

PAY'N PAK STORES, INC.  
1991 (Form 10-K)SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

## ANNUAL REPORTS

PAY'N PAK Stores, Inc. 1991  
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## FORM 10-K

☒ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the fiscal year ended February 23, 1991

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Commission File Number 1-8476

## PAY'N PAK STORES, INC.

(Exact name of registrant as specified in its charter)

Washington(State or other jurisdiction of  
incorporation or organization)91-0729852(I.R.S. Employer  
Identification No.)1209 South Central Avenue, Kent, Washington 98064

(Address, including zip code, of registrant's principal executive offices)

(206) 854-5450

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ] Not Applicable.

Aggregate market value of voting stock held by non-affiliates - None.

Common stock outstanding at May 1, 1991 - 100 shares.

## DOCUMENTS INCORPORATED BY REFERENCE

None



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## INTRODUCTORY EXPLANATION

Pay 'N Pak Stores, Inc. ("Pay 'N Pak" or the "Company"), is a retail chain of 102 stores that sells home improvement products in 14 western states, including Alaska and Hawaii. Pay 'N Pak is a wholly-owned subsidiary of PNP Prime Corporation ("Prime"), a holding company whose only significant asset is the common stock of Pay 'N Pak. Prime is a wholly-owned subsidiary of PNP Holdings Corporation ("Holdings"), a privately-held corporation whose only asset is the common stock of Prime. Holdings and Prime were organized by investors, including certain members of the management of Pay 'N Pak and Citicorp Venture Capital Ltd. ("CVCL"), to acquire Pay 'N Pak.

## PART I

### Item 1 - Business

#### General

Pay 'N Pak currently operates 102 retail home improvement centers located in 14 states throughout the western United States, including Alaska and Hawaii, which sell electrical products, plumbing supplies, lighting fixtures, kitchen and bath cabinets, hardware, tools, building materials and seasonal lawn and garden products to do-it-yourself ("DIY") home improvement and home maintenance consumers. The largest concentrations of Pay 'N Pak stores are in the greater Seattle, Portland, Sacramento, Salt Lake City, San Francisco Bay and San Jose metropolitan areas.

The Company historically operated stores in a traditional hardware/home center store configuration, averaging 22,000 square feet in size. Beginning in the early-1980s the Company reconfigured many of its stores into a warehouse-type format averaging 35,000 - 50,000 square feet in size. In 1987 the Company began a modification program of certain of its warehouse format stores. Warehouse style racks were replaced by lower shelving fixtures. A new color scheme and store decor were introduced to provide a "customer friendly"



atmosphere and more attractive merchandise presentation. This format (the "new format") is open, better lit and presents the merchandise in seven foot high gondolas. New format stores were added as new or replacement stores and certain warehouse stores were converted to this new format from 1987 through 1990 to bring the total of new format stores to 25. Forty-four stores remain in the warehouse format and 33 stores are formatted traditionally. The Company is pursuing a program similar to this in all new and many older stores.

The Company's merchandising strategy emphasizes its traditional strengths: plumbing, electrical, lighting, bath, kitchen cabinets and decor items and other higher-margin merchandise.

The Company operates in two types of markets. The first market consists of urban or suburban areas where the Company concentrates stores in order to leverage marketing programs, enhance name recognition, achieve market penetration and gain economies of scale in advertising and distribution. The second market consists of single store, rural markets. These are secondary population centers where the Company generally operates one store which is perceived to be the dominant home center in the area.

## Products

The Company sells a wide range of home improvement products including electrical, lighting, plumbing supplies, bath and kitchen cabinets, hardware, tools, building materials, lawn and garden products, decor and storage products with specialization in products for the remodeling and improvement of kitchens and bathrooms. The number of stockkeeping units ("SKUs") varies from 15,000 to 20,000 depending upon store size and region. The Company has recently refocused its product mix from promotional and building material commodity products to higher-margin plumbing, lighting, bath and kitchen cabinet products. The following table summarizes, by fiscal year since 1987, the approximate percentage of net sales derived from the Company's major retail product categories:

	Fiscal Year				
	1987	1988	1989	1990	1991
Plumbing, electrical and lighting	39.0%	38.6%	36.7%	36.5%	38.3%
Building materials	36.5	34.8	36.0	37.3	36.7
Seasonal	7.6	9.9	12.2	12.4	13.5
Cabinets	5.9	6.7	7.4	7.5	8.2
Promotional, furniture and other	11.0	10.0	7.7	6.3	3.3
	100.0%	100.0%	100.0%	100.0%	100.0%

Plumbing, electrical and lighting products include plumbing fixtures and supplies, sinks, lavatories, showers, bathtubs, vanities, electrical wiring and related products, heating and cooling products, home security products, light bulbs and lighting fixtures. Building materials include items such as tools, hardware, paint, decor and storage products with a small amount of commodity products such as lumber products used in minor remodeling projects. Seasonal products include garden supplies such as mowers, fertilizer, live plants and garden tools, holiday items and fireplace accessories.

The Company concentrates its efforts on the repair and remodeling needs of DIY homeowners rather than professional contractors. The Company estimates that during fiscal 1991 over 95% of its sales were to DIY customers. Accordingly, the merchandise assortment emphasizes high quality specialty items and de-emphasizes bulk commodity-type items such as construction lumber. The Company limits seasonal merchandise to the most popular items sold during each specialty buying season. Many brand-name products are carried by the stores, particularly where the Company believes such brand names are recognized by the customers as providing high value, quality and reliability. The Company also carries private-label merchandise, primarily in the lighting and paint categories, much of which is designed and manufactured exclusively to the Company's specifications.

## Marketing and Promotion

Store layout, merchandise organization and merchandise signs are designed by the Company's corporate staff to encourage turnover of inventory and are generally consistent among all stores. Merchandise is conveniently arranged in open displays with point of purchase signs and explanatory material on home



improvement maintenance and remodel projects. Merchandise is often located in project-oriented groupings or displayed as it might look in a customer's home.

The Company accepts cash, checks, all major credit cards, a private label credit card and utilizes a major purchase financing program. Several major financial institutions provide credit for consumer purchases using the Company's private credit card and major purchase financing program and bear the credit risk. In the latter part of fiscal 1991, the Company began a new program aimed at the commercial trade repair/remodel market. The program provides for payment in cash and a discount to commercial customers. A 30-day credit program is under development.

The Company believes that a key element of its marketing success is the ability of its sales personnel to advise customers on how to select, install and use the products sold for home improvement and maintenance projects. Although the Company does not install or deliver (with the exception of delivery of cabinets in certain markets) the products it sells, its sales personnel are trained to give step-by-step instructions on the selection, installation and use of its products. The Company operates a continuing training program for its sales personnel to ensure that their product knowledge is complete and current. In addition, the Company's retail sales training program uses video programs and meetings to enhance their selling skills. Many of the training meetings are held in the Company's specially equipped mobile training vehicle. Each store also has a video training center to display marketing, promotional and educational videos produced at the home office. The amount spent by the Company on such training activities and, in fiscal 1991, also on point of sale training, during each of the last three fiscal years was approximately \$570,000 in 1989, \$513,000 in 1990 and \$824,000 in 1991.

## Retail Operations

Of the 102 retail home improvement centers currently operated by the Company, 25 are new format stores, 44 are warehouse stores and 33 are conventional stores. The Company's warehouse and new format stores typically carry a wider variety of merchandise, up to 20,000 SKUs, and more of each SKU, than the Company's smaller, traditional stores, which carry approximately 15,000 SKUs.

Sales by state and as a percent of the total sales are indicated in the following table (in thousands):

State	Fiscal Year					
	1989		1990		1991	
Alaska	\$ 12,444	2.7%	\$ 12,312	2.7%	\$ 14,438	2.9%
California	124,771	27.0	126,087	27.3	125,640	25.2
Colorado	17,471	3.8	17,076	3.7	18,676	3.7
Hawaii	27,420	5.9	27,018	5.9	27,363	5.5
Idaho	10,741	2.3	9,443	2.0	11,882	2.4
Kansas	8,572	1.9	5,495	1.2	5,412	1.1
Montana	5,145	1.1	4,978	1.1	5,479	1.1
Nebraska	3,846	0.8	4,078	0.9	4,682	0.9
Nevada	10,784	2.3	9,028	1.9	9,692	2.0
Oregon	61,765	13.3	64,315	13.9	72,929	14.6
South Dakota	4,380	0.9	4,388	0.9	5,021	1.0
Utah	20,755	4.5	18,908	4.1	21,497	4.3
Washington	146,979	31.8	151,231	32.8	168,229	33.8
Wyoming	7,721	1.7	7,274	1.6	7,424	1.5
TOTAL	<u>\$462,794</u>	<u>100.0%</u>	<u>\$461,631</u>	<u>100.0%</u>	<u>\$498,364</u>	<u>100.0%</u>

The Company continually investigates locations for the establishment of new or replacement stores, examining population and demographic trends, competition in the relevant market area and other pertinent factors in order to analyze the sales potential of each location. The Company attempts to locate its stores in areas that are convenient to DIY home improvement and home maintenance customers, principally in small cities and in suburban areas of larger cities. The exact number and type of new stores that the Company establishes depends on many factors, including the availability of financing and suitable locations and general business conditions. In selecting locations for future stores, the Company plans to concentrate on areas in the



western United States where it has already established a market presence or where the Company would be the dominant home center in a single store, rural market.

The Company opened five new format stores in fiscal 1989. Of the five stores, two were opened in the Seattle area, two in Sacramento and one in Northern California. In fiscal 1990, the Company opened two new format stores, one in Marysville, Washington and the other in Ogden, Utah, both of which replaced two small stores in the same communities. The Company also closed two stores during fiscal 1990, one in Wichita, Kansas and one in Las Vegas, Nevada, because they were not profitable. The Company did not open any new or replacement stores in fiscal 1991.

The Company intends to replace three stores in fiscal 1992. Covenants in a credit agreement (the "Credit Agreement") among the Company, the several financial institutions parties thereto (the "Bank Group") and Manufacturers Hanover Trust Company ("MHTC"), as agent for the Bank Group, currently limit the Company's capital expenditures to \$5 million for each fiscal year, with any unused portion of the \$5 million carrying over to the next fiscal year. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources and Capital Expenditures" in Item 7.

The following table summarizes, by fiscal year since 1987, the Company's numbers of stores:

	Fiscal Year				
	1987	1988	1989	1990	1991
Stores in operation at beginning of year	106	107	100	105	102
New stores opened or acquired	7	8	7	2	—
Stores replaced by new stores	(5)	(6)	(2)	(2)	—
Stores sold or closed	(1)	(9)	—	(3)	—
	<u>107</u>	<u>100</u>	<u>105</u>	<u>102</u>	<u>102</u>

## Purchasing and Distribution Centers

The Company buys inventory in bulk directly from domestic and foreign manufacturers to lower its unit costs. Most of the Company's foreign-manufactured goods are imported from Taiwan, China and Korea at favorable prices. Given exchange rate fluctuations, there can be no assurance that similarly favorable prices will be available in the future. Non-U.S. suppliers often require payment in the form of trade letters of credit and the Credit Agreement restricts the amount of letters of credit that can be outstanding at any given time. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" in Item 7. The Company believes that any of its suppliers could be replaced without significant business disruption.

The Company maintains one distribution center, a 360,000 square foot facility in Kent, Washington. In November, 1990, the Company closed a 200,000 square foot distribution center in Hayward, California. This facility was closed due to excess capacity at the Kent facility and to improve distribution and merchandising efficiencies and procedures. These procedures include an increase in store-direct purchasing, developed by the merchandise staff, and other more efficient distribution procedures developed by the distribution staff, including a new Vice President - Distribution Services. Prior to the closing of the Hayward facility and the increase in store-direct purchases, approximately 60% of the merchandise sold in the Company's retail stores passed through the distribution centers. Store-direct shipments are coordinated by a traffic manager which results in lower freight rates on truckload and less than truckload shipments. The Company intends to continue to increase the percentage of store-direct shipments.

## Competition

The retail home improvement industry is highly competitive. Home improvement products in the United States are sold at retail from a variety of sources including hardware stores, lumber yards, home centers, warehouse home centers, specialty stores and showrooms (paint, cabinets, windows, etc.), department stores and discount retailers. During the past decade, the number of large warehouse home centers has increased substantially, while a number of traditional home centers have gone out of business. The Company's competitors, some of which have substantially greater financial resources, are continually expanding and







Item 2 - Properties

At May 18, 1991, the Company held 85 stores under long-term leases and owned 17 stores and several related non-operating properties. See Note 9 of Notes to the Consolidated Financial Statements in Item 8 for a description of the Company's real property leases.

The Company directs its operations from its home office in Kent, Washington, a Seattle suburb, where most administrative functions, including merchandising, buying, advertising, accounting, data processing and personnel administration are performed. The Company occupies its headquarters under a lease expiring in 1995. The Company also leases its distribution center in Kent, Washington under a lease that expires in 2005. As of May 18, 1991, the Company had three types of formats in its retail stores in the following 14 states:

State	Number of Stores		Number of Stores by Format		
	Leased	Owned	Conventional	New Format	Warehouse
Alaska	1	1	—	—	2
California	18	8	6	9	11
Colorado	4	1	2	—	3
Hawaii	—	1	—	1	—
Idaho	2	1	2	—	1
Kansas	2	—	2	—	—
Montana	1	—	—	—	1
Nebraska	1	1	2	—	—
Nevada	1	1	1	—	1
Oregon	13	2	4	3	8
South Dakota	2	—	2	—	—
Utah	5	—	2	3	—
Washington	33	1	9	9	16
Wyoming	2	—	1	—	1
Total	85	17	33	25	44

Substantially all of the Company's properties, including its owned stores, are pledged to the Bank Group as security for the term and revolving loans and letters of credit available under the Credit Agreement.

Item 3 - Legal Proceedings

None.

Item 4 - Submission of Matters to a Vote of Security Holders

No matter was submitted to a vote of security holders during the fourth quarter of the Company's fiscal year covered by this report.



## PART II

### Item 5 - Market for the Company's Common Equity and Related Shareholder Matters

There is no trading market for the Company's common stock, all of which is held by Prime. No cash dividends have been declared on such stock. There are restrictions which materially limit the Company's ability to pay dividends to Prime under the terms of the Credit Agreement with the Bank Group and under the terms of the indenture for the \$110.0 million 13 1/2% Senior Subordinated Debentures due 1998 (the "Debentures"). See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources" in Item 7 and Notes 6 and 7 of the Notes to Consolidated Financial Statements in Item 8.

### Item 6 - Selected Financial Data

During fiscal 1991, the Company changed its method of costing inventories, which had included vendor invoice cost plus freight, to additionally include applicable purchasing, receiving, handling and warehousing costs, net of cash discounts and volume rebates. These additional inventory-related expenditures, included in selling and administrative, rent and depreciation and amortization expenses in prior years, have now been included in cost of sales and inventories. Prior years' statements of operations have been reclassified for consistency with the current year presentation. See Note 4 of the Notes to Consolidated Financial Statements in Item 8. The cumulative net effect of this change for the periods ending before February 25, 1990 totaled \$3.3 million (net of income taxes of \$2.0 million). The loss before the cumulative net effect of the change in accounting principle for the year ended February 23, 1991 was increased by \$160,000 (net of income taxes of \$98,000).

	Predecessor Company		Pay 'N Pak Stores, Inc.			
	Year Ended February 28, 1987	March 1, 1987 through July 23, 1987	July 24, 1987 through February 29, 1988	Year Ended February 28, 1989	Year Ended February 24, 1990	Year Ended February 23, 1991
<b>Income Statement Information:</b>						
	(In thousands)					
Net sales.....	\$398,144	\$187,573	\$241,183	\$462,794	\$461,631	\$498,364
Cost of sales.....	281,989	126,629	157,758	319,278	312,832	344,845
Selling and administrative.....	78,930	39,344	54,052	96,213	95,718	110,667
Rent and depreciation.....	17,842	8,638	30,582	30,503	30,046	30,084
Interest expense.....	8,150	3,515	17,461	31,569	31,572	30,219
(Provision for) benefit of income taxes.....	(5,547)	(3,907)	7,189	2,553	2,375	5,729
Minority interest.....	—	—	(1,359)	—	—	—
Cumulative net effect of change in accounting principle.....	—	—	—	—	—	3,280
Net income (loss).....	\$ 5,686	\$ 5,540	\$(12,840)	\$(12,216)	\$ (6,162)	\$ (8,442)
Pro forma net income (loss), assuming the change in accounting principle was retroactively applied.....	\$ 5,437	\$ 5,419	\$(12,222)	\$(12,931)	\$ (5,667)	\$ —
<b>Balance Sheet Information (at end of period):</b>						
Working capital.....	\$ 54,585		\$ 45,856	\$ 51,025	\$ 44,207	\$(162,566)
Total assets.....	\$229,587		\$340,383	\$352,912	\$338,749	\$ 326,321
Long-term debt, net of current portion.....	\$ 60,948		\$230,067	\$250,607	\$235,825	\$ 24,165
Shareholder's equity (deficiency).....	\$100,127		\$ (5,840)	\$ 20,568	\$ 14,406	\$ 4,857



## Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

In February, 1990, the Company adopted a 52- or 53-week fiscal year with the year ending on the last Saturday of February in order to provide more accurate internal weekly operating data. As a result, the fiscal year ended February 24, 1990 is four days shorter than the prior fiscal year and the fiscal year ended February 23, 1991 is three days longer than the fiscal year ended February 24, 1990.

### Results of Operations

Net sales for the fiscal year ended February 23, 1991 were \$498.4 million, an increase of 8.0% over the \$461.6 million of sales for fiscal 1990. Net sales for the fiscal year ended February 24, 1990 decreased \$1.2 million from the \$462.8 million of net sales for the prior fiscal year. The Company had 102 stores open during fiscal 1991 and 1990 versus 105 at the end of fiscal 1989. Net sales in fiscal 1991 for stores in operation for more than three years increased by 8.5% as compared to fiscal 1990. The increase in comparable store sales was caused by three factors. First, a change in product emphasis toward higher margin products such as plumbing, electrical, lighting and cabinets and the close out of certain lines, primarily in furniture, appliances and promotional categories increased sales. Second, the Company's advertising was more evenly balanced throughout the year and was increased in its rural markets during fiscal 1991 which produced more customer traffic. Third, the Company countered the economic recession in the latter half of fiscal 1991 and the consumer reluctance during the mid-East crisis with greater price competitiveness which increased sales.

Comparable stores sales for fiscal 1990 decreased by 2.7% as compared to the prior fiscal year. The decrease in comparable store sales and the small change in overall sales for fiscal 1990 compared to fiscal 1989 was caused by three major factors. First, the prior year included a period of intense price competition which had the effect during that year of increasing net sales without a corresponding increase in gross margin dollars. Second, the change in fiscal year ending date decreased the length of fiscal 1990 by 1.1%. And third, there were three fewer stores than in the prior year. The change in net sales by age of store as compared to those of the prior year is indicated in the following table:

	Fiscal Year 1990 vs. 1989 (In 000's)	Fiscal Year 1991 vs. 1990 (In 000's)
Net sales of stores open less than one year*	\$ —	\$ —
Increase in net sales of stores open over one but less than two years	9,400	115
(Decrease) in net sales over the preceding year of stores opened over two but less than three years	(93)	—
Increase (decrease) in net sales over the preceding year of stores open over three full years	(5,735)	37,911
(Decrease) in net sales for stores closed	(4,735)	(1,293)
	<u>\$ (1,163)</u>	<u>\$ 36,733</u>

\* Does not include net sales of replacement stores. Net sales of such replacement stores are treated as if the stores were equivalent in age to the older stores they replaced.



Cost of sales for fiscal 1991 increased, as a percentage of sales, to 69.2% from 67.8% for fiscal 1990. The increase in cost of sales as a percentage of sales in fiscal 1991 was principally due to a concerted effort by management to close out discontinued merchandise from the stores. This was done in the latter part of the fiscal year through several special advertising events and by means of progressive mark-downs. A second factor, during the latter part of the year, was the economic recession and the mid-East crisis which tended to depress sales and the Company became more price competitive to offset this decline in sales. In addition, more advertising dollars were spent in fiscal 1991 compared to fiscal 1990 which increased traffic but produced more sales of advertised goods at lower margins. Cost of sales for fiscal 1990 decreased, as a percentage of sales, to 67.8% from 69.0% for the prior year. This decrease was principally due to two factors - first, less promotional pricing than in the prior year, and second, a shift of emphasis in product mix away from lower margin categories such as lumber and promotional merchandise and a stronger emphasis on higher margin categories such as lighting and cabinets.

Selling and administrative expenses for fiscal 1991 increased, as a percentage of sales, to 22.2% from 20.7% in the prior year. The categories of selling and administrative expenses related to operations were generally consistent with those of the prior year with the exception of wages for personnel which grew due to an increase in wage rates and benefits to remain competitive in the industry. In addition, the Company incurred point of sale training expenses and point of sale equipment lease rental expenses related to new point of sale and merchandise information systems which began to be installed in fiscal 1991. Also in fiscal 1991, the Company accrued certain expenses related to the termination of several leases for properties no longer used in the Company's operations and accrued the severance obligations required by certain consulting agreements. Selling and administrative expenses for fiscal 1990 decreased slightly, as a percentage of sales, to 20.7% from 20.8% in the prior year. The categories of selling and administrative expenses related to operations were generally consistent with those of the prior year. Fiscal 1989, however, included costs in connection with the acquisition of the Company by Prime and related financing including the penalty cost of early prepayment of certain pre-acquisition indebtedness (\$1.5 million) and the write-off of certain capitalized costs (\$1.0 million) due to the payoff and reduction of a credit line.

Rent expense for fiscal 1991 decreased slightly as a percentage of sales, to 2.5% from 2.6% in fiscal 1990. Rent expense for fiscal 1990 increased slightly to 2.6% of sales from 2.5% of sales in fiscal 1989. The sales increase in fiscal 1991 more than offset scheduled increases in rent. In fiscal 1990, sales did not increase sufficiently to offset scheduled increases in rent. Depreciation and amortization decreased slightly as a percentage of sales in fiscal 1991 versus fiscal 1990. Depreciation and amortization decreased as an amount from the prior year because of the Company's decrease in fixed asset additions over the last several years. Depreciation and amortization decreased slightly as a percentage of sales in fiscal 1990 versus fiscal 1989 primarily due to the write-off of deferred financing costs related to the payment of debt in fiscal 1989.

Earnings before interest and taxes decreased by \$10.3 million in fiscal 1991 versus 1990 principally due to the decrease in gross margin and the increase in selling and administrative expenses discussed above. Earnings before interest and taxes increased by \$6.2 million for fiscal 1990 versus 1989 principally due to an increase in gross margin as a percentage of sales from the prior year.

Interest expense for fiscal 1991 decreased by \$1.4 million from fiscal 1990 due to less average debt outstanding, as the Company paid down \$6.5 million of debt in fiscal 1991, and decreases in the cost of borrowing. During fiscal 1990, the Company paid down its long-term debt by \$10.5 million. However, interest expense stayed level at \$31.6 million with the prior fiscal year, primarily because debt repayment was made in late March in fiscal 1989 and thus the new debt structure was not in place for the full prior fiscal year.

The Company has provided for income taxes as if it were a separate company even though it became part of a controlled group in 1987. The effective tax rates vary from the statutory tax rates primarily due to amortization of goodwill. (See Note 8 of the Notes to Consolidated Financial Statements in Item 8.)

During fiscal 1991, the Company changed its method of costing inventories, which had included vendor invoice cost plus freight, to additionally include applicable purchasing, receiving, handling and warehousing costs, net of cash discounts and volume rebates. These additional inventory-related expenditures, previously included in selling and administrative, rent and depreciation and amortization expenses, are now included in cost of sales and inventories. Prior years' statements of operations have been reclassified for consistency with the current year presentation. (See Note 3 of the Notes to Consolidated Financial Statements in Item 8.) The cumulative net effect of this change for the periods ending before February 25, 1990 totaled \$3.3 million (net of



income taxes of \$2.0 million). The loss before the cumulative effect of the change in accounting principle for the year ended February 23, 1991 was increased by \$160,000 (net of income taxes of \$98,000).

During the fourth quarter of fiscal 1991 the Company recognized additional costs related to inventory close-outs and other items. Also in the fourth quarter the Company revised certain estimates, increasing accruals related to consulting, deferred compensation and severance arrangements with former executives of the Company and accruals of certain expenses related to several leases for properties no longer used in the Company's operations. The aggregate pre-tax amount of these adjustments was approximately \$8.8 million.

The net loss in fiscal 1991 increased by 37% to \$8.4 million from \$6.2 million in fiscal 1990 as a result of increases in cost of sales, the recording of certain one-time expenses and an increase in operating expenses partially offset by the income recognized as a result of the change in accounting principle. The net loss in fiscal 1990 decreased by 50% to \$6.2 million from \$12.2 million in fiscal 1989 as a result of a decrease in cost of sales which reflected an improved gross profit margin in fiscal 1990.

## Liquidity and Capital Resources

As of February 23, 1991, the Company had \$4.6 million of cash and \$4.4 million of unused availability under its revolving credit facility under a credit agreement (the "Credit Agreement"), among the Company, the financial institutions parties thereto (the "Bank Group") and Manufacturers Hanover Trust Company ("MHTC"), as agent for the Bank Group. The amount available varies on a daily basis with operating cash receipts and disbursements, but February 23, due to seasonal purchases, is a point during the operating year when there tends to be above average use of credit facilities.

To maximize its liquidity and in anticipation of increases in inventory levels related to the purchase of spring seasonal merchandise, the Company determined that it should retain the cash that would otherwise be used to make a \$2.5 million principal payment on its term loan facility due on February 28, 1991 under the Credit Agreement. The Company received a waiver under the Credit Agreement from the Bank Group permitting the Company to defer until May 31, 1991 the \$2.5 million principal payment.

On May 15, 1991 the Company gave notice to the Bank Group and MHTC of a draw under the Credit Agreement's revolving credit facility. The Bank Group did not honor the Company's draw or issue letters of credit that the Company had requested for its benefit. The Company protested the Bank Group's wrongful refusal to honor the draw or issue the letters of credit.

On May 31, 1991, the Company did not make the deferred \$2.5 million term loan payment, the regularly scheduled \$2.5 million term loan payment nor pay approximately \$0.2 million of accrued interest that was due. As of May 31, 1991, the Company had, in a bank outside the Bank Group, cash in the amount of \$13.8 million.

The Company's decision not to make the payment due to the Bank Group permits the Bank Group to suspend the Company's right to borrow under the revolving credit facility or to require MHTC to issue letters of credit for the Company's benefit. The Bank Group also has the right to accelerate the maturity of the loans under the Credit Agreement or terminate the commitments under the Credit Agreement, or both, and to foreclose on properties pledged to the Bank Group as security for the term and revolving loans and letters of credit available under the Credit Agreement. The Company currently is holding discussions with the Bank Group regarding various alternatives that will provide for the payment of all amounts due and believes it can reach a solution on a schedule mutually satisfactory to the Bank Group and the Company.

MHTC as agent for the Bank Group has given notice to the trustee for the \$110.0 million 13 1/2% Senior Subordinated Debentures due 1998 (the "Debentures") that the Company, among other things, failed on May 31, 1991 to make a payment to the Bank Group and that the indenture governing the Debentures prohibits the Company from making any payment on the Debentures, including, but not limited to, the semi-annual interest payment due June 3, 1991.

The Company did not make the June 3, 1991 semi-annual interest payment on the Debentures. The indenture provides a 30-day grace period for the Company to make the interest payment without penalty. If such interest payment is not made during the grace period, the Debentureholders will have the right under the indenture to accelerate the maturity of the principal of the Debentures and to demand payment of the amounts due.

In order to assure continued liquidity and access to capital resources, the Company is evaluating a variety of refinancing alternatives, including refinancing or disposition of selected assets and reduction of its overall



indebtedness and has had discussions with interested parties and lenders. The Company also has entered into discussions with the Bank Group to revise the amortization payment schedule on the term loan and reset financial covenants, among other things. The Company expects that during this period of discussions with the Bank Group it will produce sufficient funds from operations, such that, combined with existing cash balances, it will be able to operate its business normally.

### Capital Expenditures

The Company anticipates opening three replacement stores in fiscal 1992. The Company is in the process of a major installation of data processing equipment related to the new point of sale and merchandise information systems. This installation will be completed in fiscal 1992. The majority of this equipment will be leased. The Company anticipates that future needs for capital expenditures will be provided by operations, asset management and borrowings. Covenants contained in the Credit Agreement limit the Company's capital expenditures to \$5 million for each fiscal year, with any unused amounts carrying over to the following fiscal year. An unused amount of \$1.7 million was carried over at the end of fiscal year 1991.

### Effects of Inflation

The Company believes that there has not been a major impact from inflation on operations during the last two years.

## Item 8 - Financial Statements and Supplementary Data

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## Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.



## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors and Shareholder of  
Pay 'N Pak Stores, Inc.

We have audited the consolidated financial statements and the financial statement schedules of Pay 'N Pak Stores, Inc. and Subsidiaries listed in the index on page 31 of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pay 'N Pak Stores, Inc. and Subsidiaries as of February 23, 1991 and February 24, 1990, and the consolidated results of their operations and their cash flows for each of the three years in the period ended February 23, 1991 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

The accompanying financial statements and financial statement schedules have been prepared assuming that the Company will continue as a going concern. As discussed in Note 6 to the financial statements, the Company is in violation of certain covenants of its loan agreements. As a result, a significant portion of outstanding indebtedness of the Company has been classified as current at February 23, 1991. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 6. The financial statements, as of February 23, 1991 and for the year then ended, do not include any adjustments that might result from the outcome of this going concern uncertainty.

As discussed in Note 4 to the financial statements, the Company and its Subsidiaries changed their method of accounting for inventories in 1991.

*Coopers & Lybrand*

Seattle, Washington  
June 3, 1991



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED BALANCE SHEET**  
(In thousands)

	February 24, 1990	February 23, 1991
<b>ASSETS</b>		
Current assets:		
Cash	\$ —	\$ 4,585
Receivables	2,117	3,153
Income taxes receivable from Holdings	765	798
Merchandise inventories	112,494	109,750
Prepaid expenses	1,464	1,362
Total current assets	116,840	119,648
Property and equipment, at cost:		
Land	27,677	27,677
Buildings	46,976	46,976
Leasehold rights and improvements	51,537	52,354
Store equipment	44,308	44,917
Transportation equipment	1,394	1,152
Construction in progress	80	403
	171,972	173,479
Less accumulated depreciation	29,365	42,647
Net property and equipment	142,607	130,832
Other assets:		
Excess of purchase cost over values assigned to net assets acquired, net of accumulated amortization of \$6,320 in 1991 and \$4,463 in 1990	69,474	67,616
Deferred financing costs	7,751	5,805
Other	2,077	2,420
Total assets	\$338,749	\$326,321

See accompanying notes to consolidated financial statements



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED BALANCE SHEET**  
(In thousands)

	February 23, 1990	February 24, 1990	February 23, 1991
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>			
Current liabilities:			
Accounts payable		\$ 42,913	\$ 47,375
Accrued liabilities:			
Payroll and profit sharing		7,818	6,344
Taxes, other than income		3,195	4,252
Interest		6,704	5,860
Other		763	1,986
		<u>18,480</u>	<u>18,442</u>
Long-term debt due within one year:			
Bank debt		9,000	102,500
Senior subordinated debentures		—	110,000
Other		2,240	3,897
		<u>11,240</u>	<u>216,397</u>
Total current liabilities		72,633	282,214
Long-term debt, net of current portion		235,825	24,165
Deferred income taxes		13,834	10,216
Other		2,051	4,869
Commitments and contingencies			
Preferred stock, without par value, 1,000,000 shares authorized, none issued			
Shareholder's equity:			
Common stock, \$.10 par value, 20,000,000 shares authorized, 100 shares issued and outstanding		—	—
Paid-in capital		45,624	44,517
Deficit		(31,218)	(39,660)
Total shareholder's equity		<u>14,406</u>	<u>4,857</u>
Total liabilities and shareholder's equity		<u>\$338,749</u>	<u>\$326,321</u>

See accompanying notes to consolidated financial statements



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED STATEMENT OF OPERATIONS**  
(In thousands)

	Years ended		
	February 28, 1989	February 24, 1990	February 23, 1991
Net sales	\$462,794	\$461,631	\$498,364
Costs and Expenses:			
Cost of sales	319,278	312,832	344,845
Selling and administrative	96,213	95,718	110,667
Rent	11,408	11,982	12,273
Depreciation and amortization	19,095	18,064	17,811
Interest on long-term debt	31,569	31,572	30,219
Loss before income taxes and cumulative effect of change in accounting principle	(14,769)	(8,537)	(17,451)
Income tax benefit	2,553	2,375	5,729
Loss before cumulative effect of change in accounting principle	(12,216)	(6,162)	(11,722)
Cumulative effect of change in accounting principle (net of income taxes of \$2,011)	—	—	3,280
Net loss	<u>\$ (12,216)</u>	<u>\$ ( 6,162)</u>	<u>\$ (8,442)</u>

See accompanying notes to consolidated financial statements



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
(In thousands)

	Years ended		
	February 28, 1989	February 24, 1990	February 23, 1991
Cash flow from operating activities:			
Net loss	\$ (12,216)	\$ (6,162)	\$ (8,442)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	20,016	18,902	18,601
Cumulative effect of change in accounting principle	—	—	(3,280)
Other	(207)	—	—
Changes in:			
Receivables	(3,695)	605	(1,069)
Inventories (exclusive of cumulative effect of change in accounting principle)	7,065	(8,941)	8,035
Prepays	831	1,271	102
Accounts payable	4,870	1,790	4,462
Deferred taxes (exclusive of cumulative effect of change in accounting principle)	2,878	(1,666)	(5,629)
Accrued liabilities	(6,086)	2,767	(38)
Income taxes payable	(355)	4,783	—
Net cash provided by operating activities	13,101	13,349	12,742
Cash flow from investing activities:			
Purchase of fixed assets	(13,419)	(2,516)	(3,258)
Proceeds from sales of assets	302	40	447
Increase in acquisition and loan costs	(11,707)	(320)	—
Other	(1,689)	(314)	1,157
Net cash used in investing activities	(26,513)	(3,110)	(1,654)
Cash flow from financing activities:			
Payments on long-term debt	(75,356)	(10,489)	(6,503)
Proceeds from issuance of long-term debt	225,500	250	—
Proceeds from issuance of debentures	110,000	—	—
Net borrowings under short-term debt	(13,725)	—	—
Retirement of debt	(240,000)	—	—
Net cash (used in) provided by financing activities	6,419	(10,239)	(6,503)
Net increase (decrease) in cash	(6,993)	—	4,585
Cash at beginning of period	6,993	—	—
Cash at end of period	\$ —	\$ —	\$ 4,585

See accompanying notes to consolidated financial statements



**PAY 'N PAK STORES, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES**  
**IN SHAREHOLDER'S EQUITY**  
(In thousands)

	Common Stock		Paid-in	Deficit	Total
	Shares	Amount	Capital		
Balance March 1, 1988	100	\$ —	\$ 7,000	\$(12,840)	\$ (5,840)
Capital contribution of preferred stock by Prime			38,624		38,624
Net loss for the year ended February 28, 1989				(12,216)	(12,216)
Balance February 28, 1989	100	—	45,624	(25,056)	20,568
Net loss for the year ended February 24, 1990				(6,162)	(6,162)
Balance February 24, 1990	100	—	45,624	(31,218)	14,406
Write-off of receivable from Holdings			(1,107)		(1,107)
Net loss for the year ended February 23, 1991				(8,442)	(8,442)
Balance February 23, 1991	100	\$ —	\$44,517	\$(39,660)	\$ 4,857

See accompanying notes to consolidated financial statements



**PAY 'N PAK STORES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Basis of Presentation**

Pay 'N Pak Stores, Inc. ("Pay 'N Pak" or the "Company") is a wholly-owned subsidiary of PNP Prime Corporation ("Prime"), a holding company which is a wholly-owned subsidiary of PNP Holdings Corporation ("Holdings"), also a holding company. Prime and Holdings were formed in 1987 for the purpose of acquiring the outstanding common stock of Pay 'N Pak ("Pay 'N Pak Stock"). Until March, 1988, Pay 'N Pak was an 81% owned subsidiary of Prime. In March, 1988, Prime exchanged its Preferred Stock for the remaining 19% of outstanding Pay 'N Pak Stock that Prime did not already own.

The consolidated financial statements of Pay 'N Pak include the accounts of Pay 'N Pak and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

In February, 1990, Pay 'N Pak adopted a 52- or 53-week fiscal year with the year ending the last Saturday of February in order to better provide internal weekly operating data. As a result the fiscal year ended February 23, 1991 is three days longer than the year ended February 24, 1990 and the year ended February 24, 1990 is four days shorter than the prior fiscal year.

**2. Acquisition of Pay 'N Pak and Related Refinancing Activity**

On July 24, 1987, Prime, through a merger subsidiary, acquired approximately 81% of the outstanding Pay 'N Pak Stock for \$170,100,000. In March, 1988, after Prime exchanged its Preferred Stock for the remaining 19% of Pay 'N Pak Stock, and the merger subsidiary was merged into Pay 'N Pak, Pay 'N Pak became a wholly-owned subsidiary of Prime. The acquisition has been accounted for using the purchase method. The excess of the purchase cost over the net assets acquired has been allocated to assets and liabilities based on appraisals obtained and on management judgements. The excess cost not specifically allocated has been recorded as excess of purchase price over values assigned to net assets acquired ("Goodwill"). The fair value of the assets acquired was \$296,345,000 and the liabilities assumed were \$126,245,000. In March, 1988, the Company repaid certain indebtedness outstanding prior to its acquisition. Prepayment penalties of \$1,382,000 were paid and charged to expense as a result of the early payment.

**3. Significant Accounting Policies**

(a) Inventories - Merchandise inventories are stated at the lower of cost (determined on a first-in, first-out basis) or market, (See Note 4).

(b) Property and equipment - Depreciation of property and equipment is provided principally on the straight-line method. Depreciation rates are based on the following: buildings - 40 years; leasehold rights and improvements - the lesser of 10 to 20 years or life of the lease (principally 15 to 25 years) and equipment - 3 to 10 years. When assets are sold and leased back the gain or loss is deferred and credited or charged to income over the period of the lease.

(c) Goodwill and deferred financing costs - Goodwill is amortized over 40 years using the straight-line method. Deferred financing costs are amortized over the term of the debt to which the costs relate.

(d) Pre-opening costs - The Company charges such costs to expense as incurred.

(e) Interest Capitalization - Interest incurred related to the construction of property and equipment is capitalized. During the year ended February 23, 1991, the Company capitalized interest of \$33,000 and during fiscal 1990 and 1989 the Company capitalized interest of \$38,000 and \$580,000, respectively.

(f) In fiscal 1991, the Company wrote off amounts due from Holdings of approximately \$1,107,000. This write-off has been charged to paid-in capital in the current year.

(g) Reclassifications - Certain amounts in the fiscal 1989 and 1990 financial statements have been reclassified to conform to the fiscal 1991 presentation with no impact on previously reported net loss or shareholder's equity.



#### 4. Change in Accounting Principle — Inventories

Effective February 25, 1990, the Company changed its method of costing inventories, which had included vendor invoice cost plus certain freight costs, to additionally include applicable purchasing, receiving, handling and warehousing costs, net of cash discounts and volume rebates. These additional inventory-related expenditures, included in prior years in selling and administrative, rent and depreciation and amortization expenses, have now been included in cost of sales and inventories. Prior years' statements of operations have been reclassified for consistency with the current year presentation. This change constitutes a refinement of the inventory costing procedure and more properly matches revenues and costs. As a result of the change, inventories at February 23, 1991 increased by approximately \$5.0 million.

The cumulative effect of this change for the periods previous to February 25, 1990, which totaled \$3,280,000 (net of income taxes of \$2,011,000) has been included in the statement of operations for the year ended February 23, 1991. The loss before the cumulative effect of the change in accounting principle for the year ended February 23, 1991 was increased by \$160,000 (net of income taxes of \$98,000) as a result of the change.

Pro forma amounts assuming the change in accounting principle was retroactively applied are as follows:

	<u>1989</u>	<u>1990</u>
Net loss, as reported	<u>\$12,216,000</u>	<u>\$6,162,000</u>
Pro forma net loss	<u>\$12,931,000</u>	<u>\$5,667,000</u>

#### 5. Employee Benefit Plan

After two years of employment, all employees participate in the Company's Security Builder Plan, a defined contribution plan. The Company contributes a percentage of each participant's eligible compensation up to \$30,000 per employee. The percentage is determined each year at the discretion of the Board of Directors of the Company. The total contribution to this plan was \$1,072,000, \$2,889,000 and \$1,981,000 in fiscal 1991, 1990 and 1989, respectively.

#### 6. Bank Credit Arrangements and Long-Term Debt

Under a credit agreement, as amended, (the "Credit Agreement") among the Company, the financial institutions parties thereto (the "Bank Group") and Manufacturers Hanover Trust Company ("MHTC"), the Company has a total bank commitment of \$112,750,000, consisting of a \$52,750,000 term loan and a \$60,000,000 revolving credit facility. The amount of the facility has decreased from \$180,000,000 at the date of the merger, as scheduled term loan payments have been made and as a result of a principal payment related to the sale in June, 1988 of the 13 1/2% Senior Subordinated Debentures due June, 1998 (the "Debentures"). As a result of the sale of the Debentures, the Company amortized to expense \$1.0 million of deferred loan costs related to the debt discharged with the proceeds from the Debentures. The Credit Agreement carries interest at the rate of 2% above MHTC's base rate or 3 1/4% above several Eurodollar market rates at the Company's option and the Company is charged a commitment fee of 1/2 of 1% on the unused portion of the commitment. The Credit Agreement contains restrictions on interest coverage, the ratio of liabilities to equity, dividends, as well as other restrictions. A portion of the loans under the Credit Agreement are guaranteed by an affiliate of the principal shareholder of Holdings; also, one of the banks participating in the Credit Agreement is an affiliate of a shareholder of Holdings. All inventory and property and equipment not otherwise pledged, as well as the stock of the subsidiaries, have been pledged as collateral under the Credit Agreement. As of February 23, 1991, the Company had \$4,380,000 of unused credit available under the Credit Agreement.

In June, 1988, the Company issued \$110,000,000 of Debentures. The indenture relating to the Debentures contains certain covenants including restrictions on the payment of cash dividends, the repurchase of capital stock, the incurrence of indebtedness senior to or pari passu with the Debentures, as well as restrictions on certain mergers or sales of assets. The Debentures are redeemable at the option of the Company, in whole or in part, at any time after June, 1991, initially at 108% of principal amount and declining ratably to 100% in June, 1995.







Long-term debt outstanding is shown in the following summary (in thousands):

	February 24, 1990	February 23, 1991
11 1/2% mortgage payable, due \$2,512 in 1992 increasing to \$3,230 in 1995 and \$1,261 in 1996	\$ 14,500	\$ 12,978
8 1/4% to 11% (average 9.5%) mortgage notes payable, due \$777 in 1992 and in varying amounts to 2002	2,955	1,988
Capitalized lease obligations (\$28,374), less imputed interest (\$15,277) payable approximately \$2,100 per year including imputed interest, weighted average 9.6%, final payment September 2013	13,610	13,096
Amounts due to banks under Credit Agreement, \$49,750 under the revolving line of credit (expires in February, 1993) with the remainder under the term loan, scheduled payments without consideration of the possible acceleration discussed above, are \$17,000 in 1992, \$12,600 in 1993, \$17,625 in 1994 and \$5,525 in 1995; interest at MHTC's base rate plus 2% or 3 1/4% above Eurodollar market rates (average 10.7% at February 23, 1991)	106,000	102,500
13 1/2% Senior Subordinated Debentures, payable in semi-annual installments of interest only	110,000	110,000
	<u>247,065</u>	<u>240,562</u>
Less amounts due within one year:		
Bank debt	9,000	102,500
Senior subordinated debentures	—	110,000
Other	2,240	3,897
	<u>11,240</u>	<u>216,397</u>
Long-term debt, net of current portion	<u>\$235,825</u>	<u>\$ 24,165</u>

Interest payments (in thousands) were \$36,165 for the year ended February 28, 1989, \$27,193 for the year ended February 24, 1990 and \$29,417 for the year ended February 23, 1991. Required payments of the principal of long-term debt and capitalized lease obligations (exclusive of imputed interest amounts) for the four years ending February 24, 1996 are as follows: 1993 - \$3,579; 1994 - \$4,739; 1995 - \$4,096 and 1996 - \$2,156.

## 7. Preferred Stock of Prime

In March, 1988, Prime issued 1,870,151 shares of Preferred Stock in exchange for the remaining common stock outstanding of Pay 'N Pak. The Preferred Stock has a liquidation preference of \$22.31 per share; dividends accrue quarterly at the rate of 17% per annum and are fully cumulative. Dividends on the Preferred Stock are payable in additional shares of Preferred Stock until March, 1993, at which time such dividends as are declared will be payable in cash. The ability of Prime to pay dividends on the Preferred Stock is dependent on Pay 'N Pak's ability to pay dividends to Prime in an amount sufficient to satisfy the obligations of Prime. Under the terms of the Credit Agreement the payment of cash dividends by Pay 'N Pak to Prime is prohibited until 1993. There can be no assurance that Pay 'N Pak will be able to pay cash dividends to Prime in an amount sufficient to permit Prime to pay cash dividends on the Preferred Stock, or, if sufficient cash is available to Prime to pay cash dividends on the Preferred Stock, that Prime's Board of Directors will declare and pay cash dividends on the Preferred Stock.

In June, 1988, the Company issued \$110,000,000 of Debentures. The Debentures are payable in cash or in kind, at the option of the Company, in whole or in part, at any time after June, 1991, initially at 100% of principal amount and declining ratably to 100% in June, 1995.



## 8. Income Taxes

The Company has adopted the liability method of accounting for income taxes pursuant to FAS 96. Under FAS 96, deferred income taxes are recorded to reflect the future tax consequences of differences between tax bases of assets and liabilities and their financial reporting amounts at each year end. The types of differences that give rise to significant portions of deferred income tax liabilities and assets are: fixed asset basis, depreciation lives and methods; capitalized leases; and estimated liabilities for store closures.

The Company files its federal income tax returns on a consolidated basis with its parent companies. Holdings allocates the consolidated federal income tax provision (benefit) using the separate tax return method.

The provision for (benefit of) income taxes is comprised of the following (in thousands):

	Year ended		
	February 28, 1989	February 24, 1990	February 23, 1991
Current federal income tax provision (benefit)	\$(5,000)	\$ (408)	\$ (100)
Current state income taxes	(897)	—	—
Deferred income tax provision (benefit)	3,344	(1,967)	(5,629)
	<u>\$(2,553)</u>	<u>\$(2,375)</u>	<u>\$(5,729)</u>

The effective tax rate on the loss before the cumulative effect of the change in accounting principle differs from the statutory federal income tax rate as follows:

	Year ended		
	February 28, 1989	February 24, 1990	February 23, 1991
<b>(Benefit) expense:</b>			
Statutory rate	(34.0)%	(34.0)%	(34.0)%
Goodwill amortization	18.7	7.4	4.0
Other permanent differences	2.9	—	—
State income tax	(3.1)	(1.5)	(1.3)
Rate differences due to net operating loss carrybacks to previous years	(5.2)	—	—
Other	3.6	0.3	(1.5)
	<u>(17.1)%</u>	<u>(27.8)%</u>	<u>(32.8)%</u>

The tax expense related to the cumulative effect of the change in accounting principle differs from the amount calculated using the statutory tax rate of 34%, due to the effects of state income taxes (at a rate of 4%).

At February 23, 1991, the Company has the following income tax carry-forwards available (in thousands):

	Tax Purposes	Year of Expiration
Federal tax operating loss carry-forward	\$ 378	2003
	\$ 170	2004
	\$4,783	2005
	\$2,962	2006
Federal alternative minimum tax credit carry-forwards against regular tax	\$ 173	Indefinite

For financial reporting purposes, net operating losses have been utilized to offset deferred income taxes. Cash paid (received) for income taxes was (in thousands) \$(2,391) for the year ended February 28, 1989, \$(5,492) for the year ended February 24, 1990 and \$(67) for the year ended February 23, 1991.



## 9. Leases and Contingencies

The Company leases 85 of its retail store facilities, its distribution center and home office. Certain of the leases have been capitalized. Leasehold rights and improvements include \$24,426,000 in both 1991 and 1990 for capitalized leases for retail stores, and accumulated depreciation and amortization includes \$7,268,000 in 1991 and \$4,800,000 in 1990 applicable thereto.

Most lease arrangements provide for minimum rental payments on the basis of lapse of time, with many leases providing for additional percentage rentals based on individual store's annual sales in excess of a specified amount. The Company has options to renew most leases for three to five year periods. In some cases, rent is subject to renegotiation in the event the Company exercises its option to renew. There are no options to purchase leased property.

Rental expense and percentage rentals were as follows (in thousands):

	Year ended		
	February 28, 1989	February 24, 1990	February 23, 1991
Rental expense from operating leases	\$11,887	\$12,969	\$13,419
Percentage rental expense	\$838	\$684	\$991

Minimum annual rental commitments, exclusive of insurance and property taxes, under non-cancellable operating leases are payable as follows (in thousands):

Year ending February	
1992	\$12,988
1993	\$12,673
1994	\$12,078
1995	\$11,743
1996	\$11,156
Later years	\$88,224

In fiscal 1991, the Company began installation of a point of sale information system. Aggregate future costs of equipment to be leased under that program are expected to be approximately \$7.9 million upon completion of the installation.

The Company is a defendant in several legal actions arising in the ordinary course of its business. In the opinion of management, the expected outcome of any litigation is not likely to have a significant effect on the financial position or results of operations of the Company.



### PART III

#### Item 10 - Directors and Executive Officers of Pay 'N Pak

The name, age and principal occupation during the past five years of each director or executive officer of the Company are set forth below:

Name	Age	Director Since	Principal Occupation
C. Sean Day	42	1987	President and Chief Executive Officer of Navios Corporation, a ship owning and operating company, since May 1989. Vice President of Citicorp Capital Investors, Ltd. (now known as Court Square Capital Limited ("CSCL")) and CVCL from 1987 to 1989. From 1983 to 1987, Mr. Day was a director, Executive Vice President and Chief Operating Officer of Navios Corporation. Director of Holdings and Prime since March, 1988 and June, 1987, respectively.
John W. Heilshorn	64	1988	Principal of the AvenirGroup, Inc., development bankers, headquartered in Troy, Michigan. Mr. Heilshorn was Executive Vice President of the Travelers Corp., Hartford, Connecticut from 1985 to 1987. He has been a banker since 1949 and retired from Citibank in 1985 as an Executive Vice President. Director of Holdings and Prime since July, 1988.
Byron L. Knief	48	1989	Senior Vice President of CSCL, CVCL and Citibank since 1985. From 1986 through 1987, Mr. Knief was an assistant to the Chairman of Citicorp. From 1981 through 1985, he was the Director of Marketing for the National Banking Group of Citibank. Mr. Knief is a Director of Morse Shoe, Inc. Director of Holdings and Prime since July, 1989.
Gregory B. Maffei	31	1991	Executive Vice President and Chief Financial Officer since April, 1991. From 1988 through March, 1991, Mr. Maffei was a Vice President of CSCL and CVCL. From 1982 through 1984 and 1986 through 1988, Mr. Maffei was an Associate at Dillon, Read & Co. Inc. Mr. Maffei is a Director of Cort Furniture Rental Corporation, Huntsville Television Acquisition Corp. and Mohawk Carpet Corporation. Director of Holdings and Prime since April, 1991.
John H. Markley	51	1989	Chairman of the Board and Chief Executive Officer since August, 1989. From 1985 through July, 1989, Mr. Markley owned RE/MAX Riviera Realty in Dana Point, California. From 1980 through 1985, he was President of Grace Home Centers - West and Cashway/Allwood Home Improvement Centers. Director of Holdings and Prime since August, 1989.



## Executive Officers of Pay 'N Pak Who Are Not Directors

Name	Age	Position
Richard T. Takata	41	Executive Vice President since March, 1988 and Senior Vice President-Merchandising since 1986. From 1982 to 1986, Mr. Takata was Merchandise and Sales and Promotion Manager for Ole's Home Centers (Grace Home Centers-West).
John P. Foucrier	49	Senior Vice President-Administration and Human Resources since February, 1990. From 1986 to 1990, Mr. Foucrier was Vice President of Human Resources and Risk Management of Builder's Emporium (Wickes Company).
Peter W. Gallina	55	Senior Vice President-Real Estate and Store Development since 1985. From 1977 to 1985, Mr. Gallina was Vice President-Real Estate and Store Development.
Douglas W. Haskins	51	Senior Vice President-Operations since October, 1989. From 1988 through 1989, Mr. Haskins was self-employed working on retail site selection and stores planning. From 1986 through 1988, Mr. Haskins was a regional manager for Builders Square. From 1985 through 1986, Mr. Haskins was Vice President and Regional Manager for Grace Home Centers-West.
Victor T. Lucia	40	Senior Vice President-Marketing since 1987. From 1985 to 1987, Mr. Lucia was Senior Vice President-Marketing for Ernst Home & Nursery and, for six years prior thereto, Mr. Lucia served as Vice President-Marketing for Grace Home Centers-West.
Richard A. Matthews	48	Senior Vice President-Information Services of Pay 'N Pak since November 1989. From 1984 to 1989, Mr. Matthews was Vice President of Management Information Systems for Builder's Emporium (Wickes Company).
Barbara I. Collett	35	Vice President-Personnel and Labor Relations since 1985. From 1979 to 1985, Ms. Collett was Personnel Director.
Fred R. Brotherton	46	Vice President-Finance and Secretary since January, 1991. Acting Chief Financial Officer, Vice President-Finance and Secretary June, 1990 to January, 1991. Vice President - Human Resources from September, 1989 to June, 1990. Vice President and Controller from 1985 to September, 1989. From 1982 to 1985, Mr. Brotherton was Controller.
Wayne R. Hamilton	43	Vice President-Distribution Services since August, 1990. From 1988 to August, 1990, Mr. Hamilton was Vice President-Consulting Services for Chase Trans-Info. From 1986 to 1988, Mr. Hamilton was Vice President-Logistics for the Nursery Products Division of Weyerhaeuser Corporation. From 1981 to 1986, Mr. Hamilton was Director of Distribution Services for Bergen Brunswig Corporation.
Stanley J. Jarmiolowski	52	Vice President-Treasurer since October, 1990. Prior to October, 1990, Mr. Jarmiolowski was Banking Center President, El Paso, Texas, of NCNB Texas, successor to First Republic Bancorporation, successor to Interfirst Bancorporation.

Except for Mr. Markley and Mr. Maffei, the term of office of each of the above officers is until the next annual meeting of the board of directors of the Company following the annual meeting of stockholders. There are no arrangements or understandings between any of the above officers, except Mr. Markley and Mr. Maffei, and any other person pursuant to which he or she was elected as an officer. Mr. Markley and Mr. Maffei each have employment contracts with the Company and Holdings, described below in Item 11.

There are no family relationships among the directors or executive officers.



## Item 11 - Executive Compensation

The following table sets forth all cash compensation paid by the Company for the fiscal year ended February 23, 1991, to each of the five most highly compensated executive officers whose cash compensation exceeded \$60,000, and to all executive officers as a group.

Name of Individual or Number in Group	Capacities in which served	Cash Compensation
John H. Markley (1)	Chairman of the Board, Chief Executive Officer and Director	\$ 358,000
John P. Foucrier	Senior Vice President-Administration and Human Resources	\$ 177,000
Richard T. Takata	Executive Vice President	\$ 169,000
Douglas G. Southern (2)	Senior Vice President-Finance and Secretary-Treasurer	\$ 144,000
Victor T. Lucia	Senior Vice President-Marketing	\$ 137,000
All executive officers as a group (13 persons)		\$2,025,000

(1) Cash compensation does not include incentive compensation of \$175,000 received by Mr. Markley pursuant to his employment contract with the Company and Holdings.

(2) Mr. Southern resigned June 13, 1990.

The Company maintains an individual account savings plan under which all employees with two years or more of service are participants. The Company makes a contribution each plan year (which is a calendar year and not a fiscal year) for the account of each participant based on an amount equal to a percentage as determined by the Board of Directors. The percentage is applied times the total eligible compensation, a maximum of \$30,000, earned by each participant during the plan year. All contributions are fully vested. For the plan year ended December 31, 1990, the Company contributed 3.7% of eligible compensation, or a maximum of \$1,110, for the account of each of the executive officers in the cash compensation table except Messrs. Markley and Foucrier who were not employed by the Company long enough to be eligible participants during such plan year and \$8,880 for the executive officers as a group.

John H. Markley and Gregory B. Maffei each have an employment contract with the Company and Holdings that, in addition to salary and other standard benefits, provides incentive cash compensation during the period of his employment based on percentages of his salary if the Company attains certain financial performance goals. Upon a change of control of the Company (as defined in each employment contract) and the failure of the Company or an affiliate of the Company to offer Mr. Markley or Mr. Maffei, respectively, equivalent employment within 90 days after the change of control, each would be entitled to receive an amount equal to (i) his base salary for the period from the effective date of the change of control through a date thirteen months before the termination date of his employment contract less (ii) the amount, if any, by which the fair market value of all stock options held by him exceed \$100,000. Mr. Markley and Mr. Maffei have options to purchase 37,500 and 25,000 shares, respectively, of Holdings Voting Common Stock (the "Stock") at an exercise price of \$1.00 per share, a portion of such options is subject to certain vesting and performance requirements. Although there is no market for the Stock, Holdings believes the market value of the Stock was below the exercise price of the options on the dates the options were granted.



The officers listed below also have options to purchase the amount of shares of Stock indicated at an exercise price of \$14.00 per share pursuant to individual non-qualified stock option agreements among each officers listed and Holdings. Each of these options is fully vested and terminates on the earlier of thirty days after the termination of the officer's employment with Holdings or one of its subsidiaries or ten years from the date of each agreement. Although there is no market for the Stock, Holdings believes the market value of the Stock was below the exercise price of the options on the dates the options were granted.

Name	Position	Number of Shares
Douglas W. Haskins	Senior Vice President-Operations	5,000
John P. Foucrier	Senior Vice President-Administration and Human Resources	5,000
Richard A. Matthews	Senior Vice President-Information Services	5,000
Stanley J. Jarmiolowski	Vice President-Treasurer	5,000
Fred R. Brotherton	Vice President-Finance and Secretary	3,000

The Company has a Salary Continuation Plan (the "Plan") that provides retirement benefits for key executive officers of the Company. The Plan presently covers eight current and eight former officers of the Company. Upon retirement at age 65, each such officer, or in the event of death, his beneficiary, will receive a defined benefit equal to 1.75% of such officer's 1990 or 1985 compensation multiplied by his or her years of service with the Company, payable in monthly installments for a period of 180 months or, at the discretion of the Board of Directors, in a lump sum payment discounted to the then present value. The Plan is funded by insurance. No payments have been made under the Plan to date.

The Company's executive officers who are directors do not receive any fees for serving on the Board of Directors. The Company's outside directors, other than Mr. Knief, each receive \$20,000 as an annual fee for all services performed by them as directors. They do not receive any additional amounts for attendance at meetings, committee participation or special assignments.

Mr. Southern, formerly Senior Vice President-Finance and Secretary-Treasurer of the Company, resigned June 13, 1990. Pursuant to an agreement with the Company and Holdings, Mr. Southern receives the base salary he received at the time of his resignation through the payroll period ending June 11, 1991, a bonus of \$16,000 in June, 1990, and medical and dental insurance coverage through June, 1991.

David J. Heerensperger, formerly the Chairman of the Board and Chief Executive Officer of the Company, resigned August 1, 1989. Pursuant to an agreement with the Company and Holdings, Mr. Heerensperger receives \$300,000 per year plus medical and dental insurance coverage for a three year period following his resignation. In addition, at age 65, Mr. Heerensperger will receive a benefit under the Company's Salary Continuation Plan described above.

Except for Mr. Markley and Mr. Maffei, the term of office of each of the above officers is until the next annual meeting of the board of directors of the Company following the annual meeting of stockholders. There are no arrangements or understandings between any of the above officers, except Mr. Markley and Mr. Maffei, and any other person pursuant to which he or she was elected as an officer. Mr. Markley and Mr. Maffei each have employment contracts with the Company and Holdings, described below.

There are no family relationships among the directors or executive officers.



## Item 12 - Security Ownership of Certain Beneficial Owners and Management

### (a) Ownership of Certain Beneficial Owners

All of the Company's common stock is beneficially owned by Prime which has the same address as the Company.

The authorized common stock of Holdings consists of Class A Common Stock, par value \$.01 per share ("Holdings Voting Common Stock"), and Class B Common Stock, par value \$.01 per share ("Holdings Non-Voting Common Stock") ("Holdings Voting Common Stock and Non-Voting Common Stock are referred to collectively as "Holdings Stock"). The table below sets forth certain information as of May 1, 1991 regarding each person who owns of record or beneficially 5% or more of the outstanding shares of Holdings Stock. Such beneficial owners own their shares directly and have sole voting and investment power with respect to their shares except as indicated in footnote (2) below.

Name and Address of Beneficial Owner	Number of Shares of Holdings Stock	Percentage Outstanding Shares of Holdings Stock	Percentage of Voting Common Stock
Citicorp Venture Capital Ltd. (1) 399 Park Avenue New York, NY 10043	310,500	71.8%	49.0%
Manufacturers Hanover Venture Capital Corporation 270 Park Avenue New York, NY 10017	27,500	6.4%	3.5%
Byron L. Knief, as Voting Trustee (2) 399 Park Avenue New York, NY 10043	26,500	6.1%	—

(1) Pursuant to the regulations promulgated under the Small Business Investment Act of 1958, as amended, except in certain limited circumstances, CVCL and its affiliates may not own, control or have the power to vote 50% or more of Holdings Voting Common Stock.

(2) Mr. Knief holds sole voting power of 26,500 shares deposited in a voting trust created by several holders of Holdings Non-Voting Common Stock. The Voting Trust Agreement was entered into in January, 1990 and has a duration of ten years although any holder may withdraw his or her shares at any time upon giving appropriate notice.



## Item 12 - Security Ownership of Certain Beneficial Owners and Management, (Continued)

### (b) Ownership by Directors and Officers

The table below sets forth certain information as of May 1, 1991 regarding the amount of Holdings Stock beneficially owned by each director of Holdings and by all directors and officers of Holdings as a group. These persons own their shares directly and have sole voting and investment power with respect to their shares.

Name of Individual or Number in Group	Number of Shares of Holdings Stock	Percentage Outstanding Shares of Holdings Stock	Percentage of Voting Common Stock
John H. Markley (1)	41,000	8.7%	22.3%
C. Sean Day	8,000	1.8%	5.6%
John W. Heilshorn	2,500	0.6%	1.7%
Byron L. Knief (2)	26,500	6.1%	—
Gregory B. Maffei (3)	15,000	3.4%	9.5%
All directors and officers as a group (9 persons) including those listed above (4)	37,250	8.6%	26.0%

(1) Assumes exercise of currently exercisable options to purchase 32,500 shares of Holdings Voting Common Stock held by Mr. Markley.

(2) Mr. Knief is the voting trustee of 26,500 shares deposited in a voting trust. See Item 12, footnote (2) above. These shares are currently non-voting securities. Mr. Knief disclaims beneficial ownership of 24,000 of these shares.

(3) Assumes exercise of currently exercisable options to purchase 15,000 shares of Holdings Voting Common Stock held by Mr. Maffei.

(4) Assumes exercise of currently exercisable options to purchase (1) 32,500 shares of Holdings Voting Common Stock held by Mr. Markley; (2) 15,000 shares of Holdings Voting Common Stock held by Mr. Maffei; and (3) 23,000 shares of Holdings Voting Common Stock held by five members of management.

## Item 13 - Certain Relationships and Related Transactions

Shares of Holdings Voting Common Stock sold to certain members of the current and previous management of the Company are subject to restrictions on transfer. In addition, such securities are subject to certain rights of repurchase in the event of termination of employment with the Company at formula prices that will depend upon the date employment terminates.

The security holders of Holdings entered into a Securities Purchase and Holders Agreement pursuant to which, among other things, (i) the holders agree that, upon approval of the sale of Holdings in a transaction (whether by merger, consolidation or sale of assets or stock) by the Board of Directors and holders of a majority of Holdings Common Stock, each holder will participate in the sale on the same terms as all other holders and (ii) Holdings will provide certain financial information to the holders.

Under a separate Registration Rights Agreement for Common Stock, Holdings granted all holders of its common stock the right, subject to certain limitations, to have their shares of common stock included in offerings of common stock by Holdings registered under the Securities Act of 1933, as amended.

The Company must pay to MHTC, as Agent for the Bank Group under the Credit Agreement, an annual agent's fee of \$125,000, payable in advance for each year.



## PART IV

### Item 14 - Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) *Financial Statements.*

The financial statements and schedules listed in the accompanying index to consolidated financial statements and financial statement schedules are filed as part of this Annual Report on Form 10-K.

(b) *Exhibits.* See page 37 for index to exhibits.

(c) *Reports on Form 8-K.* No reports on Form 8-K were filed during the last quarter of the period covered by this report.

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#### Pay 'N Pak Stores, Inc. (Pay 'N Pak)

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# **PAY 'N PAK STORES, INC.**

## **SCHEDULE IV - INDEBTEDNESS TO RELATED PARTIES - NOT CURRENT**

**For the years ended February 23, 1991, February 24, 1990 and February 28, 1989**

Name of Person	Balance at beginning of period	Additions	Deductions	Balance at end of period
<b>1991</b>	\$ —	\$ —	\$ —	\$ —
<b>1990</b>	\$ —	\$ —	\$ —	\$ —
<b>1989</b>				
Citicorp Capital Investors, Ltd. (1)	\$90,000,000	\$ —	\$90,000,000	\$ —
Manufacturers Hanover Trust Company (2)	\$85,000,000	\$ —	\$85,000,000	\$ —

- (1) Bridge loan carried interest at the rate of prime plus 6% (the rate was prime plus 5% for the first three months). Paid March 22, 1988.
- (2) Bridge loan carried interest at the rate of prime plus 1 1/2%. Paid March 22, 1988.



# **PAY 'N PAK STORES, INC.**

## **SCHEDULE V - PROPERTY AND EQUIPMENT**

**For the years ended February 23, 1991, February 24, 1990 and February 28, 1989**

**(In thousands)**

	Balance at beginning of period	Additions, Transfers at Cost	Retirements or Sales	Balance at end of period
<b>1991</b>				
Land	\$ 27,677	\$ —	\$ —	\$ 27,677
Buildings	46,976	—	—	46,976
Leasehold rights and improvements	51,537	1,523	706	52,354
Store equipment	44,308	1,367	758	44,917
Transportation equipment	1,394	18	260	1,152
Construction in progress	80	350	27	403
	<u>\$171,972</u>	<u>\$ 3,258</u>	<u>\$ 1,751</u>	<u>\$173,479</u>
<b>1990</b>				
Land	\$ 27,677	\$ —	\$ —	\$ 27,677
Buildings	46,976	—	—	46,976
Leasehold rights and improvements	51,717	1,073	1,253	51,537
Store equipment	43,611	1,593	896	44,308
Transportation equipment	1,334	60	—	1,394
Construction in progress	290	(210)	—	80
	<u>\$171,605</u>	<u>\$ 2,516</u>	<u>\$ 2,149</u>	<u>\$171,972</u>
<b>1989</b>				
Land	\$ 21,186	\$ 6,491	\$ —	\$ 27,677
Buildings	37,359	9,617	—	46,976
Leasehold rights and improvements	48,335	4,281	899	51,717
Store equipment	36,945	8,576	1,910	43,611
Transportation equipment	1,385	2	53	1,334
Construction in progress	15,838	(15,548)	—	290
	<u>\$161,048</u>	<u>\$13,419</u>	<u>\$ 2,862</u>	<u>\$171,605</u>



# **PAY 'N PAK STORES, INC.**

## **SCHEDULE VI - ACCUMULATED DEPRECIATION OF PROPERTY AND EQUIPMENT**

For the years ended February 23, 1991, February 24, 1990 and February 28, 1989

(In thousands)

	Balance at beginning of period	Additions or Transfers	Retirements or Sales	Balance at end of period
<b>1991</b>				
Buildings	\$ 3,117	\$ 1,295	\$ —	\$ 4,412
Leasehold rights and improvements	9,570	5,053	530	14,093
Store equipment	15,838	7,836	540	23,134
Transportation equipment	840	184	16	1,008
	<u>\$29,365</u>	<u>\$14,368</u>	<u>\$ 1,086</u>	<u>\$42,647</u>
<b>1990</b>				
Buildings	\$ 1,822	\$ 1,295	\$ —	\$ 3,117
Leasehold rights and improvements	5,545	4,980	955	9,570
Store equipment	8,300	8,175	637	15,838
Transportation equipment	601	239	—	840
	<u>\$16,268</u>	<u>\$14,689</u>	<u>\$ 1,592</u>	<u>\$29,365</u>
<b>1989</b>				
Buildings	\$ 603	\$ 1,219	\$ —	\$ 1,822
Leasehold rights and improvements	983	5,050	488	5,545
Store equipment	1,698	8,158	1,556	8,300
Transportation equipment	347	307	53	601
	<u>\$3,631</u>	<u>\$14,734</u>	<u>\$ 2,097</u>	<u>\$16,268</u>



# **PAY 'N PAK STORES, INC.**

## **SCHEDULE IX - SHORT-TERM BORROWINGS**

For the years ended February 23, 1991, February 24, 1990 and February 28, 1989

	Balance at end of period	Weighted average interest rate of end of period	Maximum amount outstanding at any month-end during period	Average amount outstanding during the period (1)	Weighted average interest rate during the period (1)
Notes payable to banks:					
February 23, 1991	—	—	—	—	—
February 24, 1990	—	—	—	—	—
February 28, 1989	—	—	—	\$ 511,000	7.5%

(1) The average amount outstanding for the period was computed by averaging the daily balances during the period. The weighted average interest rate for the period was computed by dividing interest incurred by the average amount outstanding.

# **PAY 'N PAK STORES, INC.**

## **SCHEDULE X - SUPPLEMENTAL INCOME STATEMENT INFORMATION**

For the years ended February 28, 1989, February 24, 1990 and February 23, 1991

	February 28, 1989	February 24, 1990	February 23, 1991
Advertising Costs	\$16,991,000	\$17,270,000	\$18,143,000



## SIGNATURES.

Pursuant to the requirements of the Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on June 7, 1991.

### PAY 'N PAK STORES, INC.

By /s/ Fred R. Brotherton  
Fred R. Brotherton  
Vice President-Finance  
(Principal Accounting Officer)

### PAY 'N PAK STORES, INC.

By /s/ Gregory B. Maffei  
Gregory B. Maffei  
Executive Vice President and  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the registrant in the capacities indicated on June 7, 1991.

/s/ John H. Markley  
John H. Markley  
Chairman of the Board,  
Chief Executive Officer and  
President (Principal Executive Officer)

Dated: June 7, 1991

/s/ Gregory B. Maffei  
Gregory B. Maffei  
Executive Vice President,  
Chief Financial Officer and  
Director (Principal Financial Officer)

Dated: June 7, 1991

/s/ Byron L. Knief  
Byron L. Knief  
Director

Dated: June 7, 1991

/s/ C. Sean Day  
C. Sean Day  
Director

Dated: June 7, 1991

/s/ John W. Heilshorn  
John W. Heilshorn  
Director

Dated: June 7, 1991

**Supplemental Information to be Furnished with Reports Filed Pursuant to Section 15(d) of the act by Registrants Which Have Not Registered Securities Pursuant to Section 12 of the Act.**

No annual reports or proxy material have been sent to security holders of the Registrant.





## EXHIBIT INDEX

- 3.1 Amended and Restated Articles of Incorporation of Pay 'N Pak Stores, Inc. ("Pay 'N Pak").
- 3.2 Bylaws (incorporated by reference to Exhibit 3.2 to the S-1 Registration Statement).
- 4.1 Form of Indenture dated as of June 1, 1988, between Pay 'N Pak and Bankers Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 to Amendment No. 1 to the Registration Statement on S-1 of Pay 'N Pak, No. 33-18484 (the "S-1 Amendment")).
- 4.2 Specimen of 13 1/2% Senior Subordinated Debenture due 1998 (included as Exhibit A to Exhibit 4.1) (incorporated by reference to Exhibit 4.2 to the S-1 Amendment).
- 4.3 Certificate of Designation relating to the 17% Cumulative Exchangeable Redeemable Preferred Stock ("Preferred Stock") of PNP Prime Corporation ("Prime") (incorporated by reference to Exhibit 4.7 to the S-1 Amendment).
- 4.4 Specimen of Preferred Stock Certificate (incorporated by reference to Exhibit 4.8 to the S-1 Amendment).
- 4.5 Form of 17% Exchange Debenture due 2000 (incorporated by reference to Exhibit 4.9 to the S-1 Amendment).
- 4.6 Credit Agreement dated March 22, 1988, among Pay 'N Pak Acquisition Corporation ("Acquisition"), Manufacturer's Hanover Trust Company and the CIT Group/Business Credit, Inc. and Manufacturer's Hanover Trust Company, as Agent (the "Credit Agreement") (incorporated by reference to Exhibit 4.10 to the S-1 Amendment).
- 4.7 Amendment No. 1 to Credit Agreement, dated as of May 16, 1988 (incorporated by reference to Exhibit 4.11 to Prime's Form 10-K filed for the fiscal year ended February 29, 1988).
- 4.8 Amendment No. 2 to Credit Agreement, dated as of May 15, 1989 (incorporated by reference to Exhibit 4.8 to Pay 'N Pak's Form 10-K filed for the fiscal year ended February 28, 1989).
- 4.9 Third amendment to Credit Agreement, dated as of February 22, 1990 (incorporated by reference to Exhibit 4.9 to Pay 'N Pak's Form 10-K filed for the fiscal year ended February 24, 1990).
- 4.10 Fourth Amendment to Credit Agreement, dated as of November 24, 1990.
- 4.11 Waiver to Credit Agreement, dated as of February 28, 1991.
- 9.1 Voting Trust Agreement dated January 1, 1990 by and among Byron L. Knief, as Voting Trustee and the stockholders named therein.
- 10.1 Salary Continuation Plan dated June 18, 1985, covering key executive officers of Pay 'N Pak (incorporated by reference to Exhibit 10.6 to Amendment No. 1 to the Registration Statement on Form S-4 of Prime No. 33-18629).
- 10.2 Agreement dated May 11, 1989, by and among PNP Holdings Corporation ("Holdings"), Pay 'N Pak and David J. Heerensperger (incorporated by reference to Exhibit 10.2 to Pay 'N Pak's Form 10-K filed for the fiscal year ended February 28, 1989).



