Lucky Stores, Inc.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
JUNE 5, 1986

NOTICE IS HEREBY GIVEN that the Annual Meeting of Shareholders of Lucky Stores, Inc. will be held at the Hilton Hotel, 7050 Johnson Drive, Pleasanton, California on Thursday, June 5, 1986 at 10:00 a.m. (local time), or as soon thereafter as a quorum shall be present, for the following purposes:

1. To elect a Board of Directors to serve until the next annual meeting of shareholders and until their successors are duly elected and qualified;
2. To consider and act upon a proposal to amend the Articles of Incorporation to increase to 200,000,000 the authorized common shares of the Company;
3. To consider and act upon a proposal to amend the Articles of Incorporation to include a Fair Price Amendment;
4. To consider and act upon a proposal to amend the Articles of Incorporation to require that shareholder action be taken at an annual or special meeting of shareholders;
5. To consider and act upon a proposal to approve the 1986 Stock Option Plan; and
6. To transact any other business that may properly come before the Meeting or any adjournment thereof.

Only shareholders of record on the books of the Company at the close of business on April 7, 1986 will be entitled to vote at the Meeting.

Shareholders are cordially invited to attend the Meeting.

IF YOU WILL NOT BE ABLE TO ATTEND THE MEETING IN PERSON, PLEASE COMPLETE, SIGN AND DATE THE ACCOMPANYING PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE.

Dated: May 3, 1986.

By order of the Board of Directors,

Christopher McLain
Secretary

PLEASE NOTE THAT THE PLACE OF THE MEETING HAS BEEN CHANGED TO THE HILTON HOTEL, PLEASANTON, CALIFORNIA

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PROXY STATEMENT
OF
LUCKY STORES, INC.

This statement is furnished in connection with the solicitation of proxies for use at the Annual Meeting of Shareholders of Lucky Stores, Inc. and at any adjournment thereof. The Meeting will be held on June 5, 1986 at 10:00 a.m. (local time) at the Hilton Hotel, 7050 Johnson Drive, Pleasanton, California for the purposes set forth in the above Notice of the Meeting dated May 3, 1986. The solicitation is made by the Company. A shareholder who executes a proxy may revoke it at any time before it is voted by filing a written revocation with the Company, by executing a subsequent proxy, or by voting the shares in person at the Meeting. A proxy, when executed and not so revoked, will be voted in accordance with the specifications it contains. Unless the accompanying form of proxy contains instructions to the contrary, it will be voted for the election of directors (see "Election of Directors") and for the approval of Proposal 2 (see "Proposal 2—Increase in Authorized Common Shares"), Proposal 3 (see "Proposal 3—Fair Price Amendment"), Proposal 4 (see "Proposal 4—Requirement of Meeting for Shareholder Action"), and Proposal 5 (see "Proposal 5—1986 Stock Option Plan"). Shareholders are urged to read carefully the material under those Proposals.

The Board of Directors has observed that certain practices involving acquisitions of a corporation's stock—including the accumulation of substantial common stock positions as a prelude to an attempted takeover or significant corporate restructuring, consent solicitations and partial tender offers and the related use of two-tier pricing—have become relatively common in recent corporate takeover practice. The Board believes that such practices can be highly disruptive to a corporation and can result in dissimilar treatment of a corporation's stockholders. Proposals 2, 3 and 4 above are being submitted for shareholder approval in response to these kinds of tactics. None of such Proposals is being recommended in response to any specific effort to obtain control of the Company, as the Company is not aware of any such effort. Rather, the Board seeks to ensure equal treatment for all shareholders in attempted takeover situations. Although the overall effect of such Proposals may be to render more difficult the accomplishment of certain mergers and the assumption of control by a principal shareholder and, thus, to make more difficult the removal of current management, the Board believes that, on balance, such Proposals are in the best interests of all shareholders. While the 1986 Stock Option Plan (see "Proposal 5—1986 Stock Option Plan") could also have some anti-takeover effect, its purpose and principal effect is to provide employee incentives through increased personal participation in the results of the Company's operations.

A proxy given by a shareholder participating in the Dividend Reinvestment Plan governs the voting of all full shares held for the shareholder's account under the plan, unless contrary instructions are received as provided in the plan.

The Company will bear the cost of soliciting these proxies. Brokers, nominees, fiduciaries and other custodians will be reimbursed for their reasonable expenses incurred in sending

proxy material to principals and obtaining their instructions. The Company has retained the services of Georgeson & Co., Inc., Wall Street Plaza, New York, New York to assist the Company in its communications with brokers and nominees; a fee of $15,000, plus out-of-pocket expenses, will be paid for those services. In addition, directors, officers and employees may solicit proxies in person or by telephone or telegraph.

The mailing address of the principal executive offices of the Company is P. O. Box BB, Dublin, California 94568. The approximate date on which this statement and the accompanying form of proxy are first sent to the shareholders is May 3, 1986. The 1985 Annual Report, mailed separately, was first sent to the shareholders on April 23, 1986.

VOTING SECURITIES

Only shareholders of record at the close of business on April 7, 1986 will be entitled to vote at the Meeting. On that date the outstanding shares of the Company consisted of 51,181,895 common shares and 231,641 preference shares. Each shareholder is entitled to one vote per share on all matters. If any shareholder gives notice at the Meeting of an intention to vote cumulatively in the election of directors, each shareholder may vote cumulatively, casting a number of votes equal to the number of directors to be elected multiplied by the number of shares held by that shareholder and distributing those votes among any number of the candidates whose names have been placed in nomination prior to the commencement of voting. That notice may be given orally or in writing at any time prior to the commencement of voting. For example, where 15 directors are to be elected and cumulative voting has been called for, any candidate receiving more than one-sixteenth of the total number of votes cast will be elected. Unless otherwise specified in the accompanying proxy, a vote for the nominees of the Board of Directors will grant discretionary authority to the persons named as proxies on the accompanying proxy card to cumulate votes in the judgment of such persons.

The affirmative vote of a majority of the outstanding shares entitled to vote, including the affirmative vote of a majority of the outstanding common shares, will constitute approval of Proposal 2 by the shareholders (see "Proposal 2—Increase in Authorized Common Shares"). The affirmative vote of a majority of the outstanding shares entitled to vote, voting as one class, will constitute approval by the shareholders of Proposal 3 (see "Proposal 3—Fair Price Amendment") and Proposal 4 (see "Proposal 4—Requirement of Meeting for Shareholder Action"). The affirmative vote of a majority of the shares voting on Proposal 5 will constitute approval of that Proposal (see "Proposal 5—1986 Stock Option Plan").

The following table provides information about the persons known to the Company to be beneficial owners of more than 5% of any class of the Company's securities.

Title of Class	Name and Address of Beneficial Owner	Number of Shares Beneficially Owned	Percent of Class
Common	Delaware Management Company[1] 10 Penn Center Plaza Philadelphia, Pennsylvania 19103	4,062,917	7.96%
Preference	Tampa Wholesale Company[2] c/o Frank V. Giunta 576 Riviera Drive Tampa, Florida 33606	225,641	97.40%

[1] As of December 31, 1985.

[2] As of March 1, 1986. To the Company's knowledge, Frank V. Giunta and Grace Greco Giunta, the Estate of Joseph Greco, deceased, the Estate of Mac A. Greco, Sr., deceased, and John J. Greco (all of which individuals and decedents are or were related by blood or marriage) collectively owned approximately 81% of the shares of Tampa Wholesale Company, and various members of their families directly or beneficially owned the rest. The address of Tampa Wholesale Company is the address for all of those individuals and estates, except that the address for John J. Greco and his children is 14524 North Rome Avenue, Tampa, Florida 33612.

As of March 1, 1986 all officers and directors as a group beneficially owned 747,147 common shares of the Company (1.46% of the outstanding common shares). That number includes shares held in the name of spouses, children or relatives, or in a fiduciary capacity, as to which beneficial ownership is disclaimed, and 135,880 shares that officers have the right to acquire through the exercise of options exercisable on or before April 30, 1986. See "Election of Directors" for information concerning the beneficial ownership of securities by nominees for the Board of Directors.

ELECTION OF DIRECTORS

The By-Laws of the Company provide for a board of not less than 13 nor more than 17 directors, the exact number to be fixed by the Board of Directors or the shareholders. The Board has fixed that number at 15, effective at the commencement of the Meeting. A full board is to be elected at the Meeting, each director to serve until the next annual meeting of

shareholders and until election and qualification of a successor. In accordance with the policy of the Board on length of service as a director, Gerald A. Awes and Dwight E. Stanford will not stand for reelection at the Meeting. Don C. Frisbee has chosen not to stand for reelection due to his other commitments. It is intended that the shares represented by proxies in the accompanying form be voted for the election of the 15 nominees whose names are set forth below. If any nominee should be unable to serve, it is intended that those shares be voted for such person as the Board may designate to replace that nominee, unless the number of directors has been reduced so that no vacancy exists. The Company has no reason to expect that any nominee will be unable to serve.

According to the Company's records, as of March 1, 1986 the securities of the Company beneficially owned by each nominee, directly or indirectly, are as set forth in the following table. The table also shows the business experience of each nominee during at least the past five years.

Name (Age)	Principal Occupation and Business Experience	Director Since	Common Shares Beneficially Owned[1]	% of Common Shares
Lawrence A. Del Santo (52)	Executive Vice President. Formerly: Senior Vice President; Executive Vice President of Household Merchandising, Inc., Chicago, Illinois		4,600[2]	0.009%
William H. Dyer, Jr. (67)	Retired. Formerly Chief Executive Officer	1956	122,427	0.240%
Sam L. Ginn (48)	Vice Chairman of the Board of Pacific Telesis Group and Group President of PacTel Companies, San Francisco, California. Formerly Vice Chairman of the Board and Executive Vice President of Pacific Bell. Director of Pacific Telesis Group	1985	500	0.001%

Name (Age)	Principal Occupation and Business Experience	Director Since	Common Shares Beneficially Owned[1]	% of Common Shares
Stanley Hiller, Jr. (61)	Chairman and Chief Executive Officer of York International Corporation, York, Pennsylvania and partner in Hiller Investment Company, private investments, Menlo Park, California. Formerly: Chairman and Chairman of the Executive Committee of Baker International Corporation; Chairman of The Bekins Company. Director of Baker International Corporation, The Boeing Company, Crocker National Corporation and York International Corporation	1980	2,600	0.005%
Walter E. Hoadley (69)	Senior Research Fellow of Hoover Institution. Formerly Executive Vice President and Chief Economist of Bank of America N.T. & S.A. Director of Armstrong World Industries, Inc., Pacific Gas Transmission Co., PLM Companies, Inc., Selected American Shares, Inc., Selected Money Market Fund, Inc., Selected Special Shares, Inc. and Selected Tax Exempt Bond Fund, Inc.	1981	1,102	0.002%
John H. Hoefer (70)	Partner in John H. Hoefer & Associates, real estate holding company, Belvedere, California. Formerly Chairman of the Board of Chiat/Day, inc. Advertising, San Francisco, California	1973	14,166	0.028%
Melvin B. Lane (63)	Chairman of Lane Publishing Co., Menlo Park, California	1980	1,000	0.002%

Name (Age)	Principal Occupation and Business Experience	Director Since	Common Shares Beneficially Owned[1]	% of Common Shares
Mary E. Lanigar (66)	Retired. Formerly partner in Arthur Young & Company, certified public accountants, San Francisco, California. Director of Transamerica Corporation and Wells Fargo & Company	1975	1,049	0.002%
John M. Lillie (49)	President and Chief Executive Officer. Formerly: Chief Operating Officer; Executive Vice President. Director of Spectra-Physics, Inc.	1980	55,828[2]	0.109%
Mary S. Metz (48)	President of Mills College, Oakland, California. Director of Pacific Gas and Electric Company			
Luis G. Nogales (42)	Chairman and Chief Executive Officer of United Press International, Inc., Washington, D.C. Formerly: President, Chief Operating Officer and Executive Vice President of United Press International, Inc.; Vice President of Fleishman-Hillard, Inc., Los Angeles, California[3]	1986		
Ivan Owen (64)	Senior Vice President and Chief Financial Officer	1956	81,306[2]	0.159%
Forrest A. Plant (61)	Partner in the law firm of Diepenbrock, Wulff, Plant & Hannegan, Sacramento, California	1972	5,319	0.010%
S. Donley Ritchey (52)	Chairman of the Board of Directors. Formerly: Chief Executive Officer; President. Director of Pacific Telesis Group, Pacific Bell, Crocker National Corporation, McClatchy Newspapers and York International Corporation	1975	52,325[2]	0.102%

Name (Age)	Principal Occupation and Business Experience	Director Since	Common Shares Beneficially Owned[1]	% of Common Shares
Joseph A. Woods, Jr. (60)	Partner in the law firm of Donahue, Gallagher, Thomas & Woods, Oakland, California	1970	12,524	0.025%

(1) Includes shares, as to which beneficial ownership is disclaimed, held in the names of spouses, children or relatives, or in a fiduciary capacity.

(2) Includes shares with respect to which such persons have the right to acquire beneficial ownership through the exercise of options on or before April 30, 1986: Mr. Del Santo, 4,600 shares; Mr. Lillie, 39,800 shares; Mr. Owen, 16,450 shares; and Mr. Ritchey, 21,970 shares.

(3) In April 1985 United Press International, Inc. filed in the United States Bankruptcy Court for the District of Columbia a petition under the federal bankruptcy laws, and in April 1986 filed a petition for confirmation of a proposed plan of reorganization, consideration of which is pending. Mr. Nogales became Chairman and Chief Executive Officer of that corporation in March 1985.

The Company has employed the law firm of Donahue, Gallagher, Thomas & Woods in its latest fiscal year and proposes to do so during the current fiscal year; during its latest fiscal year the Company paid legal fees totaling $3,254,912 to Donahue, Gallagher, Thomas & Woods, which payments constituted in excess of 5% of that firm's gross revenues during that firm's latest fiscal year. The Company has employed the law firm of Diepenbrock, Wulff, Plant & Hannegan in its latest fiscal year and proposes to do so during the current fiscal year.

The Audit Committee of the Board of Directors is composed of Mary E. Lanigar (Chairman), William H. Dyer, Jr., Walter E. Hoadley and John H. Hoefer. The Committee, which met four times during the Company's latest fiscal year, is charged with recommending the engaging of the Company's independent accountants, reviewing their reports, authorizing their services and fees, reviewing their independence, reviewing the Company's procedures for internal auditing and the adequacy of its system of internal accounting controls, and reporting to the Board of Directors with respect thereto.

The Management Compensation Committee of the Board of Directors is composed of Forrest A. Plant (Chairman), Sam L. Ginn, Walter E. Hoadley and Dwight E. Stanford. The Committee, which met seven times during the Company's latest fiscal year, is charged with reviewing and making recommendations to the Board respecting the base salaries of officers, division presidents and other employees with a base salary exceeding $100,000 a year, approving the base salaries of division vice presidents and persons holding equivalent positions, and administering the Stock Option Plans; Extra Compensation Plan and Bonus Plan for Store Management.

composed of Don C. Frisbee (Chairman), Gerald A. Awes, Melvin B. Lane, Mary E. Lanigar and Forrest A. Plant. The Committee, which met four times during the Company's latest fiscal year, is charged with studying and making recommendations to the Board on matters related to the effective functioning of the Board, including Board membership and organization, the nomination of candidates for Board service, the sufficiency and timeliness of information provided to the Board, and the structure and composition of committees of the Board. The Committee will consider shareholder recommendations of nominees for the Board. Shareholders wishing to suggest nominees for consideration in filling future vacancies should do so by writing to the Secretary of the Company at the principal executive offices and should include information concerning the background and qualifications of the proposed nominees.

The Finance Committee of the Board of Directors is composed of Stanley Hiller, Jr. (Chairman), Don C. Frisbee and Dwight E. Stanford. The Committee, which met once during the Company's latest fiscal year, is charged with evaluating the Company's financial planning, including the annual capital budget and periodic financial forecasts, and reviewing and making recommendations on matters related to the Company's financial condition, strategies and policies and its funding requirements and dividend policy.

The Executive Committee of the Board of Directors is composed of S. Donley Ritchey (Chairman), Gerald A. Awes, William H. Dyer, Jr. and John M. Lillie. The Committee met once during the Company's latest fiscal year. When the Board is not in session, the Committee may exercise the powers vested in the Board (except certain enumerated major powers such as the power to declare dividends, amend the By-Laws and fill vacancies on the Board). In practice, the function of the Committee is to act on matters arising between Board meetings that have special time value but do not appear to warrant a special Board meeting.

The Retirement Committee is composed of Melvin B. Lane (Chairman), John H. Hoefer and Joseph A. Woods, Jr. The Committee, which met twice during the Company's latest fiscal year, is charged with directing the investment of the assets of the Company's retirement plans and selecting and monitoring the investment managers for those assets.

The Board of Directors met ten times during the Company's latest fiscal year. No incumbent director attended less than 75% of the meetings of the Board and of all committees on which he or she served, except for Mr. Frisbee, who attended 73% of those meetings.

During the fiscal year ended February 2, 1986 the compensation of the Company's five most highly compensated executive officers and of its executive officers as a group for services to the Company and its subsidiaries was:

Name of Individual or Identity of Group	Capacities in which Served	Compensation
S. Donley Ritchey	Chairman of the Board of Directors and Chief Executive Officer	$ 320,712
John M. Lillie	President, Chief Executive Officer and Chief Operating Officer	$ 395,924
Lawrence A. Del Santo	Executive Vice President and Senior Vice President	$ 287,529
Leon W. Roush	Senior Vice President	$ 264,020
Ivan Owen	Senior Vice President and Chief Financial Officer	$ 255,930
All executive officers as a group (8 persons, including those named above)		$2,075,236

The above compensation includes amounts paid under the Extra Compensation Plan. The Plan, which was adopted by shareholders in 1957, provides, in general, that 9% of pretax profits in excess of 10% of invested capital be available for extra compensation of corporate and divisional executive and administrative personnel. Allocations under the Plan are made by the Management Compensation Committee. A total of 1,318 officers and other employees were participants in the Plan in the Company's latest fiscal year. Pursuant to the Plan certain employees are entitled to defer receipt of all or a portion of their extra compensation if they so elect. Any amounts so deferred are credited to an account on the Company's books, and the account is credited with interest. The account is then paid in installments commencing at a time designated by the employee. Six executive officers (including Messrs. Ritchey, Lillie and Roush) elected to defer receipt of some or all of their extra compensation for the Company's latest fiscal year. The extra compensation included in the foregoing table for the named executive officers and the executive officers as a group is: Mr. Ritchey, $52,741; Mr. Lillie, $139,103; Mr. Del Santo, $95,000; Mr. Roush, $80,000; Mr. Owen, $77,758; and all executive officers as a group, $608,228.

The Company established the Lucky Tax Savings Plan, a salary reduction plan authorized under Section 401(k) of the Internal Revenue Code, effective June 1, 1984. The Plan covers all salaried employees upon hire. Each participant in the Plan may elect to have up to 10% of his or her base salary deposited with the Plan trustee. The participant's taxable income

is reduced by that amount. The Company makes no additional or matching contribution. The trustee invests the trust funds, and income or loss is allocated among the participants' accounts. Each participant has a nonforfeitable right to his or her account, which becomes distributable upon cessation of employment for any reason. At the participant's election, distribution may also be made prior to cessation of employment, either after age 59-1/2 or under certain limited circumstances before that age. During the Company's latest fiscal year, seven executive officers (including Messrs. Ritchey, Lillie, Roush and Owen) participated in the Plan. A subsidiary of the Company maintains a similar salary reduction plan. Another subsidiary also maintained a thrift and savings plan; no further contributions to that plan were permitted after January 31, 1985, and termination distributions to participants will be made in 1987.

The Company maintains a tax credit employee stock ownership plan, the Lucky Stores, Inc. PAYSOP (formerly the Lucky Stores, Inc. Tax Reduction Act Stock Ownership Plan, or "TRASOP"). The PAYSOP provides for Company contributions of cash or common shares equal to 0.5% of the aggregate compensation of all participating employees for the plan year (which is the calendar year). An amount equal to total Company contributions for the year may be taken as an additional tax credit under Section 41 of the Internal Revenue Code. Contributions in cash are made to a trustee and used by the trustee for the purchase of common shares of the Company. Those shares are allocated equally to the accounts of the participating employees, including executive officers. Participation in the PAYSOP is automatic for all employees who are not covered by a collective bargaining agreement in which retirement benefits were the subject of good faith bargaining and who have completed at least three years of employment with the Company, have attained the age of 21, have completed a specified number of hours of service during the plan year and are employed on the last day of that year. Each participating employee has a nonforfeitable right to his or her account, which becomes distributable upon cessation of employment for any reason. During the Company's latest fiscal year, each of the executive officers, except Mr. Del Santo, participated in the PAYSOP. Each participant was allocated approximately five shares purchased with Company contributions.

The Company maintains a noncontributory retirement program, among whose beneficiaries are the named executive officers and all those included in the group. The retirement benefits are provided by a qualified pension plan supplemented by an identical nonqualified unfunded plan that provides certain benefits that cannot be provided by a qualified plan. In this paragraph and the included tables, the qualified and nonqualified plans are treated as one "Plan." The Plan is a defined benefit plan for salaried employees. To be eligible for membership, an employee must be at least age 21. For each year of credited service a member accrues a retirement benefit calculated under a formula based on covered compensation for that year. Compensation covered by the Plan generally includes all W-2 compensation except certain bonuses. The Plan has been amended from time to time to update the level of covered

compensation to a current five-year average to which the formula is applied in calculating benefits accrued prior to the amendment. A member's benefit becomes vested upon completion of ten years of service. The Plan benefit formula is integrated with Social Security. The normal form of benefit is a straight life annuity to the member except that if the member is married the normal form is an equivalent one-half joint and survivor annuity. Other forms may be elected. Certain subsidiaries of the Company maintain similar retirement plans, and one subsidiary plan has a different benefit formula that applies to base salary, not W-2 compensation. The following examples, which assume retirement at age 65 and application of present compensation levels and the present Social Security wage base to all years of credited service, indicate the approximate estimated annual benefits payable upon retirement in the form of a straight life annuity to persons, if any, in the categories specified:

Compensation	10 Years of Service	20 Years of Service	30 Years of Service	40 Years of Service
$ 25,000	$ 3,000	$ 5,000	$ 8,000	$ 10,000
50,000	5,000	11,000	16,000	21,000
75,000	9,000	17,000	26,000	34,000
100,000	12,000	24,000	36,000	46,000
150,000	19,000	37,000	56,000	71,000
200,000	25,000	50,000	76,000	96,000
250,000	32,000	64,000	96,000	121,000
300,000	39,000	77,000	116,000	146,000
350,000	45,000	90,000	135,000	170,000
400,000	52,000	104,000	155,000	195,000
450,000	58,000	117,000	175,000	220,000
500,000	65,000	130,000	195,000	245,000

For each of the named executive officers, the years of credited service under the Plan at the end of the Company's latest fiscal year and the 1985 compensation covered by the Plan were:

Name of Individual	Years of Credited Service	Covered Compensation
S. Donley Ritchey	24	$450,841
John M. Lillie	7	363,711
Lawrence A. Del Santo	2	278,140
Leon W. Roush	34	268,920
Ivan Owen	39	263,311

Since 1966 the Company has pursued a policy of entering into compensation agreements with key executives to ensure that their services remain available to the Company and that

they not be attracted by other employers seeking their services. Under each of the agreements, the right to payments is conditioned on the individual's rendering certain services to the Company (generally, full-time employment until age 60 or earlier death and availability as a consultant to the Company) and on the individual's not engaging in activities competitive with the business of the Company. Payments begin upon cessation of employment. Upon the individual's death, payments may be made to a designated beneficiary until the aggregate amount paid reaches $225,000 (or a lesser amount in certain cases, as provided in the agreement). The agreements with the named executive officers provide for the payment of the following amounts each year for ten years: Mr. Ritchey, $30,000; Mr. Lillie, $35,000; Mr. Del Santo, $25,000; Mr. Roush, $25,000; and Mr. Owen (who has satisfied the age requirement), $25,000. A further agreement with Mr. Ritchey calls for him to be available to the Company on a reduced schedule through June 5, 1986 and for 30 days a year thereafter through July 31, 1988 at proportionately reduced compensation. The agreements with each of two other executive officers and with one former executive officer provide for payments, respectively, of $15,000 a year for 15 years and of $25,000 a year for ten years. One director and former executive officer is receiving payments of $50,000 a year for ten years; one director and former executive officer received equivalent payments. The agreements with each of eleven officers and employees provide for payments of $15,000 a year for 15 years; a subsidiary of the Company maintains a similar agreement with one of its executive officers. The agreements with two employees provide for payments for ten years of $15,000 a year in the case of one employee and for $10,000 a year in the case of the other.

Under the Company Extra Compensation Plan, yearly amounts received during the Company's five latest fiscal years by Messrs. Ritchey, Lillie, Del Santo, Roush and Owen, respectively, averaged $233,169, $163,980, $64,726, $91,470 and $109,928, by all current executive officers as a group averaged $921,178, and by all current officers and directors as a group averaged $1,255,037. Extra compensation for those named individuals was reflected in the compensation reported for them for those years in Company proxy statements. The Company and its subsidiaries also maintain bonus plans for store management. One subsidiary formerly maintained bonus plans for certain staff personnel. During that five-year period, the aggregate compensation to all employees under the Extra Compensation Plan and those bonus plans averaged $14,767,219 a year. Certain subsidiaries of the Company maintain profit sharing plans for their employees; during the Company's five latest fiscal years, the average annual aggregate contribution by the Company to those plans has been $2,026,760.

The 1982 Incentive Stock Option Plan, approved by shareholders at the 1982 annual meeting, seeks to promote the success of the business of the Company by encouraging share ownership by employees. It is administered by the Management Compensation Committee (the "Committee"). Options may be granted only to full-time employees (including officers) of the Company or its subsidiaries who are considered to be contributing significantly to the success of the business of the Company. A director who is not also an employee is not eligible

to receive an option. During any calendar year no employee may be granted options to purchase shares having at the time of grant a fair market value in excess of $100,000 plus any unused limit carryover from any of the three prior calendar years. No employee may be granted options to purchase in the aggregate more than 5% of the shares originally available under the 1982 Plan. No options may be granted after February 24, 1992. The purchase price of the shares may not be less than the fair market value of the shares at the time of grant. The 1982 Plan contains typical antidilution provisions. Each option expires as the Committee determines at the time of grant, but not later than six years from the date of grant. Options are not exercisable during the first year following grant and are exercisable thereafter as the Committee determines at the time of grant. No option may be exercised while the optionee holds any option previously granted under the 1982 Plan. Some options presently outstanding become exercisable as to 25% of the shares subject to the option on the second first day of March following the date of grant and as to an additional 25% on each succeeding first day of March; the rest become exercisable as to 25% one year and one day following the date of grant and as to an additional 25% on each annual return of the date on which the first option increment became exercisable. If an option terminates unexercised, the shares that were subject to that option become available for a further grant. Options terminate upon cessation of employment (other than by retirement or death) and are not transferable except by will or pursuant to the laws of succession. In the event of the optionee's death or retirement, the option is exercisable to a limited extent and for a limited time. The Board of Directors may amend or terminate the 1982 Plan at any time, subject to certain restrictions. The options are intended to be incentive stock options within the meaning of Section 422A of the Internal Revenue Code.

The 1978 Stock Option Plan was approved by shareholders at the 1978 annual meeting. It is administered by the Committee, and, except as stated in this paragraph, is similar to the 1982 Plan. No option may be granted after April 30, 1988. Each option expires seven years from the date of grant. Except with respect to exercise following retirement or death, options are not exercisable during the first two years following grant and are exercisable thereafter as the Committee determines at the time of grant. Some options presently outstanding become exercisable as to 20% of the shares subject to the option upon the expiration of that two-year period and as to an additional 20% on each succeeding first day of March. Others become exercisable as to 50% upon the expiration of that two-year period and as to an additional 25% on each annual return of that expiration date. The rest become exercisable in full upon the expiration of that two-year period. The Committee, in its discretion, may settle the whole or any part of any exercisable installment of an option by offering payment in common shares, or in common shares and cash, in exchange for the surrender of that installment or partial installment. The amount of any settlement offer shall be the lesser of (i) the option price or (ii) the excess of the fair market value of the shares over the option price. No more than one-half of any settlement offer may be in cash. The amount that may be paid in future years to employees who accept settlement offers will be charged to compensation expense. Options

granted under the 1978 Plan are not incentive stock options within the meaning of Section 422A of the Internal Revenue Code.

Each plan originally allowed for the grant of options respecting 2,500,000 shares. At February 2, 1986, 4,009 employees held options under the 1982 Plan for 1,139,974 shares and 49 employees held options under the 1978 Plan for 162,410 shares. The aggregate number of shares available for grant under those plans is 856,928 shares. (On March 5, 1986, 2,547 employees, none of whom is an executive officer, were granted options under the 1982 Plan for 632,100 shares. Those grants reduced the aggregate number of shares available for grant under those plans to 224,828 shares.)

The 1969 Qualified Stock Option Plan was approved by the shareholders at the 1969 annual meeting. The final grant under the 1969 Plan was made on December 16, 1977 and expired December 15, 1982. Options were granted to 3,670 employees under the 1969 Plan.

The following table shows as to the named executive officers and all executive officers as a group (i) the number of shares subject to, and the average per share exercise price of, options granted during the specified period, (ii) the number of shares acquired during that period through the exercise or settlement of options, the net value of those shares (market value less any exercise price) and the amount of cash realized during that period through the settlement of options, and (iii) the number of shares sold during that period. The number of shares subject to options granted under the 1986 Stock Option Plan is not included in the following table because, as discussed below, those grants are contingent on the approval of the 1986 Plan by shareholders at the Meeting (see "Proposal 5—1986 Stock Option Plan").

Common Shares	S. Donley Ritchey	John M. Lillie	Lawrence A. Del Santo	Leon W. Roush	Ivan Owen	Executive Officers as a Group
Granted—February 2, 1981 through March 1, 1986						
Number of shares	34,300	51,000	25,000	27,400	20,300	203,700
Average per share exercise price	$ 20.11	$ 20.33	$ 18.98	$ 19.92	$ 17.95	$ 19.34
Exercised or settled—February 2, 1981 through March 1, 1986						
Number of shares	32,580	None	None	5,800	1,500	52,564
Aggregate market value of shares issued on settlement or exercise (less exercise price paid)	$202,408	None	None	$21,944	$ 8,019	$319,853
Cash realized	None	None	None	None	$ 7,919	$ 8,953
*Sales—February 2, 1981 through March 1, 1986						
Number of shares	12,000	None	None	None	None	13,737

*Sales by executive officers based on information supplied by the respective individuals.

In addition, during that period (February 2, 1981 through March 1, 1986) other employees were granted options for 177,900 shares under the 1978 Stock Option Plan and for 1,858,700 shares under the 1982 Incentive Stock Option Plan. The weighted average option price per share of options granted during that period under the 1978 Stock Option Plan, which are not incentive stock options within the meaning of Section 422A of the Internal Revenue Code, was $19.88. (On March 5, 1986, 2,547 employees, none of whom is an executive officer, were granted options under the 1982 Plan for 632,100 shares.)

During that period directors sold 49,448 shares. Directors who are not officers have not been granted options.

Each director receives fees of $16,000 a year and $700 for each meeting attended (except that directors who are employees of the Company receive no fee). The chairman of each committee of the Board of Directors receives a fee of $800 for each committee meeting attended and each other committee member receives a fee of $700 for each committee meeting attended. Mr. Awes has served as Honorary Chairman of the Board. During the Company's latest fiscal year, he received an additional fee of $10,000. Directors may defer receipt of directors' fees. Any amounts so deferred are credited to an account on the Company's books and the account is credited with interest. The account is then paid in installments commencing at a time designated by the director.

AMENDMENTS TO ARTICLES OF INCORPORATION

The Board of Directors has determined that certain amendments to the Company's Articles of Incorporation ("Articles") are advisable and has voted to recommend them to the shareholders for approval. These amendments are being submitted in three separate proposals discussed in detail below under the captions "Increase in Authorized Common Shares," "Fair Price Amendment" and "Requirement of Meeting for Shareholder Action." Shareholders are urged to read carefully the materials that follow, as they involve matters of particular importance.

Increasing the number of authorized common shares (Proposal 2) is intended to provide flexibility in possible future financings, acquisitions and other activities of the Company.

The object of the Fair Price Amendment (Proposal 3) is to ensure that if the Company were to become the subject of a takeover, all shareholders would be treated equally. The presence of such a requirement of equal treatment for all could discourage takeover efforts by persons or groups who might be disinclined to afford such equal treatment. It will not impede transactions that meet its price criteria and procedural requirements or obtain the requisite approval of the shareholders or directors. The proposal is made on general principles and is not in response to any specific effort to obtain control of the Company, as the Company is not aware of any such effort.

The proposal that all shareholder action be taken at an annual or special meeting of shareholders, duly called and held on notice duly given to all shareholders (Proposal 4), is intended to afford all shareholders the opportunity to be heard and to cast their votes on all matters that are subject to shareholder action.

PROPOSAL 2—INCREASE IN AUTHORIZED COMMON SHARES

It is proposed that Article Fourth of the Articles be amended to increase to 200,000,000 the number of authorized common shares.

The presently authorized capitalization of the Company comprises 100,000,000 common shares, 100,000 preferred shares and 5,000,000 preference shares. On April 7, 1986, 51,181,895 common shares and 231,641 preference shares were issued and outstanding. An additional 3,152,566 common shares are reserved for issuance under the terms of the Company's 5% Convertible Subordinated Debentures due April 1, 1993, 6 - 3/4% Convertible Subordinated Debentures due July 15, 2000, $6.00 Tenth Series Convertible Preference Shares, 1978 Stock Option Plan and 1982 Incentive Stock Option Plan. If the shareholders approve the 1986 Stock Option Plan, 3,500,000 common shares will be reserved for issuance under that Plan (see "Proposal 5—1986 Stock Option Plan").

The Amendment makes no change in the classification, rights and preferences of any of the Company's shares, whether issued or unissued, and does not alter the authorized number of preferred or preference shares or the number of outstanding shares of any class. As and when issued, the additional authorized shares will have the same rights and privileges as the common shares presently outstanding. All common shares are nonassessable and have full voting rights, including the right to cumulate votes in the election of directors. As at present, shareholders of the Company would have no preemptive rights to purchase additional shares. The issuance of additional common shares, other than pro rata, would affect the voting power, earnings per share and book value of the existing common shares.

Article Fourth of the Articles, as proposed to be amended, is as follows:

> FOURTH: The total number of shares which the corporation shall have the authority to issue is 205,100,000 shares. Said shares shall consist of three classes: common shares; preferred shares having par value; preference shares without par value. The number of common shares shall be 200,000,000 shares of the par value of $1.25 each. The number of preferred shares having par value shall be 100,000 shares of the par value of $50 each, issuable in two or more series as hereinafter provided. The aggregate par value of all of said shares having par value shall be $255,000,000. The number of preference shares without par value shall be 5,000,000, issuable in two or more series as hereinafter provided. Each of the provisions of Article Fifth respecting preferred shares shall apply with equal force and effect to preference shares.

The Board believes that it is desirable to have additional authorized common shares available for issuance should future developments indicate that their issuance would be beneficial to the Company. Such developments might include the acquisition of other businesses, the raising of additional capital for use in the Company's business, distribution of stock dividends, and issuances in connection with employee benefit plans. The availability of additional common shares would enable the Company to take prompt advantage of business opportunities where time is of the essence. The Board presently has no plans respecting the issuance of any of the additional shares and does not intend to issue any shares except on terms that the Board deems to be in the best interests of the Company and its shareholders. The additional common shares would be available for issuance without further shareholder action, unless such action is required by law or the rules of any stock exchange on which the Company's securities are then listed. For example, the New York Stock Exchange, on which the Company's common shares are listed, currently requires stockholder approval as a prerequisite for listing stock in several instances, including acquisitions where the present or potential issuance of stock could result in an increase of 18% or more in the number of outstanding common shares.

While the proposal is not made in contemplation of any effort, actual or potential, to take control of the Company, the issuance of additional common shares could affect the ability of any given person or group to control the Company, whether for the purpose of removing incumbent officers and directors, altering its corporate structure or any other purpose. For example, such shares could be privately placed with purchasers supportive of incumbent management in opposing a hostile takeover bid. Certain corporations have recently issued, as a dividend to their common stockholders, stock or warrants to acquire stock having terms designed to protect against the adverse consequences to stockholders of partial takeovers, front-end loaded two-step takeovers, freezeouts and other takeover methods perceived to be abusive to stockholders; although the Board has no present intention of so doing, the additional common shares could be used for that purpose. Within the limits imposed by law and the rules of the New York Stock Exchange, such additional shares could also be issued to a holder that would thereby have sufficient voting power to ensure, if the proposed Fair Price Amendment (Proposal 3) is adopted, that any proposal to accomplish certain business transactions opposed by the incumbent Board, or any alteration or repeal of the provisions of that Amendment, would not receive the required 80% shareholder vote. The directors and officers of the Company beneficially own approximately 1.46% of the Company's voting shares, including shares issuable upon exercise of stock options (see "Voting Securities").

On balance, the Board believes that enabling the Company to move swiftly and flexibly to meet business needs as they arise provides potential benefits to the Company and its shareholders that far outweigh such possible disadvantages.

The affirmative vote of a majority of the outstanding shares entitled to vote, including the affirmative vote of a majority of the outstanding common shares, will constitute approval of the proposed Amendment by the shareholders.

The Board recommends a vote FOR the approval of the Amendment increasing the number of authorized common shares (Proposal 2).

PROPOSAL 3—FAIR PRICE AMENDMENT

As used in the following discussion, capitalized terms (such as Business Combination, Interested Shareholder, Affiliate and Voting Stock) have meanings as defined in the proposed Article Seventh of the Articles (the "Fair Price Amendment"). The full text of the Fair Price Amendment appears in Exhibit A to this proxy statement. The following discussion is intended as a general description and shareholders should consult the Amendment itself for details.

General

The purpose of the Fair Price Amendment is to ensure that any Business Combination respecting the Company comply with certain minimum price criteria and procedural requirements unless the transaction is approved by the shareholders as provided in Section 6 of the Amendment or by the directors as provided in Section 5 of the Amendment. As more fully discussed below, the Board believes that the Fair Price Amendment will help ensure that all shareholders of the Company will be treated similarly if a Business Combination is effected.

It has become relatively common in corporate takeovers for a purchaser to pay cash to acquire a controlling equity interest in a corporation and then to acquire the remaining equity interest at a price that is lower than the price paid to acquire control or is in a less desirable form of consideration, frequently securities of the purchaser for which there is not an established trading market. In such two-step acquisitions, arbitrageurs and professional investors, with their sophistication and expertise in the takeover area, can generally take advantage of the more lucrative first-step tender offer, while many long-term stockholders are left with the lower price offered in the second-step merger.

While federal securities laws and regulations govern the disclosure required to be made to minority stockholders, they do not ensure that stockholders will be treated equally or that minority stockholders or the directors can effectively prevent the consummation of a given transaction to which they object. Although the tender offer rules of the Securities and Exchange Commission require pro rata acceptance of all stock tendered prior to the expiration of a tender offer, the Board believes that those rules do not address the problems presented by two-tier pricing. Under California law, if one party to a proposed merger holds more than 50% and less than 90% of the voting power of the other party to the merger, the minority holders of nonredeemable common stock of that other party must receive in the merger only nonredeemable common stock of the surviving corporation, unless all such holders consent to some other form of consideration or the Commissioner of Corporations approves the transaction. Similarly, California law provides that if a corporation owns more than 50% of the voting power of another corporation and seeks to purchase substantially all the assets of such corporation, the sale must be approved by 90% of the voting power of the selling corporation unless its stockholders are to receive only nonredeemable common stock of the purchasing corporation or its parent.

The Board considers two-tier pricing unfair to stockholders and that its purpose and effect is to cause concern among stockholders that if they do not promptly accept the offer, they risk being either relegated to the status of minority stockholders in a controlled corporation or forced to accept a lower price or less desirable consideration for their stock. Thus, two-tier pricing may pressure a stockholder into selling as much stock as possible either to the purchaser or in the open market without the opportunity to make an informed investment decision between remaining a stockholder and disposing of the stock. The Board believes that such pressure would facilitate the purchaser's acquisition of a controlling interest in the corporation, enabling the purchaser to force the exchange of the remaining stock for a lower price in a second-stage transaction. Recognizing the problems caused by partial offers and two-tier pricing, a number of states (including Illinois, Maryland, Michigan, New York, Ohio and Pennsylvania) have adopted legislation addressing them in various respects. No such legislation has yet been adopted in California, and the Board of Directors, which is charged under California law with protecting the interests of all the shareholders, does not deem it advisable to await possible legislative action.

The Fair Price Amendment is designed to prevent a purchaser from using two-tier pricing in an attempt to take over the Company. It is not meant to discourage or prevent tender offers for all of the Company's shares or offers for some of the Company's shares by an offeror who intends to make a second-stage offer that affords remaining shareholders treatment equal to that given shareholders in the first stage. The Amendment is intended, however, to discourage partial tender offers by a purchaser who intends to cause the exchange of the remaining shares for a lower price in a second-stage transaction. Except for the restrictions on second-stage transactions, the Amendment will not prevent a holder of a controlling interest in the Company from increasing its interest in the Company or from exercising control over the Company, although such a holder, like all shareholders, would be unable to effectuate shareholder action by written consent, without a meeting, if the proposed amendment to the Company's Articles described under "Proposal 4—Requirement of Meeting for Shareholder Action" is approved by the shareholders. Moreover, a holder may increase its holdings to 80% and avoid application of the Amendment. Issuance of additional shares could make achievement of such percentage interest more difficult. If "Proposal 2—Increase in Authorized Common Shares" is approved by the shareholders, the number of shares available for such issuance will be increased.

While the Amendment is designed to provide for equal treatment among shareholders during a takeover, it does not ensure that shareholders will receive a premium price for their shares. Adoption of the Amendment would not preclude the Board's opposition to any future takeover proposal that it determines not to be in the best interests of the Company and its shareholders, whether or not such proposal satisfies the minimum price criteria and procedural requirements of the Amendment.

Description of the Fair Price Amendment

Definitions. The term "Voting Stock" refers to the outstanding shares of the Company entitled to vote in the election of directors. "Affiliate" is defined as under Rule 12b-2 under the Securities Exchange Act of 1934. An "Affiliate" of, or a person "affiliated" with, a specified person, means a person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the person specified.

An "Interested Shareholder" is defined as anyone (other than the Company or any Subsidiary) that (i) beneficially owns 10% or more of the Voting Stock, (ii) is an Affiliate of the Company and during the preceding two years was the beneficial owner of 10% or more of the Voting Stock, or (iii) is an assignee of or has succeeded, in a transaction not involving a public offering, to any shares of Voting Stock that during the prior two-year period were beneficially owned by an Interested Shareholder. The term "beneficial owner" includes persons directly and indirectly owning or having the right to acquire or vote the shares. The Company is not aware of the existence of any shareholder or group of shareholders that would be an Interested Shareholder.

A "Continuing Director" is defined as a director, not affiliated with an Interested Shareholder, who either was a director of the Company before the Interested Shareholder became an Interested Shareholder or was recommended for election by a majority of the Continuing Directors then on the Board.

The following transactions are "Business Combinations": (a) a merger of the Company or a Subsidiary with an Interested Shareholder or with any other corporation or entity that is, or following the merger would be, an Affiliate of an Interested Shareholder; (b) the sale or other disposition by the Company or a Subsidiary of assets having an aggregate fair market value of $30,000,000 or more if an Interested Shareholder or its Affiliate is a party to the transaction; (c) the issuance or transfer of shares or other securities of the Company or of a Subsidiary to an Interested Shareholder or its Affiliate in exchange for cash or property (including stock or other securities) having an aggregate fair market value of $30,000,000 or more; (d) a liquidation of the Company proposed by an Interested Shareholder or its Affiliate (which shall exclude the statutory right under California law of shareholders to elect to dissolve a corporation); or (e) any reclassification of securities, recapitalization, merger with a Subsidiary or other transaction that has the effect, directly or indirectly, of increasing the proportion of the outstanding shares (or securities convertible into shares) of any class of the Company or a Subsidiary beneficially owned by an Interested Shareholder.

Any given Business Combination proposal will fulfill the requirements of the Fair Price Amendment if it passes any one of the following three tests:

(1) It obtains the requisite shareholder approval;

(2) It obtains the approval of the Board of Directors (with directors who are not Continuing Directors being disqualified from voting); or

(3) It satisfies the minimum price criteria and procedural requirements.

Approval by the Shareholders. Unless a proposed Business Combination complies with the minimum price criteria and procedural requirements or is approved by the directors as discussed below, it is subject to approval by the shareholders. To satisfy the requirements of the Fair Price Amendment by obtaining shareholder approval, the affirmative vote of the holders of at least 80% of the Voting Stock is required.

Under California law, many transactions that would be Business Combinations under the Amendment are already subject to stockholder approval. Certain reorganizations of a corporation must be approved by a majority of the outstanding stock of each class of the corporation, voting separately by class. The sale of substantially all the assets of a corporation, other than in a reorganization or in the regular course of its business, must be approved by the affirmative vote of a majority of the outstanding shares of stock entitled to vote, voting as one class. Certain reclassifications of securities and recapitalizations are subject to the same voting requirement and may also require the approval of a majority of the outstanding shares of a specific class of stock, depending on the effect of such actions upon the rights, preferences, privileges and restrictions of that class. Other such transactions, including certain sales of less than substantially all the corporate assets, certain mergers involving a subsidiary of a corporation, and reclassifications and recapitalizations not involving an amendment to the articles of incorporation, do not require stockholder approval.

The Fair Price Amendment would require the approval of Business Combinations by the holders of 80% of the Voting Stock unless the minimum price criteria and procedural requirements of the Amendment are satisfied or the transaction is approved by the directors as discussed below. If such criteria and requirements are met or such approval of the directors is given with respect to a particular Business Combination, the normal requirements of California law would apply. Accordingly, only a majority vote of the Voting Stock and, in some cases, of the class affected, would be required for certain transactions, and no shareholder vote would be necessary for other transactions.

Approval by the Directors. A Business Combination approved by the Board, where those directors who are not Continuing Directors are disqualified from voting on such Business Combination, complies with the Fair Price Amendment, without any need for other shareholder approval pursuant to the Amendment or satisfaction of the minimum price criteria and procedural requirements. In light of the requirements for board action under California corporation law, a Business Combination must obtain the favorable vote of at least that number of Continuing Directors constituting a majority of the number of directors needed for a quorum, unless it meets the minimum price criteria and procedural requirements or satisfies the 80% shareholder approval requirement. For example, if the Board consisted of 15 directors, the affirmative vote of at least five Continuing Directors (or, if greater, of a majority of the Continuing Directors) would be required to approve a Business Combination.

Minimum Price Criteria. To satisfy the minimum price criteria of the Fair Price Amendment, any consideration paid to the Company's shareholders in a Business Combination

would be required to be either cash or other consideration of the same kind used by the Interested Shareholder in acquiring the largest portion of its Voting Stock.

In the case of payments to holders of the common shares, the amount paid per share would have to be at least equal to the highest of (i) the highest per share price paid by the Interested Shareholder either in purchasing any common shares of the Company during the two years prior to the announcement of the proposed Business Combination (the "Announcement Date") or in the transaction in which it became an Interested Shareholder (whichever is higher), plus interest thereon from the Determination Date (as hereinafter defined) to the date of consummation of the Business Combination (the "Consummation Date"), less the per share amount of cash dividends payable during such period, up to the amount of such interest, (ii) the price determined under clause (i) (exclusive of interest and dividends) adjusted to reflect any increase in the Company's earnings after such purchase by the Interested Shareholder, and (iii) the fair value per common share on the Announcement Date or on the date on which the Interested Shareholder became an Interested Shareholder (the "Determination Date"), whichever is higher. The adjustment described under clause (ii) is made by multiplying the highest price determined under clause (i) (exclusive of interest and dividends) by (x) the fully diluted net earnings (after taxes) per common share of the Company in its fiscal year next preceding the Consummation Date, and then by dividing that product by (y) the fully diluted net earnings (after taxes) per common share in the Company's fiscal year next preceding the date of the acquisition in which such highest price was paid. Under the Amendment, the "fair value" of a share on a given date is the highest closing sale price during the preceding 30-day period. If the Interested Shareholder did not purchase any common shares during the two-year period prior to the Announcement Date or in the transaction in which it became an Interested Shareholder (*e.g.*, if it became an Interested Shareholder through the acquisition of shares of another class of Voting Stock), the minimum price would be as determined under clause (iii).

In a clause (i) determination, interest and dividends would be computed from the Determination Date through the Consummation Date regardless of whether the highest price paid during the two-year period prior to the Announcement Date was higher or lower than the price paid in the transaction on the Determination Date and regardless of whether the Determination Date occurred before or after the beginning of such two-year period. Thus, for instance, if the Determination Date occurred three years before the Announcement Date and 38 months before the Consummation Date, but the highest price paid in the two-year period before the Announcement Date was higher than the price paid on the Determination Date, interest and dividends would be computed on such higher price for the 38-month period from the Determination Date through the Consummation Date.

For example, if an Interested Shareholder acquired common shares with cash in open market transactions and the highest price it paid per common share during the previous two years or in the transaction in which it became an Interested Shareholder was $26 (and no

upward adjustment was required under clause (ii) above), and assuming fair values per common share of $24 on the Determination Date and $25 on the Announcement Date, the Interested Shareholder would be required to pay at least $26 in cash per common share (plus interest to the Consummation Date, less cash dividends payable during such interim period up to the amount of such interest) in a Business Combination in order to comply with the minimum price criteria. Pursuant to clause (iii), if the Interested Shareholder became an Interested Shareholder through the acquisition of shares of a class other than common and had not purchased any common shares during the previous two years, the minimum price would be $25 per share in cash (the higher of the fair value of the common shares on the Announcement Date and the fair value on the Determination Date).

In the case of payments to holders of Voting Stock other than common shares (except preference shares of presently outstanding series), the fair market value per share of such payments would have to be at least equal to the higher of (x) the highest per share price determined with respect to any such class or series in the manner described in clauses (i) and (iii) of the preceding paragraphs and (y) the preferential amount per share to which the holders of such class or series would be entitled in a liquidation of the Company. The minimum price criteria must be met with respect to each class or series of Voting Stock (except preference shares of presently outstanding series), whether or not the Interested Shareholder acquired shares of that class or series prior to proposing a Business Combination.

Under the minimum price criteria, the fair market value of non-cash consideration to be received by shareholders in a Business Combination is to be determined by the Board as of the Consummation Date. Where the terms of such non-cash consideration are established in advance of the Consummation Date, intervening adverse developments (whether in the economy or in the financial condition of the Interested Shareholder) could result in a decline in the market value of such consideration by the Consummation Date. Thus a Business Combination, theretofore considered not to require approval by the shareholders or the directors, could not be consummated. An Interested Shareholder could, however, establish in advance that the value of the non-cash consideration will be determined as of the Consummation Date. Such an approach, which has been used in connection with mergers and similar second-step transactions in the past, would ensure that the Interested Shareholder rather than the other shareholders would bear the risk of a decline in the market value of the offered consideration prior to the consummation of the Business Combination.

If a Business Combination does not involve receipt of any cash or other property by any other shareholder (for example, a sale of Company assets or an issuance of the Company's securities to an Interested Shareholder), then the price criteria discussed above would not apply and either an 80% vote of shareholders or approval by the Board pursuant to Section 5 of the Amendment would be required.

Procedural Requirements. In addition to satisfying the minimum price criteria, a Business Combination that does not receive the requisite shareholder or director approval pursuant to the Amendment must comply with the procedural requirements of the

Amendment. A Business Combination will not satisfy the procedural requirements of the Amendment if any of the following shall occur:

(1) if between the Determination Date and the Consummation Date, without the approval of the Board of Directors in the manner specified in Section 5 of the Amendment, the Company fails to pay full quarterly dividends on its preferred or preference shares or reduces the rate of dividends paid on its common shares. This provision is designed to discourage the Interested Shareholder from attempting to depress the market price of the Company's shares by reducing dividends on those shares prior to proposing a Business Combination, thereby reducing the consideration required to be paid pursuant to the minimum price criteria.

(2) if the Interested Shareholder, without the approval of the Board of Directors in the manner specified in Section 5 of the Amendment, becomes the beneficial owner of any additional shares of Voting Stock after the Determination Date. This provision is intended to discourage an Interested Shareholder from purchasing additional shares of Voting Stock at prices lower than those set by the minimum price criteria.

(3) if the Interested Shareholder receives the benefit of any loan or other financial assistance or tax advantage provided by the Company (other than proportionately as a shareholder). This provision is intended to deter an Interested Shareholder from self-dealing or otherwise exploiting its equity position in the Company by using the Company's resources for its own purposes.

The Amendment also requires that a proxy or information statement disclosing the terms and conditions of any proposed Business Combination be mailed to all shareholders of the Company at least 30 days prior to the Consummation Date, absent director approval of the Business Combination. The Continuing Directors (if there are any at the time) would be entitled to state their views regarding a proposed Business Combination in such proxy or information statement and to include therewith an opinion of an independent investment banker respecting such Business Combination. This provision is intended to ensure that the Company's shareholders are fully informed of the terms and conditions of the proposed Business Combination.

80% Vote Required to Amend or Repeal. With certain exceptions not applicable to the proposed Fair Price Amendment, California law permits a corporation's articles of incorporation to call for a greater stockholder vote than is otherwise called for by law, and requires that unless otherwise provided in the articles, any change in such a supermajority provision may not be effected except by that supermajority vote. As so permitted by law, the Fair Price Amendment requires a vote of the holders of 80% or more of the voting power of the Voting Stock to alter or repeal its provisions. This requirement will prevent a shareholder or group of shareholders from avoiding the provisions of the Amendment by gaining control of a lesser majority of the shares and simply repealing those provisions.

Considerations For the Fair Price Amendment

As noted above, a number of corporations have recently been the subject of tender offers for, or other acquisitions of, more than 10% but less than 80% of their outstanding stock. In a number of these cases, such purchases have been followed by business transactions in which the tender offeror or other purchaser has paid a price for the remaining stock that is lower or in a less desirable form of consideration than what it paid to acquire its original interest in the corporation. Federal securities laws and regulations govern the disclosure required to be made to minority stockholders in such transactions but do not require that the terms be fair to the stockholders. California law affords stockholders the right to dissent from certain business transactions and receive the "fair market value" of their stock, and case law imposes on a controlling stockholder a fiduciary duty to deal fairly with other stockholders. The right to dissent is not available, however, for a class of stock listed on the New York Stock Exchange unless 5% or more of the outstanding shares of the class dissent from the transaction, and is not available at all in a liquidation, reclassification or recapitalization. Even if available, assertion of this right may require litigation and may involve significant expense, delay and uncertainty and the "fair market value" as determined in dissent proceedings may be less than the minimum price determined pursuant to the Amendment.

The Fair Price Amendment is intended to help fill those gaps in federal and state law and to prevent certain potential inequities of two-step Business Combinations. The Amendment is designed to protect shareholders who have not tendered or otherwise sold their shares to a purchaser that is attempting to gain control, by ensuring that at least the same price and form of consideration are paid to such shareholders in a Business Combination as were paid to shareholders in the initial step of the acquisition. Without the Amendment, an Interested Shareholder that acquires control of the Company could force minority shareholders to dispose of their shares at a price that does not reflect any premium the Interested Shareholder might have paid to acquire its controlling interest. Such a price might also be in a less desirable form of consideration (*e.g.*, equity or debt securities of the purchaser, instead of cash).

In many situations, the minimum price criteria and procedural requirements of the Fair Price Amendment would require that a purchaser pay shareholders a higher price for their shares or structure the transaction differently than would have been the case without the Amendment. Thus, the Board believes that the Amendment would increase the likelihood that a purchaser would negotiate directly with the Company rather than attempt a two-tier acquisition. The Board believes that it can effectively negotiate on behalf of all shareholders, as it is likely to be more knowledgeable than any individual shareholder in assessing the business and prospects of the Company. Accordingly, the Board is of the view that negotiations between the Company and the purchaser would increase the likelihood that shareholders would receive a higher price for their shares from anyone desiring to obtain control of the Company.

Although not all large acquisitions of stock are made with the objective of acquiring control through a transaction that would be a Business Combination under the Amendment, in many cases the purchaser desires to have the option to pursue such a transaction. The Fair Price Amendment would tend to discourage purchasers seeking to obtain control of the Company at a relatively cheap price, since acquiring the remaining equity interest would not be assured unless the minimum price and procedural requirements are satisfied or the directors or shareholders grant the requisite approval. The Amendment may also discourage the accumulation of large blocks of the Company's shares, which could be used to disturb the Company's vitally important relationships with its employees, customers and lenders or could be used to precipitate a change of control of the Company on terms unfavorable to the Company's other shareholders.

Considerations Against The Fair Price Amendment

Tender offers and other acquisitions of stock not made on the open market are usually made at prices above the prevailing market price of the stock. Market purchases of stock by persons attempting to gain control may cause the market price of the stock to rise to levels higher than would otherwise prevail. The Amendment may discourage such transactions, particularly those involving less than 80% of the Company's shares, and may thereby deprive holders of an opportunity to sell their shares at a temporarily higher market price. The minimum price criteria and the requirements for shareholder approval of a Business Combination may make it more costly for a purchaser to achieve control of the Company. A person seeking to obtain control may also be discouraged from purchasing stock because an 80% shareholder vote would be required in order to alter the provisions of the Amendment. The Amendment would not necessarily discourage persons willing to seek control by acquiring 80% of the Voting Stock.

Although the Amendment's minimum price provisions provide objective pricing criteria, in some cases the criteria could be arbitrary and not indicative of value. In addition, an Interested Shareholder may be unable, as a practical matter, to comply with all the procedural requirements of the Amendment. In those circumstances, a potential purchaser would have to negotiate with the Board unless it was willing to purchase (or was able to obtain the vote of) 80% of the Voting Stock as the first step in a Business Combination. However, it is important to note that any Business Combination approved by the Board (with the directors who are not Continuing Directors being disqualified from voting) is not subject to the other requirements of the Amendment.

Another effect of the Amendment could be to give minority shareholders veto power respecting a Business Combination opposed by the directors but favored by the holders of a majority of the voting power of the Company. The directors and officers of the Company beneficially own approximately 1.46% of the Voting Stock (including shares issuable upon

exercise of stock options) and therefore could not, by themselves, prevent the approval of a Business Combination. If "Proposal 2—Increase in Authorized Common Shares" is approved by the shareholders, however, the Board could, within the limits imposed by law and the rules of the New York Stock Exchange, issue such additional shares to a holder that could thereby obtain sufficient voting power to prevent a Business Combination that does not either comply with the minimum price criteria and procedural requirements or receive the approval of the Board in accordance with the Fair Price Amendment, or to prevent any alteration or repeal of that Amendment. To the extent a Business Combination might be viewed as a means of changing the management of the Company, the Amendment may make removal of incumbent management more difficult. The Amendment does not, however, impair the right and power of the shareholders to remove some or all of the incumbent directors through a proxy contest, cumulative voting, or a combination thereof (although "Proposal 4—Requirement of Meeting for Shareholder Action," if adopted, would require that any shareholder action to remove directors occur at a meeting of shareholders and not by means of a solicitation of consents from shareholders without such a meeting). Finally, if an Interested Shareholder replaces directors who were in office when it became an Interested Shareholder with its own nominees, obtaining the necessary director approval could become impossible, so that the 80% shareholder vote requirement would apply to any Business Combination not satisfying the minimum price criteria and procedural requirements of the Amendment.

In summary, the Board has concluded that the Fair Price Amendment would afford shareholders protection from inequitable and coercive Business Combinations, and that adoption of the Fair Price Amendment is in the best interests of the shareholders and the Company.

Vote Required

The affirmative vote of a majority of the outstanding shares entitled to vote, voting as one class, will constitute approval of the proposed Fair Price Amendment by the shareholders.

The Board recommends a vote FOR the approval of the Fair Price Amendment (Proposal 3).

PROPOSAL 4—REQUIREMENT OF MEETING FOR SHAREHOLDER ACTION

It is proposed that Article Eighth be added to the Company's Articles of Incorporation:

> EIGHTH: All action required or permitted to be taken by shareholders shall be taken at an annual or special meeting of shareholders. No such action may be taken by written consent, without meeting.

Under California corporation law, unless the articles of incorporation otherwise provide, any stockholder action that may be taken at an annual or special meeting of stockholders may be taken without a meeting and without prior notice by written consent of stockholders having sufficient voting power that they could have authorized that action by voting at a meeting at which all shares entitled to vote thereon were voted. However, California law prohibits the

removal of a director by consent when the shares not consenting in writing to such removal would be sufficient to elect the director if voted cumulatively at an election at which all shares entitled to vote were voted and the entire number of directors authorized at the time of the director's most recent election were then being elected.

Stockholder action by consent enables corporations to act swiftly and informally and to save the cost and possible inconvenience of meeting and the time involved in giving advance notice of meeting. In a publicly held corporation, however, the flexibility provided by statute may be largely illusory because of the impracticability of securing the numerous stockholder signatures necessary to act by written consent, without meeting. As of April 7, 1986 there were approximately 30,863 shareholders of the Company of record, plus many others holding shares through brokers or other nominees. In practice it would not be feasible for the Company's shareholders to act without meeting so long as the Company's shares are so widely held. If, however, large blocks of the Company's shares should come to be held by relatively few shareholders, it could become feasible for those few shareholders to accumulate the necessary voting power to act by written consent, without the participation of the minority shareholders. The meeting requirement thus could delay or discourage an action considered beneficial by the holders of a majority of the shares (which could include actions related to a proposed takeover of the Company) when the number of shareholders making up that majority is sufficiently small to make it feasible to secure their written consents.

The Amendment would ensure that all shareholder action be taken at a meeting at which every shareholder has the opportunity to express an opinion and vote on the matters under consideration. That purpose is consistent with New York Stock Exchange policy, which is generally opposed to action by stockholder consent, without meeting. The Board thinks it important that shareholders be fully informed through the meeting process about matters that are subject to shareholder action, and that all shareholders have an opportunity to participate in determining those matters. Pursuant to California law and the Company's By-Laws, a special meeting of the Company's shareholders may be called by the holders of shares entitled to cast not less than 10% of the votes at such meeting. Accordingly, the Board has concluded that it is in the best interests of the shareholders to require that all shareholder actions be taken at shareholder meetings.

The affirmative vote of a majority of the outstanding shares entitled to vote, voting as one class, will constitute approval of the proposed Amendment by the shareholders.

The Board recommends a vote FOR the approval of the Amendment requiring a meeting for shareholder action (Proposal 4).

The Company has no provisions in its Articles and By-Laws that are intended to have an anti-takeover effect, and the Company has no plan to propose such provisions in the future. It should be noted, however, that in 1947 the shareholders, for reasons unrelated to resisting

takeovers, approved an amendment vesting in the Board broad authority to establish the principal terms and conditions of unissued series of preferred shares. In 1966 that authority was extended to the newly authorized preference shares. In 1979 the shareholders authorized substantial additional shares, of which 48,818,105 common shares, 4,768,359 preference shares and 100,000 preferred shares remained unissued as of April 7, 1986. Thus, the Articles now give the Board great latitude in establishing, without further shareholder action, the terms of unissued series of the preference and preferred shares. The existence of such quantities of authorized and unissued shares, coupled with that flexibility in establishing their terms, could be a deterrent to takeover attempts. Such shares could be used essentially in the same manner and for the same purposes as the additional common shares proposed for authorization, as discussed under "Proposal 2—Increase in Authorized Common Shares."

PROPOSAL 5—1986 STOCK OPTION PLAN

On March 6, 1986 the Board of Directors adopted the 1986 Stock Option Plan (the "Plan"), subject to approval by an affirmative vote of a majority of the shares voting on the proposal to approve the Plan.

The Plan is intended to foster share ownership by employees, thereby encouraging their maximum efforts for the success of the business of the Company. The aggregate number of common shares of the Company as to which options may be granted under the Plan may not exceed 3,500,000. No person shall be granted options to purchase in the aggregate more than 8% of the shares available under the Plan. No options may be granted under the Plan after February 5, 1996. The Plan contains antidilution provisions, allowing for adjustments in the price and number of shares in case of share dividends and other changes in the Company's capital structure.

The Plan will be administered by the Management Compensation Committee (the "Committee"). Options may be granted only to full-time employees (including officers) of the Company or its subsidiaries who are considered to be contributing significantly to the success of the business of the Company. A director who is not also an employee is not eligible to receive an option.

The Plan permits the granting of incentive stock options (individually, "ISO"), intended to qualify under Section 422A of the Internal Revenue Code of 1954, as amended (the "Code"), and nonstatutory stock options (individually, "NSO"). During any calendar year, no employee may be granted ISO's to purchase shares having at the time of grant a fair market value in excess of $100,000 plus any unused limit carryover from a prior calendar year. The unused limit carryover is one-half of the amount, if any, by which $100,000 exceeds the aggregate fair market value at the time of grant of the shares for which an employee was granted ISO's in that year under the 1986 Plan and the 1982 Incentive Stock Option Plan; that amount may be carried over to the next three succeeding calendar years.

The purchase price of shares covered by each option shall be determined by the Committee at the time of grant and shall not be less than the fair market value of those shares at the time of grant in the case of ISO's and not less than 85% of that value in the case of NSO's. Fair market value is defined in the Plan as the closing price (or, if there is no closing price, the average of the lowest and highest selling prices) of the shares as reported in "New York Stock Exchange — Composite Transactions" on the applicable date (or, if that date was not a trading date, on the next preceding trading date). Any amount by which the fair market value of the Company's shares at the date of grant exceeds the purchase price of shares covered by NSO's will be charged to expense at that date. The closing price of the Company's common shares on April 7, 1986 was $27.375 per share.

The purchase price of any shares purchased pursuant to the exercise of an option must be paid in full on the date of exercise, in cash or, at the discretion of the Committee, in whole or in part by surrendering shares of the Company already held by the optionee (valued at the fair market value on that date). It would be possible for an option holder, to the extent permitted by the Committee so to do, to exercise an option by using shares to pay the purchase price and to use shares received upon that exercise to acquire additional shares. As a result of successive transactions of that kind, the option holder may acquire a relatively large number of shares, although initially surrendering a smaller number.

Options may be exercised at such times and in such manner as the Committee shall determine, except that no ISO shall be exercisable while there is outstanding any ISO previously granted under the 1986 Plan or 1982 Plan. The Committee, in its discretion, may make options exercisable in installments and may accelerate exercisability of those installments. Upon the occurrence of certain events related to a change of control in the Company, options may become fully exercisable. (Depending upon surrounding circumstances at the time of accelerated exercise, the receipt of shares by an officer could be a "parachute payment" under Section 280G of the Code for the purpose of determining whether an excise tax would be payable by the officer and whether a deduction to the Company for that payment would be disallowed.)

The Committee, in its discretion, may settle the whole or any part of any exercisable installment of an option by offering payment in common shares, or in common shares and cash, in exchange for the surrender of that installment or partial installment. The amount of any settlement offered shall not exceed the difference between the option price of the shares subject to the settlement and the fair market value of those shares on the date of the offer. The Committee has the sole discretion to determine whether and when offers to settle may be made and how long they will remain open for acceptance. The amount that may be paid in future years to employees who accept settlement offers will be charged to compensation expense. Shares as to which options granted under the Plan have been settled are not available for further option grants.

If an option terminates unexercised (other than by settlement), the shares that were subject to that option become available for a further option grant subject to the terms of the Plan.

Each option expires as the Committee determines at the time of grant (but, in the case of ISO's, not later than ten years from the date of grant). Options are not transferable except by will or pursuant to the laws of succession and terminate upon cessation of employment with the Company or its subsidiaries, except upon cessation by retirement or death and except as otherwise provided in the option agreements. In the event of the death of an optionee while employed by the Company, the personal representative or other successor in interest of the optionee may exercise the option no later than six months after the date of death. In the event of an optionee's retirement, the optionee may exercise the option no later than six months after the date of retirement. In the event of an optionee's death within that six months, the time for exercise of the option by the personal representative or other successor in interest of the optionee is extended for an additional six months beyond the date that would have been the last permissible date for exercise by the optionee. In the case of either retirement or death, the option may be exercised to the extent exercisable at the date of retirement or death, as applicable, and to the extent of additional option increments, if any, as the Committee may determine. None of those events, however, may extend the term of an ISO beyond ten years or make any ISO exercisable while there is outstanding any ISO previously granted under the 1986 Plan or the 1982 Plan.

The Board of Directors may amend or terminate the Plan at any time. Amendments will include those, if any, necessary to conform the provisions of the Plan to any regulations promulgated under the Code covering ISO's. No amendment adopted without shareholder approval may increase the number of shares as to which options may be granted, reduce the option price below the minimum provided in the Plan, materially modify the requirements as to eligibility for participation, or materially increase the benefits accruing under the Plan. No amendment shall affect the rights of the holder of any option, except with that holder's consent.

The intent and probable effect of the 1986 Plan, as with any employee stock option plan, is to increase the holdings of the Company's shares by employees. While the Plan is not intended as an anti-takeover provision, if it is assumed that employees will tend to vote in accordance with the recommendations of incumbent management, such ownership could render more difficult the removal of current management and the assumption of control by a principal shareholder.

The Company has been advised by its legal counsel that, in their opinion, the federal income tax consequences described below will apply to NSO's and ISO's issued under the Plan.

Exercise of NSO's and Disposition of NSO Shares

In the case of NSO's, no income to an optionee will result and no deduction to the Company will be allowable at the time of grant. Upon exercise, the optionee (including an officer who

makes a special election as provided in the Code) must include in gross income an amount equal to the difference between the option price and the fair market value (the "value") of the acquired shares on their date of issuance. An officer not making the special election must include in gross income, six months less one day after issuance, an amount equal to the difference between the option price and the value of the acquired shares on that date. If the Company complies with the applicable federal income tax withholding requirements, it will be allowed a deduction equal to the amount included in income by the optionee. If the optionee pays the option price of the NSO by surrendering Company shares, the optionee must include in gross income the amount by which the value of the acquired shares exceeds the value of the surrendered shares. The number of acquired shares equal to the number of shares surrendered will have a carry-over basis for federal income tax purposes and the rest will have a basis equal to the income so included. When the optionee disposes of the shares acquired through exercise of the NSO, the optionee will recognize capital gain or loss (long term or short term, depending upon the time for which the shares are held) equal to the difference between the proceeds of the disposition and the basis of the shares.

Exercise of ISO's and Disposition of ISO Shares

In the case of ISO's, no income to an optionee will result and no deduction to the Company will be allowable at the time of grant. The exercise of ISO's generally will not result in any income to the optionee or in a deduction to the Company. In the case of certain individuals, however, the amount by which the fair market value of the ISO shares at the time of exercise exceeds the option price may be subject to the alternative minimum tax because that amount is an item of tax preference under Section 57 of the Code. In addition, if the optionee were to exercise the ISO during the third through sixth month following retirement (as is permitted by the Plan), the federal income tax consequences would be the same as those applicable to exercising NSO's.

If the optionee does not dispose of the acquired shares until at least two years after the date of the grant and one year after the date of issuance, the Company will not be allowed a deduction and the optionee will recognize long term capital gain or loss on the difference between the proceeds of the disposition and the option price. The optionee who disposes of the acquired shares before meeting those holding requirements will have made a disqualifying disposition. The disqualifying disposition will cause the optionee to have gross income in the amount of the difference between the option price and the value of the acquired shares on their date of issuance (or six months, less one day, after that date in the case of an officer) or the sale price, if lower, and to recognize capital gain (long term or short term, depending upon the time for which the shares are held) on any amount in excess of that difference. In the event of such a disqualifying disposition, the amount by which the fair market value of the ISO shares at the time of exercise exceeded the option price will no longer be an item of tax preference under Section 57 of the Code. A deduction to the Company may be allowable equal to the income resulting from the disqualifying disposition.

Proposed Regulations Under Section 422A

Proposed regulations under Section 422A of the Code deal with the payment of the option price of ISO's with Company shares. Those regulations should be consulted for information more detailed than that contained in this summary.

If the optionee pays the option price of the ISO by surrendering Company shares (and, in the case of surrendered ISO shares, the holding requirements for those shares have been met), no income in respect of the surrendered shares will be recognized for federal income tax purposes. The number of acquired shares equal to the number of shares surrendered will have a carry-over basis for federal income tax purposes and the rest will have a basis of zero. The Company does not presently contemplate permitting the optionee so to surrender ISO shares if the holding requirements have not been met.

Settlement of NSO's and ISO's

At the time of a settlement in shares of ISO's or NSO's, the optionee (including an officer who makes a special election pursuant to the Code) must include in gross income an amount equal to the value of the shares on their date of issuance. An officer not making the special election must include in gross income, six months less one day after issuance, an amount equal to the value of the shares on that date. If ISO's or NSO's are partly settled in cash, the optionee must include in gross income the amount of the cash. If the Company complies with the federal income tax withholding requirements, it will be allowed a deduction equal to the amount included in gross income by the optionee.

Subject to shareholder approval of the Plan, the Committee at its March 1986 meeting granted options under the Plan to the following persons to purchase the following number of shares at an option price of $25.75 per share: John M. Lillie, ISO's to purchase 3,800 shares and NSO's to purchase 9,200 shares; Lawrence A. Del Santo, ISO's to purchase 3,800 shares and NSO's to purchase 5,900 shares; Leon W. Roush, ISO's to purchase 3,800 shares and NSO's to purchase 4,200 shares; and all executive officers as a group, ISO's to purchase 17,700 shares and NSO's to purchase 20,100 shares. The options become exercisable as to 50% of the shares subject to the option one year and one day following the date of grant and as to the remaining shares two years and one day following that date, except that the option agreements provide for acceleration of exercisability in the case of certain events related to a change in control of the Company and, as to 50%, upon the optionee's retirement or death. The purchase price for shares purchased pursuant to the exercise of the options may be paid in whole or in part in common shares of the Company, provided that at the time of exercise there has been no change in the accounting or tax requirements applicable to the Company respecting payment in shares (or, if there has been such a change, the Committee has not determined that the change is detrimental to the Company). The ISO's expire ten years from the date of grant, and the NSO's expire ten years and one day from that date. If the optionee's employment ceases within two years following certain events related to a change in control in the Company,

the options remain exercisable until their expiration date (and, in the case of the NSO's, expiration may be extended to the date six months after cessation of employment).

The affirmative vote of a majority of the shares voting on the proposal to approve the Plan will constitute approval of the Plan by the shareholders.

The Board of Directors recommends a vote FOR the approval of the 1986 Stock Option Plan (Proposal 5).

FUTURE SHAREHOLDER PROPOSALS

If a shareholder desires to present a proposal to next year's annual meeting of shareholders and to have that proposal included in the proxy statement and proxy for that meeting, that proposal must be received by the Company at its principal executive offices by January 3, 1987.

OTHER MATTERS

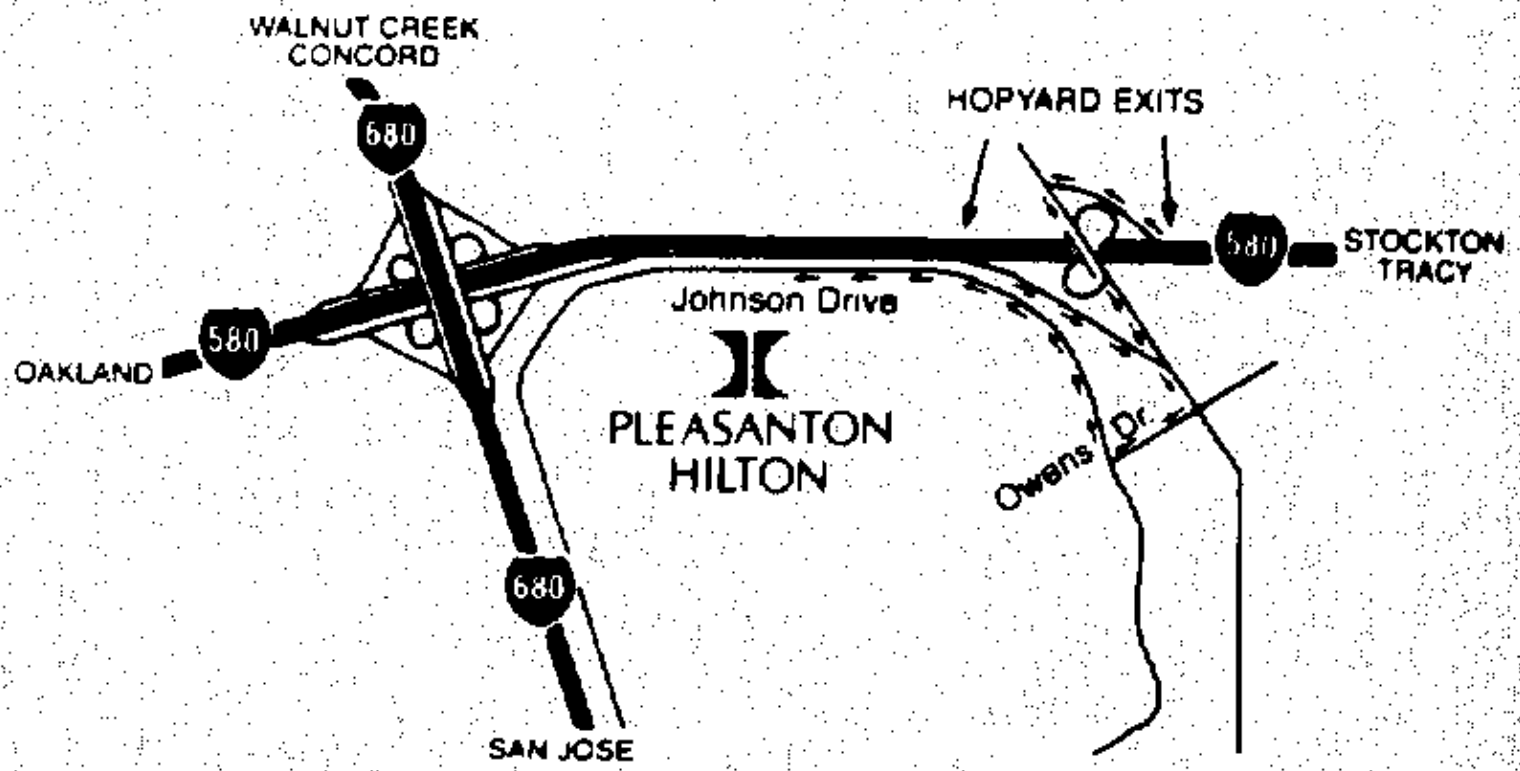
The Board of Directors has selected Price Waterhouse as the independent accountants of the Company for the current fiscal year. Price Waterhouse has served as the independent accountants of the Company since 1947. At the Annual Meeting of Shareholders, representatives of Price Waterhouse will be present, may make statements if they desire to do so, and will be available to respond to appropriate questions.

Management is not aware that any matters other than those specified above will be presented at the Meeting. If other business should properly come before the Meeting, your proxy, if given, will be voted on each matter in accordance with the best judgment of the persons authorized therein, and discretionary authority to do so is included in the proxy.

IF YOU WILL NOT BE ABLE TO ATTEND THE MEETING IN PERSON, PLEASE COMPLETE, SIGN AND DATE THE ACCOMPANYING PROXY AND RETURN IT PROMPTLY IN THE ENCLOSED ENVELOPE.

By order of the Board of Directors,
Christopher McLain
Secretary

PLEASE NOTE THAT THE MEETING WILL BE HELD AT 10:00 A.M. AT HILTON HOTEL, PLEASANTON, CALIFORNIA. SEE MAP BELOW.



PLEASANTON HILTON

7050 Johnson Drive • Pleasanton, California 94566 • (415) 463-8000

Take Hopyard Road Exit from I-580, south to Owens Drive (first light), right on Owens to Johnson Drive (first light), then right on Johnson Drive one mile to Pleasanton Hilton.

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