1969 FEDMART ANNUAL REPORT

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NOTICE OF ANNUAL MEETING

Shareholders of The Fed-Mart Corporation are cordially invited to the Annual Meeting which will be held on Tuesday, January 20, 1970, at San Diego, California. A formal notice of this meeting, with a proxy statement and proxy, is being sent to shareholders.

The Fed-Mart Corporation
8001 Othello Street
San Diego, California 92111

HIGHLIGHTS

Fiscal Year Ended	August 31, 1969	September 1, 1968
Full Year Operations		
Sales	$162,453,208	$135,574,601
Earnings before Taxes	4,448,514	3,563,923
Taxes	2,226,000	1,765,000
Earnings after Taxes	2,222,514	1,798,923
Cash Flow from Operations*	4,075,763	3,464,931
At Year End		
Shareholders' Equity	17,053,417	11,932,389
Number of Shareholders	4,148	3,394
Shares Outstanding	1,220,131	1,019,887
Number of Stores in Operation	39	31
Per Common Share		
Net Earnings Based on Average Shares Outstanding (1,154,704 in 1969; 875,468 in 1968)	1.92	2.05
Net Earnings, assuming subordinated debentures outstanding and debentures converted during fiscal 1968 and 1969 had been converted as of the beginning of the fiscal year or at the date of issue (1,293,778 in 1969; 1,163,602 in 1968)	1.80	1.65
Shareholders' Equity	13.98	11.44
Dividends	0.40+2% Stk	0.25+2% Stk

**Net earnings plus non-cash charges*

OFFICERS

SOL PRICE
Chairman of the Board and President

ROBERT F. ABELL
Vice President

E. L. BERTRAND
Vice President

A. DON HERRMANN
Vice President and Assistant Secretary

HARRY A. POST
Vice President

ROBERT E. PRICE
Vice President

RONALD B. REED
Vice President

STANLEY I. ROSEN
Vice President and Treasurer

GEORGE M. JEZEK
Secretary

JOHN J. HARRIS
Assistant Vice President

DIRECTORS

E. L. BERTRAND
Vice President,
The Fed-Mart Corporation

EARLE I. BRODIE
Medical Doctor

MALIN BURNHAM
President, John Burnham & Co.

A. DON HERRMANN
Vice President and Assistant Secretary
The Fed-Mart Corporation

GEORGE M. JEZEK
Secretary,
The Fed-Mart Corporation

PAUL A. PETERSON
Attorney at Law

ROBERT E. PRICE
Vice President,
The Fed-Mart Corporation

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Chairman of the Board and President,
The Fed-Mart Corporation

A. T. PROCOPIO
Attorney at Law

STANLEY I. ROSEN
Vice President and Treasurer,
The Fed-Mart Corporation

WM. H. SCHMIDT
The Fed-Mart Corporation

EXECUTIVE COMMITTEE

E. L. BERTRAND

EARLE I. BRODIE

SOL PRICE

STANLEY I. ROSEN

WM. H. SCHMIDT

LETTER TO SHAREHOLDERS:

Fiscal 1969 was a year of achievement and progress for the Company. Sales, earnings and facility expansion all reached record levels. Consolidated sales of $162,400,000 exceeded the prior year's sales by 20% and net earnings rose $423,591 to $2,222,514, an increase of 24% over last year.

During the year, nine new stores were opened, two of them as replacements for established units. A number of existing stores were expanded to present added lines of merchandise, with the emphasis on automotive services and fresh meat departments. All of the new stores, as well as the expanded units, were designed to implement our goal of providing complete one-stop shopping centers for our customers. The success of these new additions and the record profits they helped establish confirm the fact that the Company is accomplishing its major objectives—fulfilling basic consumer demand for quality products conveniently available at the lowest possible prices; developing a professional staff of career employees; and providing a fair return on invested capital for our shareholders.

During the year new corporate planning procedures were instituted to define our priorities more clearly—to merchandise our stores more aggressively and to improve our efficiency in major operating areas. Our Board of Directors was reduced from 21 to 11 members to make it a more effective working board. Key management personnel were realigned to provide for better division of major responsibilities, depth of management and increased opportunity for younger men to share in top level decision-making. Our personnel policies have been reviewed, upgraded, and expanded and should result in reduced turnover and more rapid individual development and advancement. Our new computer programs have progressed far beyond the simple "reporting" stage and now provide some very sophisticated aids to management decision-making.

Our expansion program continues into 1970 and underscores the Company's commitment to continued growth and increased profitability in future years. The capital budget calls for two large shopping center developments, three free-standing stores, as well as substantial additions to, and modernization of, a number of existing facilities. All of these projects are under construction or in the advanced stages of planning. While we plan to make significant progress on all of these projects this year, the adverse money market may dictate, to some extent, the rate of completion. Nevertheless, all will be accomplished in the near future and, if the cost of money should ease, the expansion program will be enlarged and accelerated.

We are deeply appreciative of the continued faith and support of our shareholders who have contributed so greatly to the continued success of the Company. In 1969, we took steps to improve the shareholder's immediate return and the ultimate value of his investment. In January the cash dividend was increased from 25c to 40c per share per annum. A short time thereafter our stock was listed on the American Stock Exchange. Later in the year we reacquired direct control, ownership and management of most of our real estate holdings. To our shareholders we reaffirm our pledge to commit our most vigorous efforts toward a strong and growth-oriented Fed-Mart.

We are also indebted to our employees. The accomplishments of the past year are, in every sense, a tribute to their skill and dedication. Management was pleased that our growth afforded so many of our people an opportunity to assume greater responsibility and we aim to provide that same abundant opportunity for personal advancement in the future.

For the past several years we have expressed our confidence in the year ahead and each year our optimism has been justified. We have taken steps to make the most of future opportunities units. A number of existing stores were expanded to present added lines of merchandise, with the emphasis on automotive services and fresh meat departments. All of the new stores, as well as the expanded units, were designed to implement our goal of providing complete one-stop shopping centers for our customers. The success of these new additions and the record profits they helped establish confirm the fact that the Company is accomplishing its major objectives—fulfilling basic consumer demand for quality products conveniently available at the lowest possible prices; developing a professional staff of career employees; and providing a fair return on invested capital for our shareholders.

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For the past several years we have expressed our confidence in the year ahead and each year our optimism has been justified. We have taken steps to make the most of future opportunities and, therefore, we look forward to fiscal 1970, confident that it will be another record year for your Company.

Sol Price

SOL PRICE,
Chairman of the Board and President

YEAR IN REVIEW

SALES AT RECORD LEVEL

The year ended August 31, 1969 was another period of major growth for The Fed-Mart Corporation. Consolidated total sales for the Company reached a record level of $162,453,208, up 20% from the $135,574,601 reported for the previous fiscal year. This sales gain of almost $27,000,000 was attributable to the opening of new stores, the addition of new departments to many existing stores, the expansion of some of the Company's new retailing activities, and to the overall improvement in the sales performance of existing stores. It is anticipated that this sales growth will continue in fiscal 1970.

EARNINGS HIGHEST IN HISTORY

Net earnings for fiscal 1969 were also the highest in the history of the Company. The consolidated net earnings from operations of $2,222,514 represents a 24% increase over the $1,798,923 reported for the preceding year. The increase in earnings resulted from the substantial gain in sales reported above and the Company's ability to earn more profit on each sales dollar. Improvement in this area was reflected in the fact that pre-tax earnings, as a percentage of sales, rose from 2.63% in fiscal 1968 to 2.74% in fiscal 1969. Management believes that the percentage increase in earnings in fiscal 1970 will at least match the anticipated gains in sales for the year.

On the basis of the weighted average shares outstanding for the year, primary earnings for fiscal 1969 were $1.92 per share, as compared with $2.05 per share for fiscal 1968. This decline was due to a 32% increase in the number of shares used in calculating earnings per share in fiscal 1969. 1,154,704 shares were used in 1969, as compared with 875,468 in 1968. When earnings are restated on a fully converted basis, assuming all convertible debentures outstanding are exchanged for common shares, earnings for fiscal 1969 would be $1.80 per share, on the basis of 1,293,778 shares, compared to

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$1.65 per share for fiscal 1968, on the basis of 1,163,602 shares.

CASH DIVIDEND INCREASED

In January of 1969, the Board of Directors voted to increase the annual cash dividend from 25c to 40c per share. This represented a 60% increase in the cash dividend. A total of $472,498 in cash dividends, as well as the usual 2% stock dividend, was paid out during the fiscal year.

EXPANSION CONTINUES

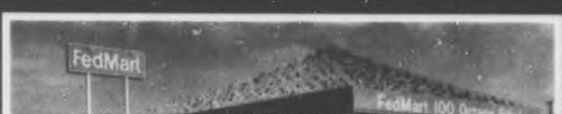
Company expansion reached a new peak in 1969. Eight stores were opened early in the fiscal year. New units were opened in Westminster, San Diego and Oceanside, California; two in Phoenix and another in Window Rock, Arizona. Replacement stores were constructed in Anaheim, California and Tempe, Arizona. Later in the year, the Company franchised an existing facility in Goleta, California. At year end, thirty-nine stores were in operation. Most of the new units opened in trading areas where the Company was previously established. They have enjoyed excellent consumer acceptance. With sales in these new stores continuing to climb, their contribution to sales and, more particularly, to profits should be especially significant in 1970.

The store opening in Window Rock, the headquarters of the Navajo Tribe, marked the establishment of the first retail chain store on an Indian reservation anywhere in the nation. It was designed to bring the benefits of mass merchandising and low margin retailing to the economically disadvantaged Indians. The presence of the then Secretary of Interior, Stewart Udall, the then Commissioner of Indian Affairs, Robert L. Bennett, and U. S. Senator Clinton Anderson, as well as other dignitaries, attested to the significance of the event. Sales have exceeded expectations and results of the experiment have been most gratifying to both the Indians and Fed-Mart manage-

Company installs new computer programs.

New departments are added including auto centers, meat and liquor departments.

Eight new Kent laundry-dry cleaning stores open.



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ment. The competitive pressures brought by Fed-Mart have reduced the cost of many commodities in the area and gainful employment has been provided for over fifty Indians.

Additional sales were generated by the addition of new departments in existing units. Complete auto centers and meat departments were added to several stores. The pilot car wash operation proved successful and excellent progress has been made in the Company's restaurant operation. At eight locations Company-operated dry cleaning and/or coin-operated laundries were opened adjacent to Fed-Mart stores.

PLANS FOR FISCAL 1970

Expansion plans for fiscal 1970 are substantial. Shortly after the close of the fiscal year, a 52,400 sq. ft. store opened in San Antonio. Construction is expected to begin soon on a store of similar size in Tucson, Arizona and plans are being finalized for another store in Houston, Texas. In San Diego, two large sites have been acquired for construction of regional shopping centers of 300,000 to 425,000 square feet. Each center will include a Fed-Mart store, as well as one or two other major department stores and a number of other shops. Sites for other stores in the Southwest are being negotiated.

In addition to the construction of new stores, plans have been drawn for the expansion and modernization of several existing units. Moreover, new departments have been slated for many stores, including automotive service centers at twelve locations and several new car washes. This development of the Company's auto service facilities attests to the rapid growth which has taken place recently in Fed-Mart's service to the motoring public and the success which this phase of the Company's retailing operation has enjoyed. Other departments are also planned. Meat departments will be installed in the few stores presently without such facilities. Several additional Company-operated dry cleaning and laundry stores, as well as restaurants, liquor, music and shoe departments, are pro-

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A set of guiding principles govern the operation of all FedMart stores.

An easy-return policy with the refund desk at the store entrance.

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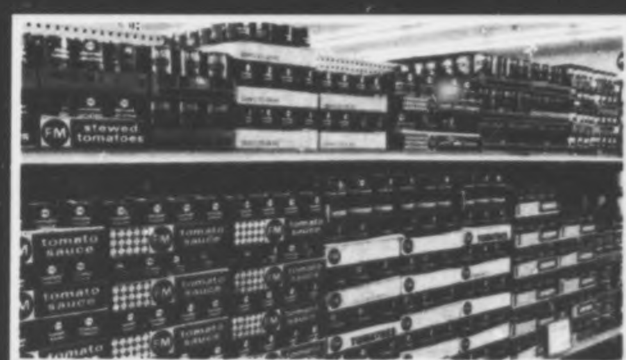
54'' high displays and 6' wide aisles for shopping convenience.



Simple, easy to maintain displays of merchandise in their original cartons.

jected. These added merchandising endeavors are expected to make an important contribution to sales and profits and will provide the consumer with increased shopping convenience.

The execution of much of this broad expansion program is contingent, to some extent, on the Company's obtaining adequate financing on reasonable terms. Management believes, however, that there will be an easing of credit during the year that will enable it to proceed promptly with its programs.

FINANCIAL POSITION REMAINS STRONG

In fiscal 1969, your Company's financial position continued to be strong. On June 2, 1969, the Company acquired the 50% interest in Kim Realty, Inc. previously held by unrelated interests. The acquisition was undertaken to regain full control of the future development and financing of the properties owned by Kim. As the Company now owns 100% of Kim Realty, Inc., Kim financial statements were consolidated with Fed-Mart's and are reflected in the financial statements.

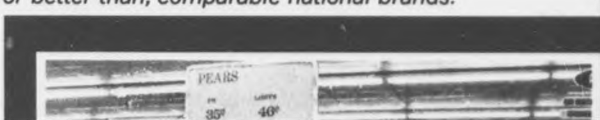
As of September 1, 1969, total assets were up $20,642,194 for the year, reaching a level of $64,533,944. Current assets increased slightly, as did current liabilities. The net effect was to reduce working capital by $1,525,518. Inventories rose to $18,552,675, from $16,543,732, principally due to merchandise requirements of the new stores. With the exercise of tighter controls, inventory shrinkage continued to decline. Non-current assets, consisting principally of real property and equipment, increased by $20,340,824, again reflecting the consolidation of Kim, as well as the addition of new stores. Long-term debt increased $17,373,237, from $9,097,855 to $26,471,092. This was attributable to net increases in outstanding convertible debentures and bank loans, as well as the assumption of Kim mortgage obligations.

Cash flow from operations (net income plus non-cash charges) in both the Company and Kim Realty, Inc. (from June 2, 1969) amounted to $4,075,763. Capital expendi-

Only quality products in all departments. All beef is U.S.D.A. Choice.

Only 100 octane premium gasoline and premium tires.

FM brands in all departments offer savings with quality guaranteed, equal to or better than, comparable national brands.



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No seconds, no irregulars, no imperfects anywhere in the store.

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tures by the Company and Kim Realty, Inc. (from June 2, 1969) for land, construction, modernization of stores and purchase of new equipment during the year, totaled $8,707,838. This represents a substantial increase over the $3,180,956 expended in the previous year.

SHAREHOLDERS' EQUITY INCREASES

Shareholders' equity in the Company increased to $17,053,417, up $5,121,028 from $11,932,389 last year. This increase was due to the conversion of the remaining 6% debentures outstanding at the previous year's end, the increase in retained earnings for the year and the issuance of shares for the acquisition of Kim. The book value per share, based on shares outstanding, at year end was $13.98, as compared with $11.44 the previous year. Return on shareholders' equity, using the beginning and ending equity position for purposes of calculation, declined to 15.3% for the year, from 18.5% for the prior year. This decrease resulted from the substantial increase in the Company's equity position this year, as previously indicated.

CHANGES IN CAPITAL STRUCTURE

Several significant changes in the Company's capital structure occurred during the year. At the Annual Shareholders Meeting held in January, the number of common shares authorized was increased to 3,000,000 from 1,500,000 to provide for possible future financing and acquisitions. At the beginning of the fiscal year, there were 1,019,887 shares of common stock issued and outstanding. In November 1968, the remaining 2,000,000 par value of the Company's 6% convertible subordinated debentures were converted into 122,398 shares of common stock. In March 1969, there were 22,846 shares of common stock issued to shareholders, representing the 2% stock dividend. In June 1969, the Company issued 55,000 shares of common stock for the acquisition of the 50% ownership of Kim Realty, Inc. held by outside

EDMART IS PATRONS

Over 1,000,000 homemakers from every walk of life shop and save at FedMart every week.

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interests. At year end, there were 1,220,131 shares of common stock issued and outstanding, held by 4,148 shareholders of record, up from 3,394 at the end of fiscal 1968. The average holding of all shareholders was 294 shares at year end, compared with 300 a year earlier.

An additional 208,620 shares have been reserved in connection with the private sale, which the Company made in February, of $6,050,000 of 6¾% 20-year convertible subordinated debentures. The debentures are convertible into common shares of the Company at a rate of $29 per share. An annual sinking fund will be established on March 1, 1980, in order to retire the issue at maturity in 1989. The funds obtained from this new issue were used to repay bank loans and for continued expansion of the Company's operations.

High interest rates and tight credit conditions limited the amount of new mortgage funds obtained during the year. Sufficient funds from other sources were available to complete all fiscal 1969 projects. New bank loan financing was completed at year end to underwrite a portion of fiscal 1970's expansion program.

NEW MERCHANDISING PROGRAMS YIELD SALES GAIN

During the year efforts to build sales throughout the chain were accelerated. A new approach to advertising, employing concentrated direct mail, was developed. This, coupled with the introduction of new techniques for improving the presentation of merchandise and for promoting seasonal lines, generated marked gains in sales.

Substantial expansion of the Fed-Mart private label line also took place during the year. Among the many new categories of merchandise introduced were such diverse private label products as batteries, wide oval tires, permanent press clothing, canned vegetables, shaving cream and hair spray. All of these new products enjoyed excellent consumer acceptance and, in many cases, brought about an overall increase in sales in the category of merchandise. Today, over 1,500 FM brand items offer the consumer superior value. As a result of their wide ap-

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peal to Fed-Mart shoppers, they now account for approximately 40% of total Company sales. Expansion of the Company's private label line will continue to receive major attention in fiscal 1970, but only to the extent that items can be introduced into the FM family which meet the Company's rigid standards of quality and value.

DATA PROCESSING ROLE INCREASES

During the year, computers and the latest information technology continued to play an increasingly important role in our operations. While much remains to be accomplished in this area, noteworthy progress was made during fiscal 1969 in applying these techniques to management decision-making.

New systems of warehouse inventory control and reordering were installed. These have proven particularly beneficial in planning purchases involving many millions of dollars and have been instrumental in enabling us to increase inventory turns.

At store level, we have established a new ticketing system which provides vital data for analyzing the movement of highly volatile softlines. This rapid flow of information is permitting our buyers to react more quickly to emerging sales trends. Also at store level, new methods of sales forecasting are helping our managers plan their personnel needs more accurately. In fiscal 1970, extensive expansion in the application of these techniques is contemplated. These advances will bring further operating efficiences and should make a significant contribution to increased sales and profit.

EMPLOYEE RELATIONS CONTINUE GOOD

The success of any organization rests on the skill and dedication of its personnel. In this regard, the Company's rapid rate of expansion in fiscal 1969 was a real test of the caliber of the Fed-Mart staff. Our people responded well to the challenge. Many assumed new positions of greater responsibility. Twelve employees were promoted

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Sincere, capable employees doing all kinds of jobs.

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to the position of store manager and from the ranks approximately 50 were elevated to assistant store manager or store merchandise manager. In addition, some 15 other key positions in top and middle management were filled by promotion from within.

Changes were also made in the Company's administrative structure to strengthen it further and to improve the organization of responsibility and decision making. The Board of Directors was reduced from 21 to 11 and four new Vice Presidents were also promoted from within. The new alignment of key executives provides for greater depth of management and brings the vitality of youth to bear the challenges of our business.

To insure a continual upgrading of our employees and to prepare them to assume positions of greater responsibility, our training efforts during the year were intensified. New communications programs were instituted to direct and guide employees in merchandising and sales techniques. Eight Field Sales Managers were appointed to visit stores and provide on-the-spot training and assistance. At year end, there was a total of 2,808 employees, an increase of 558 over 1968.

In addition to an excellent wage structure, the Company maintains a comprehensive program of fringe benefits for its employees, including a fine life and health insurance plan. During the year it added dental insurance to this coverage. In addition, it contributed approximately $410,000 to purchase stock for the employee stock bonus program. A number of major collective bargaining agreements will be open for negotiation during the coming year. However, there have been no work stoppages or labor problems of any significance during the fifteen-year history of the Company and, as always, the climate of employee and union relations remains excellent.

OUTLOOK

Fiscal 1969 was a year of accelerated growth in sales and earnings. We are confident that your Company will continue to demonstrate healthy and continuous growth in the years ahead.

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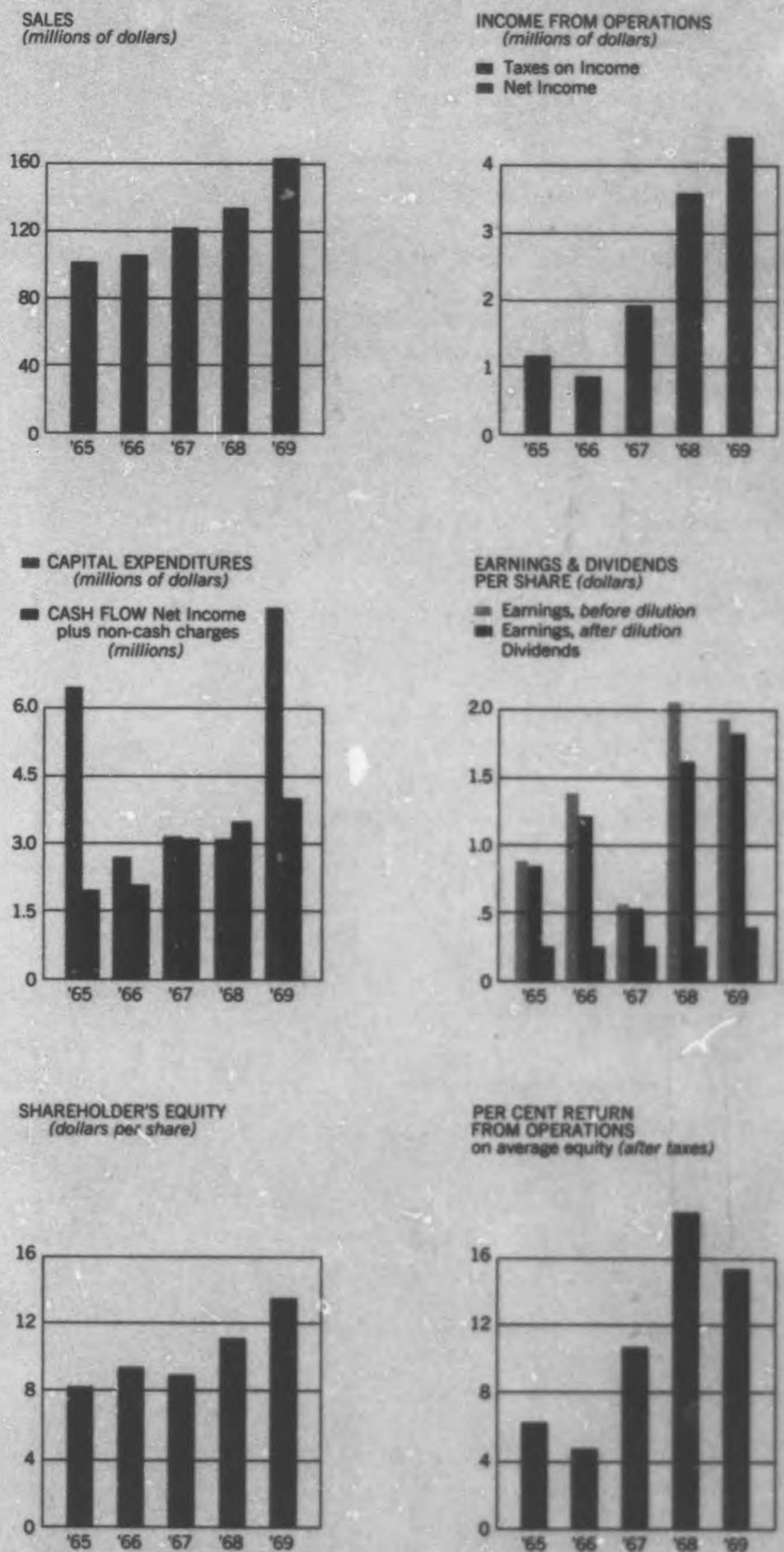
FINANCIAL SUMMARY

The FedMart Corporation and Consolidated Subsidiaries
Summary 1965 – 1969

Fiscal Year	1965	1966	1967	1968
FULL YEAR OPERATIONS				
Sales	$100,812,265	$107,794,904	$121,751,496	$135,574,601
Earnings from Operations				
Before Taxes	1,002,152	790,153	1,907,259	3,563,923
Taxes	463,000	377,000	945,000	1,765,000
After Taxes	539,152	413,153	962,259	1,798,923
Non-consolidated Subsidiaries	(303,294)	(28,388)		
Special Items	732,200	1,160,767	(402,655)	
Total Earnings	968,058	1,545,532	559,604	1,798,923
Cash Flow from Operations	1,992,228	2,011,421	3,164,750	3,464,931
Capital Expenditures	6,571,249	2,897,598	3,205,080	3,180,956
Cash Dividends	251,374	256,402	204,245	224,715
AT YEAR END				
Current Assets	21,712,402	20,090,129	20,941,774	26,159,076
Current Liabilities	15,692,108	12,432,785	14,510,612	16,725,140
Working Capital	6,020,294	7,657,344	6,431,162	9,433,936
Net Property and Equipment	17,746,738	19,269,223	21,163,698	9,278,649
Long Term Debt	16,724,249	17,794,021	19,845,335	9,097,855
Shareholders' Equity	8,734,260	10,023,390	7,542,849	11,932,389
Total Assets	41,675,017	41,115,696	43,562,696	43,891,750
Number of Shares Outstanding	1,015,396	1,035,704	825,009	1,019,887
Number of Shareholders of Record	2,857	2,625	3,127	3,394
Number of Stores in Operation	25	28	32	31
PER COMMON SHARE				
Net Earnings Based on Weighted Average Shares Outstanding	.89	1.42	.56	2.05
Net Earnings Assuming Conversion of Debentures Outstanding	.80	1.22	.55	1.65
Cash Dividends	0.25	0.25	0.25	0.25
Stock Dividend	2%	2%	2%	2%
Book Value	8.00	9.19	8.72	11.44

1969
$162,453,208
4,448,514
2,226,000
2,222,514
2,222,514
4,075,763
8,707,838
472,498
26,460,446
18,552,028
7,908,418
36,180,893
26,471,092
17,053,417
64,533,944
1,220,131
4,148
39
1.92
1.80
0.40
2%
13.98



	1969	1968
ASSETS		
Curent assets:		
Cash	$ 2,850,417	1,825,207
Receivables:		
Accounts and notes, less allowance for doubtful accounts and notes and unearned service charges of $723,834 ($572,190 in 1968)	4,811,221	4,516,424
Kim Realty, Inc. *(note 3)*	–	2,846,075
Merchandise inventories, at lower of cost or market, determined by the retail method	18,552,675	16,543,732
Prepaid expenses	246,133	427,638
Total current assets	26,460,446	26,159,076
Investments in, at equity, and noncurrent receivables from associated entities *(notes 1 and 3)*:		
Investment in Kim Realty, Inc.	–	902,072
Unsecured notes receivable from Kim Realty, Inc.	–	6,402,705
Other investments and advances	852,865	380,206
Total investments and noncurrent receivables from associated entities	852,865	7,684,983
Property and equipment, partially encumbered, at cost *(notes 2, 3 and 5)*:		
Land	10,949,239	1,141,896
Buildings and improvements	21,437,881	5,232,357
Furniture, fixtures and equipment	9,555,823	7,806,143
	41,942,943	14,180,396
Less accumulated depreciation and amortization	5,762,050	4,901,747
Net property and equipment	36,180,893	9,278,649
Other assets	1,039,740	769,042
	$64,533,944	43,891,750

See accompanying notes to consolidated financial statements.

	1969	1968
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Notes payable to bank	$ 1,075,000	2,000,000
Current installments of long-term debt *(note 5)*	3,012,122	724,889
Accounts payable	11,022,551	9,528,157
Federal income taxes *(note 4)*	241,094	1,595,236
Dividends payable	244,026	121,581
Other accruals and liabilities	2,957,235	2,755,277
Total current liabilities	18,552,028	16,725,140
Long-term notes *(note 5)*	17,995,367	4,516,155
Deferred income taxes *(note 4)*	2,457,407	2,091,623
Convertible subordinated debentures:		
6¾% *(note 5)*	6,050,000	–
6% converted in November 1968	–	2,000,000
6½% Junior subordinated debentures *(note 5)*	2,425,725	2,581,700
Deferred gain arising from sale and leaseback of real property *(note 3)*	–	4,044,743
Stockholders' equity *(note 6)*:		
Common stock, without par value. Authorized 3,000,000 shares; issued 1,220,131 shares (1,019,887 in 1968) at stated value	12,667,235	8,662,246
Retained earnings	4,386,182	3,270,143
Total stockholders' equity	17,053,417	11,932,389
Commitments and contingent liabilities *(note 7)*		
	$64,533,944	43,891,750

STATEMENT OF CONSOLIDATED EARNINGS

The FedMart Corporation and Consolidated Subsidiaries
Year ended August 31, 1969 with comparative figures for 1968

	1969	1968
Sales:		
Total retail sales	$162,453,208	135,574,601
Less:		
Franchise stores	32,975,947	27,993,241
Leased departments	2,403,743	2,620,886
	35,379,690	30,614,127
Retail sales of owned departments	127,073,518	104,960,474
Wholesale sales	15,358,605	14,141,912
Net sales	142,432,123	119,102,386
Other income:		
Rental income from leased departments, franchise stores, properties and others	1,692,349	1,312,662
Service charges on installment accounts and interest from others	995,744	856,071
Franchise fees, net	974,458	853,415
Sundry	390,215	242,888
Net sales and other income	146,484,889	122,367,422
Costs and expenses:		
Cost of sales	112,717,071	94,182,047
Selling, administrative and warehousing expenses	26,905,554	22,131,669
Depreciation and amortization, straight line	1,420,623	1,323,652
Interest and long-term debt expense	993,127	1,166,131
Total costs and expenses	142,036,375	118,803,499
Earnings before Federal income taxes	4,448,514	3,563,923
Provision for Federal income taxes, including deferred income taxes of $365,784 ($164,000 in 1968) *(note 4)*	2,226,000	1,765,000
Net earnings	$ 2,222,514	1,798,923
Net earnings per share *(note 8)*:		
Primary	$1.92	2.05
Fully diluted	$1.80	1.65

See accompanying notes to consolidated financial statements.

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

The FedMart Corporation and Consolidated Subsidiaries
Year ended August 31, 1969 with comparative figures for 1968

	1969	1968
Balance at beginning of year	$3,270,143	1,943,435
Net earnings for the year	2,222,514	1,798,923
	5,492,657	3,742,358
Less:		
Dividends declared:		
Stock dividend—2% at approximate market value	633,977	247,500
Cash dividend—40 cents per share (25 cents per share in 1968)	472,498	224,715
Total dividends declared	1,106,475	472,215
Balance at end of year	$4,386,182	3,270,143

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Fed-Mart Corporation and Consolidated Subsidiaries
August 31, 1969

(1) Principles of Consolidation

The consolidated statements include the accounts of the company, its wholly-owned subsidiaries, and three majority-owned subsidiaries. The minority interest, which is insignificant, in these three majority-owned subsidiaries has been included in other accruals and liabilities. The Company's investment in fifty percent owned associated entities (two corporations and three partnerships) is carried principally on the equity basis.

(2) Accounting Methods

In 1969 the Company acquired interests in land for two shopping centers, 100% in one and 50% in the other, and has capitalized $164,549 as its share of interest and taxes relating to these properties. In 1969 the Company also capitalized $166,698 of interest and taxes relating to land contiguous to Fed-Mart Stores and to land purchased for future Fed-Mart Stores. The latter capitalization represents a change in accounting method from prior years and has the effect of increasing net earnings by $73,181 or .06 per share for both primary and fully diluted earnings per share.

(3) Kim Realty, Inc.

In December, 1967, the Company sold certain store locations and investments to a fifty percent owned corporation, Kim Realty, Inc., and leased back the store locations for an initial term of 25 years with five ten-year renewal options. The $4,147,893 gain on the sale and leaseback transaction was being amortized over the initial term of the lease.

On June 2, 1969, Kim Realty, Inc. became a wholly-owned subsidiary when the Company acquired the remaining fifty percent interest from an unrelated corporation for 55,000 shares of the Company's common stock. The Company has an option until June 1, 1971 to repurchase all or any part of the said 55,000 shares for a net price of $27 per share.

Kim Realty, Inc. operations for the current year are reflected in the consolidated earnings statement on the equity method until June 2, 1969 and are consolidated after that date. In consolidation, the unamortized gain on sale and leaseback transaction has been offset against land and building purchased by Kim Realty, Inc. from the Company, and no amortization has been made after June 2, 1969 on the gain attributable to land.

(4) Income Taxes

The Company and its wholly-owned subsidiaries file their Federal income tax returns on a consolidated basis. The provision for deferred income taxes relates primarily to use of different methods of reporting depreciation for tax purposes from those used for financial accounting. The Internal Revenue Service has examined the Company's income tax returns through fiscal 1965. Management believes that adequate provision in the accounts has been made for tax liabilities which may become payable with respect to all taxable years still open.

(5) Long-term Debt:

	Total	Installments Current	Installments Long-term

(5) *(Continued)*

	Total	Current	Long-term
Subordinated debentures:			
6¾% subordinated debentures due March 1, 1989 (convertible through February 28, 1989 – sinking fund requirements 10% annually March 1, 1980-1988)	6,050,000	–	6,050,000
6½% junior subordinated debentures due February 1, 1987 (sinking fund requirements, 5½% annually January 31, 1970-1986)	2,581,700	155,975	2,425,725
	$29,483,214	3,012,122	26,471,092

(6) Stockholders Equity:

Changes in common stock during the year follows:

	Shares	Amount
Balance at September 1, 1968	1,019,887	$ 8,662,246
Issued for subordinated debentures converted (Net of related unamortized debt expense and premium)	122,398	1,996,012
Issued in exchange for 50% interest in Kim Realty, Inc.	55,000	1,375,000
Issued in connection with 2% stock dividends	22,846	633,977
Balance at August 31, 1969	1,220,131	$12,667,235

The provisions of three long-term debt agreements impose, among other things, certain limitations with respect to cash distributions. Stockholders' equity at August 31, 1969 exceeded the most restrictive of these provisions by approximately $520,000.

Of the authorized and unissued common stock, 208,620 shares are reserved for conversion of the 6¾% subordinated debentures. The initial conversion price of $29.00 per share is subject to adjustment in certain specified instances.

(7) Commitments and Contingent Liabilities

The Company has guaranteed the accounts of its subsidiaries with banks and vendors in the normal course of business, and has guaranteed $603,758 in bank loans to certain officers and employees of the Company, secured by shares of the Company's common stock having a market value in excess of the bank loans.

The Company has a 50% interest in a partnership owning 51.7 acres of land for a proposed shopping center. The partnership has issued a note (secured by the land) of which 50% or $2,125,000 has been guaranteed by the Company.

The Company and subsidiaries were lessees under leases calling for minimum annual rents (excluding taxes, insurance, etc.) ranging from approximately $696,000 in 1969 to $486,000 in 1984.

(8) Earnings per Share

Primary earnings per share are based on average shares outstanding during each year as follows: 1,154,704 in 1969 and 875,468 in 1968.

Fully diluted earnings per share are based on average shares

(2) Accounting Methods

In 1969 the Company acquired interests in land for two shopping centers, 100% in one and 50% in the other, and has capitalized $164,549 as its share of interest and taxes relating to these properties. In 1969 the Company also capitalized $166,698 of interest and taxes relating to land contiguous to Fed-Mart Stores and to land purchased for future Fed-Mart Stores. The latter capitalization represents a change in accounting method from prior years and has the effect of increasing net earnings by $73,181 or .06 per share for both primary and fully diluted earnings per share.

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Kim Realty, Inc. operations for the current year are reflected in the consolidated earnings statement on the equity method until June 2, 1969 and are consolidated after that date. In consolidation, the unamortized gain on sale and leaseback transaction has been offset against land and building purchased by Kim Realty, Inc. from the Company, and no amortization has been made after June 2, 1969 on the gain attributable to land.

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(5) Long-term Debt:

	Total	Installments Current	Installments Long-term
Notes:			
5½% to 7¾% mortgage notes due monthly, secured by land and building costing $25,102,698	$11,651,376	865,591	10,785,785
Bank loan, interest at ¾ of 1 percent in excess of prime rate, $1,980,000 due during fiscal 1970, $250,000 due September 1, 1970, $750,000 due December 1, 1970; balance due March 1, 1971	9,000,000	1,980,000	7,020,000
Sundry	200,138	10,556	189,582
	20,851,514	2,856,147	17,995,367
debentures due February 1, 1987 (sinking fund requirements, 5½% annually January 31, 1970-1986)	2,581,700	155,975	2,425,725
	$29,483,214	3,012,122	26,471,092

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	Shares	Amount
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The Company and subsidiaries were lessees under leases calling for minimum annual rents (excluding taxes, insurance, etc.) ranging from approximately $696,000 in 1969 to $486,000 in 1984.

(8) Earnings per Share

Primary earnings per share are based on average shares outstanding during each year as follows: 1,154,704 in 1969 and 875,468 in 1968.

Fully diluted earnings per share are based on average shares outstanding during each year as follows: 1,293,778 in 1969 and 1,163,602 in 1968, which assumes that the 6¾% debentures were converted at date of issue and the 6% debentures were converted at September 4, 1967. Earnings are accordingly adjusted to reflect the after tax effect of the related interest of $103,341 in 1969 and $121,133 in 1968.

ACCOUNTANTS REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors
The Fed-Mart Corporation:

We have examined the consolidated balance sheet of The Fed-Mart Corporation and Consolidated Subsidiaries at August 31, 1969 and the related statements of earnings and retained earnings for the year then ended. Our examination was 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.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings and retained earnings present fairly the consolidated financial position of The Fed-Mart Corporation and Consolidated Subsidiaries at August 31, 1969 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat Marwick Mitchell & Co.

San Diego, California
November 7, 1969

SOURCE AND USE OF FUNDS

Source and Use of Funds
Year Ended August 31, 1969

Source of Funds		
Provided by earnings from operations (Net income before depreciation, amortization, deferred taxes, and other non-cash items)	$ 4,075,763	
Bank term note—net of current portion and previous term note balance paid	6,332,500	
Debentures	6,050,000	
Mortgages	114,525	
		$ 16,572,788
Use of Funds		
Additions to properties—net	8,707,838	
Payment on long-term debt—net of change in current maturities of long-term debt	398,147	
Cash dividends	472,498	
Other—net	237,452	
		9,815,935
Increase in working capital before effect of Kim Realty, Inc.		6,756,853
Effect of purchase of Kim Realty, Inc. (See Note)		8,282,371
Net decrease in working capital		$ 1,525,518

Note—Purchase of Kim Realty, Inc.
The working capital effect of the acquisition and consolidation of Kim Realty, Inc., is summarized as follows:

Land and buildings acquired by Fed-Mart		$ 23,587,116
Investments non-current receivables, and other assets acquired		559,165
		24,146,281
Less:		
Mortgages	7,274,358	
Kim's long-term note to Fed-Mart	6,402,705	
Fed-Mart's equity in Kim	2,186,847	
		15,863,910
		$ 8,282,371

FED-MART PROPERTIES

STORES

	BUILDINGS (Total Sq. Ft.)	LAND AREA (Acres)
CALIFORNIA		
ANAHEIM, 1881 W. Lincoln Aveneue (2)	113,000	10.5
CALEXICO, 109 West Birch	31,000	5.0
CHULA VISTA, 1385 Third Avenue	47,000	5.8
EL CAJON, 300 N. Second Street (3)	31,000	7.2
ESCONDIDO, 1266 E. Valley Parkway (1)	49,000	6.7
GOLETA, 500 Fairview Avenue (1)	108,000	9.3
INDIO, 81-410 Highway 111	33,000	5.0
LA HABRA, 1101 S. Beach Blvd. (1)	21,000	(5)
LANCASTER, 2033 West Avenue J	33,000	5.2
LONG BEACH, 3705 E. South Street (3)	152,000	20.0
OCEANSIDE, 1702 Oceanside Blvd.	42,000	7.3
REDLANDS, 531 Orange Street	24,000	1.8
RIALTO, 552 W. Foothill Blvd.	33,000	4.5
SAN DIEGO, 8001 Othello Street	159,000	17.0
2380 Main Street	33,000	2.1
6405 El Cajon Blvd.	24,000	2.1
6788 Navajo Road	48,000	13.4
WESTMINSTER, 15412 Goldenwest (2)	30,000	3.4
ARIZONA		
PHOENIX, 2820 West Dunlap	34,000	9.6
3010 Grand Avenue	69,000	8.0
4820 E. McDowell Road	37,000	7.9
TEMPE, 1720 E. Broadway	40,000	9.0
TUCSON, 1820 E. Ft. Lowell Road	29,000	3.6
WINDOW ROCK, P.O. Box 85, Highway 264 (1)	40,000	7.0
YUMA, 101 South 16th Street	23,000	4.1
NEW MEXICO		
LAS C[illegible]S, 2200 E. Lohman (1)	21,000	5.9
TEXAS		
BROWNSVILLE, 1624 N. Central Blvd.	25,000	2.8
DALLAS, 11333 E. Northwest Highway (4)	111,000	15.2
3616 Forest Lane	135,000	14.0
EL PASO, 6600 Montana	95,000	15.4
9728 Dyer St. (1)	29,000	3.7
HOUSTON, 4004 Bellaire Blvd. (1)	20,000	(5)
5600 Mykawa Road	87,000	11.1
2323 Wirt Road (2)	117,000	16.4
MIDLAND, 400 N. Midland Drive	40,000	5.3
PASADENA, 4616 Spencer Highway (4)	25,000	6.2
SAN ANTONIO, 2514 S.W. Military Road	59,000	6.7
2643 Northwest Loop #410	63,000	10.0
VICTORIA, 1402 E. Mockingbird Lane	34,000	8.0
WICHITA FALLS, 4309 Jacksboro Highway	70,000	13.8

WAREHOUSES

	BUILDINGS (Total Sq. Ft.)	LAND AREA (Acres)
ANAHEIM, CALIF., 1315 State College	375,000	13.6
500 Muller	111,000	14.5
HOUSTON, TEXAS, 2333 Wirt Road	144,000	4.9
TEMPE, ARIZONA, 1730 E. Broadway	46,000	7.4

FED MART IS PLACES & PRODUCTS

ESCONDIDO, 1266 E. Valley Parkway (1)	49,000	6.7
GOLETA, 500 Fairview Avenue (1)	108,000	9.3
INDIO, 81-410 Highway 111	33,000	5.0
LA HABRA, 1101 S. Beach Blvd. (1)	21,000	(5)
LANCASTER, 2033 West Avenue J	33,000	5.2
LONG BEACH, 3705 E. South Street (3)	152,000	20.0
OCEANSIDE, 1702 Oceanside Blvd.	42,000	7.3
REDLANDS, 531 Orange Street	24,000	1.8
RIALTO, 552 W. Foothill Blvd.	33,000	4.5
SAN DIEGO, 8001 Othello Street	159,000	17.0
2380 Main Street	33,000	2.1
6405 El Cajon Blvd.	24,000	2.1
8788 Navajo Road	48,000	13.4
WESTMINSTER, 15412 Goldenwest (2)	30,000	3.4
ARIZONA		
PHOENIX, 2820 West Dunlap	34,000	9.6
3010 Grand Avenue	69,000	8.0
4820 E. McDowell Road	37,000	7.9
TEMPE, 1720 E. Broadway	40,000	9.0
TUCSON, 1820 E. Ft. Lowell Road	29,000	3.6
WINDOW ROCK, P.O. Box 85, Highway 264 (1)	40,000	7.0
YUMA, 101 South 16th Street	23,000	4.1

DALLAS, 11333 E. Northwest Highway (4)	111,000	15.2
3616 Forest Lane	135,000	14.0
EL PASO, 6600 Montana	95,000	15.4
9728 Dyer St. (1)	29,000	3.7
HOUSTON, 4004 Bellaire Blvd. (1)	20,000	(5)
5600 Mykawa Road	87,000	11.1
2323 Wirt Road (2)	117,000	16.4
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PASADENA, 4616 Spencer Highway (4)	25,000	6.2
SAN ANTONIO, 2514 S.W. Military Road	59,000	6.7
2643 Northwest Loop #410	63,000	10.0
VICTORIA, 1402 E. Mockingbird Lane	34,000	8.0
WICHITA FALLS, 4309 Jacksboro Highway	70,000	13.8

WAREHOUSES

ANAHEIM, CALIF., 1315 State College	375,000	13.6
500 Muller	111,000	14.5
HOUSTON, TEXAS, 2333 Wirt Road	144,000	4.9
TEMPE, ARIZONA, 1730 E. Broadway	46,000	7.4

FED MART IS PLACES & PRODUCTS

OTHER PROPERTIES

	BUILDINGS (Total Sq. Ft.)	LAND AREA (Acres)
CALIFORNIA		
RESEDA, 7320 Reseda Blvd.	24,000	1.5
SAN DIEGO, Sports Arena Blvd.	–	39.6
Balboa & Genesee	–	51.7
4040-80 Convoy St.	1,700	0.7
6401 El Cajon Blvd.	9,300	0.7
ARIZONA		
TUCSON, 22nd & Kolb Road	–	15.2
YUMA, South 16th Street	–	4.0
TEXAS		
AUSTIN, 1100 S. Lamar	70,000	8.9
8001 N. Lamar	–	1.0
DENTON, University & Malone	–	2.4
HOUSTON, 2333 Wirt Road	–	11.1
North Shepherd & W. Little York	–	8.1

NOTES (FedMart ownership, unless footnoted)
(1) Leased
(2) Leased with option to purchase
(3) Land lease only
(4) Partial FedMart ownership
(5) Part of shopping center

TRANSFER AGENT
Common Stock, Security Pacific National Bank, Los Angeles, California; The Chase Manhattan Bank, New York, New York

REGISTRAR
Common Stock, Bank of America National Trust & Savings Association, Los Angeles, California; The Chase Manhattan Bank, New York, New York

TRUSTEES
6¾% Convertible Subordinated Debentures, Bank of America National Trust & Savings Association, Los Angeles, California; 6½% Junior Subordinated Debentures, Security Pacific National Bank, Los Angeles, California

AUDITORS
Peat, Marwick, Mitchell & Co.

TUCSON, 22nd & Kolb Road	–	15.2
YUMA, South 16th Street	–	4.0
TEXAS		
AUSTIN, 1100 S. Lamar	70,000	8.9
8001 N. Lamar	–	1.0
DENTON, University & Malone	–	2.4
HOUSTON, 2333 Wirt Road	–	11.1
North Shepherd & W. Little York	–	8.1

NOTES (FedMart ownership, unless footnoted)
(1) Leased
(2) Leased with option to purchase
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FedMart
FedMart