

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

FLEMING COMPANIES INC /OK/

Form 10-Q

November 06, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED OCTOBER 5, 2002

COMMISSION FILE NUMBER: 1-8140

FLEMING COMPANIES, INC.
(Exact name of registrant as specified in its charter)

OKLAHOMA
(State of incorporation)

48-0222760
(I.R.S. Employer
Identification No.)

1945 LAKEPOINTE DRIVE
LEWISVILLE, TEXAS 75029
(Address of principal executive offices)

(972) 906-8000
(Telephone number)

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 No

--- ---

On October 31, 2002, 54,501,000 shares of the registrant's common stock, par value \$2.50 per share, were outstanding.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION:

Item 1. Financial Statements

Condensed Consolidated Statements of Operations - 12 Weeks
Ended October 5, 2002, and October 6, 2001

Condensed Consolidated Statements of Operations - 40 Weeks
Ended October 5, 2002, and October 6, 2001

Condensed Consolidated Balance Sheets -

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

October 5, 2002, and December 29, 2001

Condensed Consolidated Statements of Cash Flows -
40 Weeks Ended October 5, 2002, and October 6, 2001

Notes to Condensed Consolidated Financial Statements

Independent Accountants' Review Report

Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures
About Market Risk

Item 4. Controls and Procedures

PART II. OTHER INFORMATION:

Item 1. Legal Proceedings

Item 6. Exhibits and Reports on Form 8-K

SIGNATURE

2

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED
FOR THE 12 WEEKS ENDED OCTOBER 5, 2002 AND OCTOBER 6, 2001
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | 2002 | 2001 |
|--|--------------|--------------|
| | ----- | ----- |
| Net sales | \$ 3,972,649 | \$ 3,531,640 |
| Costs and expenses: | | |
| Cost of sales | 3,832,189 | 3,375,247 |
| Selling and administrative | 114,042 | 107,614 |
| Interest expense | 34,267 | 27,110 |
| Interest income and other | (5,451) | (4,795) |
| Impairment/restructuring credit | -- | (609) |
| | ----- | ----- |
| Total costs and expenses | 3,975,047 | 3,504,567 |
| | ----- | ----- |
| Income (loss) before income taxes | (2,398) | 27,073 |
| Taxes on income (loss) | (928) | 10,565 |
| | ----- | ----- |
| Income (loss) from continuing operations | (1,470) | 16,508 |
| | ----- | ----- |

Discontinued operations:

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| | | |
|--|-------------|-----------|
| Income (loss) before income taxes | (31,624) | 4,209 |
| Taxes on income (loss) | (12,238) | 1,642 |
| | ----- | ----- |
| Income (loss) from discontinued operations | (19,386) | 2,567 |
| | ----- | ----- |
| Net income (loss) | \$ (20,856) | \$ 19,075 |
| | ===== | ===== |
| Basic income (loss) per share: | | |
| Continuing operations (net of taxes) | \$ (0.03) | \$ 0.38 |
| Discontinued operations (net of taxes) | (0.36) | 0.06 |
| | ----- | ----- |
| Net income (loss) | \$ (0.39) | \$ 0.44 |
| | ----- | ----- |
| Diluted income (loss) per share: | | |
| Continuing operations (net of taxes) | \$ (0.03) | \$ 0.35 |
| Discontinued operations (net of taxes) | (0.36) | 0.05 |
| | ----- | ----- |
| Net income (loss) | \$ (0.39) | \$ 0.40 |
| | ----- | ----- |
| Dividends paid per share | \$ 0.02 | \$ 0.02 |
| Weighted average shares outstanding: | | |
| Basic | 53,950 | 43,728 |
| Diluted | 53,950 | 51,032 |
| | ===== | ===== |

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

3

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - UNAUDITED
FOR THE 40 WEEKS ENDED OCTOBER 5, 2002 AND OCTOBER 6, 2001
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | 2002 | 2001 |
|----------------------------------|---------------|--------------|
| | ----- | ----- |
| Net sales | \$ 11,425,643 | \$ 9,767,863 |
| Costs and expenses: | | |
| Cost of sales | 10,939,960 | 9,301,171 |
| Selling and administrative | 312,270 | 329,937 |
| Interest expense | 110,501 | 96,893 |
| Interest income and other | (20,254) | (19,768) |
| Impairment/restructuring charges | 27,361 | 10,411 |
| Litigation charges | -- | 48,628 |
| | ----- | ----- |
| Total costs and expenses | 11,369,838 | 9,767,272 |
| | ----- | ----- |
| Income before income taxes | 55,805 | 591 |

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| | | |
|---|----------|-----------|
| Taxes on income | 21,456 | 236 |
| | ----- | ----- |
| Income from continuing operations | 34,349 | 355 |
| | ----- | ----- |
| Discontinued operations: | | |
| Income (loss) before income taxes | (33,207) | 35,314 |
| Taxes on income (loss) | (12,701) | 14,586 |
| | ----- | ----- |
| Income (loss) from discontinued operations | (20,506) | 20,728 |
| | ----- | ----- |
| Income before extraordinary charge | 13,843 | 21,083 |
| | | |
| Extraordinary charge from early retirement of debt, net of taxes | (7,863) | (3,469) |
| | ----- | ----- |
| Net income | \$ 5,980 | \$ 17,614 |
| | ===== | ===== |
| Basic income (loss) per share: | | |
| Continuing operations (net of taxes) | \$ 0.71 | \$ 0.01 |
| Discontinued operations (net of taxes) | (0.43) | 0.49 |
| | ----- | ----- |
| Income before extraordinary charge | 0.28 | 0.50 |
| Extraordinary charge from early retirement of debt, net of taxes | (0.16) | (0.08) |
| | ----- | ----- |
| Net income | \$ 0.12 | \$ 0.42 |
| | ===== | ===== |
| Diluted income (loss) per share: | | |
| Continuing operations (net of taxes) | \$ 0.70 | \$ 0.01 |
| Discontinued operations (net of taxes) | (0.42) | 0.46 |
| | ----- | ----- |
| Income before extraordinary charge | 0.28 | 0.47 |
| Extraordinary charge from early retirement of debt, net of taxes | (0.16) | (0.08) |
| | ----- | ----- |
| Net income | \$ 0.12 | \$ 0.39 |
| | ===== | ===== |
| Dividends paid per share | \$ 0.06 | \$ 0.06 |
| | | |
| Weighted average shares outstanding: | | |
| Basic | 48,065 | 42,177 |
| Diluted | 49,240 | 44,670 |
| | ===== | ===== |

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

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| ASSETS | OCTOBER 5, 2002 | DECEMBER 29, 2001 |
|--|--------------------|----------------------|
| | ----- | ----- |
| Current assets: | | |
| Cash and cash equivalents | \$ 20,694 | \$ 17,325 |
| Receivables, net | 701,247 | 568,197 |
| Inventories | 1,110,843 | 902,933 |
| Assets held for sale | 615,782 | 571,352 |
| Other current assets | 79,681 | 88,133 |
| | ----- | ----- |
| Total current assets | 2,528,247 | 2,147,940 |
| Investments and notes receivable, net | 81,502 | 105,651 |
| Investment in direct financing leases | 69,029 | 83,118 |
| Property and equipment | 1,078,555 | 1,213,188 |
| Less accumulated depreciation and amortization | (490,208) | (559,669) |
| | ----- | ----- |
| Net property and equipment | 588,347 | 653,519 |
| Deferred income taxes | 68,528 | 105,453 |
| Other assets | 187,991 | 143,240 |
| Goodwill, net | 696,830 | 415,772 |
| | ----- | ----- |
| Total assets | \$ 4,220,474 | \$ 3,654,693 |
| | ===== | ===== |
| | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 985,272 | \$ 952,037 |
| Current maturities of long-term debt | 4,326 | 29,865 |
| Current obligations under capital leases | 15,866 | 15,913 |
| Liabilities held for sale | 146,740 | 157,001 |
| Other current liabilities | 230,642 | 228,949 |
| | ----- | ----- |
| Total current liabilities | 1,382,846 | 1,383,765 |
| Long-term debt | 1,839,175 | 1,427,929 |
| Long-term obligations under capital leases | 196,173 | 217,427 |
| Other liabilities | 129,718 | 127,353 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock, \$2.50 par value per share | 136,270 | 111,095 |
| Capital in excess of par value | 711,574 | 567,720 |
| Reinvested earnings (deficit) | (115,180) | (121,160) |
| Accumulated other comprehensive income: | | |
| Additional minimum pension liability | (59,436) | (59,436) |
| Cumulative foreign currency translation adjustment | (666) | -- |
| | ----- | ----- |
| Total shareholders' equity | 672,562 | 498,219 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$ 4,220,474 | \$ 3,654,693 |
| | ===== | ===== |

The accompanying notes are an integral part of these condensed consolidated

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

financial statements.

5

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED
FOR THE 40 WEEKS ENDED OCTOBER 5, 2002, AND OCTOBER 6, 2001
(IN THOUSANDS)

| | 2002 | 2001 |
|--|-----------|-----------|
| Cash flows from operating activities: | | |
| Net income | \$ 5,980 | \$ 17,614 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 123,926 | 126,127 |
| Amortization costs in interest expense | 6,598 | 4,929 |
| Credit losses | 8,797 | 20,462 |
| Impairment/restructuring and related charges, net of impairment credit (not in other lines) | 27,361 | 14,637 |
| Cash payments on impairment/restructuring and related charges | (21,669) | (58,450) |
| Cost of early debt retirement | 13,119 | 5,787 |
| Change in assets and liabilities, excluding effect of acquisitions: | | |
| Receivables | 11,000 | (63,321) |
| Inventories | (69,962) | (217,352) |
| Accounts payable | (104,882) | 65,898 |
| Other assets and liabilities | (117,873) | (61,048) |
| Net cash used in operating activities | (117,605) | (144,717) |
| Cash flows from investing activities: | | |
| Collections on notes receivable | 32,127 | 24,375 |
| Notes receivable funded | (14,225) | (20,704) |
| Purchases of businesses, net of cash received | (295,058) | (120,670) |
| Purchases of property and equipment | (150,779) | (168,504) |
| Proceeds from sale of property and equipment | 164,268 | 13,286 |
| Proceeds from sale of businesses | -- | 120,947 |
| Other investing activities | 18,277 | 13,597 |
| Net cash used in investing activities | (245,390) | (137,673) |
| Cash flows from financing activities: | | |
| Change in revolver | (140,000) | 120,000 |
| Proceeds from long-term borrowings | 880,940 | 500,602 |
| Payments on long-term debt | (489,047) | (342,755) |
| Payments on capital issuance and debt retirement | (45,976) | (23,976) |
| Principal payments on capital lease obligations | (15,408) | (15,092) |
| Proceeds from sale of common stock | 178,703 | 59,252 |
| Dividends paid | (2,848) | (2,530) |
| Net cash provided by financing activities | 366,364 | 295,501 |
| Net change in cash and cash equivalents | 3,369 | 13,111 |

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| | | |
|--|-------------|-------------|
| Cash and cash equivalents, beginning of period | 17,325 | 30,380 |
| | ----- | ----- |
| Cash and cash equivalents, end of period | \$ 20,694 | \$ 43,491 |
| | ===== | ===== |
| Supplemental information: | | |
| Cash paid for interest | \$ 139,462 | \$ 122,484 |
| Cash refunded for income taxes | \$ (29,448) | \$ (17,894) |
| | ===== | ===== |

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

6

FLEMING COMPANIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The preceding condensed consolidated financial statements of Fleming Companies, Inc. have been prepared by us, without audit. In our opinion, all adjustments, which consist of normal recurring adjustments, except as disclosed, necessary to present fairly our financial position, results of operations and cash flows for the periods presented have been made. These financial statements should be read in conjunction with the audited financial statements and notes thereto included in our Fiscal 2001 Annual Report on Form 10-K and Form 10-K/A.

The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Certain prior period amounts have been reclassified to conform to the current period classifications, including the reclassification of net sales and cost of goods due to the adoption of EITF 01-9 in the first quarter of 2002. In 2002 and 2001, the effect of the decrease to both sales and cost of sales on the 12 week amounts was less than \$21 million and the effect on the 40 week amounts was less than \$63 million. This reclassification had no effect on gross margin or net income. Prior period amounts have been reclassified for comparability.

During the third quarter of 2002, our Board approved a plan to divest our price impact retail stores and we have reflected the operating results of the component as discontinued operations in accordance with SFAS No. 144 - Accounting for the Impairment or Disposal of Long-Lived Assets. As a result, we will no longer be reporting multiple segments as our continuing operations are all within one reportable segment. Prior period amounts have been reclassified for comparability (see Footnote 4). Beginning with the third quarter of 2002, our transfer pricing from distribution to retail will be recorded at market; historically it has been recorded at cost.

In April 2002, the FASB issued SFAS No. 145 - Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. We had a refinancing transaction in the second quarter of 2002 that resulted in an extraordinary charge (see Footnote 8). In 2003, this amount will be reclassified

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

to selling and administrative expense and taxes on income in accordance with SFAS 145.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.

7

2. INVENTORY VALUATION

We use the LIFO method of inventory valuation for determining the cost of most grocery and certain perishable inventories. The excess of current cost of LIFO inventories over their stated value was \$49.8 million (\$14.8 million of which is recorded in assets held for sale in current assets on the balance sheet) and \$46.4 million (\$13.1 million of which is recorded in assets held for sale in current assets on the balance sheet) at October 5, 2002 and December 29, 2001, respectively.

3. EARNINGS PER SHARE

Both basic and diluted income (loss) per share from continuing operations are computed based on income (loss) from continuing operations (adjusted for the after-tax effect of interest expense relating to the 5 1/4% convertible senior subordinated notes, if applicable) divided by weighted average shares as appropriate for each calculation. Both basic and diluted income (loss) per share from discontinued operations are based on income (loss) from discontinued operations divided by weighted average shares as appropriate for each calculation.

(IN THOUSANDS, EXCEPT PER SHARE DATA)

| | 12 WEEKS ENDED | | 40 WEEKS ENDED |
|--|--------------------|--------------------|--------------------|
| | OCTOBER 5, 2002 | OCTOBER 6, 2001 | OCTOBER 5, 2002 |
| Numerator: | | | |
| Basic earnings (loss) from continuing operations before extraordinary charge | \$ (1,470) | \$ 16,508 | \$ 34,349 |
| Basic earnings (loss) from discontinued operations before extraordinary charge | (19,386) | 2,567 | (20,506) |
| After-tax interest expense related to convertible debt | -- | 1,180 | -- |
| | ----- | ----- | ----- |
| Diluted earnings (loss) before extraordinary charge | \$ (20,856) | \$ 20,255 | \$ 13,843 |
| | ===== | ===== | ===== |
| Denominator: | | | |
| Weighted average shares for basic earnings per share | 53,950 | 43,728 | 48,065 |
| Effect of dilutive securities: | | | |
| Employee stock options | -- | 1,908 | 882 |
| Restricted stock compensation | -- | 441 | 293 |
| Convertible debt securities | -- | 4,955 | -- |
| | ----- | ----- | ----- |

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| | | | |
|---|--------|--------|--------|
| Dilutive potential common shares | -- | 7,304 | 1,175 |
| | ----- | ----- | ----- |
| Weighted average shares for diluted earnings per share | 53,950 | 51,032 | 49,240 |
| | ===== | ===== | ===== |

For the 12 weeks ended October 5, 2002, we did not reflect 5.0 million of weighted average shares or add back after-tax interest expense of \$1.2 million related to convertible debt due to

8

antidilution. We also did not reflect 0.2 million of weighted average shares for both employee stock options and restricted stock compensation due to antidilution. For the 40 weeks ended October 5, 2002 and October 6, 2001, we did not reflect 5.0 million and 3.6 million, respectively, of weighted average shares or add back after-tax interest expense of \$4.0 million and \$2.3 million, respectively, related to convertible debt due to antidilution.

4. DISCONTINUED OPERATIONS

On September 24, 2002, the Board of Directors approved a plan to sell our price impact retail grocery stores operating under the Rainbow and Food 4 Less banners. The plan is based in part on our decision to focus on our core distribution business. Results of operations of these stores represent a component of our company and have been previously included in the retail segment. The disposition of the retail stores is expected to occur in a series of sales to multiple buyers beginning in the fourth quarter of 2002 and completed in 2003. Expenses associated with support services that directly support the retail operations have been reflected in discontinued operations.

As a result of the expected disposition, we have presented the associated assets and liabilities of the component as held for sale in the accompanying consolidated condensed balance sheets. We also have reflected the operating results of the component as discontinued operations in the accompanying consolidated condensed statements of operations.

The component's assets and liabilities classified as held for sale related to discontinued operations as of October 5, 2002 and December 29, 2001 are as follows:

| | | |
|---|--------------------|----------------------|
| (In thousands) | | |
| Assets held for sale: | October 5, 2002 | December 29, 2001 |
| | ----- | ----- |
| Current assets | \$ 150,387 | \$ 133,417 |
| Property and equipment, net | 288,901 | 266,136 |
| Other assets | 144,307 | 141,733 |
| | ----- | ----- |
| Assets held for sale from discontinued operations | 583,595 | 541,286 |
| Assets held for sale from impairment/restructuring charges (see Footnote 12) | 32,187 | 30,066 |

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| | | |
|---|------------------------------|------------------------------|
| Total assets held for sale | ----- \$ 615,782 ===== | ----- \$ 571,352 ===== |
| Liabilities held for sale from discontinued operations: | | |
| Current portion of capital lease obligations | \$ 6,240 | \$ 5,497 |
| Accounts payable and accrued liabilities | 24,362 | 37,096 |
| Capital lease obligations | 116,138 | 114,408 |
| Total liabilities held for sale | ----- \$ 146,740 ===== | ----- \$ 157,001 ===== |

9

Summary operating results for the component classified as discontinued operations for the periods indicated below are as follows:

| (In thousands) | 12 Weeks Ended | | 40 Weeks Ended | |
|--|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | ----- October 5, 2002 ----- | ----- October 6, 2001 ----- | ----- October 5, 2002 ----- | ----- October 6, 2001 ----- |
| Net sales | \$ 458,346 | \$ 475,355 | \$ 1,621,447 | \$ 1,822,222 |
| Income (loss) from discontinued operations | \$ (19,386) | \$ 2,567 | \$ (20,506) | \$ 20,728 |

5. COMPREHENSIVE INCOME

Our comprehensive income (loss) for the 12 and 40 weeks ended October 5, 2002, totaled a loss of \$22.2 million and income of \$5.3 million, respectively, and was comprised of reported net income (loss) and foreign currency translation adjustment. Our comprehensive income for the 12 and 40 weeks ended October 6, 2001, totaled \$19.1 million and \$17.6 million, respectively, and was comprised only of reported net income.

6. ACQUISITION OF CORE-MARK INTERNATIONAL, INC.

On June 18, 2002, we acquired Core-Mark International, Inc., a leading piece-pick distributor to convenience stores and other retail customers in the Western United States and Canada, for \$217 million in cash (net of cash acquired) and assumed its debt (\$77 million of 11 3/8% senior subordinated notes due 2003 and a \$55 million accounts receivable securitization facility). Core-Mark's 11 3/8% senior subordinated notes were called for redemption immediately upon our acquisition. The \$55 million accounts receivable securitization facility was paid and terminated on July 18, 2002.

The acquisition was financed through our credit agreement along with the sale of \$200 million of 9 1/4% senior notes due 2010 and 9.2 million shares of common stock (which grossed \$178 million at \$19.40 per share, and netted approximately \$170 million after the underwriting discount and other issuance costs). The acquisition was accounted for under the purchase method, and the results of

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

Core-Mark have been included in our consolidated results from the date of acquisition.

We have not finalized the allocation of the purchase price as of October 5, 2002. We have engaged a valuation firm to assist us in this process. Upon completion of their work, we will adjust the preliminary purchase price allocation in accordance with SFAS No. 141 - Business Combinations. The estimation of this allocation, which is included as part of these financial statements, is as follows: \$31 million to property, plant and equipment, \$49 million to working capital, \$269 million to goodwill and other intangible assets offset by \$132 million of debt assumed.

10

The unaudited proforma combined historical results, as if Core-Mark had been acquired at the beginning of fiscal 2002 and 2001, respectively, are estimated in the following table:

| (IN MILLIONS, EXCEPT PER SHARE DATA) | 12 WEEKS ENDED | | 40 WEEKS ENDED | |
|--|--------------------|--------------------|--------------------|--------------------|
| | OCTOBER 5, 2002 | OCTOBER 6, 2001 | OCTOBER 5, 2002 | OCTOBER 6, 2001 |
| Net sales from continuing operations | \$ 3,973 | \$ 4,436 | \$ 13,032 | \$ 13,032 |
| Income (loss) from continuing operations | \$ (2) | \$ 19 | \$ 41 | \$ 41 |
| Income (loss) from discontinued operations | (19) | 3 | (20) | (20) |
| Income (loss) before extraordinary charge | \$ (21) | \$ 22 | \$ 21 | \$ 21 |
| Net income (loss) | \$ (21) | \$ 22 | \$ 13 | \$ 13 |
| Basic earnings per share: | | | | |
| Income (loss) from continuing operations | \$ (0.03) | \$ 0.45 | \$ 0.86 | \$ 0.86 |
| Income (loss) from discontinued operations | (0.36) | 0.06 | (0.43) | (0.43) |
| Income (loss) before extraordinary charge | \$ (0.39) | \$ 0.51 | \$ 0.43 | \$ 0.43 |
| Net income (loss) | \$ (0.39) | \$ 0.51 | \$ 0.27 | \$ 0.27 |
| Diluted earnings per share: | | | | |
| Income (loss) from continuing operations | \$ (0.03) | \$ 0.41 | \$ 0.84 | \$ 0.84 |
| Income (loss) from discontinued operations | (0.36) | 0.05 | (0.38) | (0.38) |
| Income (loss) before extraordinary charge | \$ (0.39) | \$ 0.46 | \$ 0.46 | \$ 0.46 |
| Net income (loss) | \$ (0.39) | \$ 0.46 | \$ 0.31 | \$ 0.31 |

The proforma results include amortization of other intangibles related to the purchase for fiscal 2001 amounts and interest expense on debt incurred to finance the acquisition. The proforma results are not necessarily indicative of what actually would have occurred if the acquisition had been completed as of the beginning of each fiscal period presented, nor are they necessarily indicative of future consolidated results.

7. CONTINGENCIES

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

Since August 29, 2002, several securities lawsuits have been filed against us and certain of our officers in the United States District Court for the Eastern District of Texas seeking court certification as a class action. In addition, one related shareholders' derivative lawsuit has been filed against certain of our officers and the members of our Board of Directors in the United States District Court for the Eastern District of Texas.

We are engaged in other various legal proceedings which have arisen but have not been fully adjudicated. These proceedings, in the opinion of management, will not have a material adverse effect upon our consolidated financial position, cash flows or results of operations when ultimately concluded.

11

8. DEBT

Long-term debt consists of the following:

| | OCTOBER 5, 2002 | DECEMBER 29, 2001 |
|--|--------------------|----------------------|
| | ----- | ----- |
| | (IN THOUSANDS) | |
| 10 5/8 % senior subordinated notes due 2007 | \$ 400,000 | \$ 400,000 |
| 10 1/8 % senior notes due 2008 | 359,029 | 345,870 |
| 5 1/4 % convertible senior subordinated notes due 2009 | 150,000 | 150,000 |
| 9 1/4 % senior notes due 2010 | 200,000 | -- |
| 9 7/8 % senior subordinated notes due 2012 | 260,000 | -- |
| 10 1/2 % senior subordinated notes due 2004 | -- | 250,000 |
| Revolving credit, average interest rates of 3.9% for 2002 and 5.5% for 2001, due 2007 | 60,000 | 200,000 |
| Term loan, due 2002 to 2008, average interest rate of 4.1% for 2002 and 6.4% for 2001 | 423,938 | 118,637 |
| Debt discounts | (9,466) | (6,713) |
| | ----- | ----- |
| | 1,843,501 | 1,457,794 |
| Less current maturities | (4,326) | (29,865) |
| | ----- | ----- |
| Long-term debt | \$ 1,839,175 | \$ 1,427,929 |
| | ===== | ===== |

Aggregate maturities of long-term debt for the next five years are approximately as follows: in the remainder of 2002, \$0 million; in 2003, \$4 million; in 2004, \$4 million; in 2005, \$4 million; and in 2006, \$4 million.

On April 15, 2002, we issued \$260 million of 9 7/8% senior subordinated notes that mature on May 1, 2012. The net proceeds from this private placement were used to redeem the 10 1/2% senior subordinated notes due 2004. These notes are unsecured senior subordinated obligations, ranking the same as all other existing and future senior subordinated indebtedness. The notes are effectively subordinated to senior secured and senior unsecured indebtedness, including loans under our senior secured credit facility. The 9 7/8% notes are guaranteed by substantially all of our subsidiaries (see Footnote 9).

On June 18, 2002, we entered into a \$975 million senior secured credit facility

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

to refinance our then existing \$850 million senior secured credit facility. The credit facility consists of a \$550 million revolving facility maturing June 18, 2007 and a \$424 million tranche B term loan maturing June 18, 2008. The new credit facility is secured by all of our inventory and receivables, except for the portion of receivables related to Core-Mark until the accounts receivable securitization was paid on July 18, 2002. As of October 5, 2002, based upon the most restrictive covenant, we had \$285 million available to borrow under the revolving facility. We amended our new credit agreement on October 18, 2002 primarily to facilitate the sale of our retail price impact stores.

12

In connection with the retirement of the 10 1/2% senior subordinated notes due 2004 and the refinancing of our \$850 million senior secured credit facility, we recognized an \$8 million after-tax extraordinary charge (\$13 million pre-tax and \$5 million of tax benefit) from the early retirement of debt during the second quarter of 2002. The charge consisted of debt premium of \$6.5 million on our 2004 notes, \$3.4 million of unamortized debt issuance costs on our 2004 notes and \$3.2 million of unamortized debt issuance costs on our \$850 million credit agreement.

Also, on June 18, 2002, we issued \$200 million of 9 1/4% senior notes that mature June 15, 2010, ranking equal in right of payment with all other existing and future senior unsecured debt. The notes are effectively subordinated to any secured debt, including our senior secured credit facility, but rank senior to all our existing and future subordinated debt. The notes were issued simultaneously with the execution of our senior secured credit facility. The 9 1/4% notes are guaranteed by substantially all of our subsidiaries (see Footnote 9).

In June 2002 and July 2002, we entered into two interest rate swap agreements with a combined notional amount of \$50 million. These swaps were tied to our 9 1/4% senior notes due 2010. The maturity, call dates, and call premiums mirrored those of the notes. The swaps were designed for us to receive a fixed rate of 9 1/4% per annum and pay a floating rate based on a spread plus the 3-month LIBOR. The floating rate reset quarterly beginning September 15, 2002. We documented and designated these swaps to qualify as a fair value hedge. During the third quarter, we unwound these swap agreements and received and recorded \$2 million as a deferred gain that is being amortized to reduce interest expense over the remaining life of the related senior notes.

In April 2002, we entered into an interest rate swap agreement with a notional amount of \$50 million. This swap was tied to our 9 7/8% senior subordinated notes due 2012. The maturity, call dates, and call premiums mirrored those of the notes. The swap was designed for us to receive a fixed rate of 9 7/8% per annum and pay a floating rate based on a spread plus the 3-month LIBOR. The floating rate reset quarterly beginning May 1, 2002. We documented and designated this swap to qualify as a fair value hedge. During the third quarter, we unwound this swap agreement and received and recorded \$4 million as a deferred gain that is being amortized to reduce interest expense over the remaining life of the related subordinated notes.

In 2001, we entered into interest rate swap agreements with a combined notional amount of \$210 million. The swaps are tied to our 10 1/8% senior notes due 2008. The maturity, call dates, and call premiums mirror those of the notes. The swaps are designed for us to receive a fixed rate of 10 1/8% per annum and pay a floating rate based on a spread plus the 3-month LIBOR. The floating rates reset quarterly. We have documented and designated these swaps to qualify as fair value hedges. During the third quarter of 2002, we unwound all but one swap

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

agreement and received and recorded \$4 million as a deferred gain that is being amortized to reduce interest expense over the remaining life of the related senior notes. At the end of the third quarter of 2002, in accordance with SFAS 133, the mark-to-market value of the remaining swap, with a notional value of \$50 million was recorded on our consolidated balance sheet as a \$4 million long-term asset offset by a change in fair value to the senior notes due 2008.

For all qualifying and highly effective fair value hedges, the changes in the fair value of a derivative and the loss or gain on the hedged asset or liability relating to the risk being hedged are

13

recorded currently in earnings. These amounts are recorded to interest income and provide offset of one another. There was no net earnings impact relating to our fair value hedges.

9. SUBSIDIARY GUARANTEE OF SENIOR NOTES AND SENIOR SUBORDINATED NOTES

The senior notes, convertible senior subordinated notes, and senior subordinated notes are guaranteed by substantially all of Fleming's wholly-owned direct and indirect subsidiaries. The guarantees are joint and several, full, complete and unconditional. There are currently no restrictions on the ability of the subsidiary guarantors to transfer funds to Fleming (the parent) in the form of cash dividends, loans or advances.

The following condensed consolidating financial information depicts, in separate columns, the parent company, those subsidiaries which are guarantors, those subsidiaries which are non-guarantors, elimination and reclassification adjustments and the consolidated total. The financial information may not necessarily be indicative of the results of operations or financial position had the subsidiaries been operated as independent entities.

CONDENSED CONSOLIDATING BALANCE SHEET INFORMATION

| | OCTOBER 5, 2002 | | | |
|-----------------------------|-------------------|------------|--------------------|---------------------------------------|
| | PARENT COMPANY | GUARANTORS | NON- GUARANTORS | ELIMINATIO AND RECLAS IFICATION |
| | (IN THOUSANDS) | | | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | \$ 13,411 | \$ 7,023 | \$ 260 | \$ |
| Receivables, net | 458,413 | 250,700 | 4,139 | (12,0 |
| Inventories | 814,819 | 433,805 | -- | (137,7 |
| Assets held for sale | -- | -- | -- | 615,7 |
| Other current assets | 65,975 | 14,800 | 566 | (1,6 |
| Total current assets | 1,352,618 | 706,328 | 4,965 | 464,3 |
| Investment in subsidiaries | 446,078 | 5,356 | -- | (451,4 |
| Intercompany receivables | 616,733 | -- | -- | (616,7 |
| Property and equipment, net | 536,666 | 361,894 | 9,662 | (319,8 |
| Goodwill, net | 401,941 | 436,672 | -- | (141,7 |
| Other assets | 377,851 | 31,877 | -- | (2,6 |

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| | \$ 3,731,887 | \$ 1,542,127 | \$ 14,627 | \$ (1,068,1 |
|--------------------------------------|--------------|--------------|-----------|-------------|
| LIABILITIES AND EQUITY (DEFICIT) | | | | |
| Current liabilities: | | | | |
| Accounts payable | \$ 748,225 | \$ 252,350 | \$ 89 | \$ (15,3 |
| Intercompany payables | -- | 596,751 | 19,982 | (616,7 |
| Liabilities held for sale | -- | -- | -- | 146,7 |
| Other current liabilities | 165,862 | 98,823 | 803 | (14,6 |
| Total current liabilities | 914,087 | 947,924 | 20,874 | (500,0 |
| Obligations under capital leases | 193,638 | 118,673 | -- | (116,1 |
| Long-term debt and other liabilities | 1,951,600 | 17,849 | -- | (5 |
| Equity (deficit) | 672,562 | 457,681 | (6,247) | (451,4 |
| | \$ 3,731,887 | \$ 1,542,127 | \$ 14,627 | \$ (1,068,1 |

14

CONDENSED CONSOLIDATING BALANCE SHEET INFORMATION (CONTINUING)

| | DECEMBER 29, 2001 | | | | |
|----------------------------------|-------------------|------------|--------------------|--|----|
| | PARENT COMPANY | GUARANTORS | NON- GUARANTORS | ELIMINATIONS AND RECLASS- IFICATIONS | CO |
| | (IN THOUSANDS) | | | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 10,175 | \$ 6,876 | \$ 274 | \$ -- | \$ |
| Receivables, net | 483,007 | 105,250 | 12 | (20,072) | |
| Inventories | 817,012 | 198,386 | -- | (112,465) | |
| Assets held for sale | -- | -- | -- | 571,352 | |
| Other current assets | 84,676 | 4,950 | 99 | (1,592) | |
| Total current assets | 1,394,870 | 315,462 | 385 | 437,223 | |
| Investment in subsidiaries | 93,241 | 5,356 | -- | (98,597) | |
| Intercompany receivables | 470,545 | -- | -- | (470,545) | |
| Property and equipment, net | 651,846 | 287,826 | 9,182 | (295,335) | |
| Goodwill, net | 401,180 | 153,010 | -- | (138,418) | |
| Other assets | 379,658 | 47,861 | 13,413 | (3,470) | |
| | \$ 3,391,340 | \$ 809,515 | \$ 22,980 | \$ (569,142) | \$ |
| LIABILITIES AND EQUITY (DEFICIT) | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 861,445 | \$ 109,311 | \$ 1,035 | \$ (19,754) | \$ |
| Intercompany payables | -- | 443,066 | 27,479 | (470,545) | |
| Liabilities held for sale | -- | -- | -- | 157,001 | |

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| | | | | | |
|--------------------------------------|--------------|------------|-----------|--------------|-------|
| Other current liabilities | 264,744 | 27,880 | 713 | (18,610) | |
| | ----- | ----- | ----- | ----- | ----- |
| Total current liabilities | 1,126,189 | 580,257 | 29,227 | (351,908) | |
| Obligations under capital leases | 213,292 | 118,543 | -- | (114,408) | |
| Long-term debt and other liabilities | 1,553,640 | 5,871 | -- | (4,229) | |
| Equity (deficit) | 498,219 | 104,844 | (6,247) | (98,597) | |
| | ----- | ----- | ----- | ----- | ----- |
| | \$ 3,391,340 | \$ 809,515 | \$ 22,980 | \$ (569,142) | \$ |
| | ===== | ===== | ===== | ===== | ===== |

15

CONDENSED CONSOLIDATING OPERATING STATEMENT INFORMATION

| | 12 WEEKS ENDED OCT | | |
|--|--------------------|------------|--------------------|
| | PARENT COMPANY | GUARANTORS | NON- GUARANTORS |
| | ----- | ----- | ----- |
| | (IN THOUSANDS) | | |
| Net sales | \$ 3,469,439 | \$ 512,913 | \$ 87 |
| Costs and expenses: | | | |
| Cost of sales | 3,341,447 | 500,532 | -- |
| Selling and administrative | 97,648 | 16,177 | 217 |
| Other | 43,426 | (14,449) | (161) |
| Impairment/restructuring charge | -- | -- | -- |
| Equity income from subsidiaries | (6,282) | -- | -- |
| | ----- | ----- | ----- |
| Total costs and expenses | 3,476,239 | 502,260 | 56 |
| | ----- | ----- | ----- |
| Income (loss) before taxes | (6,800) | 10,653 | 31 |
| Taxes on income (loss) | (5,330) | 4,389 | 13 |
| | ----- | ----- | ----- |
| Income (loss) from continuing operations | (1,470) | 6,264 | 18 |
| Discontinued operations: | | | |
| Income (loss) before taxes | (31,624) | 10,170 | -- |
| Taxes on income (loss) | (12,238) | 4,191 | -- |
| | ----- | ----- | ----- |
| Income (loss) from discontinued operations | (19,386) | 5,979 | -- |
| | ----- | ----- | ----- |
| Income (loss) before extraordinary charge | \$ (20,856) | \$ 12,243 | \$ 18 |
| | ===== | ===== | ===== |

12 WEEKS ENDED OCTOBER 6,

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| | PARENT COMPANY | GUARANTORS | NON- GUARANTORS |
|--|-------------------|------------|--------------------|
| | ----- | ----- | ----- |
| | | | (IN THOUSANDS) |
| Net sales | \$ 3,119,770 | \$ 411,451 | \$ 9,965 |
| Costs and expenses: | | | |
| Cost of sales | 2,980,656 | 397,162 | 6,975 |
| Selling and administrative | 93,116 | 10,742 | 3,756 |
| Other | 23,642 | 3,955 | (5,282) |
| Impairment/restructuring charge (credit) | (716) | 107 | -- |
| Litigation charges | -- | -- | -- |
| Equity income from subsidiaries | (2,354) | -- | -- |
| | ----- | ----- | ----- |
| Total costs and expenses | 3,094,344 | 411,966 | 5,449 |
| | ----- | ----- | ----- |
| Income (loss) before taxes | 25,426 | (515) | 4,516 |
| Taxes on income (loss) | 8,918 | (214) | 1,861 |
| | ----- | ----- | ----- |
| Income (loss) from continuing operations | 16,508 | (301) | 2,655 |
| Discontinued operations: | | | |
| Income before taxes | 4,209 | 11,850 | -- |
| Taxes on income | 1,642 | 4,924 | -- |
| | ----- | ----- | ----- |
| Income from discontinued operations | 2,567 | 6,926 | -- |
| | ----- | ----- | ----- |
| Income before extraordinary charge | \$ 19,075 | \$ 6,625 | \$ 2,655 |
| | ===== | ===== | ===== |

16

CONDENSED CONSOLIDATING OPERATING STATEMENT INFORMATION

| | PARENT COMPANY | GUARANTORS | NON- GUARANTORS |
|---------------------------------|-------------------|--------------|--------------------------|
| | ----- | ----- | ----- |
| | | | (IN THOUSANDS) |
| | | | 40 WEEKS ENDED OCTOBER 5 |
| Net sales | \$ 9,655,890 | \$ 1,801,654 | \$ 163 |
| Costs and expenses: | | | |
| Cost of sales | 9,234,299 | 1,737,725 | -- |
| Selling and administrative | 265,775 | 46,254 | 241 |
| Other | 91,172 | (1,204) | 279 |
| Impairment/restructuring charge | 27,361 | -- | -- |
| Equity income from subsidiaries | (10,891) | -- | -- |
| | ----- | ----- | ----- |
| Total costs and expenses | 9,607,716 | 1,782,775 | 520 |
| | ----- | ----- | ----- |
| Income (loss) before taxes | 48,174 | 18,879 | (357) |

17

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| | | | |
|---|-----------|----------|----------|
| Taxes on income (loss) | 13,825 | 7,778 | (147) |
| | ----- | ----- | ----- |
| Income (loss) from continuing operations | 34,349 | 11,101 | (210) |
| Discontinued operations: | | | |
| Loss before taxes | (33,207) | (16,334) | -- |
| Taxes on loss | (12,701) | (6,729) | -- |
| | ----- | ----- | ----- |
| Loss from continuing operations | (20,506) | (9,605) | -- |
| | ----- | ----- | ----- |
| Income (loss) before extraordinary charge | \$ 13,843 | \$ 1,496 | \$ (210) |
| | ===== | ===== | ===== |

40 WEEKS ENDED OCTOBER

| | PARENT COMPANY | GUARANTORS | NON- GUARANTORS |
|--|-------------------|--------------|--------------------|
| | ----- | ----- | ----- |
| | | | (IN THOUSANDS) |
| Net sales | \$ 8,419,264 | \$ 1,319,707 | \$ 48,047 |
| Costs and expenses: | | | |
| Cost of sales | 8,048,743 | 1,235,975 | 35,608 |
| Selling and administrative | 230,159 | 86,203 | 13,575 |
| Other | 48,126 | 31,516 | (2,517) |
| Impairment/restructuring charge (credit) | 46,267 | (35,856) | -- |
| Litigation charges | 48,628 | -- | -- |
| Equity income from subsidiaries | (1,915) | -- | -- |
| | ----- | ----- | ----- |
| Total costs and expenses | 8,420,008 | 1,317,838 | 46,666 |
| | ----- | ----- | ----- |
| Income (loss) before taxes | (744) | 1,869 | 1,381 |
| Taxes on income (loss) | (1,099) | 766 | 569 |
| | ----- | ----- | ----- |
| Income from continuing operations | 355 | 1,103 | 812 |
| Discontinued operations: | | | |
| Income before taxes | 35,314 | 38,926 | -- |
| Taxes on income | 14,586 | 15,944 | -- |
| | ----- | ----- | ----- |
| Income from continuing operations | 20,728 | 22,982 | -- |
| | ----- | ----- | ----- |
| Income before extraordinary charge | \$ 21,083 | \$ 24,085 | \$ 812 |
| | ===== | ===== | ===== |

CONDENSED CONSOLIDATING CASH FLOWS INFORMATION

40 WEEKS ENDED OCTOBER

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| | PARENT COMPANY | GUARANTORS | NON- GUARANTORS |
|--|-------------------|--------------|--------------------|
| | ----- | ----- | ----- |
| | | | (IN THOUSANDS) |
| Net cash provided by (used in) operating activities | \$ 321,759 | \$ (447,257) | \$ 7,893 |
| | ----- | ----- | ----- |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (65,651) | (70,274) | (14,854) |
| Other | (125,752) | 16,907 | 14,234 |
| | ----- | ----- | ----- |
| Net cash used in investing activities | (191,403) | (53,367) | (620) |
| | ----- | ----- | ----- |
| Cash flows from financing activities: | | | |
| Repayments on capital lease obligations | (11,154) | (4,254) | -- |
| Advance to (from) parent | (497,738) | 505,025 | (7,287) |
| Other | 381,772 | -- | -- |
| | ----- | ----- | ----- |
| Net cash provided by (used in) financing activities | (127,120) | 500,771 | (7,287) |
| | ----- | ----- | ----- |
| Net increase (decrease) in cash & cash equivalents | 3,236 | 147 | (14) |
| Cash and cash equivalents at beginning of period | 10,175 | 6,876 | 274 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 13,411 | \$ 7,023 | \$ 260 |
| | ===== | ===== | ===== |

40 WEEKS ENDED OCTOBER

| | PARENT COMPANY | GUARANTORS | NON- GUARANTORS |
|---|-------------------|-------------|--------------------|
| | ----- | ----- | ----- |
| | | | (IN THOUSANDS) |
| Net cash used in operating activities | \$ (88,061) | \$ (56,633) | \$ (23) |
| | ----- | ----- | ----- |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (136,669) | (25,258) | (6,577) |
| Other | 24,615 | 6,136 | 80 |
| | ----- | ----- | ----- |
| Net cash used in investing activities | (112,054) | (19,122) | (6,497) |
| | ----- | ----- | ----- |
| Cash flows from financing activities: | | | |
| Repayments on capital lease obligations | (10,449) | (4,643) | -- |
| Advance to (from) parent | (82,068) | 76,430 | 5,638 |
| Other | 310,593 | -- | -- |
| | ----- | ----- | ----- |

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| | | | |
|--|-----------|----------|--------|
| Net cash provided by financing activities | 218,076 | 71,787 | 5,638 |
| | ----- | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents | 17,961 | (3,968) | (882) |
| Cash and cash equivalents at beginning of period | 22,487 | 6,753 | 1,140 |
| | ----- | ----- | ----- |
| Cash and cash equivalents at end of period | \$ 40,448 | \$ 2,785 | \$ 258 |
| | ===== | ===== | ===== |

18

10. SALE-LEASEBACK OF REAL PROPERTY

During the second and third quarters of 2002, gross proceeds from sale-leaseback transactions totaled \$144 million and are included in the proceeds from sale of property and equipment on the condensed consolidated statements of cash flows. These transactions resulted in a gain of \$24 million that is being deferred over the remaining life of the operating leases which range from 10 to 15 years. Future minimum lease payments required from these sale-leaseback transactions that have noncancelable lease terms exceeding one year are presented in the following table:

| FISCAL YEAR | AMOUNT |
|-------------------|----------------|
| ----- | ----- |
| | (In thousands) |
| Remaining in 2002 | \$ 3,772 |
| 2003 | 15,087 |
| 2004 | 15,087 |
| 2005 | 15,087 |
| 2006 | 15,087 |

11. SECOND QUARTER CHARGE

In the second quarter of 2002, we recorded a \$27 million pre-tax charge related to the closure of distribution facilities in Oklahoma City and Dallas and certain integration costs related to recent acquisitions. The after-tax effect was a charge of \$16 million, or \$0.34 per share. Certain other costs associated with the closures will be expensed in the future as incurred.

The charge is comprised primarily of long-lived asset impairments, lease obligations and severance related expenses for the closed distribution facilities. The entire charge is reflected on the impairment/restructuring charge (credit) line on the consolidated statement of operations and affects continuing operations. The assets related to these closures are included in assets held for sale.

The portion of the charge relating to workforce reductions totaled approximately \$4 million with a headcount of 410 and was fully paid during the third quarter.

Additionally, \$5 million of the charge related to lease obligations which will

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

be reduced over the remaining lease terms as the facilities are no longer operating. The charges and utilization have been recorded to-date as follows:

| | AMOUNT |
|-----------------------------|----------------|
| | (In thousands) |
| 2002 Quarter 2 charge | \$ 5,022 |
| 2002 Quarter 3 terminations | (508) |
| | ----- |
| Ending liability | \$ 4,514 |
| | ===== |

The remainder of the charge relates to asset impairments.

19

12. HISTORICAL STRATEGIC PLAN CHARGES

In December 1998, we announced the implementation of a strategic plan designed to improve the competitiveness of the retailers we serve and improve our performance by building stronger operations that can better support long-term growth. The four major initiatives of the strategic plan were to consolidate distribution operations, grow distribution sales, improve retail performance, and reduce overhead and operating expenses, in part by centralizing procurement and other functions. Additionally, in 2000, we decided to reposition certain retail operations into our price impact format and sell or close the remaining conventional retail chains. By mid-2001, we had sold or closed all of our conventional retail stores, and the plan was completed by the end of 2001.

The activity related to workforce reductions is as follows:

| | AMOUNT |
|-----------------------------|----------------|
| | (In thousands) |
| 2001 Ending liability | \$ 18,091 |
| 2002 Quarter 1 terminations | (4,008) |
| 2002 Quarter 2 terminations | (2,567) |
| 2002 Quarter 3 terminations | (682) |
| | ----- |
| Ending liability | \$ 10,834 |
| | ===== |

The ending liability of approximately \$11 million is primarily comprised of estimated union pension withdrawal liabilities, but also includes accruals for payments over time to associates whose employment is already severed. The

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

headcount related to severance was approximately 80 at the end of 2001. By the end of the second quarter of 2002, essentially all impacted employees' employment had been severed. All of the employee reductions in 2002 related to this plan were from distribution operating units.

Additionally, the strategic plan included charges related to lease obligations. Stores with remaining lease obligations as of year-end 2001 of approximately \$2.3 million were closed during the first quarter of 2002.

Assets held for sale related to our restructuring and included in current assets at the end of the third quarter of 2002 were approximately \$32 million (not including amounts related to discontinued operations, see Footnote 4 for more details), consisting of \$26 million of distribution operating units and \$6 million of retail stores. Included in the \$32 million are amounts related to the 2002 closure of the distribution facilities in Oklahoma City and Dallas (see Footnote 11) and divisions that have closed related to the strategic plan but are not yet sold.

20

The net effect of the strategic plan in the third quarter of 2001 was a pre-tax charge of \$6 million. The after-tax effect was a charge of \$4 million, or \$0.07 per share. The third quarter of 2001 pre-tax charge consisted of the following components:

- o Net impairment recovery of \$2 million through sales of operations against which we had previously recorded long-lived asset impairments. This recovery is included in the impairment/restructuring line on our Condensed Consolidated Statement of Operations. Of the \$2 million impairment recovery, \$3 million of recovery related to continuing operations and a \$1 million charge related to discontinued operations.
- o Restructuring charges of \$3 million. The restructuring charges consisted primarily of severance related expenses for the divested or closed operating units. The restructuring charges also included professional fees expensed as incurred related to the restructuring process. These costs are included in the impairment/restructuring line on our Condensed Consolidated Statement of Operations. Of the \$3 million in restructuring charges, \$2 million related to continuing operations and \$1 million related to discontinued operations.
- o Other disposition and related costs of \$5 million. These costs are included on several lines of the Condensed Consolidated Statement of Operations as follows: \$1 million of charges was included in net sales related primarily to adjust previously recorded gains on the sale of conventional retail stores; \$1 million of charges was included in cost of sales and was primarily related to inventory markdowns for clearance for closed operations; \$3 million of charges was included in selling and administrative expense as disposition related costs which were expensed as incurred. Of the \$5 million in other disposition and related costs, \$3 million related to continuing operations and \$2 million related to discontinued operations.

The net effect of the strategic plan for the first three quarters of 2001 was a pre-tax charge of \$19 million. The after-tax effect was a charge of \$11 million, or \$0.23 per share. The charge for the first three quarters of 2001 consisted of the following components:

- o Net impairment recovery of \$42 million. The components included recovering,

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

through sales of the related operations, previously recorded goodwill impairment of \$15 million and long-lived asset impairment of \$34 million. Also included was impairment of \$7 million related to other long-lived assets. These costs are included in the impairment/restructuring line on our Condensed Consolidated Statement of Operations. Substantially all of the \$42 million impairment recovery related to discontinued operations.

- o Restructuring charges of \$16 million. The restructuring charges consisted primarily of severance related expenses for the divested or closed operating units. The restructuring charges also included professional fees expensed as incurred related to the restructuring process. These costs are included in the impairment/restructuring line on our Condensed Consolidated Statement of Operations. Of the \$16 million restructuring charges, \$10 million related to continuing operations and \$6 million related to discontinued operations.

21

- o Other disposition and related costs of \$45 million. These costs are included on several lines of the Condensed Consolidated Statement of Operations as follows: less than \$1 million of income was included in net sales related primarily to gains on the sale of conventional retail stores; \$31 million of charges was included in cost of sales and was primarily related to inventory markdowns for clearance for closed operations; \$14 million of charges was included in selling and administrative expense as disposition related costs which were expensed as incurred. Of the \$45 million of other disposition and related costs, \$14 million related to continuing operations and \$31 million related to discontinued operations.

13. GOODWILL AND OTHER INTANGIBLE ASSETS

Effective January 1, 2002, we adopted SFAS No. 142 - Goodwill and Other Intangible Assets. This standard requires a non-amortization approach to account for purchased goodwill and other indefinite life intangibles. Under that approach, goodwill and intangible assets with indefinite lives are not amortized to earnings over a period of time. Instead, these amounts are reviewed for impairment and expensed against earnings only in the periods in which the recorded values are more than implied fair value.

SFAS 142 prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment and was completed prior to June 30, 2002. As no impairment was detected, the second phase, which measures the impairment, was not necessary. As required, we will perform subsequent evaluations annually during the second quarter of each year, or more frequently if circumstances indicate a possible impairment. Unamortized goodwill of \$697 million relates to continuing operations and \$142 million relates to discontinued operations.

22

In accordance with SFAS 142, the effect of this accounting change is reflected prospectively. Supplemental comparative disclosure, as if the change had been retroactively applied to the 12 and 40 weeks ended October 6, 2001, is as follows (in thousands, except per share amounts):

12 WEEKS ENDED
2002 2001

40 WEEKS ENDED
2002

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| | | | |
|---|-------------|-----------|-------------|
| | ----- | ----- | ----- |
| INCOME (LOSS) FROM CONTINUING OPERATIONS: | | | |
| Reported income (loss) | \$ (1,470) | \$ 16,508 | \$ 34,349 |
| Goodwill amortization, net of tax | -- | 3,088 | -- |
| | ----- | ----- | ----- |
| Adjusted income (loss) | \$ (1,470) | \$ 19,596 | \$ 34,349 |
| | ===== | ===== | ===== |
| INCOME (LOSS) FROM DISCONTINUED OPERATIONS: | | | |
| Reported income (loss) | \$ (19,386) | \$ 2,567 | \$ (20,506) |
| Goodwill amortization, net of tax | -- | 1,420 | -- |
| | ----- | ----- | ----- |
| Adjusted income (loss) | \$ (19,386) | \$ 3,987 | \$ (20,506) |
| | ===== | ===== | ===== |
| BASIC INCOME (LOSS) PER SHARE: | | | |
| Reported income (loss) from continuing operations | \$ (0.03) | \$ 0.38 | \$ 0.71 |
| Goodwill amortization, net of tax | -- | 0.07 | -- |
| | ----- | ----- | ----- |
| Adjusted income (loss) from continuing operations | \$ (0.03) | \$ 0.45 | \$ 0.71 |
| | ===== | ===== | ===== |
| Reported income (loss) from discontinued operations | \$ (0.36) | \$ 0.06 | \$ (0.43) |
| Goodwill amortization, net of tax | -- | 0.03 | -- |
| | ----- | ----- | ----- |
| Adjusted income (loss) from discontinued operations | \$ (0.36) | \$ 0.09 | \$ (0.43) |
| | ===== | ===== | ===== |
| DILUTED NET INCOME (LOSS) PER SHARE: | | | |
| Reported income (loss) from continuing operations | \$ (0.03) | \$ 0.35 | \$ 0.70 |
| Goodwill amortization, net of tax | -- | 0.06 | -- |
| | ----- | ----- | ----- |
| Adjusted income (loss) from continuing operations | \$ (0.03) | \$ 0.41 | \$ 0.70 |
| | ===== | ===== | ===== |
| Reported income (loss) from discontinued operations | \$ (0.36) | \$ 0.05 | \$ (0.42) |
| Goodwill amortization, net of tax | -- | 0.03 | -- |
| | ----- | ----- | ----- |
| Adjusted income (loss) from discontinued operations | \$ (0.36) | \$ 0.08 | \$ (0.42) |
| | ===== | ===== | ===== |

Supplemental comparative disclosure for net income (loss) for the 12 and 40 weeks ended October 6, 2001, would be affected by the same adjustments as those reflected above.

For the 12 and 40 weeks ended October 5, 2002, we recorded additional goodwill

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

and other intangible assets of \$283 million, primarily related to the acquisition of Core-Mark (see Footnote 6). Other intangibles, excluding debt issuance costs, included in other assets on our consolidated balance sheet consisted of the following:

| (In thousands) | OCTOBER 5, 2002 | | | DECEMBER 29, 2001 | | |
|---------------------|-----------------------------|-----------------------------|------------------------------|-----------------------------|-----------------------------|---------------------------|
| | GROSS CARRYING AMOUNT | ACCUMULATED AMORTIZATION | OTHER INTANGIBLES, NET | GROSS CARRYING AMOUNT | ACCUMULATED AMORTIZATION | OTHER INTANGIBL NET |
| Customer incentives | \$122,963 | \$ (39,781) | \$ 83,182 | \$111,605 | \$ (33,463) | \$ 78, |
| Tradenames | 5,800 | (3,926) | 1,874 | 5,800 | (3,480) | 2, |
| Other | 8,106 | (5,595) | 2,511 | 6,390 | (3,455) | 2, |
| Other intangibles | \$136,869 | \$ (49,302) | \$ 87,567 | \$123,795 | \$ (40,398) | \$ 83, |

Amortization expense of other intangibles disclosed above for the 12 and 40 weeks ended October 5, 2002 was \$10.7 million and \$23.0 million, respectively. Estimated amortization expense, excluding any future acquisitions, for each of the next five fiscal years is as follows:

| FISCAL YEAR | AMOUNT |
|-------------|----------------|
| | (In thousands) |
| 2002 | \$ 29,075 |
| 2003 | 23,412 |
| 2004 | 20,117 |
| 2005 | 15,285 |
| 2006 | 8,144 |

14. RECENT DEVELOPMENTS

In 2003, we will begin recording expense for stock options in accordance with the fair value model under SFAS No. 123 - Accounting for Stock-Based Compensation. The Financial Accounting Standards Board is currently addressing the transition rules related to SFAS No. 123. The current rules provide that recognition of expense would apply to grants of stock-based awards made after adopting the fair value method.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS
FLEMING COMPANIES, INC.

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

We have reviewed the accompanying condensed consolidated balance sheet of Fleming Companies, Inc. and subsidiaries as of October 5, 2002, and the related condensed consolidated statements of operations for the 12 and 40 weeks ended October 5, 2002 and October 6, 2001 and condensed consolidated statements of cash flows for the 40 weeks ended October 5, 2002 and October 6, 2001. These financial statements are the responsibility of the company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Fleming Companies Inc. and subsidiaries as of December 29, 2001, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 13, 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 29, 2001 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

Dallas, Texas
October 23, 2002

25

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

After we purchased Core-Mark International, Inc. in June 2002, we began an evaluation of strategic alternatives related to our price impact retail stores. After completing this strategic evaluation, we announced in September of 2002 our decision to divest all 110 of our price impact supermarkets, which we operate under the Food 4 Less and Rainbow Foods banners and focus on our core distribution business. We have begun negotiations with potential buyers for substantially all of these stores, including self-distributing chains and regional and independent supermarket operators. We believe that the disposition of these retail assets will occur through a series of sales to multiple buyers, beginning in the fourth quarter of 2002 and be completed in 2003. The divested stores have been presented as discontinued operations in accordance with SFAS 144.

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

Concurrently with the completion of the Core-Mark acquisition on June 18, 2002, we entered into a \$975 million credit agreement consisting of a \$425 million tranche B term loan and a \$550 million revolving credit facility. We also sold \$200 million aggregate principal amount of 9 1/4% senior notes due 2010 and 9.2 million shares of common stock at \$19.40 per share. In connection with the consummation of these transactions, we repaid all borrowings outstanding under our previously existing \$850 million credit agreement. On October 18, 2002, we amended our credit agreement primarily to facilitate the sale of our price impact retail stores. Our results of operations include the results of Core-Mark from the date of acquisition.

In April 2002, we acquired Head Distributing Company, an Atlanta, Georgia based piece-pick distributor. Our results of operations included the results of Head Distributing from the date of acquisition. Also, in June 2002, we purchased inventory and other personal property from Albertson's Inc. located at its Tulsa, Oklahoma distribution center and entered into an operating lease of this distribution center.

We recorded net income (loss) from continuing operations for the 12 and 40 weeks ended October 5, 2002 of a \$2 million loss and a \$34 million income, respectively. Losses from discontinued operations for the 12 and 40 weeks ended October 5, 2002 were \$19 million and \$21 million, respectively. EBITDAL from continuing operations for the 12 and 40 weeks ended October 5, 2002 was \$65 million and \$250 million, respectively. EBITDAL from discontinued operations for the 12 and 40 weeks ended October 5, 2002 was a loss of \$12 million and income of \$34 million, respectively.

26

The following table sets forth the calculation of EBITDAL from continuing and discontinued operations (in millions):

| | 12 WEEKS ENDED | | 40 WEEKS ENDED | |
|--|--------------------|--------------------|--------------------|--------------------|
| | OCTOBER 5, 2002 | OCTOBER 6, 2001 | OCTOBER 5, 2002 | OCTOBER 5, 2001 |
| | ----- | ----- | ----- | ----- |
| Income (loss) from continuing operations before extraordinary charge | \$ (2) | \$ 17 | \$ 34 | \$ 34 |
| Add back: | | | | |
| Taxes on income (loss) | (1) | 11 | 21 | 21 |
| Depreciation/amortization | 31 | 26 | 82 | 82 |
| Interest expense | 34 | 27 | 110 | 110 |
| LIFO adjustments | 3 | -- | 3 | 3 |
| | ----- | ----- | ----- | ----- |
| EBITDAL - continuing operations | \$ 65 | \$ 81 | \$ 250 | \$ 250 |
| | ===== | ===== | ===== | ===== |

| | 12 WEEKS ENDED | | 40 WEEKS ENDED | |
|--|--------------------|--------------------|--------------------|--------------------|
| | OCTOBER 5, 2002 | OCTOBER 6, 2001 | OCTOBER 5, 2002 | OCTOBER 5, 2001 |
| | ----- | ----- | ----- | ----- |

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| | | | | | |
|--|----|-------|----|-------|------------|
| Income (loss) from discontinued operations | | | | | |
| before extraordinary charge | \$ | (19) | \$ | 3 | \$ (21) \$ |
| Add back: | | | | | |
| Taxes on income (loss) | | (12) | | 2 | (12) |
| Depreciation/amortization | | 11 | | 12 | 42 |
| Interest expense | | 7 | | 8 | 24 |
| LIFO adjustments | | 1 | | (2) | 1 |
| | | ----- | | ----- | ----- |
| EBITDAL - discontinued operations | \$ | (12) | \$ | 23 | \$ 34 \$ |
| | | ===== | | ===== | ===== |

EBITDAL is earnings before extraordinary items, interest expense, income taxes, depreciation and amortization, equity investment results and LIFO provision. We present EBITDAL to help us describe our ability to generate cash flows that can be used to service our debt; however, conditions may require conservation of funds for other uses. EBITDAL is a non-GAAP liquidity measure commonly used in our industry and should not be considered as an alternative measure of our net income or cash flows from operations as computed in accordance with GAAP. Amounts presented may not be comparable to similar measures disclosed by other companies.

27

RESULTS OF CONTINUING OPERATIONS

Set forth in the following table is information regarding our continuing net sales and certain components of income (loss) from continuing operations expressed as a percent of sales which are referred to in the accompanying discussion:

| FOR THE 12 WEEKS ENDED | OCTOBER 5, 2002 | OCTOBER 6, 2001 |
|--|--------------------|--------------------|
| | ----- | ----- |
| Net sales | 100.00% | 100.00% |
| Gross margin | 3.54 | 4.43 |
| Less: | | |
| Selling and administrative | 2.87 | 3.05 |
| Interest expense | 0.86 | 0.77 |
| Interest income and other | (0.13) | (0.14) |
| Impairment/restructuring credit | -- | (0.02) |
| | ----- | ----- |
| Total expenses | 3.60 | 3.66 |
| | ----- | ----- |
| Income (loss) before taxes | (0.06) | 0.77 |
| Taxes on income (loss) | (0.02) | 0.30 |
| | ----- | ----- |
| Income (loss) from continuing operations | (0.04)% | 0.47% |

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| FOR THE 40 WEEKS ENDED | OCTOBER 5, 2002 ----- | OCTOBER 6, 2001 ----- |
|-----------------------------------|-----------------------------|-----------------------------|
| Net sales | 100.00% | 100.00% |
| Gross margin | 4.25 | 4.78 |
| Less: | | |
| Selling and administrative | 2.73 | 3.38 |
| Interest expense | 0.97 | 0.99 |
| Interest income and other | (0.18) | (0.20) |
| Impairment/restructuring charges | 0.24 | 0.11 |
| Litigation charges | -- | 0.50 |
| | ----- | ----- |
| Total expenses | 3.76 | 4.78 |
| | ----- | ----- |
| Income before taxes | 0.49 | -- |
| Taxes on income | 0.19 | -- |
| | ----- | ----- |
| Income from continuing operations | 0.30% | --% |

28

NET SALES.

Net sales from continuing operations for the 12 weeks ended October 5, 2002, increased by \$441 million, or 12.5%, to \$4.0 billion from the same period in 2001. Year to date, net sales increased by \$1.66 billion, or 17.0% (34% of this increase was attributable to growth in Kmart sales), to \$11.4 billion from the same period in 2001. Net growth for the 12-week period was mainly a result of Core-Mark sales for the full 12 weeks (16 weeks year to date) along with increased activity from our Albertson's agreement offset by decreased activity with Kmart, our largest customer. The decline in sales to Kmart for the 12 weeks ended October 5, 2002 compared to the same period in the prior year was due to the closing of Kmart stores in 2002 related to its bankruptcy reorganization compared to increased sales in the last half of 2001 due to the startup of the Kmart contract. Kmart accounted for 20% and 31% of our net sales during the third quarter of 2002 and 2001, respectively, and 23% and 21% for the first three quarters of 2002 and 2001, respectively.

GROSS MARGIN.

Gross margin from continuing operations for the 12 and 40 weeks ended October 5, 2002 decreased as a percentage of net sales to 3.54% and 4.25%, respectively, from 4.43% and 4.78%, respectively, for the same periods in 2001. The decrease in gross margin rate was due, in part, to a change in the mix of product sales resulting from a greater concentration on high growth, lower margin piece-pick sales. These sales increased as a result of the Core-Mark and Head Distributing acquisitions. In addition, a \$3.0 million provision for LIFO is included in continuing operations for the 12 and 40 weeks ended October 5, 2002. There was no LIFO provision recorded in continuing operations in the prior year comparable periods.

SELLING AND ADMINISTRATIVE EXPENSES.

Selling and administrative expenses from continuing operations for the 12 and 40 weeks ended October 5, 2002 decreased as a percentage of net sales to 2.87% and

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

2.73%, respectively, for 2002 from 3.05% and 3.38%, respectively, in 2001. The improvement is a result of sales growth without a corresponding increase in fixed operating costs and company-wide cost savings initiatives.

OPERATING EARNINGS.

We measure operating earnings as sales less cost of sales less selling and administrative expenses. Operating earnings from continuing operations as a percentage of net sales for the 12 and 40 weeks ended October 5, 2002 were 0.67% and 1.52%, respectively, compared to 1.38% and 1.40%, respectively, for the same periods in 2001. The change in operating earnings is a combination of the explanations included in net sales, gross margin and selling and administrative expenses described above.

INTEREST EXPENSE.

Interest expense from continuing operations for the third quarter of 2002 increased \$7 million to \$34 million compared to the same period in 2001 and increased \$14 million year to date compared to the same period in 2001. The increase in the third quarter was a result of higher debt balances compared to the prior year quarter. Year to date also increased due to higher debt balances but was partially offset by lower average interest rates for the same time period. The second quarter of 2002 and the first quarter of 2001 each included \$3 million of interest expense incurred on debt during the call period for the early retirement of debt.

29

INTEREST INCOME AND OTHER.

Interest income from continuing operations of \$5 million for the third quarter of 2002 and \$20 million for the first three quarters of 2002 was relatively flat for the same periods of 2001. Interest income in the second quarter of 2002 and the first quarter of 2001 each included approximately \$1 million of interest income from cash deposited with a trustee during the call period for the early retirement of debt.

IMPAIRMENT/RESTRUCTURING CHARGE.

In the second quarter of 2002, we incurred a \$27 million pre-tax charge in continuing operations related to the closure of two distribution facilities and certain integration costs related to recent acquisitions. See Note 11 in the notes to the condensed consolidated financial statements for further discussion of the charge.

The strategic plan was fully implemented by the end of 2001 and thus there has been no charge in 2002. See Note 12 in the notes to the condensed consolidated financial statements for further discussion regarding the strategic plan.

DISCONTINUED OPERATIONS.

On September 24, 2002, the Board of Directors approved a plan to sell our price impact retail grocery stores operating under the Rainbow and Food 4 Less banners. The plan is based in part on our decision to focus on our core distribution business. Results of operations of these stores represent a component of our company and have been previously included in the retail segment. The disposition of the retail stores is expected to occur in a series of sales to multiple buyers beginning in the fourth quarter of 2002 and completed in 2003. Expenses associated with support services that directly support the retail operations have been reflected in discontinued operations. For the 12 and 40 weeks ended October 5, 2002, losses from discontinued operations were \$19.4 million and \$20.5 million, respectively, compared to income from discontinued operations of \$2.6 million and \$20.7, respectively, for the same time periods in 2001. We expect to apply the proceeds from the sale of

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

these stores to reduce outstanding debt under our credit facility.

TAXES ON INCOME.

The effective tax rates for the total company for the 40 weeks of 2002 and 2001 were 38.7% and 41.3% (before extraordinary charges), respectively. These were both blended rates taking into account operations activity as well as various permanent and timing differences. The effective tax rate for 2002 was favorably impacted as a result of a refund generated through a change in treatment by the IRS of a closed statute relating to an earlier return year. The 2001 effective tax rate also took into account write-offs of non-deductible goodwill. The tax amount for the third quarter of both years was derived using the 40 week tax amount with that year's estimated effective tax rate compared to the tax amount recorded for the first 28 weeks of the year.

EXTRAORDINARY CHARGE.

We reflected extraordinary after-tax charges of \$8 million (\$13 million pre-tax) in the second quarter of 2002 and \$3 million (\$6 million pre-tax) in the first quarter of 2001, due to the early retirement of debt. See Footnote 8 in the notes to the condensed consolidated financial statements for further discussion. In 2003, these amounts will be reclassified to selling and administrative expense and taxes on income in accordance with SFAS 145.

30

KMART DEVELOPMENTS.

On January 22, 2002, Kmart and certain of its U.S. subsidiaries filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. Kmart, our largest customer, accounted for 23% of our net sales from continuing operations for both the 40 weeks ended October 5, 2002 and the year ended December 29, 2001. We have a 10-year written distribution agreement with Kmart. Pursuant to this bankruptcy, Kmart may, however, assume or reject our distribution agreement at any time. Kmart named us as a "critical vendor" in the bankruptcy proceeding and granted to us a second priority lien on its inventory to secure the payment of weekly receivables to us arising after the date of the bankruptcy filing.

The impact of Kmart's bankruptcy filing on our future financial results will depend greatly upon whether Kmart assumes or rejects our distribution agreement and upon the success of Kmart's reorganization. If, for example, Kmart assumes our distribution agreement and obtains bankruptcy court approval of its plan of reorganization (which Kmart has not yet filed), then it is likely that our future financial results will not be adversely impacted. If, however, Kmart rejects our distribution agreement or, to the contrary, assumes our distribution agreement but fails to obtain bankruptcy court approval of a plan of reorganization, then we may lose our sales to Kmart, may choose to close or consolidate certain distribution facilities, may eliminate excess inventory, and may suffer other damages, including the loss of a portion of our pre-petition receivable. If certain of these circumstances occur, we could assert a claim against Kmart for damages in addition to the claim we have already filed.

CERTAIN ACCOUNTING MATTERS.

The FASB issued SFAS No. 143 - Accounting for Asset Retirement Obligations. We are studying the impact that SFAS 143 has on our financial statements and planning to implement it in fiscal year 2003, as required. The FASB issued SFAS No. 144 - Accounting for the Impairment or Disposal of Long-Lived Assets. We implemented SFAS 144 as of the beginning of fiscal year 2002, as required. It had no significant impact on our financial statements. In April 2002, the FASB issued SFAS No. 145 - Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. We had a refinancing transaction in 2002 that has resulted in an extraordinary charge. In 2003 these

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

amounts will be reclassified to selling and administrative expense in accordance with SFAS 145. In August 2002, the FASB issued SFAS No. 146 - Accounting for Costs Associated with Exit or Disposal Activities. The standard currently has no impact on our financial statements, and we will implement it in fiscal year 2003, as required. In December 2001, the AICPA's Accounting Standards Executive Committee issued Statement of Position (SOP) 01-6, Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others. We implemented SOP 01-6 as of the beginning of fiscal year 2002, as required, with no impact on our financial statements. This SOP provides guidance on the accounting for and disclosure of amounts due to us from customers included in our accounts and notes receivable.

31

CRITICAL ACCOUNTING POLICIES AND ESTIMATES.

There have been no significant changes to critical accounting policies and estimates since the issuance of our 2001 Form 10-K other than the following. We have estimated the proceeds we expect to receive upon completing the sales of our price impact retail operations. Our estimates were based on our current negotiations and other potential outcomes. We have not yet reached final agreements on these sales. There could be changes in the final sales agreements that might differ from our estimates.

LIQUIDITY AND CAPITAL RESOURCES

For the year-to-date period ended October 5, 2002, our principal source of liquidity was borrowings under our credit facility. Our principal sources of capital were the issuance of common stock, the issuance of long-term senior debt and the sale-leaseback of six case-pick distribution centers.

NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES.

Net cash used in operating activities was \$118 million for the three quarters ended October 5, 2002 compared to a \$145 million use of cash for the same period in 2001. The primary use of cash was for working capital. During the third quarter of 2002, cash provided by operations of \$8 million was primarily driven by improvements in working capital, specifically accounts payable and inventory in continuing operations. This compares to a use of cash of \$81 million for the 12 weeks ended October 6, 2001, which was primarily driven by a build in inventory.

NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES.

Total investment-related activity resulted in a \$245 million use of cash for the three quarters ended October 5, 2002 compared to a \$138 million use of cash in the same period of 2001.

Cash expended for businesses acquired was \$295 million for the three quarters ended October 5, 2002 (primarily as a result of our acquisition of Core-Mark and Head Distributing), compared to \$121 million cash expended for businesses acquired during the same period in 2001.

Cash expended for the purchase of property and equipment totaled \$151 million for the three quarters ended October 5, 2002 compared to \$169 million for the same period in 2001. We intend to spend a total of approximately \$185 million on our capital programs in 2002 compared to \$238 million spent in 2001. We estimate capital expenditures of \$135 million in 2003. The planned reduction is primarily related to our decision to divest our price impact retail stores.

Cash proceeds from the sale of property and equipment was \$164 million, primarily related to the sale-leaseback of six case-pick distribution centers

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

located in Phoenix, Massillon, Salt Lake City, Miami, Sacramento and Memphis (see Footnote 10 for sale-leaseback details) for the three quarters ended October 5, 2002 compared to \$13 million from the sale of property and equipment during the same period in 2001.

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES.

Net cash generated by financing activities was \$366 million for the three quarters ended October 5, 2002 compared to \$296 million for the same period last year.

32

On April 15, 2002, we sold \$260 million of 9 7/8% senior subordinated notes due 2012. The net proceeds were used to redeem the 10 1/2% senior subordinated notes due 2004.

At the end of the third quarter of 2002, outstanding borrowings under the credit facility totaled \$424 million of term loans and \$60 million of revolver loans. The credit facility also supports \$77 million of letters of credit.

On June 18, 2002, we purchased Core-Mark International, Inc. In conjunction with the acquisition, we refinanced our \$850 million senior secured credit facility with a \$975 million senior secured credit facility, sold \$200 million of 9 1/4% senior notes due June 15, 2010 and sold 9.2 million shares of common stock at \$19.40 per share, raising \$178 million of gross proceeds (\$170 million net of underwriting discount and other issuance costs).

As part of our acquisition of Core-Mark, we assumed \$132 million of additional debt, consisting of \$77 million of 11 3/8% senior subordinated notes and a \$55 million accounts receivable securitization. On June 18, we deposited \$80 million in a trust to be used to redeem the 11 3/8% senior subordinated notes, including an amount to cover accrued interest and the redemption premium and received a satisfaction and discharge to release us from this debt. Simultaneously, on June 18, we deposited \$55 million in a trust which was used to redeem the accounts receivable securitization, including an amount to cover accrued interest. The redemption of the accounts receivable securitization took place during the third quarter of 2002.

Our principal sources of liquidity and capital are expected to be cash flows from operating activities and our ability to borrow under our credit facility, in addition, lease financing may be employed for our distribution facilities and equipment. We believe these sources will be adequate to meet working capital needs in the normal course of business for the next 12 months.

CONTINGENCIES

See Footnote 7 in our notes to the consolidated financial statements and Item 1, Part II of this report.

FORWARD-LOOKING INFORMATION

This report includes forward-looking statements regarding future events and our future financial performance. These forward-looking statements and our business are subject to a number of factors that could cause actual results to differ materially from those stated in this report, including without limitation: unanticipated problems with product procurement; adverse effects of the changing industry and increased competition; sales declines and loss of customers; exposure to litigation and other contingent losses; elimination of sales to Kmart due to their rejection of our distribution agreement; the ability of Kmart

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

to continue as a going concern, to operate pursuant to the terms of its debtor-in-possession financing, or to complete its reorganization according to its plan; the inability to integrate acquired companies and to achieve operating improvements at those companies; increases in labor costs and disruptions in labor relations with union bargaining units representing our associates; our ability to successfully sell our retail price-impact stores; and negative effects of our substantial indebtedness and the limitations imposed by restrictive covenants contained in our debt instruments. These and other risk factors are described in our Securities and Exchange Commission reports, including but not limited to the 10-K Report for the 2001 fiscal year. The

33

forward-looking statements speak only as of the date made as we undertake no obligation to update forward-looking statements to reflect developments or information obtained after the date of this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In order to help maintain liquidity and finance business operations, we obtain long-term credit commitments from banks and other financial institution lenders under which term loans and revolving loans are made. Such loans carry variable interest rates based on the London interbank offered interest rate ("LIBOR") plus a borrowing margin for different interest periods, such as one week, one month, and other periods up to one year. To assist in managing our debt maturities and diversify our sources of debt capital, we also use long-term debt which carries fixed interest rates. Additionally, we use interest rate swap agreements to manage our ratio of fixed-to-floating rate debt in a cost-effective manner. See Footnote 8 in the notes to the condensed consolidated financial statements for a further discussion.

With our acquisition of Core-Mark, we now conduct business in western Canada. However, changes in the U.S./Canadian rate of currency exchange historically have had no material impact on the overall results of the Canadian operation, as virtually all revenues and expenses of such operations are Canadian dollars.

SUMMARY OF FINANCIAL INSTRUMENTS

(In millions, except rates)

| | FAIR VALUE AT 12/29/01 | FAIR VALUE AT 10/05/02 | MATURITIES OF PRINCIPAL | | |
|--|---------------------------|---------------------------|------------------------------|------|------|
| | | | 2002 | 2003 | 2004 |
| DEBT WITH VARIABLE INTEREST RATES | | | | | |
| Principal payable | \$ 318 | 476 | -- | 4 | 4 |
| Average variable rate payable | 4.0% | 4.1% | Based on Libor plus a margin | | |
| DEBT WITH FIXED INTEREST RATES | | | | | |
| Principal payable | \$ 1,124 | 815 | - | -- | -- |
| Average fixed rate payable | 9.7% | 9.6% | 5.7% | 5.1% | 0.0% |

ITEM 4. CONTROLS AND PROCEDURES

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only

34

reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. We also have investments in certain unconsolidated entities. As we do not control or manage these entities, our disclosure controls and procedures with respect to these entities are necessarily substantially more limited than those we maintain with respect to our consolidated subsidiaries.

Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

There have been no significant changes in our internal controls or in other factors that could significantly affect our internal controls subsequent to the date we completed our evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are a party to or threatened with various litigation and contingent loss situations arising in the ordinary course of our business including disputes with customers and vendors, owners or creditors of financially troubled or failed customers, suppliers, landlords and lessees, employees, insurance carriers and tax authorities. In this regard, we have arbitration claims pending from and against one of our former convenience store customers, Clark Retail Enterprises, Inc., regarding the required mix of annual minimum purchases under a supply agreement and related product service charges. We believe that Clark failed to purchase the required mix of products as it said it would, making the supply agreement subject to rescission and making Clark liable to us for damages. Clark contends that we breached the supply agreement in several respects, making us liable to Clark for damages. Clark has not yet specified in the arbitration the amount of damages it is seeking from us. An unfavorable outcome for us in this arbitration could impact our financial results, but we do not expect that such an impact would be material to our financial position.

Since August 29, 2002, several securities lawsuits have been filed against us and certain of our officers in the United States District Court for the Eastern District of Texas seeking court certification as a class action. To date, these complaints collectively raise various categories of claims: (a) we allegedly issued false and misleading positive statements, including statements about our price impact retail supermarkets; (b) we allegedly issued financial results which improperly included certain income from vendor deductions; and (c) other

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

alleged accounting irregularities. In addition, one related derivative lawsuit has been filed on behalf of Fleming against certain of our officers and the members of our Board of Directors in the United States District Court for the Eastern District of Texas. This complaint alleges a breach of fiduciary duty in connection with the claims described in clause (a) above.

35

Distributors of cigarettes and other tobacco products are facing a number of significant issues that could impact the business environment. These issues include new government regulation that could increase our cost of business, litigation affecting tobacco manufacturers and new or additional taxes on cigarettes and other tobacco products that could result in a material reduction in the consumption of such products in the United States.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

EXHIBIT NUMBER

- | | |
|--------|--|
| 3.1 | Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Form 10-Q for quarter ended April 17, 1999 |
| 3.2 | By-Laws, incorporated by reference to Exhibit 3.2 to Form 10-Q for quarter ended April 17, 1999 |
| 4.29 | First Amendment, dated October 18, 2002, to that certain Credit Agreement, dated as of June 18, 2002, incorporated by reference to Exhibit 10.1 to Form 8-K filed October 23, 2002 |
| 10.66* | Letter Agreement with William H. Marquard, dated September 13, 2002 |
| 10.67* | Letter Agreement with Thomas Dahlen, dated July 12, 2002 |
| 15 | Letter from Independent Accountants as to Unaudited Interim Financial Information, filed herewith |

* Management contract, compensatory plan or arrangement.

(b) Reports on Form 8-K:

On August 6, 2002, we filed a Current Report on Form 8-K pursuant to Item 9 - Registration FD Disclosure announcing that a slide presentation made to investors and analysts was publicly available.

On August 12, 2002, we filed a Current Report on Form 8-K pursuant to Item 9 - Regulation FD Disclosure, attaching the written statements under oath of our Principal Executive Officer and our Principal Financial Officer that we filed with the SEC in accordance with the SEC's June 27, 2002 Order (File No. 4-460).

On September 25, 2002, we filed a Current Report on Form 8-K pursuant to Item 9 - Regulation FD Disclosure, announcing that we plan to divest our retail operations and provide updated financial guidance, as well as a slide presentation that was made available to investors.

None of these Current Reports on Form 8-K are incorporated into this report or

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

into any other filing of Fleming, regardless of any general incorporation language in such filing.

36

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FLEMING COMPANIES, INC.

November 5, 2002

/s/ MARK D. SHAPIRO

Mark D. Shapiro
Senior Vice President
Finance and Operations Control
(Duly Authorized Officer of Registrant
and Principal Accounting Officer)

37

CERTIFICATIONS

I, Mark S. Hansen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fleming Companies, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

38

Date: November 5, 2002

/s/ MARK S. HANSEN

Mark S. Hansen
Chairman of the Board and Chief Executive Officer

39

I, Neal J. Rider, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Fleming Companies, Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

40

Date: November 5, 2002

/s/ NEAL J. RIDER

Neal J. Rider
Executive Vice President and Chief Financial Officer

41

EXHIBIT INDEX

Edgar Filing: FLEMING COMPANIES INC /OK/ - Form 10-Q

| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|--|
| 3.1 | Certificate of Incorporation, incorporated by reference to Exhibit 3.1 to Form 10-Q for quarter ended April 17, 1999 |
| 3.2 | By-Laws, incorporated by reference to Exhibit 3.2 to Form 10-Q for quarter ended April 17, 1999 |
| 4.29 | First Amendment, dated October 18, 2002, to that certain Credit Agreement, dated as of June 18, 2002, incorporated by reference to Exhibit 10.1 to Form 8-K filed October 23, 2002 |
| 10.66* | Letter Agreement with William H. Marquard, dated September 13, 2002 |
| 10.67* | Letter Agreement with Thomas Dahlen, dated July 12, 2002 |
| 15 | Letter from Independent Accountants as to Unaudited Interim Financial Information, filed herewith |

* Management contract, compensatory plan or arrangement.