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FLEMING COMPANIES INC /OK/
Form 10-Q
May 29, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 21, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-8140

FLEMING COMPANIES, INC.

(Exact name of registrant as specified in its charter)

OKLAHOMA
(State or other jurisdiction of
incorporation or organization)

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

1945 Lakepointe Dr, Box 299013
Lewisville, Texas
(Address of principal executive offices)

75029
(Zip Code)

(972) 906-8000
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,
if changed since last report.)

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

The number of shares outstanding of each of the issuer's classes of common stock, as of May 18, 2001 is as follows:

| Class | Shares Outstanding |
|--------------------------------|--------------------|
| Common stock, \$2.50 par value | 43,818,000 |

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Condensed Statements of Operations For the 16 weeks ended April 21,
2001, and April 15, 2000 (In thousands, except per share amounts)

| | 2001 | 2000 |
|--|--------------|--------------|
| Net sales | \$ 4,161,191 | \$ 4,331,498 |
| Costs and expenses: | | |
| Cost of sales | 3,794,947 | 3,914,824 |
| Selling and administrative | 317,313 | 372,307 |
| Interest expense | 57,502 | 53,101 |
| Interest income | (9,272) | (9,505) |
| Equity investment results | 351 | 1,891 |
| Impairment/restructuring charge (credit) | (26,859) | 42,145 |
| Total costs and expenses | 4,133,982 | 4,374,763 |

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| | | |
|--|-----------|-------------|
| Income (loss) before taxes | 27,209 | (43,265) |
| Taxes on income (loss) | 11,743 | (17,392) |
| ----- | | |
| Income (loss) before extraordinary charge | 15,466 | (25,873) |
| Extraordinary charge from early retirement of debt (net of taxes) | (3,469) | - |
| ----- | | |
| Net income (loss) | \$ 11,997 | \$ (25,873) |
| ===== | | |
| Basic net income (loss) per share: | | |
| Income (loss) before extraordinary charge | \$.39 | \$ (.67) |
| Extraordinary charge from early retirement of debt (net of taxes) | (.09) | - |
| ----- | | |
| Net income (loss) | \$.30 | \$ (.67) |
| Diluted net income (loss) per share: | | |
| Income (loss) before extraordinary charge | \$.37 | \$ (.67) |
| Extraordinary charge from early retirement of debt (net of taxes) | (.08) | - |
| ----- | | |
| Net income (loss) | \$.29 | \$ (.67) |
| Dividends paid per share | \$.02 | \$.02 |
| Weighted average shares outstanding: | | |
| Basic | 40,190 | 38,515 |
| Diluted | 42,245 | 38,515 |
| ===== | | |

Fleming Companies, Inc. See notes to consolidated condensed financial statements and independent accountants' review report.

Consolidated Condensed Balance Sheets
(In thousands)

| | April 21, 2001 | December 30, 2000 |
|---|-------------------|----------------------|
| ----- | | |
| Assets | | |
| ----- | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 27,273 | \$ 30,380 |
| Receivables, net | 490,671 | 509,045 |
| Inventories | 779,249 | 831,265 |
| Assets held for sale | 58,975 | 165,800 |
| Other current assets | 78,497 | 86,583 |
| ----- | | |
| Total current assets | 1,434,665 | 1,623,073 |
| Investments and notes receivable, net | 102,195 | 104,467 |
| Investment in direct financing leases | 98,372 | 102,011 |
| ----- | | |
| Property and equipment | 1,387,036 | 1,370,430 |
| Less accumulated depreciation and amortization | (691,518) | (653,973) |
| ----- | | |
| Net property and equipment | 695,518 | 716,457 |
| Deferred income taxes | 122,877 | 139,852 |
| Other assets | 212,083 | 172,632 |
| Goodwill, net | 510,518 | 544,319 |

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| | | |
|--|--------------|--------------|
| Total assets | \$ 3,176,228 | \$ 3,402,811 |
| ----- | | |
| Liabilities and Shareholders' Equity | | |
| ----- | | |
| Current liabilities: | | |
| Accounts payable | \$ 730,081 | \$ 943,279 |
| Current maturities of long-term debt | 36,171 | 38,171 |
| Current obligations under capital leases | 20,299 | 21,666 |
| Other current liabilities | 197,914 | 229,272 |
| ----- | | |
| Total current liabilities | 984,465 | 1,232,388 |
| Long-term debt | 1,239,427 | 1,232,400 |
| Long-term obligations under capital leases | 339,988 | 377,239 |
| Other liabilities | 118,454 | 133,592 |
| ----- | | |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Common stock, \$2.50 par value per share | 109,272 | 99,044 |
| Capital in excess of par value | 558,122 | 513,645 |
| Reinvested earnings (deficit) | (132,471) | (144,468) |
| Accumulated other comprehensive income - additional minimum pension liability | (41,029) | (41,029) |
| ----- | | |
| Total shareholders' equity | 493,894 | 427,192 |
| ----- | | |
| Total liabilities and shareholders' equity | \$ 3,176,228 | \$ 3,402,811 |
| ===== | | |

Fleming Companies, Inc. See notes to consolidated condensed financial statements and independent accountants' review report.

Consolidated Condensed Statements of Cash Flows
For the 16 weeks ended April 21, 2001, and April 15, 2000
(In thousands)

| | 2001 | 2000 |
|---|-----------|-------------|
| ----- | | |
| Cash flows from operating activities: | | |
| Net earnings (loss) | \$ 11,997 | \$ (25,873) |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 50,667 | 53,749 |
| Amortization costs in interest expense | 2,180 | 1,496 |
| Credit losses | 4,517 | 7,698 |
| Deferred income taxes | 10,996 | 8,208 |
| Gain/loss on sale of business | (1,542) | - |
| Equity investment results | 351 | 1,891 |
| Impairment/restructuring and related charges, net of impairment credit (not in other lines) | (1,899) | 59,322 |

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| | | |
|---|------------|-------------|
| Cash payments on impairment/restructuring and related charges | (22,904) | (41,081) |
| Cost of early debt retirement | 5,787 | - |
| Change in assets and liabilities: | | |
| Receivables | 12,556 | 47,639 |
| Inventories | (2,572) | 129,927 |
| Accounts payable | (213,201) | (192,306) |
| Other assets and liabilities | 24,826 | 3,592 |
| Other adjustments, net | 2,168 | 384 |
| ----- | | |
| Net cash provided by (used in) operating activities | (116,073) | 54,646 |
| ----- | | |
| Cash flows from investing activities: | | |
| Collections on notes receivable | 9,127 | 9,021 |
| Notes receivable funded | (7,585) | (5,710) |
| Purchase of property and equipment | (48,173) | (38,498) |
| Proceeds from sale of property and equipment | 15,968 | 7,627 |
| Investments in customers | - | (1,514) |
| Proceeds from sale of investment | - | 2,616 |
| Proceeds from sale of businesses | 111,088 | 36,952 |
| Other investing activities | 3,373 | 3,753 |
| ----- | | |
| Net cash provided by investing activities | 83,798 | 14,247 |
| ----- | | |
| Cash flows from financing activities: | | |
| Proceeds from long-term borrowings | 615,602 | 60,000 |
| Principal payments on long-term debt | (610,575) | (107,251) |
| Payments on cost of debt | (21,050) | - |
| Principal payments on capital lease obligations | (5,416) | (6,982) |
| Proceeds from sale of common stock | 51,392 | 151 |
| Dividends paid | (785) | (775) |
| ----- | | |
| Net cash provided by (used in) financing activities | 29,168 | (54,857) |
| ----- | | |
| Net change in cash and cash equivalents | (3,107) | 14,036 |
| Cash and cash equivalents, beginning of period | 30,380 | 6,683 |
| Cash and cash equivalents, end of period | \$ 27,273 | \$ 20,719 |
| ===== | | |
| Supplemental information: | | |
| Cash paid for interest | \$ 43,422 | \$ 41,333 |
| Cash refunded for taxes | \$ (5,949) | \$ (50,491) |
| ===== | | |

Fleming Companies, Inc. See notes to consolidated condensed financial statements and independent accountants' review report.

Notes to Consolidated Condensed Financial Statements
(See independent accountants' review report)

1. The consolidated condensed balance sheet as of April 21, 2001, and the consolidated condensed statements of operations and cash flows for the 16 weeks ended April 21, 2001 and April 15, 2000, have been prepared by Fleming without audit. In our opinion, all adjustments necessary to present fairly the financial position at April 21, 2001, and the results of operations and cash flows for the periods presented have been made. All such adjustments are of a normal, recurring nature except as disclosed. Both basic and diluted income (loss) per share are computed based on net income (loss) divided by weighted average shares as appropriate for each calculation.

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The preparation of the consolidated condensed financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and 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 reclassifications have been made to prior year amounts to conform to current year classifications, including the reclassification of net sales and cost of goods due to the adoption of SAB No. 101 and EITF 99-19 in the fourth quarter of 2000.

2. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. These consolidated condensed financial statements should be read in conjunction with the consolidated financial statements and related notes included in our annual report on Form 10-K.

3. The LIFO method of inventory valuation is used for determining the cost of most grocery and certain perishable inventories. The excess of current cost of LIFO inventories over their stated value was \$59 million at April 21, 2001 (\$4 million of which is recorded in assets held for sale in current assets), and \$58 million at December 30, 2000 (\$13 million of which is recorded in assets held for sale in current assets).

4. Sales and operating earnings for our distribution and retail segments are presented below.

| (\$ in millions) | For the 16 weeks ended April 21, April 15, 2001 2000 | |
|---|--|----------|
| <hr style="border-top: 1px dashed black;"/> | | |
| Sales: | | |
| Distribution | \$ 3,743 | \$ 3,842 |
| Intersegment elimination | (426) | (572) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Net distribution | 3,317 | 3,270 |
| Retail | 844 | 1,061 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Total sales | \$ 4,161 | \$ 4,331 |
| <hr style="border-top: 1px dashed black;"/> | | |
| Operating earnings: | | |
| Distribution | \$ 109 | \$ 83 |
| Retail | 16 | 12 |
| Support services | (76) | (51) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Total operating earnings | 49 | 44 |
| Interest expense | (58) | (53) |
| Interest income | 9 | 10 |
| Equity investment results | - | (2) |
| Impairment/restructuring (charge) credit | 27 | (42) |
| <hr style="border-top: 1px dashed black;"/> | | |
| Income (loss) before taxes | \$ 27 | \$ (43) |

=====
General support services expenses are not allocated to distribution and retail segments. The transfer pricing between segments is at cost.

Kmart Corporation, our largest customer, represented 10% of our total net sales during the first quarter of 2001, and just under 10% in the first quarter of 2000.

5. Our comprehensive income for the 16 weeks ended April 21, 2001, totaled \$12.0 million and our comprehensive loss for the 16 weeks ended April 15, 2000, totaled \$25.9 million. The comprehensive income and loss in 2001 and 2000, respectively, were comprised only of the reported net income and loss.

6. In accordance with applicable accounting standards, we record a charge reflecting contingent liabilities (including those associated with litigation matters) when we determine that a material loss is "probable" and either "quantifiable" or "reasonably estimable." Additionally, we disclose material loss contingencies when the likelihood of a material loss is deemed to be greater than "remote" but less than "probable." Set forth below is information regarding certain material loss contingencies:

Class Action Suits. In 1996, we and certain of our present and former officers and directors were named as defendants in nine purported class action suits filed by certain stockholders and one purported class action suit filed by two noteholders. All cases were filed in the United States District Court for the Western District of Oklahoma. In 1997, the court consolidated the stockholder cases; the noteholder case was also consolidated, but only for pre-trial purposes. The plaintiffs in the consolidated cases sought undetermined but significant damages, and asserted liability for our alleged "deceptive business practices," and our alleged failure to properly account for and disclose the contingent liability created by the David's Supermarkets case, a lawsuit we settled in April 1997 in which David's sued us for allegedly overcharging for products. The plaintiffs claimed that these alleged practices led to the David's case and to other material contingent liabilities, caused us to change our manner of doing business at great cost and loss of profit and materially inflated the trading price of our common stock.

During 1998 the complaint in the noteholder case was dismissed, and during 1999 the complaint in the consolidated stockholder case was also dismissed, each without prejudice. The court gave the plaintiffs the opportunity to restate their claims in each case, and they did so in amended complaints. We again filed motions to dismiss all claims in both cases. On February 4, 2000, the court dismissed the amended complaint in the stockholder case with prejudice. The stockholder plaintiffs filed a notice of appeal on March 3, 2000. Briefing is complete in the Court of Appeals for the Tenth Circuit, and oral argument was conducted on May 15, 2001. The Tenth Circuit has not yet issued an opinion.

On August 1, 2000, the court dismissed the claims in the noteholder complaint alleging violations of the Securities Exchange Act of 1934, but the court determined that the noteholder plaintiffs had stated a claim under Section 11 of the Securities Act of 1933. On September 15, 2000, defendants filed a motion to allow an immediate appeal of the court's denial of their motion to dismiss plaintiffs' claim under Section 11. That motion was denied on January 8, 2001. The case was set for a status and scheduling conference on January 30, 2001. The court has entered an order setting this case for trial in October 2001.

On April 30, 2001, a Memorandum of Understanding was signed which provides, among other things, for the parties in the noteholder case to proceed to agree on a Settlement Agreement which will include a payment by defendants and our insurer of \$2.5 million in full satisfaction of the claim. The settlement will

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require court and class approval.

In 1997, we won a declaratory judgment against certain of our insurance carriers regarding policies issued to us for the benefit of our officers and directors. On motion for summary judgment, the court ruled that our exposure, if any, under the class action suits is covered by D&O policies written by the insurance carriers, aggregating \$60 million in coverage, and that the "larger settlement rule" will apply to the case. According to the trial court, under the larger settlement rule, a D&O insurer is liable for the entire amount of coverage available under a policy even if there is some overlap in the liability created by the insured individuals and the uninsured corporation. If a corporation's liability is increased by uninsured parties beyond that of the insured individuals, then that portion of the liability is the sole obligation of the corporation. The court also held that allocation is not available to the insurance carriers as an affirmative defense. The insurance carriers appealed. In 1999, the appellate court affirmed the decision that the class actions were covered by D&O policies aggregating \$60 million in coverage but reversed the trial court's decision as to allocation as being premature.

We intend to vigorously defend any remaining claims in these class action suits and pursue the issue of insurance discussed above, but we cannot predict the outcome of the cases. An unfavorable outcome could have a material adverse effect on our financial condition and prospects.

Don's United Super (and related cases). We and two of our retired executives have been named in a suit filed in 1998 in the United States District Court for the Western District of Missouri by several of our current and former customers (Don's United Super, et al. v. Fleming, et al.). The 19 plaintiffs operate retail grocery stores in the St. Joseph and Kansas City metropolitan areas. The plaintiffs in this suit allege product overcharges, breach of contract, breach of fiduciary duty, misrepresentation, fraud and RICO violations, and they are seeking actual, punitive and treble damages, as well as a declaration that certain contracts are voidable at the option of the plaintiffs.

During the fourth quarter of 1999, plaintiffs produced reports of their expert witnesses calculating alleged actual damages of approximately \$112 million. During the first quarter of 2000, plaintiffs revised a portion of these damage calculations, and although it is not clear what the precise damage claim will be, it appears that plaintiffs will claim approximately \$120 million, exclusive of any punitive or treble damages.

On May 2, 2000, the court granted partial summary judgment to the defendants, holding that plaintiffs' breach of contract claims that relate to events that occurred more than four years before the filing of the litigation are barred by limitations, and that plaintiffs' fraud claims based upon fraudulent inducement that occurred more than 15 years before the filing of the lawsuit likewise are barred. It is unclear what impact, if any, these rulings may have on the damage calculations of the plaintiffs' expert witnesses.

The court has set August 13, 2001 as the date on which trial of the Don's case will commence.

In October 1998, we and the same two retired executives were named in a suit filed by another group of retailers in the same court as the Don's case (Coddington Enterprises, Inc., et al. v. Fleming, et al.). Currently, 16 plaintiffs are asserting claims in the Coddington case, all but one of which have arbitration agreements with us. The plaintiffs assert claims virtually identical to those set forth in the Don's case, and although plaintiffs have not yet quantified the damages in their pleadings, it is anticipated that they will claim actual damages approximating the damages claimed in the Don's case.

In July 1999, the court ordered two of the plaintiffs in the Coddington case to

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arbitration, and otherwise denied arbitration as to the remaining plaintiffs. We have appealed the court's denial of arbitration to the United States Court of Appeals for the Eighth Circuit. The two plaintiffs that were ordered to arbitration have filed motions asking the court to reconsider the arbitration ruling.

Two other cases had been filed before the Don's case in the same court (R&D Foods, Inc., et al. v. Fleming, et al.; and Robandee United Super, Inc., et al. v. Fleming, et al.) by 10 customers, some of whom are also plaintiffs in the Don's case. The earlier two cases, which principally seek an accounting of our expenditure of certain joint advertising funds, have been consolidated. All proceedings in these cases have been stayed pending the arbitration of the claims of those plaintiffs who have arbitration agreements with us.

In March 2000, we and one former executive were named in a suit filed in the United States District Court for the Western District of Missouri by current and former customers that operated five retail grocery stores in and around Kansas City, Missouri, and four retail grocery stores in and around Phoenix, Arizona (J&A Foods, Inc., et al. v. Dean Werries and Fleming Companies, Inc.). The plaintiffs have alleged product overcharges, fraudulent misrepresentation, fraudulent nondisclosure and concealment, breach of contract, breach of duty of good faith and fair dealing and RICO violations, and they are seeking actual, punitive and treble damages, as well as other relief. The damages have not been quantified by the plaintiffs; however, we anticipate that substantial damages will be claimed.

On August 8, 2000, the Judicial Panel on Multidistrict Litigation granted our motion and ordered the related Missouri cases (Don's United Super, Coddington Enterprises, Inc. and J&A Foods, Inc.) and the Storehouse Markets case (described below) transferred to the United States District Court for the Western District of Missouri for coordinated or consolidated pre-trial proceedings.

On March 2, 2001, the court ordered the parties in the related Missouri cases, the Storehouse Markets case and the Welsh case (described below) to mediate their claims within 45 days of the order. On April 9 -- 11, 2001, the parties to the related Missouri cases participated in a mediation process held in Kansas City, Missouri pursuant to the court's order. Although the precise details of the mediation are subject to a confidentiality agreement among the parties and may not be disclosed, the mediation confirmed our expectation that the plaintiffs in the Don's and related cases will claim substantial damages. In addition, based on discussions with plaintiffs' counsel during the mediation, it appears unlikely that these related cases will be resolved before trial.

We intend to vigorously defend against the claims in these related cases, but we are currently unable to predict the outcome of the cases. An unfavorable outcome could have a material adverse effect on our financial condition and prospects.

Storehouse Markets. In 1998, we and one of our former division officers were named in a suit filed in the United States District Court for the District of Utah by several of our current and former customers (Storehouse Markets, Inc., et al. v. Fleming Companies, Inc., et al.). The plaintiffs have alleged product overcharges, fraudulent misrepresentation, fraudulent nondisclosure and concealment, breach of contract, breach of duty of good faith and fair dealing and RICO violations, and they are seeking actual, punitive and treble damages. Damages have not been quantified by the plaintiffs; however, we anticipate that substantial damages will be claimed.

The plaintiffs have made these claims on behalf of a class that would purportedly include current and former customers of our Salt Lake City division covering a four-state region. On June 12, 2000, the court entered an order certifying the case as a class action. On July 11, 2000, the United States Court

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of Appeals for the Tenth Circuit granted our request for a discretionary appeal of the class certification order, and we are pursuing that appeal on an expedited basis.

On August 8, 2000, the Judicial Panel on Multidistrict Litigation granted our motion and ordered the Storehouse Markets case and the related Missouri cases (described above) transferred to the United States District Court for the Western District of Missouri for coordinated or consolidated pre-trial proceedings.

On March 2, 2001, the court ordered the parties in the related Missouri cases, the Storehouse Markets case and the Welsh case to mediate their claims within 45 days of the order. On April 9 -- 11, 2001, the parties to the Storehouse case participated in a mediation process held in Kansas City, Missouri pursuant to the court's order. Although the precise details of the mediation are subject to a confidentiality agreement among the parties and may not be disclosed, the mediation confirmed our expectation that the plaintiffs in Storehouse will claim substantial damages.

We intend to vigorously defend against these claims, but we cannot predict the outcome of the case. An unfavorable outcome could have a material adverse effect on our financial condition and prospects.

Welsh. In April 2000, the operators of two grocery stores in Van Horn and Marfa, Texas filed an amended complaint in the United States District Court for the Western District of Texas, Pecos Division (Welsh v. Fleming Foods of Texas, L.P.). The amended complaint alleges product overcharges, breach of contract, fraud, conversion, breach of fiduciary duty, negligent misrepresentation and breach of the Texas Deceptive Trade Practices Act. The amended complaint seeks unspecified actual damages, punitive damages, attorneys' fees and pre-judgment and post-judgment interest. Pursuant to the order of the Judicial Panel on Multidistrict Litigation, the Welsh case has been transferred to the Western District of Missouri for pre-trial proceedings. No trial date has been set in this case.

On March 2, 2001, the court ordered the parties in the related Missouri cases, the Storehouse Markets case and the Welsh case to mediate their claims within 45 days of the order. The parties in the Welsh case have not yet mediated their claims.

Other. Our facilities and operations are subject to various laws, regulations and judicial and administrative orders concerning protection of the environment and human health, including provisions regarding the transportation, storage, distribution, disposal or discharge of certain materials. In conformity with these provisions, we have a comprehensive program for testing, removal, replacement or repair of our underground fuel storage tanks and for site remediation where necessary. We have established reserves that we believe will be sufficient to satisfy the anticipated costs of all known remediation requirements.

We and others have been designated by the U.S. Environmental Protection Agency and by similar state agencies as potentially responsible parties under the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, or similar state laws, as applicable, with respect to EPA-designated Superfund sites. While liability under CERCLA for remediation at these sites is generally joint and several with other responsible parties, we believe that, to the extent we are ultimately determined to be liable for the expense of remediation at any site, such liability will not result in a material adverse effect on our consolidated financial position or results of operations. We are committed to maintaining the environment and protecting natural resources and human health and to achieving full compliance with all applicable laws, regulations and orders.

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We are a party to or threatened with various other litigation and contingent loss situations arising in the ordinary course of our business including: disputes with customers and former customers; disputes with owners and former owners of financially troubled or failed customers; disputes with landlords and former landlords; disputes with employees and former employees regarding labor conditions, wages, workers' compensation matters and alleged discriminatory practices; disputes with insurance carriers; tax assessments and other matters, some of which are for substantial amounts. Except as noted above, we do not believe that any such claim will have a material adverse effect on us.

7. Long-term debt consists of the following:

| (In thousands) ----- | April 21, 2001 ---- | December 30, 2000 ---- |
|---|---------------------------|------------------------------|
| 10 1/8% senior notes due 2008 | \$ 355,000 | \$ - |
| 5 1/4% convertible senior subordinated notes due 2009 | 150,000 | - |
| 10 5/8% senior notes due 2001 | - | 300,000 |
| 10 1/2% senior subordinated notes due 2004 | 250,000 | 250,000 |
| 10 5/8% senior subordinated notes due 2007 | 250,000 | 250,000 |
| Revolving credit, average interest rates of 7.4% for 2001 and 7.3% for 2000, due 2003 | 130,000 | 300,000 |
| Term loans, due 2001 to 2004, average interest rate of 8.1% for 2001 and 7.2% for 2000 | 145,786 | 154,421 |
| Other debt (including discounts) | (5,188) | 16,150 |
| | ----- | ----- |
| | 1,275,598 | 1,270,571 |
| Less current maturities | (36,171) | (38,171) |
| | ----- | ----- |
| Long-term debt | \$ 1,239,427 | \$ 1,232,400 |
| | ===== | ===== |

Five-year Maturities: Aggregate maturities of long-term debt for the next five years are as follows: 2001-\$28 million; 2002-\$40 million; 2003-\$172 million; 2004-\$287 million; and 2005-\$0.

The 10 5/8% \$300 million senior notes due 2001 were issued in 1994. During the first quarter of 2001, we redeemed these notes with the proceeds from the issuance of \$355 million of senior notes, as described below. In connection with the redemption of \$300 million of 10 5/8% senior notes due 2001, we recognized a \$3.5 million after-tax extraordinary charge from early retirement of debt.

On March 15, 2001, we issued \$355 million of 10 1/8% senior notes that mature on March 15, 2008. Most of the net proceeds were used to redeem all of the 10 5/8% senior notes due 2001, including an amount to cover accrued interest and the redemption premium. The balance of the net proceeds was used to pay down outstanding revolver loans. The new senior notes are unsecured senior obligations, ranking the same as all other existing and future senior indebtedness and senior in right of payment to the subordinated notes. The senior notes are effectively subordinated to secured senior indebtedness with respect to assets securing such indebtedness, including loans under our senior secured credit facility. The 10 1/8% senior notes are guaranteed by substantially all of our subsidiaries (see -Subsidiary Guarantee of Senior Notes and Senior Subordinated Notes below).

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On March 15, 2001, we issued \$150 million of 5.25% convertible senior subordinated notes that mature on March 15, 2009 and have a conversion price of \$30.27 per share. The net proceeds were used to pay down outstanding revolver loans. The convertible notes are callable after 2004, and are general unsecured obligations, subordinated in right of payment to all existing and future senior indebtedness, and rank senior to or of equal rank with all of our existing and future subordinated indebtedness.

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 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

| | April 21, 2001 | | | |
|---|-------------------|------------|--------------------|-----------|
| | Parent Company | Guarantors | Non- Guarantors | Eliminati |
| | ----- | ----- | ----- | ----- |
| | (In thousands) | | | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents..... | \$ 23,637 | \$ 1,951 | \$ 1,685 | \$ |
| Receivables, net..... | 410,955 | 77,886 | 1,830 | |
| Inventories..... | 626,569 | 149,141 | 3,539 | |
| Other current assets..... | 129,521 | 7,909 | 42 | |
| | ----- | ----- | ----- | ----- |
| Total current assets..... | 1,190,682 | 236,887 | 7,096 | |
| Investment in subsidiaries..... | 53,381 | - | - | (53, |
| Intercompany receivables..... | 290,888 | - | - | (290, |
| Property and equipment, net..... | 452,722 | 235,768 | 7,028 | |
| Goodwill, net..... | 410,434 | 96,392 | 3,692 | |
| Other assets..... | 491,744 | 25,129 | 18,654 | |
| | ----- | ----- | ----- | ----- |
| | \$ 2,889,851 | \$ 594,176 | \$ 36,470 | \$ (344, |
| | ===== | ===== | ===== | ===== |
| LIABILITIES AND EQUITY (DEFICIT) | | | | |
| Current liabilities: | | | | |
| Accounts payable..... | \$ 637,242 | \$ 90,335 | \$ 2,504 | \$ |
| Intercompany payables..... | - | 244,564 | 46,324 | (290, |
| Other current liabilities..... | 216,805 | 34,583 | 2,996 | |
| | ----- | ----- | ----- | ----- |
| Total current liabilities..... | 854,047 | 369,482 | 51,824 | (290, |
| Obligations under capital leases..... | 209,342 | 130,646 | - | |
| Long-term debt and other liabilities..... | 1,332,568 | 25,265 | 48 | |

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| | | | | |
|-----------------------|--------------|------------|-----------|----------|
| Equity (deficit)..... | 493,894 | 68,783 | (15,402) | (53, |
| | ----- | ----- | ----- | ----- |
| | \$ 2,889,851 | \$ 594,176 | \$ 36,470 | \$ (344, |
| | ===== | ===== | ===== | ===== |

December 30, 2000

| | Parent Company | Guarantors | Non- Guarantors | Eliminati |
|----------------------------------|-------------------|------------|--------------------|-----------|
| | ----- | ----- | ----- | ----- |
| | (In thousands) | | | |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents..... | \$ 22,487 | \$ 6,753 | \$ 1,140 | \$ |
| Receivables, net..... | 406,203 | 101,884 | 958 | |
| Inventories..... | 635,227 | 192,499 | 3,539 | |
| Other current assets..... | 247,400 | 4,943 | 40 | |
| | ----- | ----- | ----- | ----- |
| Total current assets..... | 1,311,317 | 306,079 | 5,677 | |
| Investment in subsidiaries..... | 53,381 | - | - | (53, |
| Intercompany receivables..... | 384,450 | - | - | (384, |
| Property and equipment, net..... | 424,321 | 285,117 | 7,019 | |
| Goodwill, net..... | 411,094 | 129,440 | 3,785 | |
| Other assets..... | 463,008 | 42,918 | 13,036 | |
| | ----- | ----- | ----- | ----- |
| | \$ 3,047,571 | \$ 763,554 | \$ 29,517 | \$ (437, |
| | ===== | ===== | ===== | ===== |

LIABILITIES AND EQUITY (DEFICIT)

| | | | | |
|---|--------------|------------|-----------|----------|
| Current liabilities: | | | | |
| Accounts payable..... | \$ 821,407 | \$ 120,145 | \$ 1,727 | \$ |
| Intercompany payables..... | - | 342,627 | 41,823 | (384, |
| Other current liabilities..... | 244,524 | 43,275 | 1,310 | |
| | ----- | ----- | ----- | ----- |
| Total current liabilities..... | 1,065,931 | 506,047 | 44,860 | (384, |
| Obligations under capital leases..... | 214,611 | 162,628 | - | |
| Long-term debt and other liabilities..... | 1,339,837 | 26,096 | 59 | |
| Equity (deficit)..... | 427,192 | 68,783 | (15,402) | (53, |
| | ----- | ----- | ----- | ----- |
| | \$ 3,047,571 | \$ 763,554 | \$ 29,517 | \$ (437, |
| | ===== | ===== | ===== | ===== |

CONDENSED CONSOLIDATING OPERATING STATEMENT INFORMATION

16 Weeks Ended April 21, 2001

| | Parent Company | Guarantors | Non- Guarantors | Eliminat |
|---------------------------------|-------------------|--------------|--------------------|----------|
| | ----- | ----- | ----- | ----- |
| | (In thousands) | | | |
| Net sales..... | \$ 3,465,166 | \$ 1,035,055 | \$ 22,210 | \$ (361, |
| Costs and expenses: | | | | |
| Cost of sales..... | 3,280,265 | 859,049 | 16,873 | (361, |
| Selling and administrative..... | 150,323 | 161,907 | 5,083 | |

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| | | | | |
|---|-----------|-----------|------------|--------|
| Other..... | 16,457 | 28,605 | 3,519 | |
| Impairment/restructuring charge (credit)... | 6,255 | (33,114) | - | |
| Equity loss from subsidiaries..... | (3,598) | - | - | 3, |
| | ----- | ----- | ----- | ----- |
| Total costs and expenses..... | 3,449,702 | 1,016,447 | 25,475 | (357, |
| | ----- | ----- | ----- | ----- |
| Income (loss) before taxes..... | 15,464 | 18,608 | (3,265) | (3, |
| Taxes on income (loss)..... | (2) | 13,117 | (1,372) | |
| | ----- | ----- | ----- | ----- |
| Income (loss) before extraordinary charge | \$ 15,466 | \$ 5,491 | \$ (1,893) | \$ (3, |
| | ===== | ===== | ===== | ===== |

16 Weeks Ended April 15, 200

| | Parent Company | Guarantors | Non- Guarantors | Eliminati |
|--------------------------------------|-------------------|--------------|--------------------|-----------|
| | ----- | ----- | ----- | ----- |
| | (In thousands) | | | |
| Net sales..... | \$ 3,569,998 | \$ 1,175,704 | \$ 22,715 | \$ (436, |
| Costs and expenses: | | | | |
| Cost of sales..... | 3,360,908 | 973,622 | 17,213 | (436, |
| Selling and administrative..... | 185,768 | 181,648 | 4,891 | |
| Other..... | 2,964 | 39,851 | 2,672 | |
| Impairment/restructuring charge..... | 41,437 | 708 | - | |
| Equity loss from subsidiaries..... | 12,912 | - | - | (12, |
| | ----- | ----- | ----- | ----- |
| Total costs and expenses..... | 3,603,989 | 1,195,829 | 24,776 | (449, |
| | ----- | ----- | ----- | ----- |
| Income (loss) before taxes..... | (33,991) | (20,125) | (2,061) | 12, |
| Taxes on income (loss)..... | (8,118) | (8,409) | (865) | |
| | ----- | ----- | ----- | ----- |
| Net income (loss)..... | \$ (25,873) | \$ (11,716) | \$ (1,196) | \$ 12, |
| | ===== | ===== | ===== | ===== |

CONDENSED CONSOLIDATING CASH FLOW INFORMATION

16 Weeks Ended April 21, 200

| | Parent Company | Guarantors | Non- Guarantors | Eliminati |
|---|-------------------|------------|--------------------|-----------|
| | ----- | ----- | ----- | ----- |
| | (In thousands) | | | |
| Net cash provided by (used in) operating activities..... | \$ (117,559) | \$ 6,588 | \$ (5,102) | \$ |
| | ----- | ----- | ----- | ----- |
| Cash flows from investing activities: | | | | |
| Purchases of property and equipment..... | (37,721) | (9,704) | (748) | |
| Other..... | 28,573 | 103,398 | - | |
| | ----- | ----- | ----- | ----- |
| Net cash provided by (used in) investing activities..... | (9,148) | 93,694 | (748) | |
| | ----- | ----- | ----- | ----- |
| Cash flows from financing activities: | | | | |
| Repayments on capital lease obligations. | (3,886) | (1,530) | - | |

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| | | | | |
|---|-----------|-----------|----------|-------|
| Advances (to) from parent..... | 97,159 | (103,554) | 6,395 | |
| Other..... | 34,584 | - | - | |
| | ----- | ----- | ----- | ----- |
| Net cash provided by (used in) financing activities..... | 127,857 | (105,084) | 6,395 | |
| | ----- | ----- | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents..... | 1,150 | (4,802) | 545 | |
| Cash and cash equivalents at beginning of year..... | 22,487 | 6,753 | 1,140 | |
| | ----- | ----- | ----- | ----- |
| Cash and cash equivalents at end of year. | \$ 23,637 | \$ 1,951 | \$ 1,685 | \$ |
| | ===== | ===== | ===== | ===== |

16 Weeks Ended April 15, 2001

| | Parent Company | Guarantors | Non- Guarantors | Eliminati |
|---|-------------------|------------|--------------------|-----------|
| | ----- | ----- | ----- | ----- |
| | (In thousands) | | | |
| Net cash provided by operating activities.. | \$ 48,545 | \$ 4,962 | \$ 1,139 | \$ |
| | ----- | ----- | ----- | ----- |
| Cash flows from investing activities: | | | | |
| Purchases of property and equipment..... | (11,416) | (25,979) | (1,103) | |
| Other..... | 52,705 | 40 | - | |
| | ----- | ----- | ----- | ----- |
| Net cash provided by (used in) investing activities..... | 41,289 | (25,939) | (1,103) | |
| | ----- | ----- | ----- | ----- |
| Cash flows from financing activities: | | | | |
| Repayments on capital lease obligations.... | (5,323) | (1,659) | - | |
| Advances (to) from parent..... | (41,545) | 30,741 | 10,804 | |
| Other..... | (47,875) | - | - | |
| | ----- | ----- | ----- | ----- |
| Net cash provided by (used in) financing activities..... | (94,743) | 29,082 | 10,804 | |
| | ----- | ----- | ----- | ----- |
| Net increase (decrease) in cash and cash equivalents..... | (4,909) | 8,105 | 10,840 | |
| Cash and cash equivalents at beginning of year..... | (54,803) | 61,307 | 179 | |
| | ----- | ----- | ----- | ----- |
| Cash and cash equivalents at end of year... | \$ (59,712) | \$ 69,412 | \$ 11,019 | \$ |
| | ===== | ===== | ===== | ===== |

8. The accompanying operating statements include the following:

| | 16 weeks ended | |
|----------------|-------------------|-------------------|
| | ----- | ----- |
| (In thousands) | April 21, 2001 | April 15, 2000 |
| | ----- | ----- |

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| | | |
|---|----------|----------|
| Depreciation and amortization (includes depreciation and amortization due to strategic plan) | \$50,667 | \$53,749 |
| Excess depreciation and amortization due to the strategic plan | \$ - | \$ 4,395 |
| Amortized costs in interest expense | \$ 2,180 | \$ 1,496 |

9. 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. Additionally, in 2000 we decided to reposition certain retail operations into our price impact format and sell or close the remaining conventional retail chains. During the first quarter of 2001, we sold or closed 66 retail stores. We plan to sell or close the remaining 31 retail stores by the end of July 2001.

The plan, as expected, took two years to implement and is now substantially complete. Additional charges of approximately \$20 million are estimated in 2001. The remaining charges represent severance related expenses, inventory markdowns for clearance for closed operations, and other exit costs that cannot be expensed until incurred. Charges after 2001 are expected to be minimal.

The net effect of the strategic plan in the first quarter of 2001 was pre-tax income of \$1 million. The after-tax effect was income of less than \$1 million, or \$.01 per share. The \$1 million pre-tax income was included on several lines of the Consolidated Statement of Operations as follows: \$3 million charge was included in net sales; \$18 million charge was included in cost of sales and was primarily related to inventory markdowns for clearance for closed operations; \$5 million charge was included in selling and administrative expense as disposition related costs recognized on a periodic basis. These charges were offset by \$27 million of income in the Impairment/restructuring line related to the recovery of previously recorded asset impairment resulting from the planned sale of some retail stores, offset partially by severance related expenses. The first quarter charge consisted of the following components:

- o Net impairment recovery of \$35 million. The components included recovering previously recorded goodwill impairment of \$14 million and long-lived asset impairment of \$24 million. Also included was impairment of \$3 million related to other long-lived assets.
- o Restructuring charges of \$8 million. The restructuring charges consisted primarily of severance related expenses for the divested or closed operating units. The restructuring charges also included professional fees incurred related to the restructuring process.
- o Other disposition and related costs of \$26 million. These costs consisted primarily of inventory markdowns for clearance for closed operations and disposition related costs recognized on a periodic basis.

The first quarter of 2001 charge relates to our business segments as follows: \$7 million charge relates to the distribution segment and \$12 million of income relates to the retail segment with the balance relating to support services expenses.

The charges related to workforce reductions are as follows:

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| (\$'s in thousands) | Amount | Headcount |
|--------------------------|-----------|-----------|
| ----- | ----- | ----- |
| 1998 Activity: | | |
| Charge | \$ 25,441 | 1,430 |
| Terminations | (3,458) | (170) |
| | ----- | ----- |
| Ending Liability | 21,983 | 1,260 |
| 1999 Activity: | | |
| Charge | 12,029 | 1,350 |
| Terminations | (24,410) | (1,950) |
| | ----- | ----- |
| Ending Liability | 9,602 | 660 |
| 2000 Activity: | | |
| Charge | 53,906 | 5,610 |
| Terminations | (26,180) | (1,860) |
| | ----- | ----- |
| Ending Liability | 37,328 | 4,410 |
| 2001 Quarter 1 Activity: | | |
| Charge | 6,760 | 520 |
| Terminations | (10,186) | (3,320) |
| | ----- | ----- |
| Ending Liability | \$ 33,902 | 1,610 |
| | ===== | ===== |

The ending liability of approximately \$34 million includes payments over time to associates already severed as well as union pension withdrawal liabilities. The breakdown of the 520 headcount reduction recorded during 2001 was: 145 from the distribution segment; 360 from the retail segment; and 15 from support services.

Additionally, the strategic plan includes charges related to lease obligations which will be utilized as operating units or retail stores close, but ultimately reduced over remaining lease terms ranging from 1 to 20 years. The charges and utilization have been recorded to-date as follows:

| (\$'s in thousands) | Amount |
|---------------------|-----------|
| ----- | ----- |
| 1998 Activity: | |
| Charge | \$ 28,101 |
| Utilized | (385) |
| | ----- |
| Ending Liability | 27,716 |
| 1999 Activity: | |
| Charge | 15,074 |
| Utilized | (10,281) |
| | ----- |
| Ending Liability | 32,509 |
| 2000 Activity: | |
| Charge | 37,149 |
| Utilized | (48,880) |

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| | |
|--------------------------|-----------------------------|
| Ending Liability | ----- 20,778 |
| 2001 Quarter 1 Activity: | |
| Charge | 500 |
| Utilized | (5,263) |
| Ending Liability | ----- \$ 16,015 ===== |

Assets held for sale included in other current assets at the end of the first quarter of 2001 were approximately \$59 million, consisting of \$24 million of distribution operating units and \$35 million of retail stores.

The pre-tax charge of the strategic plan in the first quarter of 2000 totaled \$64 million. After tax, the expense for the first quarter of 2000 was \$38 million or \$.98 per share. The \$64 million charge was included on several lines of the Consolidated Condensed Statement of Operations for the first quarter of 2000 as follows: \$14 million was included in cost of sales and was primarily related to inventory markdowns for clearance for closed operations and additional depreciation and amortization on assets to be disposed of but not yet held for sale; \$8 million was included in selling and administrative expense and equity investment results as disposition related costs recognized on a periodic basis; and the remaining \$42 million was included in the Impairment/restructuring charge line. The \$64 million charge consisted of the following components:

- o Impairment of assets of \$2 million. The impairment related to other long-lived assets.
- o Restructuring charges of \$40 million. The restructuring charges consisted primarily of severance related expenses and pension withdrawal liabilities for the divested or closed operating units that were closed during the first quarter of 2000. The restructuring charges also included operating lease liabilities and professional fees incurred related to the restructuring process.
- o Other disposition and related costs of \$21 million. These costs consist primarily of inventory markdowns for clearance for closed operations, additional depreciation and amortization on assets to be disposed of but not yet held for sale, disposition related costs recognized on a periodic basis.

The \$64 million charge relates to our business segments as follows: \$37 million relates to the distribution segment and \$17 million relates to the retail segment with the balance relating to support services expenses.

Asset impairments were recognized in accordance with SFAS No. 121 - Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and such assets were written down to their estimated fair values based on estimated proceeds of operating units to be sold or discounted cash flow projections. The operating costs of operating units to be sold or closed are treated as normal operations during the periods they remain in use. Salaries, wages and benefits of employees at these operating units are charged to operations during the time such employees are actively employed. Depreciation expense is continued for assets that the company is unable to remove from operations.

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Independent Accountants' Review Report

To the Board of Directors and Shareholders
Fleming Companies, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of Fleming Companies, Inc. and subsidiaries as of April 21, 2001, and the related condensed consolidated statements of operations and of cash flows for the sixteen weeks ended April 21, 2001 and April 15, 2000. 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 30, 2000, 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 14, 2001 (except for the information under long-term debt and contingencies included in the notes to consolidated financial statements as to which the date is March 22, 2001), 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 30, 2000 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
May 24, 2001

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

General

In early 1998, our board of directors and senior management began an extensive strategic planning process that evaluated all aspects of our business. In December 1998, the strategic plan was approved and implementation efforts began. In the course of implementing our strategic initiatives, since 1998 we have, among other accomplishments:

- o closed or consolidated 12 of our distribution centers, which resulted in:

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- o increased average sales per full-line distribution center by more than 40% from \$390 million in 1998 to \$550 million in 2000, and
- o increased average sales per full-line distribution center employee by more than 12% from 1998 to 2000;
- o centralized the majority of our purchasing operations in our customer support center near Dallas, Texas;
- o centralized our accounting, human resources, information technology and other support services in our shared services center in Oklahoma City, Oklahoma;
- o sold or closed 207 conventional supermarkets through the end of the first quarter of 2001 with 31 more to be sold or closed in the next few months;
- o opened 22 additional price impact supermarkets; and
- o instituted a "culture of thrift" among our employees, in part through our Low Cost Pursuit Program.

The plan, as expected, took two years to implement and is now substantially complete. Additional charges of approximately \$20 million are estimated in 2001. The remaining charges represent severance related expenses, inventory markdowns for clearance for closed operations and other exit costs that cannot be expensed until incurred. Charges after 2001 are expected to be minimal.

The first quarter of 2001 included pre-tax income of approximately \$1 million (less than \$1 million after-tax or \$.01 per share) related to the strategic plan, including non-cash impairment adjustments of asset values, inventory markdowns for clearance for closed operations, and cash restructuring costs for severance related and other expenses. The first quarter of 2000 included a pre-tax charge of \$64 million (\$38 million after-tax or \$.98 per share) related to the strategic plan, including non-cash impairments of asset values, inventory markdowns for clearance for closed operations, and cash restructuring cost for severance related expenses, lease terminations, and other expenses.

The first quarter of 2001 also included one-time adjustments, including approximately \$2 million in charges from litigation settlements and net additional interest expense of approximately \$2 million due to the early retirement of debt, netting to a \$3 million charge (\$2 million after-tax or \$.05 per share). There were no one-time adjustments for the first quarter of 2000.

We recorded net income of \$12 million or \$.29 per share for the first quarter of 2001. Excluding the after-tax extraordinary charge of \$3 million, or \$.08 per share, related to the early retirement of debt and the strategic plan and one-time items, our net income was \$17 million or \$.41 per share. Net earnings for the first quarter of 2000 after excluding strategic plan charges was \$12 million or \$.30 per share. Currently, our expectations for 2001 are earnings per share of \$1.96, excluding extraordinary charges, strategic plan and one-time items.

Adjusted EBITDA for the first quarters of 2001 and 2000 were \$136 million and \$128 million, respectively. "Adjusted EBITDA" is earnings before extraordinary items, interest expense, income taxes, depreciation and amortization, equity investment results, LIFO provision and one-time adjustments (e.g., strategic plan charges and non-recurring expense or income items). Adjusted EBITDA should not be considered as an alternative measure of our net income, operating performance, cash flow or liquidity. It is provided as additional information related to our ability to service debt; however, conditions may require conservation of funds for other uses. Although we believe adjusted EBITDA enhances a reader's understanding of our financial condition, this measure, when

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viewed individually, is not necessarily a better indicator of any trend as compared to conventionally computed measures (e.g., net sales, net earnings, net cash flows, etc.). Finally, amounts presented may not be comparable to similar measures disclosed by other companies. The following table sets forth the calculation of adjusted EBITDA for the first quarters of 2001 and 2000 (in millions):

| | April 21, 2001 ---- | April 15, 2000 ---- |
|--|---------------------------|---------------------------|
| Net income (loss) before extraordinary charge: | \$ 15 | \$ (26) |
| Add back: | | |
| Taxes on income (loss) | 12 | (17) |
| Depreciation/amortization | 51 | 54 |
| Interest expense | 58 | 53 |
| Equity investment results | - | 2 |
| LIFO provision | 1 | 3 |
| | ----- | ----- |
| EBITDA | 137 | 69 |
| Add back noncash strategic plan and one-time items* | (18) | 8 |
| | ----- | ----- |
| EBITDA excluding noncash strategic plan and one-time items | 119 | 77 |
| Add back strategic plan and one-time items ultimately requiring cash | 17 | 51 |
| | ----- | ----- |
| Adjusted EBITDA | \$ 136 | \$ 128 |
| | ===== | ===== |

Depreciation and amortization for the first quarter of 2000 includes \$4 million of strategic plan charges. The adjusted EBITDA amount represents cash flow from operations excluding unusual or infrequent items. In our opinion, adjusted EBITDA is the best starting point when evaluating our ability to service debt. In addition, we believe it is important to identify the cash flows relating to unusual or infrequent charges and strategic plan charges, which should also be considered in evaluating our ability to service debt.

Results of Operations

Set forth in the following table is information regarding our net sales and certain components of earnings expressed as a percent of sales which are referred to in the accompanying discussion:

| | April 21, 2001 | April 15, 2000 |
|----------------------------|-------------------|-------------------|
| For the 16-weeks ended | 2001 | 2000 |
| | ----- | |
| Net sales | 100.00 % | 100.00 % |
| Gross margin | 8.80 | 9.62 |
| Less: | | |
| Selling and administrative | 7.63 | 8.60 |
| Interest expense | 1.38 | 1.23 |

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| | | | |
|--|-------|--------|--|
| Interest income | (.22) | (.22) | |
| Equity investment results | .01 | .04 | |
| Impairment/restructuring charge (credit) | (.65) | .97 | |
| ----- | | | |
| Total expenses | 8.15 | 10.62 | |
| ----- | | | |
| Income (loss) before taxes | .65 | (1.00) | |
| Taxes on income (loss) | .28 | (.40) | |
| ----- | | | |
| Income(loss)before extraordinary charge | .37 % | (.60)% | |
| ===== | | | |

Net sales.

Sales for the first quarter (16 weeks) of 2001 decreased by \$0.2 billion, or 4%, to \$4.2 billion from the same period in 2000.

Net sales for the distribution segment were \$3.32 billion in 2001 compared to \$3.27 billion in 2000. The increase in sales was due to growth in sales to both conventional food retail and new retail channel customers, offset partially by the loss of sales to United Supermarkets during the second quarter of 2000. In 2000, sales to United accounted for less than 3% of our total company sales. Kmart Corporation, our largest customer, accounted for 10.2% (or \$424 million) and 9.7% (or \$420 million) of our total net sales in the first quarter of 2001 and 2000, respectively. We expect annual sales to Kmart for 2001 to be approximately \$2.6 billion, with an increase to approximately \$4.5 billion annually in 2002.

Retail segment sales decreased \$0.2 billion, or 20%, in 2001 to \$0.8 billion from the same period in 2000. The decrease in sales was due to the continued disposition of conventional retail stores in order to increase focus on our price impact retail stores. During the first quarter of 2001, we sold or closed 66 retail stores and reached agreements to sell 29 of the 31 remaining to sell or close. This is in addition to the 70 stores sold or closed during 2000. During the first quarter of 2001, we opened five Yes!Less stores and a Food 4 Less store with an additional seven Food 4 Less stores acquired early in the second quarter of 2001.

Gross margin.

Gross margin for the first quarter of 2001 decreased by \$50 million, or 12%, to \$366 million from \$417 million for the same period in 2000, and also decreased as a percentage of net sales to 8.80% from 9.62% for the same period in 2000. After excluding the strategic plan charges and one-time items, gross margin for the first quarter of 2001 decreased by \$45 million, or 10%, compared to the same period in 2000, and decreased as a percentage of net sales to 9.27% from 9.94% for the same period in 2000. The decrease in dollars was due primarily to the overall sales decrease, but was partly offset by positive results from centralizing procurement which leverages our buying power and improving warehouse productivity.

After excluding the strategic plan charges and one-time items for the distribution segment, gross margin as a percentage of net sales improved slightly in the first quarter of 2001 compared to the same period in 2000 reflecting the benefits of the centralization of procurement. For the retail segment, gross margin as a percentage of net sales also improved in the first quarter of 2001 compared to the same period in 2000 due to the divesting or closing of underperforming stores and the centralization of procurement. The strategic plan charges and one-time items were lower in the first quarter of

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2001 compared to the same period in 2000 for the distribution segment primarily due to additional depreciation and amortization on assets to be disposed of but not yet held for sale in 2000, but were higher for the retail segment primarily due to higher inventory markdowns for clearance for closed operations.

Selling and administrative expenses.

Selling and administrative expenses for the first quarter of 2001 decreased by \$55 million, or 15%, to \$317 million from \$372 million for the same period in 2000 and decreased as a percentage of net sales to 7.63% for 2001 from 8.60% in 2000. After excluding the strategic plan charges and one-time items, selling and administrative expenses for the first quarter of 2001 decreased as a percentage of net sales to 7.43% from 8.41% for the same period in 2000. The decreases were due to rationalization of assets, centralization of administrative functions, and reduction of the significance of retail. The sales of the distribution segment represent a larger portion of total company sales than the retail segment and the distribution segment has lower operating expenses as a percentage of sales versus the retail segment.

After excluding the strategic plan charges and one-time items for the distribution segment, selling and administrative expenses as a percentage of net sales improved in the first quarter of 2001 compared to the same period in 2000 due to the centralization of administrative functions and low cost pursuit initiatives. For the retail segment, selling and administrative expenses as a percentage of net sales decreased in the first quarter of 2001 compared to the same period in 2000 primarily due to selling and closing higher cost retail operations, reflecting the lower cost structure of our continuing retail operations. The strategic plan charges and one-time items were lower in the first quarter of 2001 compared to the same period in 2000 for the distribution segment due primarily to moving, recruitment, and training costs incurred during the first quarter of 2000 that were not incurred in 2001, but were higher for the retail segment due to costs of selling and closing 66 retail stores in the first quarter of 2001 compared to 24 retail stores in the first quarter of 2000.

Operating earnings.

Operating earnings for the distribution segment for the first quarter of 2001 increased \$26 million, or 31%, to \$109 million from \$83 million in the same period of 2000. After excluding the strategic plan charges and one-time items, operating earnings increased by \$21 million, or 22%, to \$115 million from \$94 million for the same period of 2000. Operating earnings improved primarily due to the benefits of consolidating distribution operating units, reducing costs partially due to warehouse productivity improvements, and centralizing certain procurement and administrative functions in support services.

Operating earnings for the retail segment increased by \$4 million to \$16 million for the first quarter of 2001 from \$12 million for the same period of 2000. After excluding the strategic plan charges and one-time items, operating earnings increased by \$17 million to \$35 million in the first quarter of 2001 from \$18 million for the same period of 2000. Operating earnings were improved by the performance in continuing retail operations and the divesting or closing of underperforming retail operations. Operating earnings were also improved by centralizing certain administrative functions in support services.

Support services expenses increased in the first quarter of 2001 compared to the same period of 2000 by approximately \$26 million to \$77 million from \$51 million. After excluding the strategic plan charges and one-time items, support services expenses increased by \$27 million to \$73 million in the first quarter of 2001 from \$46 million for the same period of 2000. The increase in expense was primarily due to centralizing certain procurement and administrative functions from the distribution and retail segments. Strategic plan charges were lower in 2001 due to moving and training expenses associated with the centralization of the procurement and administrative functions in 2000.

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Interest expense.

Interest expense for the first quarter of 2001 increased approximately \$5 million, or 8%, to \$58 million for the first quarter of 2001 from \$53 million for the same period in 2000 due primarily to \$3 million of additional interest expense related to the early retirement of debt. The remaining increase was due to higher average debt balances and slightly higher rates.

Interest income.

Interest income of \$9 million for the first quarter of 2001 was slightly lower than the same period of 2000 primarily due to lower average balances for direct financing leases with customers.

Equity investment results.

Our portion of operating losses from equity investments decreased to less than \$1 million for the first quarter of 2001 from \$2 million for the first quarter of 2000 primarily due to improved results of operations in certain of the underlying equity investments.

Impairment/restructuring charge.

The net pre-tax amount recorded in the Consolidated Condensed Statements of Operations (associated with the implementation of our strategic plan announced in 1998) was income of less than \$1 million for the first quarter of 2001 compared to a \$64 million charge for the same period of 2000. The amount in 2001 was recorded with income of \$27 million reflected in the Impairment/restructuring line and the balance reflected in other financial statement lines. The \$64 million charge in 2000 was recorded with \$42 million reflected in the Impairment/restructuring charge line and the balance reflected in other financial statement lines. See "General" above and Note 9 in the notes to the consolidated condensed financial statements for further discussion regarding the strategic plan.

Taxes on income.

The effective tax rates used for the first quarters of 2001 and 2000 were 43.2% and 40.2%, respectively. These were both blended rates taking into account operations activity, strategic plan activity, write-offs of non-deductible goodwill and the timing of these items during the year.

Extraordinary charge.

We reflected an extraordinary after-tax charge of \$3 million (\$6 million pre-tax) in the first quarter of 2001 due to the early retirement of debt. See Note 7 in the notes to the Consolidated Condensed Financial Statements for further discussion regarding the debt retirement.

Certain Accounting Matters.

The Financial Accounting Standards Board (FASB) issued an exposure draft for Business Combinations and Intangible Assets in late 2000. One of the provisions of this exposure draft is to require use of a non-amortization approach to account for purchased goodwill. Under that approach, goodwill would not be amortized to earnings over a period of time. Instead, it would be reviewed for impairment and expensed against earnings only in the periods in which the recorded value of goodwill is more than its implied fair value. Goodwill amortization impacted the basic and diluted per share amount for the quarter by \$0.12 and \$0.13 in 2001 and 2000, respectively. This exposure draft is not final and may change before any new accounting standard is adopted.

The FASB Emerging Issues Task Force (EITF) has recently reached a consensus on EITF 00-25 - Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products. EITF 00-25 provides guidance on income statement classification on consideration paid to a reseller of a vendor's products. This consensus will be implemented by the end of 2001, as required. We anticipate this consensus will provide for reclassifications of revenues and cost of sales within our financial statements with no effect on gross margin or

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earnings.

Liquidity and Capital Resources

In the first quarter ended April 21, 2001, our principal sources of liquidity were borrowings under our credit facility and the sale of certain assets. Our principal source of capital, excluding shareholders' equity, was generated by issuing bonds in the capital markets.

Net cash provided by (used in) operating activities.

Net cash expended by operating activities was \$116 million in the first quarter of 2001 compared to a net inflow of \$55 million for the same period in 2000. The primary use of funds was for working capital.

Cash requirements related to the implementation and completion of the strategic plan (on a pre-tax basis) were \$23 million in the first quarter of 2001 and are currently estimated to be \$73 million for the full year 2001. We believe working capital reductions, proceeds from asset sales, and continued positive earnings will provide adequate cash flows to cover all of these costs.

Net cash provided by investing activities.

Total investment-related activity resulted in \$84 million of positive net cash flow for the first quarter ended April 21, 2001, compared to \$14 million in the same period of 2000. Cash provided by asset sales, collections on notes receivable and other investing-related activities was only partially offset by capital expenditures.

Net cash provided by (used in) financing activities.

Financing activities generated \$29 million of net cash flows for the quarter ended April 21, 2001, compared to a \$55 million use of cash flows for the same period of 2000. Total debt, including capital leases, decreased slightly in the first quarter of 2001.

On March 23, 2001, we received approximately \$50 million of proceeds from the sale of common stock to Yucaipa Companies, a transaction which gave Yucaipa 8.7% ownership of Fleming's outstanding common stock.

We believe successful access to the credit and capital markets is dependent in part on maintaining credit ratings acceptable to institutional and individual investors. On February 28, 2001, Standard & Poor's ratings group announced it was upgrading its credit rating outlook for Fleming from "stable" to "positive". On March 5, 2001, Moody's Investors Service announced it was upgrading its credit ratings for Fleming. Listed below is a summary of our credit ratings.

| | Moody's | | Standard & Poor's | |
|---------------------------|----------|--------|-------------------|----------|
| | From: | To: | From: | To: |
| Credit agreement loans | Ba3 | Ba2 | BB | BB |
| Senior implied debt | B1 | Ba3 | BB- | BB- |
| Senior unsecured debt | B1 | Ba3 | B+ | B+ |
| Senior subordinated notes | B3 | B2 | B | B |
| Outlook | Positive | Stable | Stable | Positive |

On March 15, 2001, we sold \$355 million of new 10 1/8% senior notes due 2008, and we deposited \$315 million with the trustee to redeem all of the 10 5/8% senior notes due 2001, including an amount to cover accrued interest and the

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redemption premium. On April 16, 2001, our obligations under the indenture were discharged. The balance of the net proceeds was used to pay down our revolver loans. An extraordinary after-tax charge of approximately \$3 million was recorded in connection with the early redemption. On March 15, 2001, we also sold \$150 million of new 5.25% convertible senior subordinated notes due 2009 with a conversion price of \$30.27 per share. The net proceeds of \$146 million were used to pay down our revolver loans. At the end of the first quarter of 2001, outstanding loans and letters of credit under the credit facility totaled \$175 million of term loans, consisting of \$130 million of revolver loans, and \$45 million of letters of credit. As of April 21, 2001, we could have borrowed an additional \$425 million under the revolver.

For the foreseeable future, our principal sources of liquidity and capital are expected to be cash flows from operating activities, our ability to borrow under our credit facility, and asset sale proceeds. In addition, lease financing may be employed for new retail stores and certain equipment. We believe these sources will be adequate to meet working capital needs, capital expenditures, strategic plan costs and other capital needs in the normal course of business for the next 12 months.

Contingencies

From time to time we face litigation or other contingent loss situations resulting from owning and operating our assets, conducting our business or complying (or allegedly failing to comply) with federal, state and local laws, rules and regulations which may subject us to material contingent liabilities. In accordance with applicable accounting standards, we record as a liability amounts reflecting such exposure when a material loss is deemed to be both "probable" and "quantifiable" or "reasonably estimable." Furthermore, we disclose material loss contingencies in the notes to our financial statements when the likelihood of a material loss has been determined to be greater than "remote" but less than "probable." Such contingent matters are discussed in Note 6 in the notes to the consolidated condensed financial statements. An adverse outcome experienced in one or more of such matters, or an increase in the likelihood of such an outcome, could have a material adverse effect. Also see Legal Proceedings.

Forward-Looking Information

This report includes statements that (a) predict or forecast future events or results, (b) depend on future events for their accuracy, or (c) embody projections and assumptions which may prove to have been inaccurate, including expectations for years 2001 and beyond regarding (i) our ability to successfully sustain the goals of our strategic plan and continue to reverse sales declines, cut costs and improve earnings; (ii) our assessment of the probability and materiality of losses associated with litigation and other contingent liabilities; (iii) our ability to expand portions of our business or enter new facets of our business; and (iv) our expectations regarding the proceeds from asset sales and adequacy of capital and liquidity. We have prepared the financial projections and other forward-looking statements included in this document on a reasonable basis, and such projections and statements reflect the best estimates and judgments currently available and present, to the best of our knowledge and belief, the expected course of action and the expected future financial performance of Fleming. However, this information is not fact and should not be relied upon as necessarily indicative of future results, and readers of this document are cautioned not to place undue reliance on the projected financial information or other forward-looking information. The projections were not prepared with a view to compliance with the guidelines established by the American Institute of Certified Public Accountants regarding projections. These projections, forward-looking statements and our business and prospects are subject to a number of factors which could cause actual results to differ materially including the ability to achieve the expected synergies and

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anticipated cost savings from the Kmart alliance; unanticipated transition and start-up costs associated with the Kmart alliance; unanticipated problems in the supply chain due to the increased volumes resulting from the Kmart alliance; the ability to successfully generate new business; the risks associated with the successful execution of our strategic business plan; adverse effects of labor disruptions; adverse effects of the changing industry environment and increased competition; continuing sales declines and loss of customers; adverse results in pending or threatened litigation and legal proceedings, and exposure to other contingent losses; failure to achieve necessary cost savings; and the negative effects of our substantial indebtedness and the limitations imposed by restrictive covenants contained in our debt instruments. These and other items are described in our Annual Report on Form 10-K for the fiscal year ended December 30, 2000 and in other periodic reports available from the Securities and Exchange Commission.

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 institutional 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.

Changes in interest rates in the credit and capital markets and our improved credit ratings had a material impact on the fair values for our outstanding debt obligations. The table below presents a summary of certain categories of our financial instruments according to their respective interest rate profiles. For debt obligations, the table shows the principal amount of cash we expect to pay each year according to the scheduled maturities, as well as the average interest rates applicable to such maturities.

SUMMARY OF FINANCIAL INSTRUMENTS

| (In millions, except rates) ----- | Fair Value Fair Value at 12/30/00 at 4/21/01 | | Maturities of Principal by Fiscal Year | | | | | |
|---|---|---------|--|-------|--------|--------|------|------|
| | | | 2001 | 2002 | 2003 | 2004 | 2005 | T |
| ----- | ----- | ----- | ---- | ---- | ---- | ---- | ---- | ---- |
| Debt with Variable Interest Rates ----- | | | | | | | | |
| Principal payable | \$ 427 | \$ 270 | \$ 28 | \$ 40 | \$ 172 | \$ 37 | \$ - | \$ - |
| Average variable rate payable | 8.1% | 7.7% | Based on LIBOR plus a margin | | | | | |
| Debt with Fixed Interest Rates ----- | | | | | | | | |
| Principal payable | \$ 668 | \$1,060 | \$ - | \$ - | \$ - | \$ 250 | \$ - | \$ - |
| Average fixed rate payable | 10.6% | 9.6% | 5.9% | 6.5% | 5.1% | 10.5% | - | - |

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Set forth below and in Note 6 in the notes to the consolidated condensed

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financial statements, which information is incorporated herein by reference, is information regarding litigation which became reportable or as to which a material development has occurred since the date of our Annual Report on Form 10-K for the fiscal year ended December 30, 2000:

(1) Class Action Suits. In 1996, we and certain of our present and former officers and directors were named as defendants in nine purported class action suits filed by certain stockholders and one purported class action suit filed by two noteholders. All cases were filed in the United States District Court for the Western District of Oklahoma. In 1997, the court consolidated the stockholder cases; the noteholder case was also consolidated, but only for pre-trial purposes. The plaintiffs in the consolidated cases sought undetermined but significant damages, and asserted liability for our alleged "deceptive business practices," and our alleged failure to properly account for and disclose the contingent liability created by the David's Supermarkets case, a lawsuit we settled in April 1997 in which David's sued us for allegedly overcharging for products. The plaintiffs claimed that these alleged practices led to the David's case and to other material contingent liabilities, caused us to change our manner of doing business at great cost and loss of profit and materially inflated the trading price of our common stock.

During 1998 the complaint in the noteholder case was dismissed, and during 1999 the complaint in the consolidated stockholder case was also dismissed, each without prejudice. The court gave the plaintiffs the opportunity to restate their claims in each case, and they did so in amended complaints. We again filed motions to dismiss all claims in both cases. On February 4, 2000, the court dismissed the amended complaint in the stockholder case with prejudice. The stockholder plaintiffs filed a notice of appeal on March 3, 2000. Briefing is complete in the Court of Appeals for the Tenth Circuit, and oral argument was conducted on May 15, 2001. The Tenth Circuit has not yet issued an opinion.

On August 1, 2000, the court dismissed the claims in the noteholder complaint alleging violations of the Securities Exchange Act of 1934, but the court determined that the noteholder plaintiffs had stated a claim under Section 11 of the Securities Act of 1933. On September 15, 2000, defendants filed a motion to allow an immediate appeal of the court's denial of their motion to dismiss plaintiffs' claim under Section 11. That motion was denied on January 8, 2001. The case was set for a status and scheduling conference on January 30, 2001. The court has entered an order setting this case for trial in October 2001.

On April 30, 2001, a Memorandum of Understanding was signed which provides, among other things, for the parties in the noteholder case to proceed to agree on a Settlement Agreement which will include a payment by defendants and our insurer of \$2.5 million in full satisfaction of the claim. The settlement will require court and class approval.

In 1997, we won a declaratory judgment against certain of our insurance carriers regarding policies issued to us for the benefit of our officers and directors. On motion for summary judgment, the court ruled that our exposure, if any, under the class action suits is covered by D&O policies written by the insurance carriers, aggregating \$60 million in coverage, and that the "larger settlement rule" will apply to the case. According to the trial court, under the larger settlement rule, a D&O insurer is liable for the entire amount of coverage available under a policy even if there is some overlap in the liability created by the insured individuals and the uninsured corporation. If a corporation's liability is increased by uninsured parties beyond that of the insured individuals, then that portion of the liability is the sole obligation of the corporation. The court also held that allocation is not available to the insurance carriers as an affirmative defense. The insurance carriers appealed. In 1999, the appellate court affirmed the decision that the class actions were covered by D&O policies aggregating \$60 million in coverage but reversed the trial court's decision as to allocation as being premature.

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We intend to vigorously defend any remaining claims in these class action suits and pursue the issue of insurance discussed above, but we cannot predict the outcome of the cases. An unfavorable outcome could have a material adverse effect on our financial condition and prospects.

(2) Don's United Super (and related cases). We and two of our retired executives have been named in a suit filed in 1998 in the United States District Court for the Western District of Missouri by several of our current and former customers (Don's United Super, et al. v. Fleming, et al.). The 19 plaintiffs operate retail grocery stores in the St. Joseph and Kansas City metropolitan areas. The plaintiffs in this suit allege product overcharges, breach of contract, breach of fiduciary duty, misrepresentation, fraud and RICO violations, and they are seeking actual, punitive and treble damages, as well as a declaration that certain contracts are voidable at the option of the plaintiffs.

During the fourth quarter of 1999, plaintiffs produced reports of their expert witnesses calculating alleged actual damages of approximately \$112 million. During the first quarter of 2000, plaintiffs revised a portion of these damage calculations, and although it is not clear what the precise damage claim will be, it appears that plaintiffs will claim approximately \$120 million, exclusive of any punitive or treble damages.

On May 2, 2000, the court granted partial summary judgment to the defendants, holding that plaintiffs' breach of contract claims that relate to events that occurred more than four years before the filing of the litigation are barred by limitations, and that plaintiffs' fraud claims based upon fraudulent inducement that occurred more than 15 years before the filing of the lawsuit likewise are barred. It is unclear what impact, if any, these rulings may have on the damage calculations of the plaintiffs' expert witnesses.

The court has set August 13, 2001 as the date on which trial of the Don's case will commence.

In October 1998, we and the same two retired executives were named in a suit filed by another group of retailers in the same court as the Don's case (Coddington Enterprises, Inc., et al. v. Fleming, et al.). Currently, 16 plaintiffs are asserting claims in the Coddington case, all but one of which have arbitration agreements with us. The plaintiffs assert claims virtually identical to those set forth in the Don's case, and although plaintiffs have not yet quantified the damages in their pleadings, it is anticipated that they will claim actual damages approximating the damages claimed in the Don's case.

In July 1999, the court ordered two of the plaintiffs in the Coddington case to arbitration, and otherwise denied arbitration as to the remaining plaintiffs. We have appealed the court's denial of arbitration to the United States Court of Appeals for the Eighth Circuit. The two plaintiffs that were ordered to arbitration have filed motions asking the court to reconsider the arbitration ruling.

Two other cases had been filed before the Don's case in the same court (R&D Foods, Inc., et al. v. Fleming, et al.; and Robandee United Super, Inc., et al. v. Fleming, et al.) by 10 customers, some of whom are also plaintiffs in the Don's case. The earlier two cases, which principally seek an accounting of our expenditure of certain joint advertising funds, have been consolidated. All proceedings in these cases have been stayed pending the arbitration of the claims of those plaintiffs who have arbitration agreements with us.

In March 2000, we and one former executive were named in a suit filed in the United States District Court for the Western District of Missouri by current and former customers that operated five retail grocery stores in and around Kansas City, Missouri, and four retail grocery stores in and around Phoenix, Arizona

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(J&A Foods, Inc., et al. v. Dean Werries and Fleming Companies, Inc.). The plaintiffs have alleged product overcharges, fraudulent misrepresentation, fraudulent nondisclosure and concealment, breach of contract, breach of duty of good faith and fair dealing and RICO violations, and they are seeking actual, punitive and treble damages, as well as other relief. The damages have not been quantified by the plaintiffs; however, we anticipate that substantial damages will be claimed.

On August 8, 2000, the Judicial Panel on Multidistrict Litigation granted our motion and ordered the related Missouri cases (Don's United Super, Coddington Enterprises, Inc. and J&A Foods, Inc.) and the Storehouse Markets case (described below) transferred to the United States District Court for the Western District of Missouri for coordinated or consolidated pre-trial proceedings.

On March 2, 2001, the court ordered the parties in the related Missouri cases, the Storehouse Markets case and the Welsh case (described below) to mediate their claims within 45 days of the order. On April 9 -- 11, 2001, the parties to the related Missouri cases participated in a mediation process held in Kansas City, Missouri pursuant to the court's order. Although the precise details of the mediation are subject to a confidentiality agreement among the parties and may not be disclosed, the mediation confirmed our expectation that the plaintiffs in the Don's and related cases will claim substantial damages. In addition, based on discussions with plaintiffs' counsel during the mediation, it appears unlikely that these related cases will be resolved before trial.

We intend to vigorously defend against the claims in these related cases, but we are currently unable to predict the outcome of the cases. An unfavorable outcome could have a material adverse effect on our financial condition and prospects.

(3) Storehouse Markets. In 1998, we and one of our former division officers were named in a suit filed in the United States District Court for the District of Utah by several of our current and former customers (Storehouse Markets, Inc., et al. v. Fleming Companies, Inc., et al.). The plaintiffs have alleged product overcharges, fraudulent misrepresentation, fraudulent nondisclosure and concealment, breach of contract, breach of duty of good faith and fair dealing and RICO violations, and they are seeking actual, punitive and treble damages. Damages have not been quantified by the plaintiffs; however, we anticipate that substantial damages will be claimed.

The plaintiffs have made these claims on behalf of a class that would purportedly include current and former customers of our Salt Lake City division covering a four-state region. On June 12, 2000, the court entered an order certifying the case as a class action. On July 11, 2000, the United States Court of Appeals for the Tenth Circuit granted our request for a discretionary appeal of the class certification order, and we are pursuing that appeal on an expedited basis.

On August 8, 2000, the Judicial Panel on Multidistrict Litigation granted our motion and ordered the Storehouse Markets case and the related Missouri cases (described above) transferred to the United States District Court for the Western District of Missouri for coordinated or consolidated pre-trial proceedings.

On March 2, 2001, the court ordered the parties in the related Missouri cases, the Storehouse Markets case and the Welsh case (described below) to mediate their claims within 45 days of the order. On April 9 -- 11, 2001, the parties to the Storehouse case participated in a mediation process held in Kansas City, Missouri pursuant to the court's order. Although the precise details of the mediation are subject to a confidentiality agreement among the parties and may not be disclosed, the mediation confirmed our expectation that the plaintiffs in Storehouse will claim substantial damages.

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We intend to vigorously defend against these claims but we cannot predict the outcome of the case. An unfavorable outcome could have a material adverse effect on our financial condition and prospects.

(4) Welsh. In April 2000, the operators of two grocery stores in Van Horn and Marfa, Texas filed an amended complaint in the United States District Court for the Western District of Texas, Pecos Division (Welsh v. Fleming Foods of Texas, L.P.). The amended complaint alleges product overcharges, breach of contract, fraud, conversion, breach of fiduciary duty, negligent misrepresentation and breach of the Texas Deceptive Trade Practices Act. The amended complaint seeks unspecified actual damages, punitive damages, attorneys' fees and pre-judgment and post-judgment interest. Pursuant to the order of the Judicial Panel on Multidistrict Litigation, the Welsh case has been transferred to the Western District of Missouri for pre-trial proceedings. No trial date has been set in this case.

On March 2, 2001, the court ordered the parties in the related Missouri cases, the Storehouse Markets case and the Welsh case to mediate their claims within 45 days of the order. The parties in the Welsh case have not yet mediated their claims.

(5) Other. Our facilities and operations are subject to various laws, regulations and judicial and administrative orders concerning protection of the environment and human health, including provisions regarding the transportation, storage, distribution, disposal or discharge of certain materials. In conformity with these provisions, we have a comprehensive program for testing, removal, replacement or repair of our underground fuel storage tanks and for site remediation where necessary. We have established reserves that we believe will be sufficient to satisfy the anticipated costs of all known remediation requirements.

We and others have been designated by the U.S. Environmental Protection Agency and by similar state agencies as potentially responsible parties under the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, or similar state laws, as applicable, with respect to EPA-designated Superfund sites. While liability under CERCLA for remediation at these sites is generally joint and several with other responsible parties, we believe that, to the extent we are ultimately determined to be liable for the expense of remediation at any site, such liability will not result in a material adverse effect on our consolidated financial position or results of operations. We are committed to maintaining the environment and protecting natural resources and human health and to achieving full compliance with all applicable laws, regulations and orders.

We are a party to or threatened with various other litigation and contingent loss situations arising in the ordinary course of our business including: disputes with customers and former customers; disputes with owners and former owners of financially troubled or failed customers; disputes with landlords and former landlords; disputes with employees and former employees regarding labor conditions, wages, workers' compensation matters and alleged discriminatory practices; disputes with insurance carriers; tax assessments and other matters, some of which are for substantial amounts. Except as noted above, we do not believe that any such claim will have a material adverse effect on us.

Item 4. Results of Votes of Security Holders

The company held its annual meeting on May 15, 2001. Matters voted on were as follows:

Election of directors - Carol B. Hallett, Guy A. Osborn, Herbert M. Baum, Kenneth M. Duberstein, Archie R. Dykes, Robert S. Hamada, and Mark S. Hansen

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were each elected members of the Board of Directors for terms expiring in 2002.

Key Executive Retention Plan - Shareholders approved the proposed key executive retention plan pursuant to the terms of the plan.

Ratification of independent auditors - Shareholders ratified the appointment of Deloitte & Touche LLP as independent auditors for 2001.

The number of votes cast is as follows (votes in thousands):

| | For --- | Withheld ----- |
|-----------------------|------------|-------------------|
| Election of directors | | |
| Carol B. Hallett | 35,443 | 143 |
| Guy A. Osborn | 35,446 | 140 |
| Herbert M. Baum | 35,444 | 142 |
| Kenneth M. Duberstein | 35,444 | 142 |
| Archie R. Dykes | 35,439 | 147 |
| Robert S. Hamada | 35,437 | 149 |
| Mark S. Hansen | 35,435 | 151 |

| | For --- | Against ----- | Abstain ----- |
|--------------------------------------|------------|------------------|------------------|
| Key executive retention plan | 32,838 | 2,326 | 422 |
| Ratification of independent auditors | 35,488 | 71 | 27 |

No other business came before the meeting.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit Number

- 4.10 Stock and Warrant Purchase Agreement by and between the Registrant and U.S. Transportation, LLC dated February 6, 2001, filed as Exhibit 4.1 to Form S-3 (Registration No. 333-60176) filed on May 3, 2001 and incorporated herein by reference.
- 4.11 Registration Rights Agreement by and between the Registrant and U.S. Transportation, LLC dated March 22, 2001, filed as Exhibit 4.2 to Form S-3 (Registration No. 333-60176) filed on May 3, 2001 and incorporated herein by reference.
- 4.12 Indenture, dated as of March 15, 2001, among Fleming Companies, Inc., the Subsidiary Guarantors named therein and Bankers Trust Company, as Trustee, regarding the 10 1/8% Senior Notes due 2008, filed as Exhibit 4.9 to Form S-3 (Registration No. 333-60184) filed on May 3, 2001 and incorporated herein by reference.
- 4.13 Indenture, dated as of March 15, 2001, among Fleming Companies, Inc., the Subsidiary Guarantors named therein and Bank One, N.A.,

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as Trustee, regarding the 5.25% Convertible Senior Subordinated Notes due 2009, filed as Exhibit 4.3 to Form S-3 (Registration No. 333-60178) filed on May 3, 2001 and incorporated herein by reference.

- 4.14 Registration Rights Agreement, dated as of March 15, 2001, among Fleming Companies, Inc., the Subsidiary Guarantors named therein, Deutsche Banc Alex. Brown Inc., Bear, Stearns & Co. Inc., Lehman Brothers Inc., Chase Securities Inc. and UBS Warburg LLC., filed as Exhibit 4.11 to Form S-3 (Registration No. 333-60184) filed on May 3, 2001 and incorporated herein by reference.
- 4.15 Registration Rights Agreement, dated as of March 15, 2001, among Fleming Companies, Inc., the Subsidiary Guarantors named therein, Deutsche Banc Alex. Brown Inc., Bear, Stearns & Co. Inc., Lehman Brothers Inc., JPMorgan Securities Inc. and UBS Warburg LLC, filed as Exhibit 4.4 to Form S-3 (Registration No. 333-60178) filed on May 3, 2001 and incorporated herein by reference.
- 10.76* Fleming Companies, Inc. 2001 Corporate Officer Long-Term Incentive Plan.
- 10.77* Fleming Companies, Inc. Key Executive Retention Plan, incorporated by reference to Exhibit A to Registrant's Proxy Statement dated April 3, 2001.
- 10.78* Second Amendment to Fleming Companies, Inc. 1999 Stock Incentive Plan.
- 10.79* Amendment No. 1 to the Fleming Companies, Inc. Executive Deferred Compensation Plan.
- 10.80** Agreement dated as of February 2, 2001 by Fleming Companies, Inc. and Kmart Corporation.
- 12 Computation of Ratio of Earnings to Fixed Charges
- 15 Letter from Independent Accountants as to Unaudited Interim Financial Information

* Management contract, compensatory plan or arrangement.

** Information from this agreement has been omitted because the Registrant has requested confidential treatment. The information has been filed separately with the Securities and Exchange Commission.

(b) Reports on Form 8-K:

- (1) On March 13, 2001, pursuant to Item 5, Registrant reported the execution of purchase agreements for the sale of up to \$150,000,000 of 5.25% convertible Senior Subordinated Notes Due 2009 and \$355,000,000 of 10 1/8% Senior Notes due 2008.
- (2) On March 16, 2001, pursuant to Item 5, Registrant announced the sale of the Notes referred to in (b) (1) above.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the

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registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FLEMING COMPANIES, INC.
(Registrant)

Date: May 25, 2001

NEAL RIDER
Neal Rider
Executive Vice President
and Chief Financial Officer
(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

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|-------|---|----------------------------------|
| 4.10 | Stock and Warrant Purchase Agreement by and between the Registrant and U.S. Transportation, LLC dated February 6, 2001 | Incorporated herein by reference |
| 4.11 | Registration Rights Agreement by and between the Registrant and U.S. Transportation, LLC dated March 22, 2001 | Incorporated herein by reference |
| 4.12 | Indenture, dated as of March 15, 2001, among Fleming Companies, Inc., the Subsidiary Guarantors named therein and Bankers Trust Company, as Trustee, regarding the 10 1/8% Senior Notes due 2008 | Incorporated herein by reference |
| 4.13 | Indenture, dated as of March 15, 2001, among Fleming Companies, Inc., the Subsidiary Guarantors named therein and Bank One, N.A., as Trustee, regarding the 5.25% Convertible Senior Subordinated Notes due 2009 | Incorporated herein by reference |
| 4.14 | Registration Rights Agreement, dated as of March 15, 2001, among Fleming Companies, Inc., the Subsidiary Guarantors named therein, Deutsche Banc Alex. Brown Inc., Bear, Stearns & Co. Inc., Lehman Brothers Inc., Chase Securities Inc. and UBS Warburg LLC | Incorporated herein by reference |
| 4.15 | Registration Rights Agreement, dated as of March 15, 2001, among Fleming Companies, Inc., the Subsidiary Guarantors named therein, Deutsche Banc Alex. Brown Inc., Bear, Stearns & Co. Inc., Lehman Brothers Inc., JPMorgan Securities Inc. and UBS Warburg LLC | Incorporated herein by reference |
| 10.76 | Fleming Companies, Inc. 2001 Corporate Officer Long-Term Incentive Plan | Filed herewith electronically |
| 10.77 | Fleming Companies, Inc. Key Executive Retention Plan | Incorporated herein by reference |

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| | | |
|-------|---|-------------------------------|
| 10.78 | Second Amendment to Fleming Companies, Inc. 1999 Stock Incentive Plan | Filed herewith electronically |
| 10.79 | Amendment No. 1 to the Fleming Companies, Inc. Executive Deferred Compensation Plan | Filed herewith electronically |
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