10-K exhibits are also available at a nominal cost. These publications can be obtained by writing to Pay'n Save Corporation, 1511 6th Avenue, Seattle, Washington 98101.



JAN 28 1980

JAN 30 1980 -9 00 AM

sports west

ERNST
MALMO

new men

PAY 'n SAVE PAY 'n SAVE PAY 'n

BI-MART

BI-MART