

Edgar Filing: FRESH BRANDS INC - Form 10-Q/A

FRESH BRANDS INC  
Form 10-Q/A  
March 28, 2003

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

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended October 5, 2002

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 000-32825

FRESH BRANDS, INC.

-----  
(Exact name of registrant as specified in its charter)

WISCONSIN

39-2019963

-----  
(State or other jurisdiction of incorporation or organization)

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

2215 Union Avenue  
Sheboygan, Wisconsin

53081

-----  
(Address of principal executive offices)

-----  
(Zip Code)

Registrant's telephone number, including area code: (920) 457-4433

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 filing requirements for the past 90 days.

Yes  No  
-----

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes \_\_\_\_\_ No \_\_\_\_\_

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

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As of November 15, 2002, 5,101,598 shares of Common Stock, \$0.05 par value, were issued and outstanding.

FRESH BRANDS, INC.

FORM 10-Q/A INDEX

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PART I - FINANCIAL INFORMATION

Overview

Our previously issued consolidated balance sheets as of October 5, 2002 and December 29, 2001 and the related consolidated statements of earnings and cash

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flows for the quarters ended October 5, 2002 and October 6, 2001 have been restated.

This amendment to our Quarterly Report on Form 10-Q for the quarter ended October 5, 2002 amends and restates those items of the Form 10-Q originally filed on November 19, 2002 (the Original Filing) which have been affected by the restatement. In order to preserve the nature and character of the disclosures set forth in such items as originally filed, no attempt has been made in this amendment to update such disclosures. Except as required to reflect the effects of the restatement and certain other stylistic changes, all information contained in this amendment is stated as of the date of the Original Filing. For additional information regarding the restatement, see "Notes to Consolidated Financial Statements - Note 5 - Restatement" and to our Annual Report on Form 10-K/A for the year ended December 29, 2001.

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Item 1. Financial Statements

FRESH BRANDS, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands)

|                                                 | Restated<br>October 5,<br>2002 | Restat<br>December<br>2001 |
|-------------------------------------------------|--------------------------------|----------------------------|
| <hr/>                                           |                                |                            |
| <b>Assets</b>                                   |                                |                            |
| <b>Current assets:</b>                          |                                |                            |
| Cash and cash equivalents                       | \$ 12,925                      | \$                         |
| Receivables                                     | 13,621                         |                            |
| Inventories                                     | 33,411                         |                            |
| Land and building held for resale               | 7,780                          |                            |
| Other current assets                            | 3,164                          |                            |
| Deferred income taxes                           | 4,459                          |                            |
| <hr/>                                           |                                |                            |
| Total current assets                            | 75,360                         |                            |
| <hr/>                                           |                                |                            |
| Noncurrent receivables under capital subleases  | 8,815                          |                            |
| Property under capital leases, net              | 9,974                          |                            |
| Property and equipment, net                     | 29,051                         |                            |
| Goodwill                                        | 20,280                         |                            |
| Other noncurrent assets                         | 5,523                          |                            |
| <hr/>                                           |                                |                            |
| Total assets                                    | \$ 149,003                     | \$ 1                       |
| <hr/>                                           |                                |                            |
| <b>Liabilities and Shareholders' Investment</b> |                                |                            |
| <hr/>                                           |                                |                            |
| <b>Current liabilities:</b>                     |                                |                            |
| Accounts payable                                | \$ 29,746                      | \$                         |
| Accrued salaries and benefits                   | 7,317                          |                            |
| Accrued insurance                               | 2,842                          |                            |
| Other accrued liabilities                       | 7,587                          |                            |
| Current obligations under capital leases        | 1,304                          |                            |

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|                                                |    |          |    |   |
|------------------------------------------------|----|----------|----|---|
| Current maturities of long-term debt           |    | 306      |    |   |
| -----                                          |    |          |    |   |
| Total current liabilities                      |    | 49,102   |    |   |
| -----                                          |    |          |    |   |
| Long-term obligations under capital leases     |    | 19,799   |    |   |
| Long-term debt                                 |    | 25,373   |    |   |
| Deferred income taxes                          |    | 1,103    |    |   |
| Shareholders' investment:                      |    |          |    |   |
| Common stock                                   |    | 438      |    |   |
| Additional paid-in capital                     |    | 15,527   |    |   |
| Retained earnings                              |    | 79,713   |    |   |
| Treasury stock                                 |    | (42,052) |    |   |
| -----                                          |    |          |    |   |
| Total shareholders' investment                 |    | 53,626   |    |   |
| -----                                          |    |          |    |   |
| Total liabilities and shareholders' investment | \$ | 149,003  | \$ | 1 |

See notes to consolidated financial statements.

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FRESH BRANDS, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(in thousands, except per share data)

|                                     | For the 12-weeks ended |                             |         |
|-------------------------------------|------------------------|-----------------------------|---------|
|                                     | October 5, 2002        | Restated<br>October 6, 2001 | October |
| Net sales                           | \$ 141,860             | \$ 144,042                  | \$      |
| Cost of products sold               | 113,688                | 115,721                     |         |
| -----                               |                        |                             |         |
| Gross profit                        | 28,172                 | 28,321                      |         |
| Selling and administrative expenses | 23,574                 | 23,612                      |         |
| Depreciation and amortization       | 1,829                  | 1,976                       |         |
| -----                               |                        |                             |         |
| Operating income                    | 2,769                  | 2,733                       |         |
| Interest income                     | 2                      | 16                          |         |
| Interest expense                    | (427)                  | (341)                       |         |
| -----                               |                        |                             |         |
| Earnings before income taxes        | 2,344                  | 2,408                       |         |
| Provision for income taxes          | 901                    | 918                         |         |

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|                                                      |    |       |    |       |    |
|------------------------------------------------------|----|-------|----|-------|----|
| Net earnings                                         | \$ | 1,443 | \$ | 1,490 | \$ |
| Earnings per share - basic                           | \$ | 0.28  | \$ | 0.30  | \$ |
| Earnings per share - diluted                         | \$ | 0.28  | \$ | 0.29  | \$ |
| Weighted average shares and equivalents outstanding: |    |       |    |       |    |
| Basic                                                |    | 5,143 |    | 5,033 |    |
| Diluted                                              |    | 5,207 |    | 5,097 |    |
| Cash dividends paid per share of common stock        | \$ | 0.09  | \$ | 0.09  | \$ |

See notes to consolidated financial statements.

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FRESH BRANDS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

|                                                                                    | Oct. |
|------------------------------------------------------------------------------------|------|
| Cash Flows from Operating Activities:                                              |      |
| Net earnings                                                                       | \$   |
| Adjustments to reconcile net earnings to net cash provided by operating activities |      |
| Depreciation and amortization                                                      |      |
| Deferred income taxes                                                              |      |
| Changes in assets and liabilities                                                  |      |
| Receivables                                                                        |      |
| Inventories                                                                        |      |
| Other current assets                                                               |      |
| Accounts payable                                                                   |      |
| Accrued liabilities                                                                |      |
| Net cash flows provided by operating activities                                    |      |
| Cash Flows From Investing Activities:                                              |      |
| Capital expenditures                                                               |      |
| Proceeds from sale of assets                                                       |      |
| Receipt of principal amounts under capital sublease agreements                     |      |
| Acquisition, net of cash acquired                                                  |      |

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Net cash flows used in investing activities

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Cash Flows From Financing Activities:

Net change in revolver activity  
Payment for acquisition of treasury stock  
Payment of cash dividends  
Exercise of stock options  
Principal payments on capital lease obligations  
Long term debt borrowing  
Principal payments on long-term debt  
Receipt for sale of treasury stock  
Other financing activities

---

Net cash flows provided by financing activities

---

Cash and Equivalents:

Net change  
Balance, beginning of period

---

Balance, end of period \$

---

Supplemental Cash Flow Disclosures:

Interest paid \$  
Income taxes paid

See notes to restated consolidated financial statements.

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FRESH BRANDS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The financial statements included herein have been prepared by us without audit. Although certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted, we believe that the disclosures are adequate to make the information presented not misleading. The interim financial statements furnished with this report reflect all adjustments (consisting of a normal recurring nature), which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in our 2001 annual report to shareholders, as incorporated by reference in our Form 10-K/A for the fiscal year ended December 29, 2001. The 2001 financial statements included within this Form 10-Q /A reflect restated numbers as described in note 5.

2. Other Current Assets

(in thousands)

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October 5, 2002

Dece

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|                                        |    |       |    |
|----------------------------------------|----|-------|----|
| Prepaid expenses                       | \$ | 1,937 | \$ |
| Retail systems and supplies for resale |    | 643   |    |
| Receivables under capital subleases    |    | 584   |    |
| -----                                  |    |       |    |
| Other current assets                   | \$ | 3,164 | \$ |
| =====                                  |    |       |    |

3. Segment Reporting

Our operations are classified into two segments, wholesale and retail. Our wholesale business derives its revenues primarily from the sale of groceries, produce, dairy, meat and other products to our franchised supermarkets and independent supermarket customers. We also supply these products to our corporate supermarkets, but those revenues are eliminated for consolidated accounting purposes. We supply grocery, frozen food, produce and general merchandise and health and beauty care to our supermarkets through two distribution centers in Sheboygan, Wisconsin. We also provide our supermarkets with fresh, frozen and processed meats, eggs, dairy and deli items through a third-party distribution facility in Milwaukee, Wisconsin. Additionally, we distribute bakery and deli items made in our Platteville, Wisconsin centralized production facility. Our retail business consists of our 27 owned supermarkets. Our retail revenue is generated by our corporate supermarkets selling products, including products purchased from our wholesale segment, to retail consumers.

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Summarized financial information for the third quarter and year-to-date of 2002 and 2001 concerning our reportable segments is shown in the following tables (in thousands):

| Sales               | For the 12-weeks ended |                 | For the 40      |
|---------------------|------------------------|-----------------|-----------------|
|                     | October 5, 2002        | October 6, 2001 | October 5, 2002 |
| Wholesale sales     | \$ 107,516             | \$ 109,280      | \$ 358,281      |
| Intracompany sales  | (35,387)               | (38,079)        | (120,063)       |
| Net wholesale sales | 72,129                 | 71,201          | 238,218         |
| Retail sales        | 69,731                 | 72,841          | 234,702         |
| Total sales         | \$ 141,860             | \$ 144,042      | \$ 472,920      |

| Earnings Before Income Tax | For the 12-weeks ended |                 | For the 4       |
|----------------------------|------------------------|-----------------|-----------------|
|                            | October 5, 2002        | October 6, 2001 | October 5, 2002 |
| Wholesale                  | \$ 2,308               | \$ 2,076        | \$ 7,792        |
| Retail                     | 461                    | 657             | 2,120           |
| Total operating income     | 2,769                  | 2,733           | 9,912           |

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|                              |          |          |          |
|------------------------------|----------|----------|----------|
| Interest income              | 2        | 16       | 39       |
| Interest expense             | (427)    | (341)    | (1,362)  |
| -----                        |          |          |          |
| Earnings before income taxes | \$ 2,344 | \$ 2,408 | \$ 8,589 |
| =====                        |          |          |          |

4. New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under SFAS No. 142, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized, but will be subject to annual impairment tests in accordance with this statement. Other intangible assets will continue to be amortized over their useful lives. Under these statements, business combinations initiated after June 30, 2001 are required to be accounted for under the purchase method of accounting and new criteria has been established for recording intangible assets separate from goodwill. During the first quarter of fiscal 2002, we implemented SFAS No. 142 and ceased amortization on goodwill and intangible assets deemed to have indefinite lives. The total goodwill amortization for the 12-week and 40-week periods ended October 6, 2001 was \$266,000 and \$375,000, respectively. For fiscal 2002, we anticipate that the application of the nonamortization provisions is expected to have a positive impact on operating income of approximately \$1.0 million. Also, during the first quarter of fiscal 2002, we performed the required impairment test of goodwill as of December 29, 2001 and determined that no impairment existed. The impacts to date of adopting Statement 142 for the three and nine months ended June 30, 2002 and July 1, 2001 are as follows:

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|                                                                   | For the 12-weeks ended |                                | For the         |
|-------------------------------------------------------------------|------------------------|--------------------------------|-----------------|
|                                                                   | October 5,<br>2002     | Restated<br>October 6,<br>2001 | October<br>2002 |
| Reported net income                                               | \$ 1,443               | \$ 1,490                       | \$ 5,266        |
| Add back: Goodwill amortization, net of tax of<br>\$102 and \$146 | -                      | 159                            | -               |
| -----                                                             |                        |                                |                 |
| Adjusted net income                                               | \$ 1,443               | \$ 1,751                       | \$ 5,266        |
| =====                                                             |                        |                                |                 |
| BASIC EARNINGS PER SHARE:                                         |                        |                                |                 |
| Reported net income                                               | .28                    | .30                            | 1.02            |
| Goodwill amortization                                             | -                      | .03                            | -               |
| -----                                                             |                        |                                |                 |
| Adjusted net income                                               | .28                    | .33                            | 1.02            |
| =====                                                             |                        |                                |                 |
| DILUTED EARNINGS PER SHARE:                                       |                        |                                |                 |
| Reported net income                                               | .28                    | .29                            | 1.00            |
| Goodwill amortization                                             | -                      | .03                            | -               |
| -----                                                             |                        |                                |                 |
| Adjusted net income                                               | .28                    | .32                            | 1.00            |
| =====                                                             |                        |                                |                 |



In August 2001, the Emerging Issues Task Force ("EITF") issued EITF No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of Vendor's Products," which codified and reconciled the Task Force's consensus's in EITF No. 00-14 "Accounting for Certain Sales Incentives", EITF No. 00-22 "Accounting for Points and Certain Other Time Based Sales Incentives or Volume Based Sales Incentive Offers, and Offers of Free Products or Services to Be Delivered in the Future", and EITF No. 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller for the Vendor's Products". These EITFs provide guidance regarding the timing of recognition and income statement classification of costs incurred for certain sales incentive programs, including sales incentives offered voluntarily by a vendor without charge to customers that can be used in, or that are exercisable by a customer, as a result of a single exchange transaction. The implementation of EITF 01-09 in the first quarter of fiscal 2002 resulted in a reclassification that decreased 2001 third quarter and year-to-date net sales and cost of products sold each by \$1.4 million and \$4.6 million, respectively, to conform with the 2002 presentation. The implementation of EITF 01-09 did not impact operating income or net earnings.

In August 2001, the FASB issued SFAS No. 143 "Accounting for Asset Retirement Obligations." Statement No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. Management is currently evaluating the impact of adoption on the consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" effective for years beginning after December 15, 2001. SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale and provides additional implementation guidance for assets to be held and used and assets to be disposed of other than by sale. SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". The implementation of this pronouncement did not have a material impact on our results of operations or financial position.

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In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. The Statement replaces EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)." We are required to apply this Statement prospectively to exit or disposal activities initiated after December 31, 2002.

#### 5. Restatement

Our previously issued quarterly consolidated balance sheets as of October 5, 2002 has been restated for the items described below. Additionally, our previously issued consolidated balance sheet as of December 29, 2001 and the related consolidated statements of earnings, shareholders' investment and cash flows for the year then ended have been restated in our 2001 10-K/A.

#### Receivables, net

As more fully described within the caption addressing cost of products sold, we understated our cost of products sold due to an error related to a

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unique supply relationship we have with one of our direct store delivery meat vendors. Accurately stating cost of products sold resulted in a reduction in receivables, net, at December 29, 2001.

Additionally, we corrected an error to recognize patronage dividends on an accrual basis rather than the cash basis. This correction resulted in an increase in receivables, net, at October 5, 2002 and December 29, 2001.

### Inventories

Inventory balances were adjusted to recognize the reduction in inventory values reflecting cash discounts received by us from our vendors. The correction reduced inventory balances at October 5, 2002 and December 29, 2001.

We did not fully eliminate intercompany profit recorded within our inventory balance. Correction of this error resulted in a reduction in the reported inventory balance at October 5, 2002 and December 29, 2001.

### Accounts payable

Accounts payable were reduced to reflect our estimate of the underlying vendor liability based on the best information available at the balance sheet date. Correction of this error impacted our periods ended October 5, 2002 and December 29, 2001.

### Accrued insurance

Accrued insurance was reduced to reflect our estimate of the underlying employee health insurance liability based on the best information available at the balance sheet date. Correction of this error impacted our periods ended October 5, 2002 and December 29, 2001.

### Other accrued liabilities

The originally reported tax liabilities were increased to reflect the

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impact of the adjustments described in this note, impacting our periods ended October 5, 2002 and December 29, 2001.

### Cost of products sold

We understated our cost of products sold due to an error related to a unique supply relationship we have with one of our direct store delivery meat vendors. Orders from nine supermarkets were delivered by the vendor to our meat distribution center and shipped by us to these stores. Sales were properly recorded, but we inadvertently failed to record accurately the corresponding cost of products sold. Correction of this error resulted in an increase in our period ended October 6, 2001.

The following table presents the changes that have been made to the consolidated balance sheet as of October 5, 2002 as a result of the restatement. The changes made to the consolidated balance sheet as of December 29, 2001, and the related consolidated statements of earnings for the quarters in 2001 are presented within the quarterly financial information note included within the 2001 Form 10-K/A, as such, these changes are not included herein. There were no net changes in earnings, operating, financing or investing cash flows for the 12-weeks ended October 5, 2002 and October 6, 2001.

(In thousands)

-----  
Condensed Balance Sheet

October 5, 2002

|                                                | As Previously<br>Reported | As Restated |
|------------------------------------------------|---------------------------|-------------|
| Receivables, net                               | \$ 13,536                 | \$ 13,621   |
| Inventories                                    | 33,825                    | 33,411      |
| Total current assets                           | 75,689                    | 75,360      |
| Total assets                                   | 149,332                   | 149,003     |
| Accounts payable                               | 30,434                    | 29,746      |
| Accrued insurance                              | 3,327                     | 2,842       |
| Other accrued liabilities                      | 7,261                     | 7,587       |
| Total current liabilities                      | 49,949                    | 49,102      |
| Retained earnings                              | 79,195                    | 79,713      |
| Total shareholders' investment                 | 53,108                    | 53,626      |
| Total liabilities and shareholders' investment | 149,332                   | 149,003     |

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

GENERAL

Our previously issued consolidated balance sheets as of October 5, 2002 and December 29, 2001 and the related consolidated statements of earnings and cash flows for the 12-week and 40-week periods ending October 5, 2002 and October 6, 2001 have been restated.

The following managements' discussion and analysis has been restated to reflect the changes more fully described within note 5 of the notes to the consolidated financial statements.

As of October 5, 2002, we owned and operated 27 supermarkets and franchised an additional 73 supermarkets, an increase of two franchised supermarkets since October 6, 2001. Nineteen of our corporate supermarkets operate under the Piggly Wiggly(R) banner and eight of them operate under the Dick's(R) Supermarkets banner. All of our franchised supermarkets operate under the Piggly Wiggly banner. We are the primary supplier to all 100 supermarkets and also serve as a wholesaler to a number of smaller, independently operated supermarkets and convenience stores. All of our supermarkets and other wholesale customers are located in Wisconsin and northern Illinois.

Our operations are classified into two segments, wholesale and retail. Compared to our wholesale segment, our retail segment is more capital- and labor-intensive, generally has higher operating and administrative expenses and generates higher gross profit margins. In June 2001, we acquired Dick's Supermarkets, Inc., which owns and operates eight retail supermarkets. In each of the three years prior to the Dick's acquisition, our retail segment generated between 40% and 43% of our annual sales. As a result of the Dick's acquisition, the percentage of our net sales generated by our retail segment has increased to approximately 50% of our net sales. We believe that, absent any future acquisitions of any additional retail supermarket chains, our two segments will each continue to generate approximately 50% of our net sales.

As expected, the change in the relative contributions of our segments caused our gross margin and operating and administrative expenses, as a percentage of sales, to increase significantly during the second half of 2001

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and the first half of 2002 compared to the same periods during previous years. We believe that, absent any future acquisitions of any additional retail supermarket chains, our gross margin and operating and administrative expenses, as a percentage of sales, will, in the fourth quarter, be similar to the levels realized during the third quarter of 2002.

During the past year, the competition in many of our market areas increased significantly. Competitive store openings have affected about one-third of our corporate stores and several of our franchised stores this year. This increased competition, along with the continuing softness of the economy, has contributed to decreases in our same store sales, retail sales and the percent of our net sales generated by our retail segment. We believe that, absent an improvement in the economy or increases in our revenue due to any future acquisitions, our same store sales and retail sales will, during the fourth quarter of 2002, be flat or decrease nominally compared to the fourth quarter of 2001.

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Based on our performance through the third quarter and a special assessment imposed by a health and accident insurance plan that covers some of our union employees (see "Operating and Administrative Expenses" below), we have lowered our earnings per share estimates for 2002. Barring further increasing difficulties in our markets or our business, we currently expect our 2002 earnings per share to be between \$1.50 and \$1.56, a decrease of \$.02 to \$.03 per share from our previously announced range of \$1.53 to \$1.58.

### RESULTS OF OPERATIONS

The following table sets forth certain information regarding our results from the 12-weeks ended October 5, 2002 compared to the restated results from the 12-weeks ended October 6, 2001 and the results from 40-weeks ended October 5, 2002 compared to the restated results from the 40-weeks ended October 6, 2001 (in thousands, except per share data):

|                                             | For the 12-weeks ended |                                |                                |                        | For the 40-weeks ended |                                |     |
|---------------------------------------------|------------------------|--------------------------------|--------------------------------|------------------------|------------------------|--------------------------------|-----|
|                                             | October 5,<br>2002     | Restated<br>October 6,<br>2001 | Restated<br>Variance<br>Amount | Restated<br>Percentage | October<br>5, 2002     | Restated<br>October 6,<br>2001 | Am  |
| Net sales                                   | \$141,860              | \$144,042                      | (2,182)                        | (1.5%)                 | 472,920                | \$428,543                      | \$4 |
| Retail sales                                | 69,731                 | 72,841                         | (3,110)                        | (4.3%)                 | 234,702                | 193,363                        | 4   |
| Wholesale sales                             | 72,129                 | 71,201                         | 928                            | 1.3%                   | 238,218                | 235,180                        |     |
| Gross profit                                | 28,172                 | 28,321                         | (149)                          | (0.5%)                 | 93,226                 | 77,390                         | 1   |
| Operating and<br>administrative<br>expenses | 25,403                 | 25,588                         | (185)                          | (0.7%)                 | 83,314                 | 68,908                         | 1   |
| Operating income                            | 2,769                  | 2,733                          | 36                             | 1.3%                   | 9,912                  | 8,482                          |     |
| Earnings before<br>income taxes             | 2,344                  | 2,408                          | (64)                           | (2.7%)                 | 8,589                  | 8,206                          |     |
| Net earnings                                | 1,443                  | 1,490                          | (47)                           | (3.2%)                 | 5,266                  | 5,086                          |     |
| Diluted earnings<br>per share               | \$0.28                 | \$ 0.29                        | \$ (0.01)                      | (3.4%)                 | \$ 1.00                | \$ 0.96                        |     |

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The following table sets forth certain information regarding our results from the 12-weeks ended October 5, 2002, the restated results from the 12-weeks ended October 6, 2001, the results from 40-weeks ended October 5, 2002 and the restated results from the 40-weeks ended October 6, 2001 (in thousands):

|                                       | Percent of Net Sales   |                             |                 |
|---------------------------------------|------------------------|-----------------------------|-----------------|
|                                       | For the 12-weeks ended |                             | For the 4       |
|                                       | October 5, 2002        | Restated<br>October 6, 2001 | October 5, 2002 |
| Net sales                             | 100.0%                 | 100.0%                      | 100.0%          |
| Retail sales                          | 49.2%                  | 50.6%                       | 49.6%           |
| Wholesale sales                       | 50.8%                  | 49.4%                       | 50.4%           |
| Gross margin                          | 19.9%                  | 19.7%                       | 19.7%           |
| Operating and administrative expenses | 17.9%                  | 17.8%                       | 17.6%           |
| Operating income                      | 2.0%                   | 1.9%                        | 2.1%            |
| Earnings before income taxes          | 1.7%                   | 1.7%                        | 1.8%            |
| Net earnings                          | 1.0%                   | 1.0%                        | 1.1%            |

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Net Sales

Retail Sales

The decrease in our retail sales for the third quarter of 2002 compared to our third quarter of 2001 was primarily due to:

- o Increased intense competitive activity in certain of our market areas, including competitive store openings affecting about one-third of our corporate stores and several of our franchised stores.
- o A return to more sustainable levels of sales at our Sheboygan flagship corporate store compared to its opening period sales in last year's third quarter.
- o Overall softness of the economy and rising unemployment rates, which reduce discretionary spending and tend to cause retail shoppers to reduce their spending by purchasing less expensive products from our supermarkets.

Despite these difficult factors, our retail sales during the first three quarters of 2002 improved primarily because:

- o Our acquisition of the Dick's Supermarket chain added \$75.0 million to our retail sales for the first three quarters of 2002, compared to \$31.7 million for the same period of 2001 (when we only realized about four months of retail sales from Dick's).

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- o Sales at our new replacement corporate supermarkets in Sheboygan, Wisconsin and Zion, Illinois that opened in August 2001 and January 2002, respectively, were higher than sales at the supermarkets they replaced.

Due primarily to the above factors, same store sales for our corporate and franchised supermarkets decreased 1.1% for the third quarter of 2002 and were flat for the first three quarters of 2002 compared to the same periods in 2001. Because the Dick's acquisition occurred in the second quarter of 2001, the third quarter of 2002 was the first quarter that the Dick's stores were included in our same store sales figures. The inclusion of our Dick's stores, which have faced especially intense competition from several competitive store openings, in our same store sales comparisons for our third quarter was one of the factors that contributed to our third quarter decline in our same store sales. In contrast, last year, we achieved significant same store sales in part because of competitive store closures in several of our markets. In light of the competitive environment and near-term economic outlook, we anticipate same store sales to be lower during the fourth quarter of 2002 compared to the fourth quarter of 2001. Based on our internal wholesale price index, inflation has not had any significant effect on our retail sales this year.

As part of our continuing efforts to increase our retail sales volume, we are currently building a new market 50,000 square-foot corporate supermarket in Kenosha, Wisconsin. We expect this new market store to open in January 2003. In addition, we recently announced a new corporate replacement store and Pig Stop(R) gas station project to be built on the north side of Sheboygan by late summer of next year. Both stores are designed after our flagship supermarket

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in Sheboygan, Wisconsin and will be called "Piggly Wiggly Fresh Market Circle" stores, which is the new name for our circular prototype store design. Based on the sales and profitability of our flagship supermarket and our first Pig Stop gas station, we hope that these stores will help increase our sales and earnings shortly after their openings.

### Net Wholesale Sales

Our net wholesale sales for the third quarter and first three quarters of 2002 increased nominally compared to the same periods in 2001. These increases were largely due to our conversion of independent supermarkets to Piggly Wiggly supermarkets in Howard and Nekoosa, Wisconsin in October 2001 and in Cambridge, Wisconsin in August 2002. Additionally, our wholesale sales increased due to our March 2002 addition of a wholesale customer in Oostburg, Wisconsin that will become a franchised supermarket in the fourth quarter. These increases were offset by wholesale sales decreases due to competitive store openings in several of our markets, which decreased customer count at several of our franchised supermarkets and the amount that customers, on average, spent at these supermarkets. Based on our internal wholesale price index, inflation has not had any significant effect on our wholesale sales this year.

Since the end of the third quarter, we have opened new franchised replacement stores in West Bend and Howard, Wisconsin. Over the next 12 months, multiple additional franchise store openings are planned which we expect will help increase our wholesale volume. These projects include expanded and renovated franchised stores in Mosinee, Cross Plains and Mayville, Wisconsin, and new franchised replacement stores in Omro, Union Grove and Juneau, Wisconsin. Based on our performance through the third quarter, we expect the increased sales from these projects will help offset the expected continued decreased sales to our wholesale customers who face heightened competition. As a result, we expect that our fourth quarter net wholesale sales will be flat

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compared to the fourth quarter of 2001.

### Gross Margin

The significant improvement in our gross margin during the first three quarters of 2002 was attributable primarily to the increase in our mix of retail sales to total sales resulting from the Dick's acquisition.

Our gross margin increased in the third quarter of 2002, compared to the third quarter of 2001, the first full quarter after the Dick's acquisition, primarily due to a change in the mix of items sold and reduced sale markdowns in our supermarkets. We anticipate that these same factors will result in our gross margin in the fourth quarter being flat compared to the third quarter of 2002, but higher than in the fourth quarter of 2001.

### Operating and Administrative Expenses

Our operating and administrative expenses increased nominally, as a percent of sales, during the third quarter of 2002 compared to the third quarter of 2001. This increase was due, in part, to a one-time \$166,000 special assessment imposed by the Illinois United Food and Commercial Workers Health Benefits Fund to eliminate the amount by which the plan's liabilities exceed the value of its assets. We will pay this special assessment over the next two

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years, but we recognized the entire charge in the third quarter. Like many employers, we continue to be faced with the prospect of significant increases in our health care costs. The impact of these increases during 2002 has been mitigated, in part, by our fall 2001 introduction of employee health plan cost sharing. Additionally, during the third quarter, we recognized \$200,000 of pre-tax costs associated with our previously announced reaudit of our earnings (see note 5 to our financial statements above).

Our operating and administrative expenses, as a percent of net sales, increased significantly during the first three quarters of 2002, compared to the same period of 2001. This increase was principally attributable to the factors noted above and an increase in our percentage of retail sales to total sales resulting from the Dick's acquisition.

Due to the competitive nature of the supermarket industry, some of our franchised and corporate retail stores continue to experience operational challenges in their marketplaces. As a result, some of these supermarkets have experienced financial and operational difficulties. In order to further improve our overall financial results, we actively evaluate various business alternatives to these operations. These alternatives include selling these supermarkets, converting franchised supermarkets into corporate supermarkets (and vice versa), closing supermarkets and implementing other operational changes. While we did not incur any significant retail repositioning expenses during the past few years and do not anticipate incurring any such expenses in the fourth quarter, implementing any of these alternatives could result in our incurring significant repositioning or restructuring charges in 2003.

### Earnings

Our increase in operating income in the third quarter of 2002, compared to the third quarter of 2001, was due to decreased amortization costs as a result of the discontinuance of goodwill amortization as required by SFAS No. 142 (see note 4 to our financial statements above). The decreases in our earnings before income taxes and net earnings in the third quarter of 2002, compared to the third quarter of 2001, were due primarily to the increase in our depreciation

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and interest expenses in the third quarter. Our interest expenses increased due to our increased borrowings under our revolving line of credit to fund our on-going business information systems project and working capital requirements.

The increases in our operating income, earnings before income taxes and net earnings in the first three quarters of 2002 compared to the same period of 2001 were due largely to increased sales resulting from our Dick's acquisition and the decrease in amortization costs referred to above.

Our earnings per share decreased for the third quarter of 2002, compared to the same period in 2001, due to a decrease in our earnings and an increase in our diluted weighted average common shares and equivalents. The increase in our weighted average common shares and equivalents to 5,207,000 for the third quarter of 2002 from 5,097,000 for same the period in 2001 was due to the sale of shares to two local investors in the fourth quarter of 2001.

Our earnings per share increased for the first three quarters of 2002, compared to the same period in 2001, due to an increase in our earnings and a nominal decrease in our weighted

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average common shares and equivalents. The decrease in our weighted average common shares and equivalents to 5,249,000 for the first three quarters of 2002 from 5,304,000 for the same period in 2001 was due to repurchases of our shares, which was partially offset by the sale of shares to two local investors during the fourth quarter of 2001.

Many of our peer companies measure the profitability of their sales using their net earnings to sales ratio. This ratio represents the net earnings margin realized from each dollar of sales. Our net earnings to sales was 1.0% during the third quarters of both 2002 and 2001. For the first three quarters of 2002, our net earnings to sales ratio was 1.1%, compared to 1.2% for the same period last year. This nominal decrease was primarily due to increased competition in some of our retail markets. Increased competition decreases our net earnings to sales ratio by decreasing customer count, requiring us to lower prices on certain products and causing customers to decrease the amount that they spend at our supermarkets. We anticipate that our net earnings to sales ratio will likely remain between 1.0% and 1.2% in the fourth quarter of 2002.

### LIQUIDITY AND CAPITAL RESOURCES

#### Summary

At October 5, 2002, we had cash and equivalents totaling \$12.9 million. At the end of 2001, cash and equivalents aggregated \$11.5 million. Our net cash inflow of approximately \$1.4 million was attributable to various operational, investing and financing activities described below. Our working capital position at October 5, 2002 was \$25.7 million, compared to \$18.6 million at December 29, 2001. Our current ratio at October 5, 2002 was 1.52 to 1.00, compared to 1.37 to 1.00 at December 29, 2001. As of October 5, 2002, we had unsecured revolving bank credit facilities aggregating \$35.0 million, with \$12.3 million remaining available for use. Our current working capital levels provide us with a very favorable and strong liquidity position.

#### Cash Flows From Operating Activities

The cash inflows from our wholesale segment occur when our retail supermarket customers pay us. The cash disbursements from both of our segments occur when we pay our suppliers. Because these payments are relatively large, our cash inflows and outflows fluctuate depending on the timing of the receipt



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of payments from our wholesale customers and the timing of payments to our suppliers. For the first three quarters of 2002, our net cash generated from operations was \$5.5 million, compared to \$6.0 million for the same period in 2001. Our net change in cash inflows from operations was attributable primarily to the timing of cash receipts and disbursements.

### Cash Flows From Investing Activities

For the first three quarters of 2002, our net cash outflows from investing activities totaled \$9.6 million, compared to \$29.0 million for the same period in 2001. Our acquisition of Dick's Supermarkets accounted for \$27.3 million of our 2001 investing cash outflow. For the first three quarters of 2002, investing cash outflows for capital items was nearly \$10.0 million, compared to \$4.2 million for the same period in 2001. Approximately \$3.7 million of our investing outflow

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for 2002 related to expenditures related to the expansion of our distribution centers and approximately \$3.5 million of our capital expenditures were for our on-going systems project. Additionally, expenditures for retail equipment and fixtures for 2002, including those associated with Dick's, were approximately \$2.2 million and corporate office technology expenditures were nearly \$600,000.

### Cash Flows From Financing Activities

For the first three quarters of 2002, our net cash inflows from financing activities totaled approximately \$5.5 million compared to nearly \$3.9 million for the same period in 2001. The change was primarily due to the repurchase of approximately 104,000 shares of our common stock in the first three quarters of 2002 for an aggregate price of \$1.8 million compared to approximately 670,000 shares aggregating \$8.3 million for the same period of 2001.

In the second quarter of 2001, we entered into a \$35.0 million bank revolving credit facility. We borrowed \$12.5 million under our revolving credit facility to fund a portion of the purchase price of Dick's Supermarkets, Inc. in June of 2001. Subsequently, in both 2001 and 2002 we borrowed additional amounts to fund our systems project and working capital requirements, including our increased working capital requirements due to the Dick's acquisition. An increase in the amount outstanding under the revolving credit facility compared to 2001 resulted in financing cash inflows in 2002. We owed approximately \$22.7 million under our revolving credit facility at the end of the third quarter of 2002, compared to approximately \$13.7 million owed at the end of 2001. Our ratio of total liabilities to shareholders' investment for the 2002 third quarter was up from the third quarter of 2001 to 1.76 from 1.63.

As of October 5, 2002 approximately \$5.1 million of the Board of Directors' authorized \$30 million stock repurchase program remained available for additional stock repurchases. Also, on October 11, 2002, our Board of Directors declared a fourth quarter 2002 cash dividend of \$0.09 per common share. The dividend is payable on November 22, 2002 to shareholders of record on November 8, 2002 and is expected to total approximately \$450,000.

### Major 2002 Commitments

During the second quarter of 2001, we announced our plans to spend approximately \$15.0 million, over a three-year period to replace and expand our current business information systems. The new systems are expected to support our growth plans and provide improved operational efficiencies and cost savings. The project includes four critical phases. The first two phases, the core infrastructure and the systems related to our wholesale business operations, are

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expected to be completed by the first quarter of 2003. Part of the wholesale phase of the project, which involved our meat, dairy and frozen food warehouse operations, has been substantially completed. The final two phases, related to our retail pricing and promotional card marketing, and human resources, payroll and financial reporting systems, are projected to be completed between the end of 2003 and the end of 2004. Since the inception of the systems project in 2001, we have expended nearly \$8.8 million on this project.

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### SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain matters discussed in our 10-Q/A are "forward-looking statements" intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as we believe, anticipate, expect or words of similar import. Similarly, statements that describe our future plans, objectives, strategies or goals are also forward-looking statements. Specifically, forward-looking statements include our statements about (a) our 2002 earnings expectations; (b) our plans to remodel existing supermarkets, open additional corporate supermarkets and convert existing supermarkets to franchised supermarkets; (c) our expectations regarding our future sales and same store sales growth; (d) potential increases in our health care costs and our plans to offset the impact of these cost increases; (e) our expectations regarding our net earnings to sales ratio, operating and administrative expenses and gross margin; (f) the cost, timing and results of our new business information technology systems replacement project; (g) the cost, timing and results of our financial statement restatements; and (h) our expectations regarding the likelihood that we will incur future retail repositioning expenses. Such forward-looking statements are subject to certain risks and uncertainties that may materially adversely affect the anticipated results. Such risks and uncertainties include, but are not limited to, the following: (1) the cost and results of our new business information technology systems replacement project; (2) the presence of intense competitive market activity in our market areas, including competition from warehouse club stores and deep discount supercenters; (3) our ability to identify and develop new market locations and/or acquisition candidates for expansion purposes; (4) our continuing ability to obtain reasonable vendor marketing funds for promotional purposes; (5) our ability to continue to recruit, train and retain quality franchised and corporate retail store operators; (6) the potential recognition of repositioning charges resulting from potential closures, conversions and consolidations of retail stores due principally to the competitive nature of the industry and to the quality of our retail store operators; (7) the final cost and results of, and the diversion of management's time and attention in connection with, our financial statement restatements; and (8) our ability to integrate and assimilate the acquisition of Dick's Supermarkets, Inc. and to achieve, on a timely basis, our anticipated benefits and synergies thereof. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date of this release and we disclaim any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

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### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our only variable rate financial instrument subject to interest rate risk

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is our \$35 million revolving credit facility which permits borrowings at interest rates based on either the bank's prime rate or adjusted LIBOR. We have borrowed approximately \$22.7 million under this facility as of October 5, 2002. As a result, increases in market interest rates would cause our interest expense to increase and our net earnings to decrease. Based on our outstanding revolving credit facility borrowings as of October 5, 2002, a 100 basis point increase in market interest rates would increase our annual interest expense by approximately \$227,000. Similarly, a 100 basis point decrease in the market interest rate would reduce our annual interest expense by approximately \$227,000.

We do not have any exposure to market risks related to changes in foreign currency exchange rates believe that our exposure to trade accounts receivable is immaterial.

### Item 4. Procedures and Controls

#### a. Evaluation of disclosure controls and procedures

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Based on his evaluation as of a date within 90 days of the filing date of this Quarterly Report on Form 10-Q, our principal executive officer and principal financial officer has concluded that our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the "Exchange Act")) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

#### b. Changes in internal controls

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There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

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## PART II - OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

#### a. Exhibits

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99.1 Written Statement Pursuant to 18 U.S.C. ss.1350.

#### b. Reports on Form 8-K

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We filed one current report on Form 8-K dated July 24, 2002, pursuant to Item 4 thereof with respect to the acceptance by KPMG LLP to be the independent auditors for our fiscal year ending December 28, 2002.

We filed one current report on Form 8-K dated July 25, 2002, pursuant to Item 9 thereof with respect to our press release regarding an accounting error and that we will restate of our financial statements for the 2001, 2000, and 1999 fiscal years.

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We filed one current report on Form 8-K dated August 2, 2002, pursuant to Item 9 thereof with respect to our press release for the second quarter ended July 13, 2002 and related disclosure requirements of Regulation FD.

We filed one current report on Form 8-K dated August 15, 2002, pursuant to Item 9 thereof with respect to our press release announcing the resignation of our chief financial officer, Mr. Armand C. Go, effective after August 23, 2002.

We filed one current report on Form 8-K, dated October 24, 2002, pursuant to Item 9 with respect to our press release for the third quarter and related disclosure requirements of Regulation FD.

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SIGNATURE

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

FRESH BRANDS, INC.  
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DATE: March 27, 2003

By: /s/ S. Patric Plumley  
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S. Patric Plumley,  
Senior Vice President, Chief Financial  
Secretary and Treasurer

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CERTIFICATION  
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I, Elwood F. Winn, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Fresh Brands, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined

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in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

- (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
- (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

DATE: March 27, 2003

By: /s/ Elwood F. Winn

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Elwood F. Winn,  
President, Chief Executive Officer

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### CERTIFICATION

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I, S. Patric Plumley, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Fresh Brands, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all

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material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

DATE: March 27, 2003

By: /s/ S. Patric Plumley

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S. Patric Plumley,  
Senior Vice President, Chief  
Financial Officer Secretary and  
Treasurer