Pueblo International, Inc.
1979 Annual Report

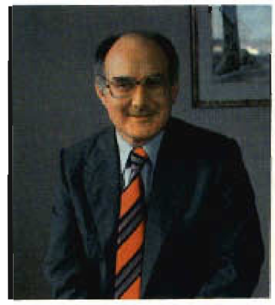
On the Cover

"I am a sweet temptation" says the emblem on a young customer's shirt at the self service cafeteria of our new Pueblo supermarket in Plaza Carolina. The slogan is a promotion for Holsum cakes, but fits the smiling youngster as well. Her snack is an *empanadilla,* a meat-filled turnover produced at Pueblo's own distribution center and sold throughout the chain.

Financial Highlights

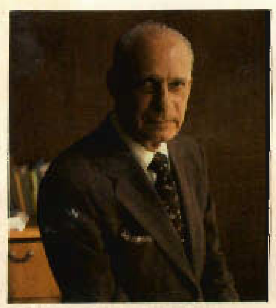
Fiscal year ended
the last Saturday in January
(Dollars in thousands except per common share amounts)

	1979	1978
Net sales	$296,170	$335,680
Earnings before income taxes	6,610	5,638
Net earnings	3,975	2,308
Working capital	8,413	6,395
Stockholders' equity	30,094	26,067
Current ratio	1.28-1	1.22-1
Equity per common share	$6.64	$5.77
Net earnings per common share	$.88	$.51
Stores in operation	40	37

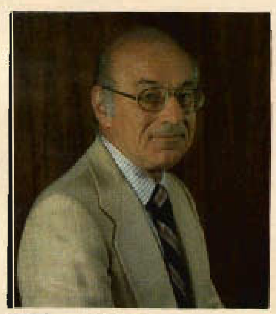


Harold Toppel

George Toppel



Manuel I. Vallecillo



Milton Toppel

Contents

Description of Business

Pueblo International, Inc. is primarily engaged in the food merchandising business. It operates the largest retail food chain in Puerto Rico and the U.S. Virgin Islands and is among the top 50 food chains in the United States, as ranked by total sales. As of January 27, 1979, the company operated 36 supermarkets, 32 of which are located in Puerto Rico and 4 in the U.S. Virgin Islands. All of the supermarkets are operated under the name "Pueblo" on a self-service, cash-and-carry basis. The supermarkets generally offer a full selection of packaged grocery products, meat, poultry, fish, fresh fruits and vegetables, bakery products, dairy and delicatessen products, frozen foods, beer, wine, liquor and other items, including health and beauty aids and household items. In addition, the company operates four cash-and-carry retail food stores in Puerto Rico and the U.S. Virgin Islands which offer bulk sizes, limited selection and lower costs. The company also operates three wholesale food outlets in Puerto Rico, which sell primarily to institutional customers. Pueblo purchases merchandise for resale from numerous suppliers ranging in size from very small locally-owned firms in Puerto Rico to national and international firms considered leaders in their industry. The company also carries an extensive line of various private label products, most of which are processed or packaged by independent suppliers. Pueblo's retail operations both in Puerto Rico and in the U.S. Virgin Islands, are principally supplied from the company-owned 330,000 square foot distribution and food manufacturing and processing facility and office complex located in the Greater San Juan area.

Pueblo also operates two radio stations (11—Q AM and Z—93 FM) in Puerto Rico and two bakeries, one of which is located in Puerto Rico and the other in Venezuela. Both sell to various wholesale and retail customers. The bakery in Puerto Rico also sells to Pueblo's supermarkets, cash-and-carry stores and wholesale food outlets. Both bakeries manufacture bread, rolls and cakes under the name of "Holsum". The Caribe Foods division of the Puerto Rico bakery manufactures cookies.

Form 10-K

Information concerning the company's operations and financial position is provided in this report and in the company's annual report on Form 10-K for the fiscal year ended January 27, 1979 filed with the Securities and Exchange Commission. A copy of the Form 10-K report, without exhibits, may be obtained without charge by writing to the Secretary, Pueblo International, Inc., 375 Park Avenue, New York, New York, 10022.

Review of Operations

Letter to Shareholders:

Net earnings for fiscal 1979 show an improvement from the levels of the prior year; however, the first quarter of fiscal 1978 included the results of our former subsidiary, Hills Supermarkets Inc., which was sold on May 8, 1977. After excluding the losses of Hills and after charging the ongoing operations for continuing expenses previously absorbed by Hills, net earnings decreased 17% from $4.8 million in fiscal 1978 to $4 million in fiscal 1979, while net sales increased 8% from $273 million to $296 million. The net earnings decline was primarily due to increased labor costs and other operating expenses. Our Pueblo Supermarkets division was additionally burdened by new store pre-opening expenses which were charged to operations during fiscal 1979. When the losses of Hills are included in the fiscal 1978 results, net earnings for fiscal 1979 rose more than 72% on a 12% decrease in sales.

Three new stores opened during the third and fourth quarters of fiscal 1979, while a fourth new unit opened approximately one month thereafter. The impact of these new openings, which added more than 76,000 square feet of selling area—about 15%—to the Pueblo chain, will be fully reflected during the current year. Our Holsum Bakery group made a greater contribution to profitability as compared to the prior year. Our two radio stations, though a very small part of our business, continued to show substantial improvement. These developments are discussed in greater detail in the body of this report.

As previously reported, Food Fair and its Hills subsidiary each filed a petition for arrangement under Chapter XI of the Federal Bankruptcy Act in October 1978. As part of the sale of Hills to Food Fair, Pueblo remained a guarantor on leases for 15 Hills stores and associated property. Food Fair in turn indemnified Pueblo against any liability under those guarantees. As of this date, eight of those leases have either been cancelled or assigned to new tenants and we have been informed that most of the remaining store leases are expected to be transferred to others or cancelled. To date the company has not been required to make any payments under the guarantees and if payments are made we may be able to recover from Food Fair under the indemnification agreement.

Additionally, we have made substantial progress in leasing the 560,000 square foot warehousing facility that we retained upon disposing of Hills. We have rented over 50% of the space in that facility and the present rental income covers substantially all of the operating expenses before depreciation.

On December 28, 1978 the company completed an $11 million re-financing of its existing long-term bank indebtedness with Citibank, N.A. and Banco Popular de Puerto Rico. The new $11 million seven-year term loan significantly improved the company's financial position by providing approximately $3.4 million of additional working capital consisting of $2.4 million in additional funds and $1 million in a one-year deferral of principal payments. The agreement also provides for a lower interest rate. In conjunction with the re-financing, certain provisions of the existing loan agreement with New York Life Insurance Company were favorably modified. The new bank and New York Life agreements contain financial and operating covenants which are less restrictive than those contained in the prior agreements, including those relating to capital expenditures, additional indebtedness and the payment of dividends.

In general, fiscal 1979 was a satisfactory year. We are confident of our plans for the future and are looking forward to continued growth and profitability.

Harold Toppel

Harold Toppel
Chairman

George Toppel

George Toppel
Vice Chairman

Manuel I. Vallecillo
President

April 17, 1979

Pueblo's large, efficient central distribution center ships enormous quantities of product each day, and also prepares and packages fresh meat and produce for the chain. In addition, the center houses production facilities for meat and cheese pastries and yeast raised doughnuts sold in its supermarkets.

sweet goods. Not a single item currently produced at Holsum was part of the traditional diet of Puerto Rico 20 years ago. As a result of the consumer acceptance of these products Holsum had to expand its plant on two occasions, the last one being the construction of a new 187,000 square foot bakery which was completed in February 1972. The bread and bun product lines in this new bakery are fully automated. Expanding production required creation of a sophisticated, efficient distribution system that could deliver quantities of fresh bakery products to a growing customer base. Holsum currently serves more than 9,000 customers including Pueblo supermarkets. Its routes in Puerto Rico and the U.S. Virgin Islands have island-wide coverage and it is the largest such distribution network in the Caribbean.

Holsum also operates a smaller plant and distribution network in Venezuela, where the market potential for bakery products is at the level exhibited by the Puerto Rico operation a decade ago.

Pueblo has also been able to identify itself with local institutions. On various occasions the company has participated in community festivals and co-sponsored local and island-wide cultural activities.

Last year Pueblo sponsored a festival of Popular Arts in Puerto Rico, in which the Puerto Rico Cultural Institute exhibited, in several stores, selections from its unique collection of wood carvings of Saints, some of which are centuries old. Pueblo employees decorated stores in native style and many of the island's most famous traditional dance groups performed in the plazas outside.

Full color banner photographs, spacious aisles, and new decor are the keynotes of Pueblo's four new stores. This unit is in Plaza Carolina, Puerto Rico's largest shopping mall.

The most visible achievement of fiscal 1979 was the increase in the number of Pueblo supermarket units. During the last five months of fiscal 1979 and the first month of fiscal 1980, four new supermarkets were opened. In addition, three stores were remodeled in fiscal 1979 and three are scheduled for major remodeling in fiscal 1980.

A typical new unit is a 27,000 square foot store which opened in September at Plaza Carolina, a 1,250,000 square foot enclosed air conditioned shopping mall which is the largest in the Caribbean. The store is a model of modern, beautiful supermarket design. Each of the major food departments is identified by full color banner photographs of fresh meat, produce, bread and dairy products offered in the section in which they are displayed.

Our Holsum Bakery division in Puerto Rico is celebrating its 20th anniversary this year. When Holsum opened its first bakery in 1959 packaged bakery products were virtually unknown in Puerto Rico. In rapid succession Holsum introduced white bread, sandwich rolls, a wide range of cakes, pies, doughnuts, cookies and other

Pueblo's commitment to community involvement includes co-sponsorship of the Pan American Games this year. The symbol of the VIII Pan American Games was created by Lorenzo Homar, a Puerto Rican, who is one of the foremost international graphic artists.

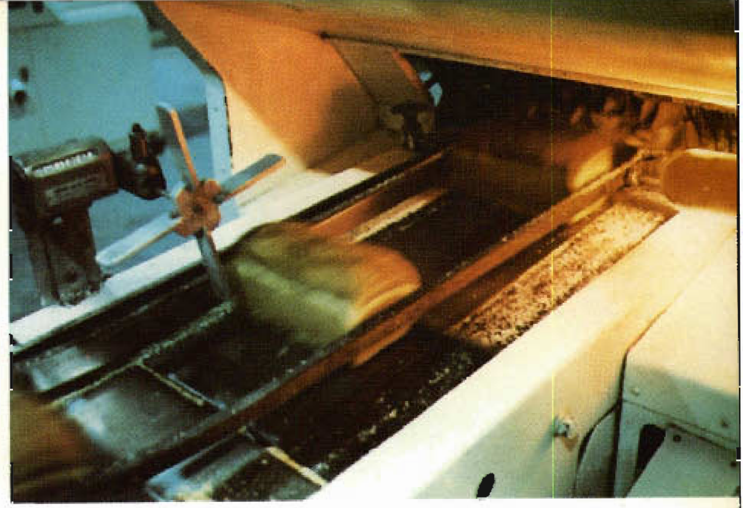
Upper right, a local potter demonstrates his craft, and lower right, "Areyto", one of the island's most famous folkloric dance groups performs in the plaza of a Pueblo supermarket. Both events were part of last year's Festival of Popular Arts which Pueblo sponsored in all its stores throughout Puerto Rico.

Opposite, teenage dancers disco to the Latin beat of our radio station Z-93. Their shirts with the emblem of the station have become a teen fashion fad in Puerto Rico.

Our radio broadcasting subsidiary was recently renamed Pueblo Communications, Inc. When Pueblo purchased its two San Juan radio stations several years ago they were small and not particularly successful. New management, investments in modern automated electronic switching and scheduling equipment and format changes have contributed to substantially improved results at Pueblo Communications. In particular, the FM station now operating with a Latin disco format and known as "Z-93" has rapidly become a byword among Puerto Rico's youth community. It presently has the largest share of audience of any radio station on the island.

Pueblo committed approximately $6.3 million last year, and almost $4.6 million the year before, to expansion, new equipment, renovation of stores and technological improvements. Approximately $5.5 million has been budgeted for additional improvements and continued expansion during the current fiscal year.

Pueblo will continue to grow and to innovate; we are looking forward to the future with optimism.



The Holsum Bakery's seven huge ovens produce white bread, buns, cakes, pies, doughnuts and various snack items. Its distinctive orange/red trucks can be seen all over Puerto Rico and the U.S. Virgin Islands.

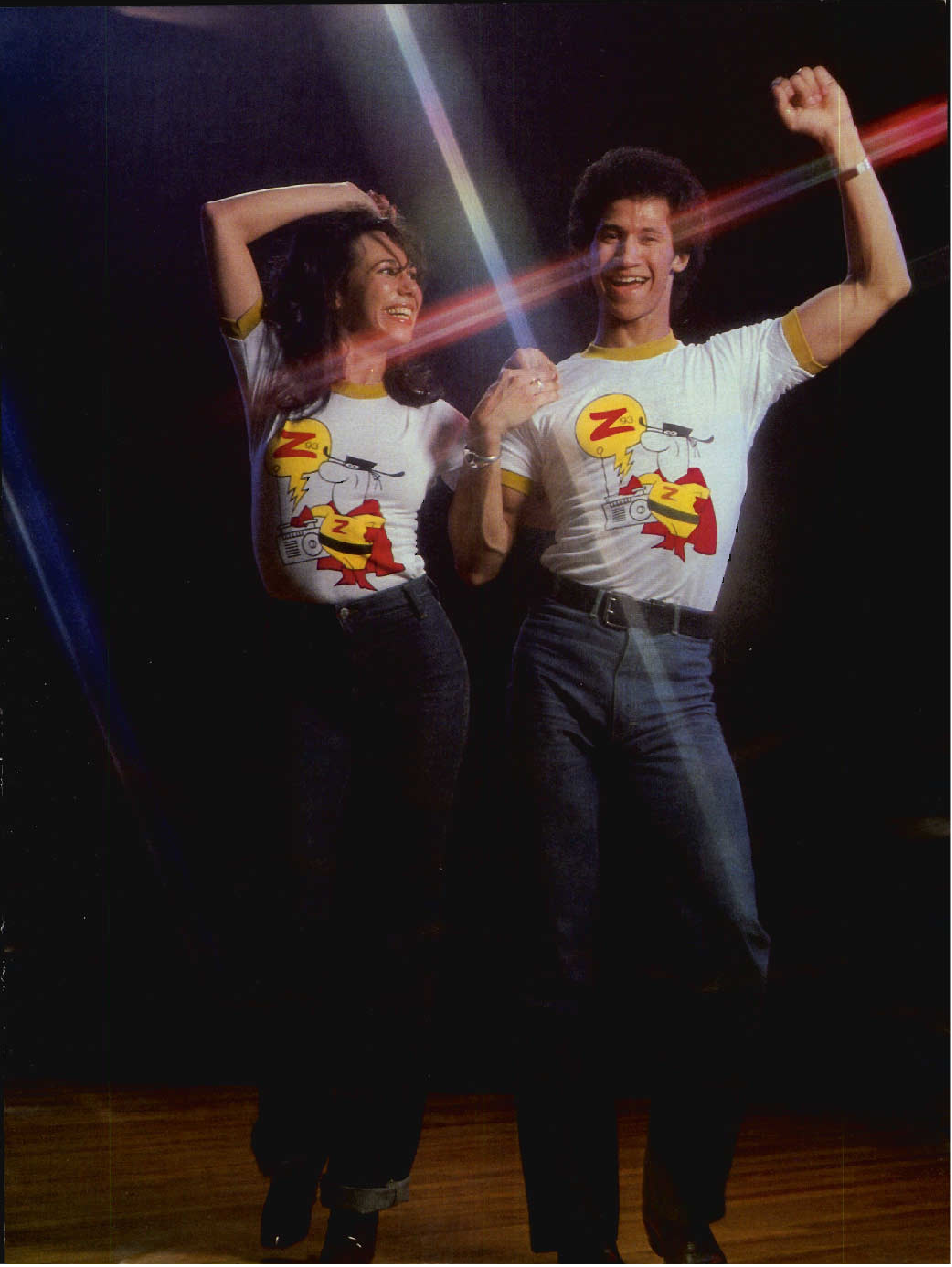
Local artisans displayed and in many instances actually produced their crafts in each of the Pueblo stores throughout the island. All proceeds of their sales went directly to these craftsmen.

Pueblo's commitment to community involvement will be visible again this year with the company's participation as a co-sponsor of the VIII Pan American Games, which will be held for the first time in Puerto Rico, beginning July 1, 1979. Pueblo will be the exclusive distributor of the official guide of the games, while Holsum has been named the official bakery.

Five Year Summary of Consolidated Operations
Pueblo International, Inc.

Fiscal year ended:	1979	1978	1977	1976 (53 weeks)	1975
Net sales	**$296,170**	335,680	546,123	628,940	589,432
Cost of goods sold	**223,130**	257,348	429,449	503,626	468,626
Gross profit	**73,040**	78,332	116,674	125,314	120,806
Selling, general and administrative expenses	**59,308**	65,447	105,742	117,602	107,181
Depreciation and amortization	**4,405**	4,524	6,072	6,851	6,746
	63,713	69,971	111,814	124,453	113,927
Operating profit	**9,327**	8,361	4,860	861	6,879
Non-operating income (expense):					
Closed stores and facility expenses	—	—	(14,490)	(1,907)	(830)
Interest expense on debt	**(1,462)**	(1,546)	(2,013)	(2,214)	(2,399)
Interest expense on lease obligations	**(1,693)**	(1,565)	—	—	—
Sundry, net	**438**	388	533	453	1,160
	(2,717)	(2,723)	(15,970)	(3,668)	(2,069)
Earnings (loss) before income taxes	**6,610**	5,638	(11,110)	(2,807)	4,810
Income taxes:					
Current	**2,655**	3,487	4,796	3,179	3,705
Deferred	**(20)**	(157)	62	(239)	(832)
	2,635	3,330	4,858	2,940	2,873
Net earnings (loss)	**$ 3,975**	2,308	(15,968)	(5,747)	1,937
Cumulative effect of capitalized leases for years prior to fiscal 1978			(884)		
Net earnings (loss) after cumulative effect of capitalized leases			$(16,852)		
Net earnings (loss) per common share:					
Net earnings (loss)	**$ .88**	.51	(3.53)	(1.27)	.43
Cumulative effect of capitalized leases			(.20)		
Net earnings (loss) after cumulative effect			$ (3.73)		
Cash dividends declared per common share	**$ —**	—	—	.15	.30
Weighted average number of common shares outstanding	**4,532**	4,521	4,519	4,519	4,519

Notes:
(1) All amounts except per common share amounts are expressed in thousands.
(2) Includes the operations of a former wholly-owned subsidiary, Hills Supermarkets, Inc., through May 1977, date of sale.
(3) Net earnings for fiscal 1978 have been restated for the effect of capitalized leases. In addition, the cumulative effect of the capitalization of leases for the periods prior to fiscal 1978 have been reflected in fiscal 1977.


Z93

Non-operating income (expense) has fluctuated for several reasons. These include costs incurred, or expected to be incurred, in connection with closed stores and a distribution facility; changes in interest expense on debt as a result of fluctuations in the company's lending rate, which varies with the prime rate, and changes in the outstanding debt as a result of quarterly repayments, a $3 million prepayment made in fiscal 1978 from a portion of the aggregate proceeds received on the sale of Hills and in fiscal 1979, $2.4 million in additional borrowings and $1 million in a one-year deferral of principal payments resulting from a re-financing; interest expense on lease obligations relating to the capitalization of leases under FASB No. 13; interest income generated from available cash resources; and various other non-operating items reflected as sundry, net, including a modest profit realized on the sale of Hills in fiscal 1978. Closed stores and facility expenses have fluctuated due to the recording of non-operating charges of $14.5 million during fiscal 1977 resulting from the recognition of costs and losses incurred, or anticipated as a result of closing 16 Hills supermarket locations and a distribution facility.

Income taxes fluctuated in keeping with the varying statutory rate structures imposed by taxing authorities in the jurisdictions where the company operates. The losses of Hills during fiscal 1977 and in the quarter ended April 30, 1977 could not be utilized for income tax purposes to offset the earnings of other operations. Accordingly, the effective income tax rates vary widely during fiscal 1977, 1978 and 1979. Reference is made to the income tax footnote in the financial statements where the effective tax rate is analyzed for the two years ended January 27, 1979.

Stores in Operation

The table below details the changes in the number of stores and net selling area of our Puerto Rico and Virgin Islands supermarkets and cash-and-carries during the past two years.

	1979		1978	
	No. of stores	Selling area sq. feet	No. of stores	Selling area sq. feet
Supermarkets:				
At beginning of year	33	504,356	33	504,356
Stores opened	3	57,198	—	—
At end of year	36	561,554	33	504,356
Cash-and-Carries:				
At beginning of year	4	92,996	3	59,288
Stores opened	—	—	2	40,425
Stores closed	—	—	(1)	(6,717)
At end of year	4	92,996	4	92,996
Total Company	40	654,550	37	597,352
Average selling area:				
Supermarkets		15,599		15,284
Cash-and-Carries		23,249		23,249
Total Company		16,364		16,145
Stores remodeled	3		5	

Price Range of Common Stock and Dividends per Share

The company's common stock is traded on the New York and Pacific Stock Exchanges. The table below sets forth the high and low sale price of the company's common stock for each of the quarters of fiscal 1979 and 1978. No dividends were declared or paid by the company during the two years ended January 27, 1979.

Fiscal Quarters:	1979		1978	
	High	Low	High	Low
First	$6	$4	$4¼	$2⅜
Second	8⅝	5½	4¾	3⅞
Third	7¾	4⅛	4⅜	3¾
Fourth	5	3½	4⅜	3⅝

Management's Discussion and Analysis of the Summary of Consolidated Operations

The following is an analysis of the company's operations for the five fiscal years ended January 27, 1979 and should be read in conjunction with the Consolidated Financial Statements and Five Year Summary of Consolidated Operations.

The substantial losses incurred by a former wholly-owned subsidiary, Hills Supermarkets, Inc. ("Hills"), which was sold to Food Fair, Inc. ("Food Fair") on May 8, 1977 adversely affected the operating performance of the company through the date of its sale.

Pursuant to the Financial Accounting Standards Board's Statement No. 13 ("FASB No. 13"), Accounting for Leases, the company has reviewed its leases and included in the financial statements as assets and liabilities those leases which meet the criteria for capitalization. Accordingly, fiscal 1978 has been restated and the cumulative effect of the capitalization of leases for the periods prior to fiscal 1978 has been charged against retained earnings in fiscal 1977.

The company's fiscal year ends on the last Saturday in January and customarily consists of four thirteen-week reporting quarters for a total of 52 weeks. Once every five or six years the fiscal year includes an extra week. This was the case in fiscal 1976 and it creates a distortion in the comparability in absolute dollar amounts and percentage fluctuations, as presented.

Net sales have decreased 49.8% since fiscal 1975 (including a 38.5% decrease between fiscal 1977 and 1978 and an 11.8% decline between fiscal 1978 and 1979). The fluctuations between fiscal 1977, 1978 and 1979 resulted from the sale of Hills to Food Fair. When excluding the net sales of Hills, comparative net sales have increased 5.9% between fiscal 1977 and 1978 and increased 8.4% between fiscal 1978 and 1979. During the three years ended January 27, 1979, the company opened three new supermarkets and one cash-and-carry location and closed 16 Hills supermarkets, prior to the sale of the remaining 43 Hills operating locations.

Cost of goods sold decreased by 52.4% since fiscal 1975 (including a 40.1% decline between fiscal 1977 and 1978 and a 13.3% decline between fiscal 1978 and 1979). Between fiscal 1977, 1978 and 1979, the decrease in cost of goods sold was primarily due to the sale of Hills. When excluding the cost of goods sold of Hills, comparative gross profits between fiscal 1977 and 1978 have not improved, primarily due to the increased cost of shipping merchandise to Puerto Rico during the Atlantic and Gulf Coast dock strike, while the gross profits between fiscal 1978 and 1979 have increased only slightly.

Selling, general and administrative expenses decreased by 44.7% since fiscal 1975 (including a 38.1% decrease between fiscal 1977 and 1978 and a 9.4% decline between fiscal 1978 and 1979). The fluctuations in selling, general and administrative expenses are primarily attributable to the closing in the third quarter of fiscal 1977 of selected Hills supermarket locations and the Hills Brentwood distribution facility and the sale of the balance of the chain on May 8, 1977. The company has capitalized leases which meet the criteria of FASB No. 13 and, accordingly reduced rental expense included in the caption "Selling, general and administrative expenses, exclusive of depreciation and amortization" in fiscal years 1979 and 1978. Continuing increases in wages, including the effects of Federal legislation to increase minimum wage levels and social security taxes, and operating expenses have been experienced by substantially all divisions of the company.

Depreciation and amortization has fluctuated in keeping with the company's depreciation and amortization policy as explained in the Summary of Significant Accounting Policies and as related to depreciation and amortization on property under capital leases in fiscal years 1979 and 1978. The reduction in depreciation and amortization noted between fiscal 1977 and 1978 was principally the result of closing selected Hills supermarket locations, the distribution facility and the sale of the remaining 43 Hills locations.

Pre-Opening Expenses: Expenditures associated with the opening of new retail stores are charged to operations in the year the stores are opened.

Closed Stores and Facility Expenses: At the time it becomes apparent that significant unrecoverable costs will be incurred in disposing of a closed retail store or facility, either at the date of closing or subsequent thereto or in disposing of property held for sale, such estimated unrecoverable costs are charged against operations as a non-operating expense and are subsequently adjusted to reflect actual costs incurred. Such costs consist, where applicable, of the excess of carrying value of fixtures, equipment, leaseholds, leasehold improvements and other assets over anticipated recoveries; future rent, taxes and other occupancy expenses, net of anticipated subrental income; and other costs incurred, or to be incurred, in disposing of a location.

Stock Option Plan: A stock option plan permits granting of options to employees to purchase common stock. Proceeds from the exercise of options are credited to common stock to the extent of par value and the excess is credited to additional paid-in capital.

Retirement, Profit Sharing and Incentive Compensation Plans: A pension plan covers substantially all regular full-time and certain part-time employees. The plan does not require employee contributions. The company charges against current operations each year, amounts sufficient to cover the current year's cost of the plan and amortization of past service costs over 40 years.

At the discretion of the Board of Directors, contributions may be made to a profit sharing fund for the benefit of salaried employees of any one or more divisions or subsidiaries of the company.

Under the company's incentive compensation plan, cash awards are made to designated key employees who are deemed to be in a position to further the profits and growth of the company. These awards are made at the discretion of the Board of Directors to participants in any one or more divisions or subsidiaries of the company upon the achievement of certain predetermined goals.

Net Earnings per Common Share: Net earnings per common share are determined based upon the weighted average number of common shares outstanding during the respective fiscal year. Outstanding stock options did not have a significant dilutive effect, and, therefore, were excluded from the computation of net earnings per common share.

Audit Committee of the Board of Directors: The company has an Audit Committee of the Board of Directors comprised entirely of outside directors. This Committee meets with the company's financial management and its independent accountants at least twice a year to review, among other matters, financial results and procedures, internal control conditions, external audit plans and recommendations, and the establishment of and compliance with financial reporting requirements.

Summary of Significant Accounting Policies

The company is primarily engaged in the food merchandising business. The accounting policies employed by the company are in accordance with generally accepted accounting principles. Significant policies are described below:

Fiscal Year: The company's fiscal year ends on the last Saturday in January and customarily consists of four thirteen-week reporting quarters, for a total of 52 weeks, except that once every five or six years an extra week is included in the fiscal year.

Principles of Consolidation: The consolidated financial statements present the accounts of the company and its subsidiaries, all of which are wholly-owned. Intercompany balance sheet accounts and all significant intercompany transactions and profits (losses) have been eliminated in consolidation.

Inventories: Substantially all inventories are valued at the lower of cost or net realizable market. Cost approximates the cost of the most recent merchandise purchases.

Property, Plant and Equipment: Property, plant and equipment, including expenditures for renovations and betterments, are carried at cost. Routine maintenance and repairs and minor replacement costs are charged to current operations as incurred.

Upon the sale, retirement or other disposition of assets, the related cost and accumulated depreciation or amortization are eliminated from the accounts. Any resulting gains or losses from disposals in the normal course of business are reflected in current operations.

Proceeds received in excess of the carrying value of assets sold and leasedback in prior years are amortized over the life of the leased asset. The unamortized portion of such proceeds in excess of carrying value are classified as "Other deferred credits and liabilities" on the consolidated balance sheets.

Depreciation and Amortization: Depreciation and amortization is generally provided for on a straight line basis, principally over the following estimated useful lives:

Buildings	20 to 40 years
Furniture, fixtures, machinery and equipment	5 to 10 years
Leaseholds and leasehold improvements	Life of lease or asset, whichever is shorter
Property under capital leases	Over the primary term of the lease or asset life

Excess of Purchase Price Over Value of Net Assets of Acquired Operations: Commonly known as "goodwill", this balance sheet caption represents the amount by which the purchase price for acquired operations was greater than the value ascribed to the net assets of such operations at the dates of acquisition. This intangible asset is not being amortized and, in the opinion of management, there has been no diminution in value in the investment in any of the operations to which such excess relates which has not been reflected in the accompanying financial statements.

Property Held for Sale: Property held for sale is carried at an estimated recoverable value, which is not in excess of cost, and includes vacant land and a warehousing facility. A portion of the warehousing facility is currently leased to non-affiliated companies under short term leases. The revenue received is utilized to partially defray maintenance costs. No depreciation expense is provided on the facility.

Self-Insurance: The company has been a self-insurer of certain risks. The costs associated with such a program, based both upon known and estimated losses for specific claims, have been charged against operations, and are subsequently adjusted to reflect actual cost incurred. The unpaid portion of such costs is included in current liabilities on the consolidated balance sheets.

Income Taxes: The company and its subsidiaries file separate income tax returns. To the extent that certain income and expense items, principally relating to capitalized leases, self-insurance, depreciation and pension plan contributions, are recognized in a different period for tax purposes than for accounting purposes, deferred income taxes are provided to give effect to these "timing" differences. The income tax effect of these timing differences is charged (credited) against current operations and reflected as deferred income taxes (prepaid expenses) on the consolidated balance sheets.

Earnings of subsidiaries have been consistently retained by them and utilized in operations and in furthering their expansion. It is the company's intention to continue this policy and, accordingly, income taxes are not provided on such unremitted earnings.

Investment tax credits currently generated are available to reduce income taxes using the "flow through" method.

Consolidated Balance Sheets
Pueblo International, Inc.

Assets	January 27, 1979	January 28, 1978
	(in thousands)	
Current assets:		
Cash	$ 4,177	$ 8,130
Accounts receivable (net of allowance for doubtful accounts: 1979—$329,231, 1978—$148,936)	5,985	3,949
Inventories	23,789	20,159
Prepaid expenses	4,370	3,848
Total current assets	38,321	36,086
Property, plant and equipment:		
Land and improvements	5,224	5,009
Buildings	12,168	12,012
Furniture, fixtures, machinery and equipment	28,160	26,056
Leaseholds and leasehold improvements	4,838	4,677
Construction in progress	922	1,885
	51,312	49,639
Less accumulated depreciation and amortization	19,071	20,216
	32,241	29,423
Property under capital leases, net	19,019	16,013
[illegible]	[illegible]	[illegible]
Excess of purchase price over value of net assets of acquired operations	3,179	3,179
Property held for sale	6,740	6,740
Other assets	691	534
	$100,191	$91,975

The accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements are an integral part of the financial statements.

Consolidated Statements of Earnings
Pueblo International, Inc.

	Fiscal year ended January 27, 1979	Fiscal year ended January 28, 1978
	(in thousands)	
Net sales	$296,170	$335,680
Cost of goods sold	223,130	257,348
Gross profit	73,040	78,332
Selling, general and administrative expenses	59,308	65,447
Depreciation and amortization	4,405	4,524
	63,713	69,971
Operating profit	9,327	8,361
Non-operating income (expense):		
Interest expense on debt	(1,462)	(1,546)
Interest expense on lease obligations	(1,693)	(1,565)
Other income	438	388
	(2,717)	(2,723)
Earnings before income taxes	6,610	5,638
Income taxes:		
Current	2,655	3,487
Deferred	(20)	(157)
	2,635	3,330
Net earnings	$ 3,975	$ 2,308
Net earnings per common share	$ .88	$ .51
Weighted average number of common shares outstanding	4,532	4,521

The accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements are an integral part of the financial statements.

Consolidated Statements of Changes in Financial Position

Pueblo International, Inc.

	Fiscal year ended January 27, 1979	Fiscal year ended January 28, 1978
	(in thousands)	
Source of working capital:		
From operations:		
Net earnings	$ 3,975	$ 2,308
Add (deduct) items not requiring (providing) working capital:		
Depreciation and amortization:		
Owned property	3,353	3,592
Property under capital leases	1,052	932
Deferred pension contribution	(4)	448
Deferred income taxes	(10)	(195)
Loss on disposal of property, plant and equipment	47	44
Other	(45)	(45)
Funds provided from operations	8,368	7,084
From other sources:		
Proceeds from disposals of property, plant and equipment	69	445
Disposals of property held for sale	—	1,095
Long-term debt:		
New borrowings	2,410	—
Deferral of principal payments	975	—
Increase in long-term obligations under capital leases	4,059	179
Common stock issued under a stock option plan	52	13
Other	185	—
Total source of working capital	16,118	8,816
Application of working capital:		
Expenditures for property, plant and equipment	6,287	4,583
Capitalization of leased property under capital leases	4,059	179
Closed stores and facility applications	1,185	2,495
Reduction of long-term debt	1,513	1,999
Reduction of long-term obligations under capital leases	1,056	869
Other	—	13
Total application of working capital	14,100	10,138
Net increase (decrease) in working capital	2,018	(1,322)
Working capital at beginning of year	6,395	7,717
Working capital at end of year	$ 8,413	$ 6,395

The accompanying Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements are an integral part of the financial statements.

Liabilities and stockholders' equity	January 27, 1979	January 28, 1978
	(in thousands)	
Current liabilities:		
Current instalments of long-term debt	$ 864	$ 1,999
Current obligations under capital leases	965	813
Accounts payable	15,898	16,244
Accrued expenses:		
Provision for closed stores and facility	791	687
Other	11,296	9,782
	12,087	10,469
Income taxes payable	94	166
Total current liabilities	29,908	29,691
Long-term debt, excluding current instalments	17,059	15,187
Long-term obligations under capital leases	19,738	16,735
Deferred income taxes	120	130
Other deferred credits and liabilities:		
Provision for closed stores and facility	1,323	2,508
Other	1,949	1,657
	3,272	4,165
Stockholders' equity:		
Preferred stock, $100 par value per share. Authorized 500,000 shares; none issued	—	—
Common stock, $1 par [illegible] [illegible] 54 [illegible]	4,766	4,753
[illegible]	10,033	9,994
Retained earnings	16,161	12,186
	30,960	26,933
Less cost of common shares in treasury— 228,816 shares in 1979 and 1978	866	866
Total stockholders' equity	30,094	26,067
	$100,191	$91,975

Notes to Consolidated Financial Statements

Inventories: Total inventories at the end of fiscal years 1979, 1978 and 1977 amounted to $23,788,684, $20,159,304 and $29,627,166, (including $10,679,024 of inventory in fiscal 1977 of a former wholly-owned subsidiary), respectively.

Excess of Purchase Price Over Value of Net Assets of Acquired Operations: The excess of purchase price over the value of net assets of acquired operations is as follows:

Holsum Bakers	$2,298,768
Pueblo Communications	511,853
Caribe Foods	368,590
	$3,179,211

Long-Term Debt: Long-term debt consisted of the following:

	January 27, 1979	January 28, 1978
Notes payable to banks	$11,000,000	$ 9,564,625
7% note payable, due in instalments through 1986	6,133,375	6,545,375
5¾% to 11% mortgage notes payable in instalments to 1984	788,985	1,076,121
	17,922,360	17,186,121
Less current instalments	863,496	1,999,136
	$17,058,864	$15,186,985

On December 28, 1978, the company concluded an $11 million re-financing of its long-term bank indebtedness. Under the re-financing certain banks purchased from other banks existing promissory notes and provided the company with approximately $2.4 million of additional working capital. The new agreement continues to impose certain minimum levels of working capital and stockholders' equity in addition to providing for lower interest rates, a one-year deferral of principal payments and other financial and operating covenants (including those related to capital expenditures, indebtedness and dividends) which are less restrictive than those contained in the prior agreements. The bank loan agreement does not require the company to maintain supporting cash balances. Notes payable to banks bear interest at rates (11¾% as of January 27, 1979, 8½% to 10% as of January 28, 1978) directly related to the prime rate in effect from time to time. Such notes are repayable over a seven-year term in quarterly instalments of $320,833 commencing on December 31, 1979 to September 30, 1985, with a final payment of $3,300,008 due on December 31, 1985. In conjunction with the re-financing, the company also modified certain financial and operating covenants of its loan agreement with the 7% note holder. The modified covenants are less restrictive than those contained in the prior agreement. The banks and 7% note holder continue to maintain a security interest in the form of mortgages on certain real property of the company. The net book value of the property securing the mortgages to the banks and 7% note holder was $12,242,805 and $12,649,629 at January 27, 1979 and January 28, 1978, respectively. The agreements provide for the release of the collateral after a specified amount of debt has been repaid and other conditions met.

In addition, under a line of credit available to the company at January 27, 1979, the company was permitted to borrow funds or obtain letters of credit not to exceed $4 million. Under the line of credit approximately $30,000 has been utilized for letters of credit as of January 27, 1979.

The net book value of property securing the 5¾% to 11% mortgage notes payable in instalments to 1984 was $2,607,440 and $3,201,125 at January 27, 1979 and January 28, 1978, respectively.

The annual maturities of all long-term debt outstanding are as follows for fiscal years through 1984: 1980—$863,496; 1981—$2,201,554; 1982—$2,209,670; 1983—$2,364,543; and 1984—$2,542,398.

Closed Stores and Facility Program: In fiscal 1977 a $14.1 million provision to cover the estimated costs for closed stores and a warehousing facility was established. Management continues to believe that the remaining balance in the provision is adequate to cover all anticipated future costs. During both fiscal years 1979 and 1978 no charges or credits were made to operations as relating to the provision.

Capital Stock: Under its stock option plan, the company can grant certain officers and key employees qualified and non-qualified options for the purchase of common stock. The options are exercisable, as to 25% of the shares subject thereto, commencing one year after the date of grant and, on a cumulative basis, as to an additional 25% after each succeeding anniversary.

The exercise price of qualified options must not be less than 100% of the fair market value of the stock at the date of grant and the options have a term of five years. The exercise price of non-qualified options must not be less than 95% of the fair market value of the stock at the date of grant (the company does not intend to grant options exercisable at less than 100% of fair market value) and the options have a term of either five or ten years.

The plan terminates on April 11, 1979, after which no additional options can be granted. The termination of the plan does not affect options previously granted to individuals, which expire through the fiscal year 1989.

The changes in shares subject to outstanding options were as follows:

	January 27, 1979		January 28, 1978	
	Common Shares	Option Prices	Common Shares	Option Prices
Outstanding at the beginning of the year	94,938	$2.50-5.13	171,250	$2.13-6.88
Granted	44,750	5.13-5.63	3,000	2.50-4.13
Exercised	13,794	2.88-4.63	4,562	2.13-3.38
Cancelled or expired	14,893	3.13-5.63	74,750	2.13-6.88
Outstanding at the end of the year	111,001	2.50-5.63	94,938	2.50-5.13
Exercisable at the end of the year	50,063	$2.50-4.63	55,987	$2.75-5.13
Available for additional grants	201,986		231,843	

Analysis of Changes in Working Capital
Pueblo International, Inc.

(Continuation of Consolidated Statements of Changes in Financial Position)

	Fiscal year ended January 27, 1979	Fiscal year ended January 28, 1978
	(in thousands)	
Increase (decrease) in current assets:		
Cash	$(3,953)	$ 691
Accounts receivable	2,036	(447)
Inventories	3,630	1,211
Prepaid expenses	522	558
Net assets of a subsidiary sold subsequent to year end	—	(2,600)
	2,235	(587)
Increase (decrease) in current liabilities:		
Current instalments of long-term debt	(1,135)	(2,862)
Current obligations under capital leases	152	140
Accounts payable and accrued expenses	1,272	4,655
Income taxes payable	(72)	(1,198)
	217	735
Net increase (decrease) in working capital	$ 2,018	$ (1,322)

Consolidated Statement of Stockholders' Equity
Pueblo, International, Inc.

	Common stock Shares	Common stock Amount	Additional paid-in capital	Retained earnings	Treasury stock Shares	Treasury stock Amount
			(In thousands)			
Balance January 29, 1977, as previously reported	4,748	$4,748	$9,986	$10,762	229	$866
Adjustment for cumulative effect of change in accounting for capital leases	—	—	—	(884)	—	—
Balance January 29, 1977, as restated	4,748	4,748	9,986	9,878	229	866
Net earnings year ended January 28, 1978, as restated	—	—	—	2,308	—	—
Issuance of common stock—exercise of stock options	5	5	8	—	—	—
Balance January 28, 1978, as restated	4,753	4,753	9,994	12,186	229	866
Net earnings year ended January 27, 1979	—	—	—	3,975	—	—
Issuance of common stock—exercise of stock options	13	13	39	—	—	—
Balance January 27, 1979	4,766	$4,766	$10,033	$16,161	229	$866

an analysis of the effect of the restatement on net earnings for fiscal 1978:

	January 28, 1978
Net earnings as previously reported	$2,423,226
Adjustment for effect of capitalization of leases	(115,721)
Net earnings restated	$2,307,505
Net earnings per common share as previously reported	$.54
Adjustment for effect of capitalization of leases	(.03)
Net earnings per common share restated	$.51

The major classes of property recorded under capital leases for the two years ended January 27, 1979 are as follows:

	January 27, 1979	January 28, 1978
Real estate	$21,970,874	$18,283,494
Furniture, fixtures, machinery and equipment	2,505,265	2,134,065
	24,476,139	20,417,559
Less accumulated depreciation and amortization	5,456,722	4,405,012
	$19,019,417	$16,012,547

The approximate aggregate minimum annual rental payments of the company under all leases, except those commitments for closed supermarket locations which have been provided for in the provision for closed stores and facility, for the five years subsequent to January 27, 1979 and in the aggregate thereafter are as follows:

	Capital Leases	Operating Leases
	(in thousands)	
Year ended January,		
1980	$ 2,834	$1,422
1981	2,533	1,340
1982	2,517	973
1983	2,352	647
1984	2,295	369
1985 and thereafter	31,650	1,171
Total minimum lease payments	44,181	$5,922
Less amount representing estimated executory costs included in capital leases	50	
Net minimum lease payments	44,131	
Less amount representing interest	23,428	
Present value of net minimum lease payments under capital leases	$20,703	
Total minimum sublease rentals to be received in the future	$656	$89

Rent expense for operating leases, for the two years ended January 27, 1979, is as follows:

	January 27, 1979	January 28, 1978
	(in thousands)	
Minimum annual rentals	$1,517	$1,446
Additional rentals	184	162
	1,701	1,608
Less sublease rentals	30	15
Total rent expense	$1,671	$1,593

Contingent rental payments under capital leases (excluded from the lease capitalization) amounted to $553,043 and $507,494 in fiscal years 1979 and 1978, respectively.

In addition, rental payments, taxes and other occupancy expenses, net of subrental income for closed supermarkets are charged against the provision for closed stores and facility. The minimum annual rental for closed premises, charged against the provision amounted to approximately $236,000 in fiscal 1979 and $350,000 in fiscal 1978.

Guarantees: In conjunction with the sale of a former wholly-owned subsidiary, Hills Supermarkets, Inc. ("Hills") to Food Fair, Inc., the company remained as a guarantor of leases on 15 Hills retail stores and associated property as of January 27, 1979. Food Fair indemnified the company against any liability which may occur as a result of these guarantees. On October 2, 1978, Food Fair and Hills each filed a petition for arrangement under Chapter XI of the Federal Bankruptcy Act and in mid-November, Food Fair closed all of its New York Area stores including the 15 stores guaranteed by the company.

Subsequent to January 27, 1979, releases have been executed on two leases and six leases have been assigned to third parties, without cost to the company. Pursuant to the Federal Bankruptcy Act, if Hills is unable to dispose of the seven remaining guaranteed leases, it has the right to disaffirm such lease obligations. Negotiations are continuing with respect to certain of these guaranteed leases, and two lawsuits have been commenced against the company concerning its guarantees. The company may be able to recover from Food Fair under its indemnification agreement any funds disbursed due to its guarantees. At this time, management does not believe that a material liability will ensue from such guarantees.

Pension and Benefits: Total pension expense was approximately $710,000 in the year ended January 27, 1979 and $607,000 in the year ended January 28, 1978. As of the latest valuation date, the actuarially computed value of the assets in the pension fund exceeded the actuarially computed value of vested benefits under the plan by approximately $411,000, and the unfunded past service liability amounted to approximately $2,353,000.

Profit sharing expense incurred for the benefit of eligible employees of one division of the company was approximately $67,000 in the year ended January 27, 1979 and $100,000 in the year ended January 28, 1978.

The incentive compensation program expense incurred for the benefit of eligible employees of one division of the company was approximately $90,000 for the year ended January 27, 1979 and $199,000 for the year ended January 28, 1978.

Litigation: The company is a defendant in certain litigation where significant damages are sought. The company denies the allegations and believes that the costs of resolving such litigation will not materially affect the company's consolidated results of operations.

Income Taxes: The components of the provision for income taxes for the two years ended January 27, 1979 are as follows:

	January 27, 1979	January 28, 1978
Current:		
Commonwealth of Puerto Rico	$2,346,715	$2,883,663
U. S. Virgin Islands	214,825	585,884
Other	93,723	17,920
	2,655,263	3,487,467
Deferred:		
Commonwealth of Puerto Rico	(39,411)	(168,987)
U. S. Virgin Islands	14,356	11,008
Other	4,297	1,255
	(20,758)	(156,724)
Total income taxes	$2,634,505	$3,330,743

The principal sources of the deferred tax provision and the tax effect of each is as follows:

	January 27, 1979	January 28, 1978
Capitalization of leases:		
Commonwealth of Puerto Rico	$ (16,745)	$ (8,264)
U. S. Virgin Islands	14,250	23,488
Other	4,297	1,255
	1,802	16,479
Excess depreciation:		
Commonwealth of Puerto Rico	(14,018)	(11,877)
Self-insurance expense:		
Commonwealth of Puerto Rico	(10,237)	38,674
Pension plan contribution:		
Commonwealth of Puerto Rico	1,589	(187,520)
U. S. Virgin Islands	106	(12,480)
	1,695	(200,000)
Total	$ (20,758)	$ (156,724)

The company operates in several different tax jurisdictions which have varying income tax rates. Accordingly, the company's effective income tax rate varies from the 48% Federal statutory rate.

	January 27, 1979	January 28, 1978
Statutory rate	48.0%	48.0%
Effect of varying rates applicable in other taxing jurisdictions	(4.7)	(8.2)
Loss from operation where a benefit cannot currently be utilized	–	23.1
Other	(3.4)	(3.8)
Effective income tax rate	39.9%	59.1%

During each of the three years subsequent to January 27, 1979, it is not anticipated that cash payments for income taxes will exceed by a substantial amount the income tax provision for such years.

Certain subsidiaries have unused net operating loss carryforwards of approximately $3,005,000 available to offset future taxable income. Such carryovers expire, if not utilized by the respective subsidiary, as follows: 1980—$47,000; 1981— $151,000; 1982— $75,000; 1985—$1,474,000 and 1986— $1,258,000. In addition, the company has a capital loss carryover of approximately $30 million expiring in 1983, as a result of a sale of a subsidiary in fiscal 1978.

Undistributed earnings of subsidiaries amounted to approximately $8.9 million at January 27, 1979 which could be subject to additional income taxes if remitted to the company. However, the company anticipates no income tax liability as it intends to utilize the unremitted earnings in its subsidiaries' operations and expansion.

Commitments and Contingencies:

Leases: The company conducts the major part of its retail operations from leased premises. Primary lease terms are generally from 20 to 25 years, and often contain renewal options which, if exercised, allow the company to extend the lease term in 5 or 10 year increments. Certain equipment is also leased; generally for terms of up to 6 years.

Both the realty and equipment leases generally require the company to pay operating expenses, including insurance, taxes and maintenance. Under certain store leases, the company is required to pay rentals above stated minimums based upon a percentage of sales above specified levels.

All leases and subleases which meet the criteria of a "capital lease", in accordance with Financial Accounting Standards Board Statement No. 13, have been accounted for as an acquisition of an asset and the incurrence of an obligation. A capital lease is defined as a lease which "...at its inception... meets one or more of the following four criteria,... (a) transfers ownership of the property to the lessee by the end of the lease term...(b) contains a bargain purchase option...(c) the lease term is equal to 75 percent or more of the estimated economic life of the leased property... (d) the present value... of minimum lease payments...equals or exceeds 90 percent of the excess... of the fair value of the leased property... ". All leases not categorized as capital leases are classified as operating leases.

Assets under capital leases are capitalized using interest rates appropriate at the inception of each lease. The asset is amortized on a straight line basis and the obligation, including interest thereon, is reduced over the life of the lease.

Net earnings for the year ended January 28, 1978 have been restated to reflect the difference between minimum lease payments expensed and interest and amortization for capital leases, net of tax benefit. The cumulative effect of these differences for the periods prior to fiscal 1978 have been charged against retained earnings as of January 29, 1977. Incomplete data on leases of a former subsidiary of the company make the restatement of financial statements for periods prior to fiscal 1978 impractical. The following is

Five Year Financial Summary (notes 1 and 4)

Pueblo International, Inc.

Fiscal Year Ended:	**1979**	1978	1977	1976	1975
Operating Results (note 2)				(53 weeks)	
Net sales	**$296,170**	$335,680	$546,123	$628,940	$589,432
Earnings (loss) before income taxes	**6,610**	5,638	(11,110)	(2,807)	4,810
Net earnings (loss)	**3,975**	2,308	(15,968)	(5,747)	1,937
As a percentage of net sales	**1.34%**	.69%	(2.92)%	(.91)%	.33%
As a percentage of stockholders' equity	**13.21%**	8.85%	(67.25)%	(14.16)%	4.12%
Per common share	**$.88**	$.51	$(3.53)	$(1.27)	$.43
Net earnings after cumulative effect of capitalized leases	**—**	—	$(16,852)	—	—
Pro Forma Operating Results (note 3)					
Net sales	**$296,170**	$273,113	$257,938	$259,383	$219,867
Earnings before income taxes	**6,610**	7,852	8,154	5,278	6,393
Net earnings	**3,975**	4,763	4,355	3,149	3,541
As a percentage of net sales	**1.34%**	1.74%	1.69%	1.21%	1.61%
As a percentage of stockholders' equity	**13.21%**	18.27%	18.34%	7.76%	7.53%
Per common share	**$.88**	$1.05	$.96	$.70	$.78
Net earnings after cumulative effect of capitalized leases	**—**	—	$ 3,471	—	—
Financial Position (note 2)					
Current assets	**$ 38,321**	$ 36,086	$ 36,673	$ 60,585	$ 62,620
Current liabilities	**29,908**	29,691	28,956	47,415	45,412
Working capital	**8,413**	6,395	7,717	13,170	17,208
Current ratio	**1.28–1**	1.22–1	1.27–1	1.28–1	1.38–1
Property, plant & equipment, net	**$ 32,241**	$ 29,423	$ 28,921	$ 50,215	$ 54,161
Property under capital leases, net	**19,019**	16,013	16,766	—	—
Other assets	**10,610**	10,453	11,505	4,954	4,928
Total assets	**100,191**	91,975	93,865	115,754	121,709
Long-term debt and convertible debentures	**17,059**	15,187	17,186	25,433	25,602
Long-term obligations under capital leases	**19,738**	16,735	17,424	—	—
Other deferred credits and liabilities	**3,392**	4,295	6,553	2,308	3,672
Stockholders' equity	**30,094**	26,067	23,746	40,598	47,023
Book value per common share	**$ 6.64**	$ 5.77	$ 5.26	$ 8.98	$ 10.41
Other Comparative Highlights (note 2)					
Cash dividends declared per common share	**—**	—	—	$.15	$.30
Weighted average number of common shares outstanding	**4,532**	4,521	4,519	4,519	4,519
Stock selling price range–New York Stock Exchange low–high	**3½–8⅝**	2⅜–4¾	2¼–4¼	2⅛–4⅜	2¼–7¼
Price earnings ratio at year end	**4.00–1**	8.00–1	—	—	7.00–1
Stores in operation at year end:					
Pueblo	**40**	37	36	36	35
Hills	**—**	—	43	59	72

Notes:

(1) All dollar amounts are expressed in thousands except per common share amounts.

(2) Includes the operations of a former wholly-owned subsidiary, Hills Supermarkets, Inc., through May 1977, date of sale.

(3) The pro forma information presented excludes the operations of Hills Supermarkets, Inc.

(4) Net earnings for fiscal 1978 have been restated for the effect of capitalized leases. In addition, the cumulative effect of the capitalization of leases for the periods prior to fiscal 1978 have been reflected in fiscal 1977.

Sale of a Former Subsidiary: On May 8, 1977, the company sold all of the outstanding stock of its wholly-owned subsidiary, Hills Supermarkets, Inc. ("Hills") to Food Fair, Inc. ("Food Fair"). The company realized a modest gain on the transaction. In addition, Food Fair caused Hills to redeem its $5,801,000 principal amount of 5¼% convertible subordinated debentures. Certain assets, including a warehouse facility located in Brentwood, New York and lease commitments have been excluded from the sale. These assets have been included on the consolidated balance sheets in the caption "Property held for sale". See the pro forma consolidated financial information, appearing below.

Pro Forma Consolidated Financial Information (Unaudited):

The following pro forma consolidated financial information presents the consolidated operations of Pueblo International, Inc. and subsidiaries excluding the results of Hills Supermarkets, Inc. for the fiscal year ended January 28, 1978:

	January 28, 1978* (Amounts in thousands except per common share)
Net sales	$273,113
Gross profit	66,665
Pro forma earnings before income taxes	7,852
Pro forma net earnings	$ 4,763
Pro forma net earnings per common share	$1.05
Weighted average number of common shares outstanding	4,521

*The financial information above reflects the capitalization of leases.

Quarterly Summary of Consolidated Earnings (Unaudited):

The comparative quarterly results of operations for fiscal 1979 and 1978 were as follows (in thousands, except per common share):

Quarter	Net sales	Gross profit	Earnings (loss) before income taxes	Net earnings (loss)	Net earnings (loss) per common share
1979					
First	$ 71,970	$17,743	$ 1,968	$ 1,130	$ .25
Second	70,725	16,758	1,026	700	.16
Third	73,328	18,668	1,928	1,103	.24
Fourth	80,147	19,871	1,688	1,042	.23
	$296,170	$73,040	$ 6,610	$ 3,975	$ .88
1978					
First	$130,072	$28,467	$ (277)	$(1,305)	$(.29)
Second	67,046	15,815	2,075	1,137	.25
Third	68,765	17,279	2,170	1,248	.28
Fourth	69,797	16,771	1,670	1,228	.27
	$335,680	$78,332	$ 5,638	$ 2,308	$ .51

The following is a summary of the quarterly earnings (loss) as restated for capitalized leases (as explained in the note to financial statements—commitments and contingencies-leases), compared with the quarterly operating results of the company prior to the restatment (in thousands, except per common share):

	Net earnings (loss)		Net earnings (loss) per common share	
Quarter	As restated	As previously reported	As restated	As previously reported
1979				
First	$ 1,130	$ 1,156	$ .25	$ .26
Second	700	725	.16	.16
Third	1,103	1,136	.24	.25
1978				
First	$(1,305)	$(1,272)	$(.29)	$(.28)
Second	1,137	1,165	.25	.26
Third	1,248	1,275	.28	.28
Fourth	1,228	1,255	.27	.28
	$ 2,308	$ 2,423	$ .51	$ .54

Accountants' Report

The Board of Directors and Shareholders
Pueblo International, Inc.:

We have examined the consolidated balance sheets of Pueblo International, Inc. and subsidiaries as of January 27, 1979 and January 28, 1978 and the related consolidated statements of earnings, stockholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of Pueblo International, Inc. and subsidiaries at January 27, 1979 and January 28, 1978 and the results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis after restatement for the change, with which we concur, in the method of accounting for leases as described in the notes to the consolidated financial statements.

Peat, Marwick, Mitchell & Co.

New York, New York
April 10, 1979

Pueblo International, Inc.

Corporate Directory

Directors

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William C. Lang (1) (2), Executive Vice President of Kenyon & Eckhardt, Inc., Advertising Agency

Henry C. Rexach (3), Chairman of Rexco Industries, Inc., General Contractors

Guillermo Rodríguez-Benítez (3), Chairman of Int'l Charter Mortgage Corp., Mortgage Bankers

George Toppel (1), Vice Chairman of the Board

Milton Toppel (1), Vice President

Manuel I. Vallecillo (1), President

A. Michael Victory (2) (3), Partner of Cumberland Investment Group, Investment Bankers

Abraham Zaleznik (2) (3), Professor, Harvard University Business School

(1) Member of the Executive Committee

(2) Member of the Audit Committee

(3) Member of the Compensation Committee

Officers

Harold Toppel, Chairman of the Board

George Toppel, Vice Chairman of the Board

Manuel I. Vallecillo, President

Milton Toppel, Vice President

Joel A. Fenigstein, Vice President-Finance

Adrián Colón, Treasurer

Robert Locke, Corporate Secretary

Pueblo Division

Milton Toppel, President

Adrián Colón,

J.A. Caparrós,

Rafael Castro,

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Rafael Vélez,

Holsum Division

Enver Bill Hoff, President

Ramón Calderón, Executive Vice President-Administration

José A. Gómez, Executive Vice President-Marketing and General Manager-Caribe Foods Operations

Harry Marín, Executive Vice President-Industrial Relations

Miguel A. Torres, Vice President-Sales

Raúl Busó, Controller

Eduardo Tarajano, President-Venezuela Operations