7 ELEVEN INC
Form 10-Q
August 06, 2003

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(MARK ONE)

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

For the quarterly period ended June 30, 2003

OR

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

COMMISSION FILE NUMBER 0-16626

7-ELEVEN, INC.
(Exact name of registrant as specified in its charter)

TEXAS	75-1085131
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2711 NORTH HASKELL AVE., DALLAS, TEXAS	75204-2906
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code, 214/828-7011

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

105,013,268 shares of common stock, $.0001 par value (the issuer's only class of common stock), were outstanding as of June 30, 2003.

7-ELEVEN, INC.
INDEX

		PAGE NO.
Part I.	FINANCIAL INFORMATION	
ITEM 1.	FINANCIAL STATEMENTS:	
	Condensed Consolidated Balance Sheets - December 31, 2002 and June 30, 2003	1
	Condensed Consolidated Statements of Earnings - Three Months and Six Months Ended June 30, 2002 and 2003	2
	Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2002 and 2003	3
	Notes to Condensed Consolidated Financial Statements	4
	Report of Independent Auditors	10
ITEM 2.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	11
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	21
ITEM 4.	CONTROLS AND PROCEDURES	21
Part II.	OTHER INFORMATION	
ITEM 1.	LEGAL PROCEEDINGS	21
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	21
ITEM 6.	EXHIBITS AND REPORTS ON FORM 8-K	23
SIGNATURES		24
Exhibit (15)	- Letter re Unaudited Interim Financial Information	Tab 1
Exhibit 31(1)	- Certification of Chief Executive Officer Required by Section 302 of the Sarbanes-Oxley Act	Tab 2
Exhibit 31(2)	- Certification of Chief Financial Officer Required by Section 302 of the Sarbanes-Oxley Act	Tab 3
Exhibit 32(1)	- Certification of Chief Executive Officer Required by Section 906 of the Sarbanes-Oxley Act	Tab 4
Exhibit 32(2)	- Certification of Chief Financial Officer Required by Section 906 of the Sarbanes-Oxley Act	Tab 5

(i)

7-ELEVEN, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER-SHARE DATA)

	DECEMBER 31, 2002	JUNE 30, 2003
		(Unaudited)
ASSETS		
Current assets		
Cash and cash equivalents	$ 82,423	$ 113,184
Cash for Vcom kiosks	38,342	70,136
Total cash and cash equivalents	120,765	183,320
Accounts receivable	248,483	239,877
Inventories	114,091	100,880
Other current assets	140,837	165,147
Total current assets	624,176	689,224
Property and equipment	2,175,360	2,196,956
Goodwill and intangible assets	140,490	140,579
Other assets	124,299	127,372
Total assets	$ 3,064,325	$ 3,154,131
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	$ 260,978	$ 256,040
Accrued expenses and other liabilities	457,623	420,991
Long-term debt due within one year	48,609	49,211
Total current liabilities	767,210	726,242
Deferred credits and other liabilities	386,995	431,809
Long-term debt	1,366,623	1,388,184
Convertible quarterly income debt securities	380,000	380,000
Commitments and contingencies		
Shareholders' equity		
Preferred stock, $.01 par value	-	-
Common stock, $.0001 par value	10	11
Additional capital	1,168,182	1,168,455
Accumulated deficit	(990,107)	(945,866)
Unearned compensation	(1,068)	(842)
Accumulated other comprehensive earnings (loss)	(13,520)	6,138
Total shareholders' equity	163,497	227,896
Total liabilities and shareholders' equity	$ 3,064,325	$ 3,154,131

See notes to condensed consolidated financial statements.

7-ELEVEN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(DOLLARS IN THOUSANDS, EXCEPT PER-SHARE DATA)

(UNAUDITED)

	THREE MONTHS ENDED JUNE 30		SIX MO ENDED
	2002	2003	2002
REVENUES			
Merchandise sales (including $176,199, $221,657, $328,896 and $413,600 in excise taxes)	$ 1,858,701	$ 1,955,988	$ 3,454,077
Gasoline sales (including $190,401, $205,508, $372,306 and $399,593 in excise taxes)	720,778	831,925	1,278,559
Net sales	2,579,479	2,787,913	4,732,636
Other income	27,997	24,227	54,498
Total revenues	2,607,476	2,812,140	4,787,134
COSTS AND EXPENSES			
Merchandise cost of goods sold	1,204,556	1,276,105	2,248,174
Gasoline cost of goods sold	645,229	739,640	1,160,399
Total cost of goods sold	1,849,785	2,015,745	3,408,573
Franchisee gross profit expense	191,832	203,380	353,934
Operating, selling, general and administrative expenses	492,618	511,976	937,013
Interest expense, net	16,355	16,424	32,165
Total costs and expenses	2,550,590	2,747,525	4,731,685
EARNINGS FROM CONTINUING OPERATIONS BEFORE INCOME TAX AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	56,886	64,615	55,449
INCOME TAX EXPENSE	22,754	24,451	22,179
EARNINGS FROM CONTINUING OPERATIONS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	34,132	40,164	33,270
LOSS ON DISCONTINUED OPERATIONS (net of tax benefit of $477, $504, $6,871 and $1,337)	(716)	(879)	(10,307)

CUMULATIVE EFFECT OF ACCOUNTING CHANGE (net of tax benefit of $18,759)	-	-	(28,139)
NET EARNINGS (LOSS)	$ 33,416	$ 39,285	$ (5,176)
NET EARNINGS (LOSS) PER COMMON SHARE			
BASIC			
Earnings from continuing operations before cumulative effect of accounting change	$ .33	$ .38	$ .32
Loss on discontinued operations	(.01)	(.01)	(.10)
Cumulative effect of accounting change	-	-	(.27)
Net earnings (loss)	$ .32	$ .37	$ (.05)
DILUTED			
Earnings from continuing operations before cumulative effect of accounting change	$ .30	$ .34	$ .30
Loss on discontinued operations	(.01)	(.01)	(.08)
Cumulative effect of accounting change	-	-	(.22)
Net earnings	$ .29	$ .33	$ -

See notes to condensed consolidated financial statements.

7-ELEVEN, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

(UNAUDITED)

	SIX MONTHS JUNE 3
	2002
CASH FLOWS FROM OPERATING ACTIVITIES	
Net earnings (loss)	$ (5,176)
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:	
Cumulative effect of accounting change	28,139
Depreciation and amortization of property and equipment	134,037
Other amortization	177
Deferred income tax expense	13,593
Noncash interest expense	620
Foreign currency net conversion loss (gain)	12,830
Other noncash (income) loss	(445)
Net loss on property and equipment	8,074
(Increase) decrease in accounts receivable	(22)
(Increase) decrease in inventories	(2,085)
Decrease (increase) in other assets	13,632
Increase (decrease) in trade accounts payable and other liabilities	45,948

Net cash provided by operating activities	249,322
CASH FLOWS FROM INVESTING ACTIVITIES	
Payments for purchase of property and equipment	(225,312)
Proceeds from sale of property and equipment	2,907
Proceeds from sale of domestic securities	1,493
Restricted cash	(23,191)
Other	(271)
Net cash used in investing activities	(244,374)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from commercial paper and revolving credit facilities	2,691,022
Payments under commercial paper and revolving credit facilities	(2,664,450)
Proceeds from issuance of long-term debt	-
Principal payments under long-term debt agreements	(21,453)
(Decrease) increase in outstanding checks in excess of cash in bank	(8,139)
Net proceeds from issuance of common stock	51
Other	(1,443)
Net cash used in financing activities	(4,412)
NET INCREASE IN CASH AND CASH EQUIVALENTS	536
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	125,599
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 126,135
RELATED DISCLOSURES FOR CASH FLOW REPORTING	
Interest paid, excluding SFAS No.15 Interest	$ (34,797)
Net income taxes refunded (paid)	$ 2,461
Assets obtained by entering into capital leases	$ 19,165
1998 Yen loan principal and interest payments from restricted cash	$ (22,790)

See notes to condensed consolidated financial statements.

3

7-ELEVEN, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2003

(UNAUDITED)

1. BASIS OF PRESENTATION

The condensed consolidated balance sheet as of June 30, 2003, and the condensed consolidated statements of earnings for the three-month and six-month periods ended June 30, 2002 and 2003, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2002 and 2003, have been prepared by 7-Eleven, Inc. (the "Company") without audit. In the opinion of management, all adjustments necessary to present fairly the financial position at June 30, 2003, and the results of operations and cash flows for all periods presented have been made. Certain prior-period amounts have been reclassified to conform to current-period presentation. The results of operations for the interim periods are not necessarily indicative of the operating results for the full year.

The reported results include approximately 5,800 convenience stores that are operated or franchised in the United States and Canada by the Company along with royalty income from worldwide 7-Eleven area licensees. Sales and cost of goods sold of stores operated by franchisees are consolidated with the results of Company-operated stores in the condensed consolidated statements of earnings. Gross profit from franchise stores is split between the Company and its franchisees pursuant to the terms of franchise agreements.

The condensed consolidated balance sheet as of December 31, 2002, is derived from the audited financial statements but does not include all disclosures required by generally accepted accounting principles. The notes accompanying the consolidated financial statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2002, include accounting policies and additional information pertinent to an understanding of both the December 31, 2002, balance sheet and the interim financial statements. The information has not changed except as a result of normal transactions in the six months ended June 30, 2003, and as discussed in the following notes.

2. STOCK-BASED COMPENSATION

The Company adopted the interim disclosure provisions of Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123," effective January 1, 2003.

The fair value of each option grant under the Company's 1995 Stock Incentive Plan ("Stock Incentive Plan") is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for the options granted: expected life of five years and no dividend yields combined with risk-free interest rates of 4.67% and 2.65% and expected volatility of 67.54% and 64.98% for the options granted in 2002 and 2003, respectively.

The Company has recognized no compensation expense for its stock options as it is accounting for its Stock

Incentive Plan for employees under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." If compensation expense had been determined based

on the fair value at the grant date for awards under this plan consistent with the method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net earnings (loss) and net earnings (loss) per common share for the three months and six months ended June 30, 2002 and 2003, would have been reduced to the pro forma amounts indicated in the following table (dollars in thousands, except per-share data):

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2003	2002	2003
Net earnings (loss) as reported	$ 33,416	$ 39,285	$ (5,176)	$ 44,241
Add: stock-based compensation expense included in reported net earnings (loss), net of tax	-	436	-	808
Less: Total stock-based compensation expense determined under the fair-value-based method for all stock-based awards, net of tax	(1,024)	(1,638)	(1,849)	(3,010)
Pro forma net earnings (loss)	$ 32,392	$ 38,083	$ (7,025)	$ 42,039
Net earnings (loss) per common share as reported				
Basic	$ .32	$ .37	$ (.05)	$ .42
Diluted	.29	.33	-	.39
Pro forma net earnings (loss) per common share				
Basic	$ .31	$ .36	$ (.07)	$ .40
Diluted	.28	.32	(.01)	.38

3. COMPREHENSIVE EARNINGS

The components of comprehensive earnings (loss) of the Company for the periods presented are as follows (in thousands):

	Three Months Ended June 30	Six Months Ended June 30

	2002	2003	2002	2003
Net earnings (loss)	$ 33,416	$ 39,285	$ (5,176)	$ 44,241
Other comprehensive earnings:				
Unrealized gains (losses) on equity securities (net of ($390), $70, ($223) and ($283) deferred taxes)	(792)	109	(530)	(360)
Reclassification adjustments for gains included in net earnings (net of $300, $192, $591 and $407 deferred taxes)	(450)	(301)	(906)	(586)
Unrealized gain (loss) related to interest rate swap (net of ($716), $1,123, $242 and $2,209 deferred taxes)	(1,748)	1,557	255	2,773
Foreign currency translation adjustments	3,675	10,446	3,326	17,831
Other comprehensive earnings	685	11,811	2,145	19,658
Total comprehensive earnings (loss)	$ 34,101	$ 51,096	$ (3,031)	$ 63,899

5

4. STORE CLOSINGS, ASSET IMPAIRMENT AND ASSET RETIREMENT OBLIGATIONS

The results of operations of certain owned and leased stores are presented as discontinued operations in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The results of operations of owned stores are presented as discontinued operations beginning in the quarter in which management commits to a plan to close the related store and actively markets the store. The results of operations of a leased store are presented as discontinued operations beginning in the quarter in which the related store ceases operations. The results of operations include related write-downs of stores to estimated net realizable value and accruals for future estimated rent and other expenses in excess of estimated sublease rental income. Amounts related to discontinued operations of prior periods have been reclassified to conform to discontinued operations of the current period in the accompanying condensed consolidated statements of earnings.

The stores presented as discontinued operations had total revenues and pretax losses as follows for the periods presented (in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2003	2002	2003

Total revenue	$ 36,522	$ 4,451	$ 82,103	$ 23,325
Pretax loss	(1,193)	(1,383)	(17,178)	(3,518)

Included in the pretax loss for the six months ended June 30, 2002, is a loss on disposal of $11.6 million for write-downs of property and equipment to net realizable value and anticipated future rent and other expenses in excess of related estimated sublease income in connection with the store closings.

As of June 30, 2002 and 2003, assets held for sale were $13.0 million and $15.3 million, respectively, and are included in other current assets in the accompanying condensed consolidated balance sheets.

As required by SFAS No. 143, "Accounting for Asset Retirement Obligations," the Company recognizes an estimated liability for the removal of its underground storage tanks. Upon adoption of SFAS 143 in January 2002, the Company recorded a discounted liability of $53.6 million, increased net property and equipment by $6.7 million and recognized a one-time cumulative effect charge of $28.1 million (net of deferred tax benefit of $18.8 million).

5. SEJ NOTES AND RETIREMENT OF SENIOR SUBORDINATED DEBENTURES

In January 2003, the Company entered into a note purchase agreement with Seven-Eleven Japan Co., Ltd. ("SEJ") that authorizes the issuance and sale of up to $400 million aggregate principal amount of Senior Subordinated Notes due January 27, 2010 ("SEJ Notes"), which were issued by the Company and purchased by SEJ in multiple tranches. Interest on the SEJ Notes was calculated for each tranche on its issuance date and was set by a formula tied to the United States Treasury Rate and Japanese government bond rates. The SEJ Notes are subordinate to all obligations outstanding under the Company's revolving credit facility. The Company is required to repay the SEJ Notes in eight equal semiannual installments beginning July 2006 and ending January 2010, and interest payments on the unpaid balance of the SEJ Notes are required semiannually beginning January 2003.

6

On January 10, 2003, the Company received $100 million from SEJ under the note purchase agreement; the interest rate on this tranche is stated at 3.41%. On July 9, 2003, the Company received the remaining $300 million from SEJ under the note purchase agreement in three equal payments of $100 million; the interest rate on these tranches is stated at 3.01%, 3.34% and 3.71%, respectively.

In July 2003, the Company used a portion of the

proceeds of the SEJ Notes to retire $239.3 million principal amount of its 5% First Priority Senior Subordinated Debentures due 2003, $111.4 million principal amount of its 4 1/2% Second Priority Senior Subordinated Debentures (Series A) due 2004 and $18.5 million principal amount of its 4% Second Priority Senior Subordinated Debentures (Series B) due 2004. As a result of the inclusion of SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring," interest in the carrying amount of the retired debt, the Company will recognize a pretax gain of approximately $10.0 million in the third quarter of 2003. The gain will be recorded in operating, selling, general and administrative expenses.

6. OTHER RELATED PARTY TRANSACTIONS

In May 2002, a financial-services subsidiary of SEJ made a personal loan of 227.5 million Japanese yen (approximately $1.75 million) to one of the Company's non-employee directors. The term of the loan, which is secured by certain shares of stock owned by the director and bears interest at 2.6%, has been extended from May 2003 to November 2003. As of June 30, 2003, interest expense incurred on the loan approximates $51,000.

7

7. EARNINGS PER SHARE

Computations for basic and diluted earnings (loss) per share are presented below (in thousands, except per-share data):

	Three Months Ended June 30		Six Months Ended June 3	
	2002	2003	2002	2
BASIC				
Earnings from continuing operations before cumulative effect of accounting change	$ 34,132	$ 40,164	$ 33,270	$
Loss on discontinued operations	(716)	(879)	(10,307)	
Cumulative effect of accounting change	-	-	(28,139)	
Net earnings (loss)	$ 33,416	$ 39,285	$ (5,176)	$
Weighted-average common shares outstanding	104,824	104,902	104,821	1
Earnings per common share from continuing operations before cumulative effect of accounting change	$ .33	$ .38	$ .32	$
Loss per common share on discontinued operations	(.01)	(.01)	(.10)	

Loss per common share on cumulative effect of accounting change	-	-	(.27)	
Net earnings (loss) per common share	$ .32	$ .37	$ (.05)	$
DILUTED				
Earnings from continuing operations before cumulative effect of accounting change	$ 34,132	$ 40,164	$ 33,270	$
Add interest on convertible quarterly income debt securities, net of tax	2,608	2,695	5,216	
Earnings from continuing operations before cumulative effect of accounting change plus assumed conversions	$ 36,740	$ 42,859	$ 38,486	$
Loss on discontinued operations	(716)	(879)	(10,307)	
Cumulative effect of accounting change	-	-	(28,139)	
Net earnings plus assumed conversions	$ 36,024	$ 41,980	$ 40	$
Weighted-average common shares outstanding (Basic)	104,824	104,902	104,821	1
Add effects of assumed conversions:				
Stock options, stock units, performance share units and restricted stock (1)	140	822	141	
Convertible quarterly income debt securities	20,924	20,924	20,924	
Weighted-average common shares outstanding plus shares from assumed conversions (Diluted)	125,888	126,648	125,886	1
Earnings per common share from continuing operations before cumulative effect of accounting change	$ .30	$ .34	$ .30	$
Loss per common share on discontinued operations	(.01)	(.01)	(.08)	
Loss per common share on cumulative effect of accounting change	-	-	(.22)	
Net earnings per common share	$ .29	$ .33	$ -	$

(1) Stock options for 6.6 million, 5.0 million, 4.0 million and 6.3 million shares of common stock for the three-month and six-month periods ended June 30, 2002 and 2003, respectively, have exercise prices that are greater than the average market prices of the common shares for each respective period. Therefore, these shares have not been included in the diluted earnings per share calculations.

8. RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, for

hedging relationships designated after June 30, 2003, and to certain preexisting contracts. The Company will adopt the provisions of SFAS No. 149 on a prospective basis for any contracts entered into after June 30, 2003. The Company does not expect that the statement will have a material impact on its consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. The provisions of SFAS No. 150 are effective for all financial instruments created or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. The Company will adopt the provisions of SFAS No. 150 as of July 1, 2003. The Company does not expect that the statement will have a material impact on its consolidated financial statements.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51," was issued in January 2003. The Interpretation addresses consolidation of variable interest entities ("VIEs") to which the usual condition for consolidation described in Accounting Research Bulletin No. 51, "Consolidated Financial Statements," does not apply because the VIEs have no voting interests or otherwise are not subject to control through ownership of voting interests. It requires existing unconsolidated VIEs to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. The provisions of the Interpretation are effective immediately for VIEs created after January 31, 2003, and to VIEs in which an entity obtains an interest after that date. An entity with a variable interest in a VIE created before February 1, 2003, must apply the provisions no later than the first reporting period beginning after June 15, 2003. The Interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements.

The Company expects to include the assets, liabilities, noncontrolling interests and results of activities of certain trusts in its consolidated financial statements effective July 1, 2003. The trusts, which were funded by a group of senior lenders, were established in connection with two lease facilities that have provided the Company with $191.0 million in off-balance sheet financing as of June 30, 2003, for constructing new stores and acquiring operating convenience stores from unaffiliated third parties. The trusts acquired land and undertook construction projects for which the Company was the construction agent or acquired operating convenience stores from third parties. The Company estimates that this will result in an after-tax, one-time cumulative effect charge of approximately $9 million to $12 million in the third quarter of 2003. On an annual basis, the Company expects the after-tax impact on earnings from continuing operations

to be a charge of approximately $5 million to $7 million.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and
Shareholders of 7-Eleven, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of 7-Eleven, Inc. and Subsidiaries as of June 30, 2003, and the related condensed consolidated statements of earnings for the three-month and six-month periods ended June 30, 2002 and 2003, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2002 and 2003. These financial statements are the responsibility of the Company's management.

We conducted our review 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 making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, 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 review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet as of December 31, 2002, and the related consolidated statements of earnings, shareholders' equity (deficit), and cash flows for the year then ended (not presented herein); and in our report dated January 30, 2003, which included an explanatory paragraph for the adoption of newly issued accounting standards in 2001 and 2002, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

PRICEWATERHOUSECOOPERS LLP
Dallas, Texas
July 31, 2003

10

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

THIS REPORT INCLUDES CERTAIN STATEMENTS THAT ARE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. ANY STATEMENT IN THIS REPORT THAT IS NOT A STATEMENT OF HISTORICAL FACT MAY BE DEEMED TO BE A FORWARD-LOOKING STATEMENT. WE OFTEN USE THESE TYPES OF STATEMENTS WHEN DISCUSSING OUR PLANS AND STRATEGIES, OUR ANTICIPATION OF REVENUES FROM DESIGNATED MARKETS AND STATEMENTS REGARDING THE DEVELOPMENT OF OUR BUSINESSES, THE MARKETS FOR OUR SERVICES AND PRODUCTS, OUR ANTICIPATED CAPITAL EXPENDITURES, OPERATIONS, SUPPORT SYSTEMS, CHANGES IN REGULATORY REQUIREMENTS AND OTHER STATEMENTS CONTAINED IN THIS REPORT REGARDING MATTERS THAT ARE NOT HISTORICAL FACTS. WHEN USED IN THIS REPORT, THE WORDS "EXPECT," "ANTICIPATE," "INTEND," "PLAN," "BELIEVE," "SEEK," "ESTIMATE," AND OTHER SIMILAR EXPRESSIONS ARE GENERALLY INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. BECAUSE THESE FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, ACTUAL RESULTS MAY DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY THESE FORWARD-LOOKING STATEMENTS. THERE CAN BE NO ASSURANCE THAT: (I) WE HAVE CORRECTLY MEASURED OR IDENTIFIED ALL OF THE FACTORS AFFECTING THESE MARKETS OR THE EXTENT OF THEIR LIKELY IMPACT; (II) THE PUBLICLY AVAILABLE INFORMATION WITH RESPECT TO THESE FACTORS ON WHICH OUR ANALYSIS IS BASED IS COMPLETE OR ACCURATE; (III) OUR ANALYSIS IS CORRECT OR (IV) OUR STRATEGY, WHICH IS BASED IN PART ON THIS ANALYSIS, WILL BE SUCCESSFUL. WE DO NOT ASSUME ANY OBLIGATION TO UPDATE OR REVISE ANY FORWARD-LOOKING STATEMENTS, WHETHER AS A RESULT OF NEW INFORMATION, FUTURE EVENTS OR OTHERWISE.

We are the world's largest operator, franchisor and licensor of convenience stores and the largest convenience store chain in North America. Our revenue principally consists of merchandise and gasoline sales and, to a lesser extent, royalty income from licensees. Our primary expenses consist of cost of goods sold; operating, selling, general and administrative expense; occupancy expense; interest expense and taxes.

We seek to meet the changing needs of convenience customers and maintain a leadership position in the convenience store industry by leveraging our scale, technology, people and widely recognized brand. We continue

to focus on our traditional convenience store business as well as our growth strategy to further our competitive advantage and improve our financial results.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 2003, TO THREE MONTHS ENDED JUNE 30, 2002

NET SALES

	Three Months Ended June 30	
	2002	2003
Net Sales: (in millions)		
Merchandise sales	$ 1,858.7	$ 1,956.0
Gasoline sales	720.8	831.9
Total net sales	$ 2,579.5	$ 2,787.9
U.S. same-store merchandise sales growth	2.6%	2.3%
Gasoline gallons sold (in millions)	497.6	531.8
Gasoline gallon sales change per store	3.5%	4.1%
Average retail price of gasoline per gallon	$ 1.45	$ 1.56

Merchandise sales for the three months ended June 30, 2003, increased $97.3 million, or 5.2%, over the same period in 2002. U.S. same-store merchandise sales growth was 2.3% for the three months ended June 30, 2003, on top of 2.6% for the three months ended June 30, 2002. Key contributors to the merchandise sales growth in 2003 were increases in the sales of prepaid cards, fresh food, beverages and cigarettes.

Gasoline sales for the three months ended June 30, 2003, increased $111.1 million, or 15.4%, compared to the same period in 2002. We attribute this to an increase of 11 cents per gallon in our average retail price of gasoline in the second quarter of 2003, compared to the same quarter in 2002, as well as an increase in gallons sold of 6.9% to 531.8 million gallons. This increase in gallons sold translates into 4.1% growth on a per store basis.

GROSS PROFIT

Three Months Ended June 30

	2002	2003
Gross Profit (in millions)		
Merchandise gross profit	$ 654.1	$ 679.9
Gasoline gross profit	75.6	92.3
Total gross profit	$ 729.7	$ 772.2
Merchandise gross profit margin	35.19%	34.76%
Merchandise gross profit growth per store	4.7%	2.0%
Gasoline gross profit margin cents per gallon	15.2	17.4
Gasoline gross profit change per store	5.3%	19.0%

Merchandise gross profit for the three months ended June 30, 2003, increased $25.8 million, or 3.9%, over the same period in 2002 as a result of higher sales. Gross profit margin declined 43 basis points to 34.76% for the second quarter of 2003 from 35.19% for the same period in 2002. Changes in product mix positively impacted merchandise sales and gross profit dollars, but resulted in a lower merchandise margin during the quarter. In addition, unseasonably cold weather in several parts of the country also affected sales of higher margin items like Slurpee(r) and fountain drinks. The impact on merchandise margin was partially offset by a continuation of the favorable trend from managing cost of goods and shortage.

OTHER INCOME

Other income for the three months ended June 30, 2003, was $24.2 million, a decrease of $3.8 million, or 13.6%, from $28.0 million for the same period in 2002. Our royalty income from our area licensees was $12.4 million for the three months ended June 30, 2003, compared to $22.1 million for the same period in 2002. This decrease was due to the anticipated reduction in the Seven-Eleven Japan licensing royalties of $10.0 million. The decrease in the licensing royalties was partially offset by an increase in franchise fees and an increase in Vcom placement fee income as a result of the installation of additional kiosks over the prior-year quarter. See "Liquidity and Capital Resources."

12

FRANCHISEE GROSS PROFIT EXPENSE

Franchisee gross profit expense for the three months ended June 30, 2003, was $203.4 million, an increase of $11.6 million, or 6.0%, from $191.8 million for the same period in 2002. The increase is due to higher per-store gross profit, which resulted from increased sales at franchised stores as well as an increase in the number of stores operated by franchisees.

OPERATING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSE (OSG&A)

The primary components of OSG&A are store expenses, occupancy (including depreciation) and corporate expenses. OSG&A for the three months ended June 30, 2003, was $512.0 million, an increase of $19.4 million, or 3.9%, from $492.6 million for the same period in 2002. The primary drivers of the increase were higher occupancy expenses from new store openings, compensation and benefits, and credit card processing fees, partially offset by a gain on currency conversion.

The ratio of OSG&A to revenues decreased to 18.2% for the second quarter of 2003 from 18.9% for the second quarter of 2002. Included in OSG&A for the three months ended June 30, 2003 was a $3.4 million currency conversion gain. Included in OSG&A for the same period of 2002 was a $14.0 million currency conversion loss.

INTEREST EXPENSE, NET

Net interest expense for the three months ended June 30, 2003, and June 30, 2002, was $16.4 million. See "Liquidity and Capital Resources."

In accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring," our debentures are recorded at an amount equal to the undiscounted cash payments of both principal and interest, and we do not recognize interest expense on our debentures in our condensed consolidated statement of earnings. Accordingly, we charge the cash interest payments against the recorded amount of the debentures.

On July 11, 2003, we redeemed all of our outstanding senior subordinated debentures. Therefore, interest on the debentures ceased to accrue as of that date. See "Liquidity and Capital Resources."

INCOME TAX EXPENSE

Income tax expense for the three months ended June 30, 2003, was $24.5 million compared to $22.8 million for the same period in 2002. Our effective tax rate was 37.8% for the second quarter of 2003, compared to 40.0% for the second quarter of 2002.

EARNINGS FROM CONTINUING OPERATIONS

For the three months ended June 30, 2003, our earnings from continuing operations were $40.2 million ($0.34 per diluted share), compared to $34.1 million ($0.30 per diluted share) for the same period in 2002.

DISCONTINUED OPERATIONS

Discontinued operations for the three months ended June 30, 2003, resulted in a loss of $879,000 (net of $504,000 tax benefit) compared to a loss of $716,000 (net of $477,000 tax benefit) for the same period in 2002. These stores had total revenues of $4.5 million and $36.5 million and pretax losses of $1.4 million and $1.2 million for the three months ended June 30, 2003 and 2002, respectively.

NET EARNINGS

Net earnings for the three months ended June 30, 2003, were $39.3 million ($0.33 per diluted share), compared to $33.4 million ($0.29 per diluted share) for the same period in 2002.

SEASONALITY

Weather conditions can have a significant impact on our sales, as buying patterns have shown that our customers increase their transactions and also purchase higher profit margin products when weather conditions are favorable. Consequently, our results are seasonal, and we typically earn more during the warmer second and third quarters.

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2003 TO SIX MONTHS ENDED JUNE 30, 2002

NET SALES

	Six Months Ended June 30	
	2002	2003
Net Sales: (in millions)		
Merchandise sales	$ 3,454.1	$ 3,664.6
Gasoline sales	1,278.5	1,654.9
Total net sales	$ 4,732.6	$ 5,319.5
U.S. same-store merchandise sales growth	3.1%	3.3%
Gasoline gallons sold (in millions)	963.3	1,037.2
Gasoline gallon sales change per store	3.1%	4.5%
Average retail price of gasoline per gallon	$ 1.33	$ 1.60

Merchandise sales for the six months ended June 30, 2003, increased $210.5 million, or 6.1%, over the same period in 2002. U.S. same-store merchandise sales growth was 3.3% for the six months ended June 30, 2003, on top of 3.1% for the six months ended June 30, 2002. Key contributors to the merchandise sales growth in 2003 were increases in the sales of prepaid cards, fresh food, beer, non-carbonated beverages and cigarettes.

Gasoline sales for the six months ended June 30, 2003, increased $376.4 million, or 29.4%, compared to the same period in 2002. We attribute this increase to an increase of

27 cents per gallon in our average retail price of gasoline in the first six months of 2003, compared to the same period in 2002, as well as an increase of 7.7% in gallons sold to 1,037.2 million gallons. This increase in gallons sold was primarily due to the addition of new gasoline stores, and equates to a 4.5% growth in gallons sold per store.

GROSS PROFIT

	Six Months Ended June 30	
	2002	2003
Gross Profit (in millions)		
Merchandise gross profit	$ 1,205.9	$ 1,259.4
Gasoline gross profit	118.2	160.4
Total gross profit	$ 1,324.1	$ 1,419.8
Merchandise gross profit margin	34.91%	34.37%
Merchandise gross profit growth per store	5.2%	2.4%
Gasoline gross profit margin cents per gallon	12.3	15.5
Gasoline gross profit change per store	(4.9)%	31.8%

Merchandise gross profit for the six months ended June 30, 2003, increased $53.5 million, or 4.4%, over the same period in 2002 as a result of higher sales. Gross profit margin declined 54 basis points to 34.37% for the six months ended June 30, 2003 from 34.91% for the same period in 2002. The decrease in overall gross profit margin is attributable to our strategy of maximizing gross profit dollars. The changing product mix affects merchandise margins as we sell more items that contribute to gross profit dollars but negatively impact gross profit margin, such as cigarette cartons. The impact from product assortment changes was partially offset by the continued emphasis on managing cost of goods.

Gasoline gross profit for the six months ended June 30, 2003, increased $42.2 million, or 35.8%, to $160.4 million. Expressed as cents per gallon, our gasoline margin was 15.5 cents in the six-month period ended June 30, 2003, compared to 12.3 cents for the same period in 2002. Although wholesale costs were greater in the six-month period ended June 30, 2003, than in the same period a year ago, retail prices were much higher than in the prior-year period, contributing to the increase in profit margin.

OTHER INCOME

Other income for the six months ended June 30, 2003, was

$45.0 million, a decrease of $9.5 million, or 17.4%, from $54.5 million for the same period in 2002. Our royalty income from our area licensees was $24.6 million for the six months ended June 30, 2003, compared to $41.7 million for the same period in 2002. This decrease was due to the anticipated reduction in the Seven-Eleven Japan licensing royalties of $18.9 million. The decrease in the licensing royalties was partially offset by an increase in franchise fees and an increase in Vcom placement fee income as a result of the installation of additional kiosks over the prior-year six-month period. See "Liquidity and Capital Resources."

FRANCHISEE GROSS PROFIT EXPENSE

Franchisee gross profit expense for the six months ended June 30, 2003, was $377.8 million, an increase of $23.9 million, or 6.8%, from $353.9 million for the same period in 2002. The increase is due to higher per-store gross profit, which resulted from increased sales at franchised stores as well as an increase in the number of stores operated by franchisees.

OPERATING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSE (OSG&A)

The primary components of OSG&A are store expenses, occupancy (including depreciation) and corporate expenses. OSG&A for the six months ended June 30, 2003, was $979.3 million, an increase of $42.3 million, or 4.5%, from $937.0 million for the same period in 2002. The primary drivers of the increase were higher occupancy expenses from new store openings, compensation and benefits, and credit card processing fees, partially offset by a currency conversion gain.

The ratio of OSG&A to revenues decreased to 18.3% for the six months ended June 30, 2003 from 19.6% for the same period in 2002. Included in OSG&A for the six months ended June 30, 2003 was a $3.6 million gain related to life insurance proceeds and a $3.8 million currency conversion gain. Included in OSG&A for the same period of 2002 was a $6.9 million charge related to severance and other expenses and a $12.8 million currency conversion loss.

INTEREST EXPENSE, NET

Net interest expense for the six months ended June 30, 2003, was $32.8 million, an increase of $630,000, or 2.0%, from $32.2 million for the same period in 2002. The slight increase is primarily due to an increase in capital lease commitments during the first six months of 2003 compared to the same period a year ago. See "Liquidity and Capital Resources."

In accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring," our debentures are recorded at an amount equal to the undiscounted cash payments of both principal and interest, and we do not recognize

interest expense on our debentures in our condensed consolidated statement of earnings. Accordingly, we charge the cash interest payments against the recorded amount of the debentures.

INCOME TAX EXPENSE

Income tax expense for the six months ended June 30, 2003, was $28.5 million compared to $22.2 million for the same period in 2002. Our effective tax rate was 38.0% for the six months ended June 30, 2003 compared to 40.0% for the six months ended June 30, 2002.

EARNINGS FROM CONTINUING OPERATIONS

For the six months ended June 30, 2003, our earnings from continuing operations before cumulative effect of accounting change was $46.4 million ($0.41 per diluted share), compared to $33.3 million ($0.30 per diluted share) for the same period in 2002.

DISCONTINUED OPERATIONS

Discontinued operations for the six months ended June 30, 2003, resulted in a loss of $2.2 million (net of $1.3 million tax benefit) compared to a loss of $10.3 million (net of $6.9 million tax benefit) for the same period in 2002. These stores had total revenues of $23.3 million and $82.1 million and pretax losses of $3.5 million and $17.2 million for the six months ended June 30, 2003 and 2002, respectively. Included in the pretax loss for the six months ended June 30, 2003 is a loss on disposal of $11.6 million. The loss on disposal represents write-downs of property and equipment to net realizable value and anticipated future rent and other expenses in excess of related estimated sublease income in connection with the store closings.

CUMULATIVE EFFECT OF ACCOUNTING CHANGE

On January 1, 2002, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," which resulted in a one-time charge of $28.1 million, net of deferred tax benefit, related to the cumulative effect of the accounting change which relates to the accounting for costs associated with future removal of underground gasoline storage tanks.

NET EARNINGS (LOSS)

Net earnings for the six months ended June 30, 2003, were $44.2 million ($0.39 per diluted share), compared to a net loss of $5.2 million ($0.00 per diluted share) for the same period in 2002.

LIQUIDITY AND CAPITAL RESOURCES

We obtain the majority of our working capital from these sources:

* Cash flows generated from our operating activities;
* A $650 million commercial paper facility, guaranteed by Ito-Yokado Co., Ltd.;
* Borrowings of up to $200 million under our revolving credit facility.

We believe that operating activities, available working capital sources and additional borrowings will provide sufficient liquidity in 2003 to fund our operating costs, capital expenditures and debt service. In addition, we intend to continue accessing the leasing market to finance our new stores and certain equipment.

We expect capital expenditures for 2003, excluding lease commitments, will be between $335 million and $365 million. Our new capital lease commitments for the first six months of 2003 were $43.6 million compared to $19.2 million for the same period in 2002. For the six months ended June 30, 2003, our capital expenditures and capital lease commitments were primarily related to developing new stores, replacing store equipment and information technology. We opened 35 stores in the first six months of 2003 and expect to open approximately 100 stores during the full year 2003. Therefore, we expect capital expenditures to increase in the second half of 2003.

In January 2003, we entered into a note purchase agreement with SEJ that authorizes the issuance and sale of up to $400 million aggregate principal amount of Senior Subordinated Notes due January 27, 2010 ("SEJ Notes"), which we issued and SEJ purchased in multiple tranches. Interest on the SEJ Notes was calculated for each tranche on its issuance date and was set by a formula tied to the United States Treasury Rate and Japanese government bond rates. The SEJ Notes are subordinate to all obligations outstanding under our revolving credit facility. On January 10, 2003, we received $100 million from SEJ under the note purchase agreement; the interest rate on this tranche is 3.41%. On July 9, 2003, we received the remaining $300 million from SEJ under the note purchase agreement in three equal payments of $100 million; the interest rate on these tranches is stated at 3.01%, 3.34% and 3.71% respectively.

In July 2003, we used a portion of the proceeds of the note purchase agreement to retire $239.3 million principal amount of our 5% First Priority Senior Subordinated Debentures due 2003, $111.4 million principal amount of our 41/2% Second Priority Senior Subordinated Debentures (Series A) due 2004 and $18.5 million principal amount of our 4% Second Priority Senior Subordinated Debentures (Series B) due 2004. As a result of including the SFAS No. 15 interest in the carrying amount of the retired debt, we will recognize a pretax gain of approximately $10.0 million in the third quarter of 2003 in OSG&A.

As a result of the retirement of the senior subordinated debentures, interest expense will increase in 2003 by approximately $8.0 million (approximately $14.0 million on an annual basis) because during the period they were outstanding, we did not recognize interest expense on these debentures. See - Comparison of Three Months Ended June 30, 2003 to Three Months Ended June 30, 2002 - Interest Expense, Net and Note 5 to the Notes to the condensed consolidated financial statements.

VCOM

We announced plans in the third quarter of 2002 to expand our rollout of Vcom to 1,000 stores, adding to our original Vcom pilot program in Texas and Florida. As of June 30, 2003, this expanded rollout was virtually complete. We funded the $55 million capital investment needed for the Vcom rollout primarily by a capital lease program. We estimate that we will need approximately $110 million by year-end to fund check-cashing and ATM transaction disbursements to consumers. We are funding this requirement through our commercial paper program.

In exchange for our granting strategic partners exclusive rights to offer their services or products on our Vcom kiosks, the partners will pay us placement fees, a percentage of the transaction fees and, in certain circumstances, expense reimbursement. Placement fee commitments for the 1,000 units total approximately $150 million.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities for the six months ended June 30, 2003, was $192.7 million compared to $249.3 million for the six months ended June 30, 2002. We attribute this decrease to changes in working capital items, primarily as a result of timing of the funding for money orders, the timing of the receipt of vendor allowances and other receivables, the timing of payment of merchandise and gasoline payables and decreases in employee benefits payables.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used in investing activities for the six months ended June 30, 2003, was $119.9 million, a decrease of $124.5 million, or 50.9%, from $244.4 million for the six months ended June 30, 2002. The primary driver of the decrease was a $107.5 million decrease in capital expenditures to $117.8 million for the six months ended June 30, 2003, from $225.3 million for the same period in 2002.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities was $10.2 million for the six months ended June 30, 2003, an increase of $5.8 million from $4.4 million for the six months ended June 30, 2002. Net payments under commercial paper and revolving credit facilities for the six months ended June 30,

2003, totaled $94.7 million, compared to net proceeds of $26.6 million for the same period in 2002. The $100 million in proceeds from issuance of long-term debt in 2003 resulted from the borrowing under the $400 million SEJ Notes, referred to above. See also Note 5 to the notes to the condensed consolidated financial statements.

OTHER ISSUES

ENVIRONMENTAL

At June 30, 2003, our estimated undiscounted liability for our environmental costs related to remedial action at existing and previously operated gasoline storage sites and other operating and non-operating properties where releases of regulated substances have been detected was $37.5 million. We anticipate that substantially all of the future remediation costs for detected releases of regulated substances at remediation sites of which we are aware, as of June 30, 2003, will be incurred within the next five to six years. The estimated liability could change within the near future for several reasons, including revisions to or the creation of governmental requirements, existing remediation projects become fully defined and revised cost-to-closure estimates become available and unplanned future failures of underground gasoline storage tank systems.

Under state reimbursement programs, we are eligible to be reimbursed for a portion of remediation costs previously incurred. At June 30, 2003, we had recorded a net receivable of $60.2 million for the estimated state reimbursements, of which $34.8 million relates to remediation costs incurred in the State of California. In assessing the probability of state reimbursements, we take into consideration each state's fund balance, revenue sources, existing claim backlog, historical payments and claim ranking. As a result of these assessments, the recorded receivable amounts at June 30, 2003, are net of allowances of $11.0 million. The estimated future state reimbursement amounts could change within the near future as governmental requirements and state reimbursement programs continue to be revised or extended. The California program separates claims into four classes (A, B, C and D). Our claims are in class D. Reimbursement amounts related to the California program could be impacted by the current trend of the program to appropriate more funds to classes A, B and C, leaving our claims as part of a growing backlog of class D claims.

While we cannot be certain of the timing of our receipt of state reimbursement funds, based on our experience we expect to receive the majority of state reimbursement funds within one to three years after our payment of eligible remediation expenses. This time period assumes that the state administrative procedures for processing such reimbursements have been fully developed. One exception to our assumption is California, where we estimate that we will receive reimbursement funds within one to eight years after

our payment of eligible remediation expenses. As a result of the timing for reimbursements, we have present-valued the portion of the recorded receivable amount that relates to remediation activities that have already been completed at a discount rate of approximately 3.5%. Thus, in addition to the allowance set forth in the preceding paragraph, the recorded receivable amount is also net of a discount of $8.0 million.

Any revisions to our estimated future remediation expenditures and related state reimbursement amounts could have a material impact on our operations and financial position.

19

NEW ACCOUNTING STANDARDS

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, for hedging relationships designated after June 30, 2003, and to certain preexisting contracts. We will adopt the provisions of SFAS No. 149 on a prospective basis for any contracts entered into after June 30, 2003. We do not expect that the statement will have a material impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for classifying and measuring as liabilities certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity. The provisions of SFAS No. 150 are effective for all financial instruments created or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. We will adopt the provisions of SFAS No. 150 as of July 1, 2003; we do not expect that the statement will have a material impact on our consolidated financial statements.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51," was issued in January 2003. The Interpretation addresses consolidation of variable interest entities ("VIEs") to which the usual condition for consolidation described in Accounting Research Bulletin No. 51, "Consolidated Financial Statements," does not apply because the VIEs have no voting interests or otherwise are not subject to control through ownership of voting interests. It requires existing unconsolidated VIEs to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. The provisions of the Interpretation are effective immediately for VIEs created after January 31, 2003, and to VIEs in which

an entity obtains an interest after that date. An entity with a variable interest in a VIE created before February 1, 2003, must apply the provisions no later than the first reporting period beginning after June 15, 2003. The Interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements.

We expect to include the assets, liabilities, noncontrolling interests and results of activities of certain trusts in its consolidated financial statements effective July 1, 2003. The trusts, which were funded by a group of senior lenders, were established in connection with two lease facilities that have provided us with $191.0 million in off-balance sheet financing as of June 30, 2003, for constructing new stores and acquiring operating convenience stores from unaffiliated third parties. The trusts acquired land and undertook construction projects for which we were the construction agent or acquired operating convenience stores from third parties. We estimate that this will result in an after-tax, one-time cumulative effect charge of approximately $9 million to $12 million in the third quarter of 2003. On an annual basis, we expect the after-tax impact on earnings from continuing operations to be a charge of approximately $5 million to $7 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

See "Management's Discussion and Analysis of Financial Condition and Results of Operations," above.

ITEM 4. CONTROLS AND PROCEDURES.

We maintain a system of controls and procedures designed to provide reasonable assurance as to the reliability of the financial statements and other disclosures included in this report, as well as to safeguard assets from unauthorized use or disposition. Within 90 days prior to the filing of this report, our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures with the assistance and participation of other members of management. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in the reports we file under the Securities Exchange Act of 1934 within the time periods specified in the SEC's rules and forms. There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls subsequent to the date we carried out our evaluation.

PART II.

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

There are no reportable suits or proceedings pending or threatened against the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On April 23, 2003, we held our annual meeting of shareholders. Each of the eleven nominated directors was elected without contest. In addition, our shareholders ratified the approval of PricewaterhouseCoopers LLP to be our independent auditors for 2003, approved an amendment to our 1995 Stock Incentive Plan to increase the pool of shares available under the plan by 3 million and approved an amendment to our Stock Compensation Plan for Non-Employee Directors authorizing the award of grants of restricted stock and stock options to our independent directors.

(a) The votes for and the votes withheld for each of the nominees for director were as follows:

NOMINEE	FOR	WITHHELD
Toshifumi Suzuki	90,502,830	1,782,448
Yoshitami Arai	91,536,235	749,043
Masaaki Asakura	90,940,085	1,345,193
Timothy N. Ashida	90,464,144	1,821,134
Jay W. Chai	90,872,517	1,412,761
Gary J. Fernandes	90,865,319	1,419,959
Masaaki Kamata	90,939,676	1,345,602
James W. Keyes	90,433,610	1,851,668
Kazuo Otsuka	90,444,733	1,840,545
Lewis E. Platt	90,877,656	1,407,622
Nobutake Sato	90,940,095	1,345,183

(b) The votes for, against, abstaining and broker non-votes in connection with the ratification of the appointment of PricewaterhouseCoopers LLP to be our independent auditors for 2003 were as follows:

91,891,638 shares were voted for; 374,204 shares were voted against; 19,436 shares abstained from voting; and no broker non-votes were received.

(c) The votes for, against, abstaining and broker non-votes in connection with the approval of a proposed amendment to our 1995 Stock Incentive Plan were as follows:

91,243,284 shares were voted for; 1,015,580 shares were voted against; 26.414 shares abstained from voting; and no broker non-votes were received.

(d) The votes for, against, abstaining and broker non-votes in connection with the approval of a proposed amendment to our Stock Compensation Plan for Non-Employee Directors were as follows:

91,390,658 shares were voted for; 868,199 shares were voted against; 26,421 shares abstained from voting; and no broker non-votes were received.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits:

1. Exhibit 15 - Letter re Unaudited Interim Financial Information. Letter of PricewaterhouseCoopers LLP.

2. Exhibit 31(1) - Certification by Chief Executive Officer Required by Section 302 of the Sarbanes-Oxley Act of 2002.

3. Exhibit 31(2) - Certification by Chief Financial Officer Required by Section 302 of the Sarbanes-Oxley Act of 2002.

4. Exhibit 32(1) - Certification by Chief Executive Officer Required by Section 906 of the Sarbanes-Oxley Act of 2002.

5. Exhibit (32)(2) - Certification by Chief Financial Officer Required by Section 906 of the Sarbanes-Oxley Act of 2002.

(b) 8-K Reports:

During the quarter, we filed the following report on Form 8-K:

Report on Form 8-K dated April 22, 2003 (date of earliest event reported), furnished on April 22, 2003, with respect to our earnings release for the three months ended March 31, 2003.

SIGNATURES

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

7-ELEVEN, INC.
(Registrant)

Date: August 6, 2003

/s/ James W. Keyes

(Officer)
James W. Keyes
President and Chief Executive Officer

Date: August 6, 2003

/s/ Edward W. Moneypenny

(Principal Financial Officer)
Edward W. Moneypenny
Senior Vice President
and Chief Financial Officer