FRESH BRANDS INC
Form 10-Q
June 03, 2003

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

FORM 10-Q

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

For the quarterly period ended April 19, 2003

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)

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 X   No ___

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X   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.

As of June 3, 2003, 5,037,613 shares of Common Stock, $0.05 par value, were issued and outstanding.

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FRESH BRANDS, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

FRESH BRANDS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

Assets	April 19, 2003	December 28, 2002
Current assets:		
Cash and equivalents	$ 13,946	$ 14,250
Receivables, net	19,083	14,267
Inventories	35,512	36,268
Land and building held for resale	4,610	7,601
Other current assets	2,978	3,545

Deferred income taxes	4,291	4,291
Total current assets	80,420	80,222
Noncurrent receivable under capital subleases	21,967	22,332
Property and equipment, net	27,968	28,229
Property under capital leases, net	13,321	13,635
Goodwill, net	20,280	20,280
Other noncurrent assets, net	6,542	6,475
Total assets	$ 170,498	$ 171,173
Liabilities and Shareholders' Investment		
Current liabilities:		
Accounts payable	$ 33,706	$ 34,475
Accrued salaries and benefits	6,118	6,276
Accrued insurance	2,997	3,064
Other accrued liabilities	3,774	5,379
Current obligations under capital leases	1,891	1,898
Current maturities of long-term debt	316	316
Total current liabilities	48,802	51,408
Long-term obligations under capital leases	36,389	36,965
Long-term debt	28,222	26,204
Deferred income taxes	1,114	1,114
Shareholders' investment:		
Common stock	438	438
Additional paid-in capital	15,570	15,527
Retained earnings	83,503	82,030
Treasury stock	(43,540)	(42,513)
Total shareholders' investment	55,971	55,482
Total liabilities and shareholders' investment	$ 170,498	$ 171,173

See notes to consolidated financial statements.

FRESH BRANDS, INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share data)

	For the 16-weeks en	
	April 19, 2003	Apri

Net sales	$ 187,670	$
Cost of products sold	149,494	
Gross profit	38,176	
Selling, general and administrative expenses	31,830	
Depreciation and amortization	2,600	
Operating income	3,746	
Interest expense (net)	586	
Earnings before income taxes	3,160	
Provision for income taxes	1,233	
Net earnings	$ 1,927	$
Earnings per share - basic	$ 0.38	$
Earnings per share - diluted	$ 0.38	$
Weighted average shares and equivalents outstanding:		
Basic	5,057	
Diluted	5,095	
Cash dividends paid per share of common stock	$ 0.09	$

See notes to consolidated financial statements.

FRESH BRANDS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the 16-weeks e	
	April 19, 2003	A
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	$ 1,927	$
Adjustments to reconcile net earnings to net cash provided		

by operating activities:		
Depreciation and amortization		2,600
Changes in assets and liabilities:		
Receivables, net		(4,816)
Inventories		756
Other current assets		3,580
Accounts payable		(769)
Accrued liabilities		(1,786)
Net cash flows provided by operating activities		1,492
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures		(2,083)
Receipt of principal amounts under capital subleases		333
Net cash flows used in investing activities		(1,750)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in revolver activity		2,150
Payment for acquisition of treasury stock		(1,658)
Exercise of stock options		601
Payment of cash dividends		(454)
Principal payments on capital lease obligations		(583)
Principal payments on long-term debt		(132)
Other financing activities		30
Net cash flows provided by (used in) financing activities		(46)
CASH AND EQUIVALENTS:		
Net change		(304)
Balance, beginning of period		14,250
Balance, end of period	$	13,946
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Interest paid	$	605
Income taxes paid		752

See notes to consolidated financial statements.

FRESH BRANDS, INC.
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The consolidated 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 2002 annual report to shareholders, as incorporated by reference in our Form 10-K for the fiscal year ended December 28, 2002. Additionally, it should be noted that certain prior year amounts have been reclassed to conform with the current year presentation.

Annually, our fiscal year ends on the Saturday closest to December 31. As such, the current fiscal year is a 53-week period while the prior year was a 52-week period. Consistent with 2002, our first quarter of 2003 is comprised of 16-weeks and the second and third quarters will consist of 12-weeks each. Our fourth quarter for 2003 will consist of 13-weeks but is typically made up of 12-weeks, as in 2002.

(2) Stock-Based Compensation

We account for stock-based employee compensation plans under the guidance of APB Opinion No. 25, "Accounting for Stock Issued to Employees." No compensation expense is reflected in net earnings during the first quarter of 2003 or 2002. The following pro-forma amounts illustrate the effect on net earnings and earnings per share for the first quarter of 2003 and 2002 if we had determined compensation cost based on the fair value at the grant date for stock options using the fair value recognition provisions of Statement of Financial Accounting Standards "SFAS" No. 123, "Accounting for Stock-Based Compensation," to stock based employee compensation:

(In thousands, except per share data)

	For the 16-weeks ended April 19, 2003	For the 16-weeks ended April 20, 2002
Net earnings		
As reported	$ 1,927	$ 1,914
Pro forma	1,819	1,738
Earnings per share-basic		
As reported	$ .38	$ .37
Pro forma	$ .36	$ .34
Earnings per share-diluted		
As reported	$ .38	$ .36
Pro forma	$ .36	$ .32

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(3) Other Current Assets

(In thousands)

	April 19, 2003	December 28, 2002
Prepaid expenses	$ 1,492	$ 1,364
Receivable under capital subleases	1,114	1,082
Retail systems and supplies for resale	372	1,099

Other current assets	$ 2,978	$ 3,545

(4) 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 28 owned supermarkets. Our retail revenue is generated by our corporate supermarkets selling products, including products purchased from our wholesale segment, to retail consumers.

Summarized financial information for the first quarters of 2003 and 2002 concerning our reportable segments is shown in the following tables (in thousands):

	For the 16-weeks ended	
	April 19, 2003	April 20, 2002
Net Sales		
Wholesale	$ 143,854	$ 139,916
Intracompany	(50,127)	(48,293)
Wholesale net sales	93,727	91,623
Retail	93,943	92,516
Total net sales	$ 187,670	$ 184,139

	For the 16-weeks ended	
	April 19, 2003	April 20, 2002
Operating Income		
Wholesale	$ 4,273	$ 3,178
Retail	(527)	506
Total operating income	$ 3,746	$ 3,684

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(5) New Accounting Pronouncements

In the first quarter of 2003, we adopted Emerging Issues Task Force Issue ("EITF") No. 02-16, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor." This EITF Issue establishes that cash consideration received from a vendor is presumed to be a reduction in the prices of the vendor's products or services and should, therefore, be characterized as a reduction in cost of products sold when recognized in the reseller's income statement unless it is a payment for assets or services delivered to the vendor, in which case the cash consideration should be characterized as revenue or other income as appropriate when recognized in the reseller's income statement, or it is a reimbursement of costs, in which case the cash consideration should be characterized as a reduction of that cost when recognized in the reseller's income statement. Applying the provisions of EITF No. 02-16 resulted in the reclassification of certain of our vendor rebates and advertising revenue received in excess of advertising costs. The reclassification of these items reduced cost of products sold and, correspondingly, increased selling, general and administrative expense by $1.3 million and $1.5 million for the first quarter of 2003 and 2002, respectively.

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

General

As of April 19, 2003, we owned 28 supermarkets and franchised an additional 74 supermarkets. This compares to 27 owned supermarkets and 72 franchised supermarkets as of April 20, 2002. Twenty of our corporate supermarkets operated under the Piggly Wiggly(R) banner, 8 of them operated under the Dick's(R) Supermarkets banner and all of our franchised supermarkets operated under the Piggly Wiggly banner. We are the primary supplier to all 102 supermarkets and also serve as a wholesaler to a number of smaller, independently operated supermarkets and convenience stores. In addition, we currently serve as a temporary secondary wholesale supplier to a group of local supermarkets otherwise generally supplied by one of our competitors which has filed for bankruptcy protection. 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. Our wholesale business derives its revenues primarily from the sale of groceries, produce, dairy, meat and other products to our franchised supermarkets and independent retail customers. We also supply these products to our corporate supermarkets, but those revenues are eliminated for accounting purposes in consolidation. We supply grocery, frozen food, produce, general merchandise and health and beauty care to our supermarkets through two distribution centers in Sheboygan, Wisconsin. We also provide our supermarkets with dairy, fresh, frozen and processed meats, eggs and deli items through a third-party distribution facility in Milwaukee, Wisconsin. Additionally, we distribute items made in our Platteville, Wisconsin centralized bakery/deli production facility.

Our retail business consists of the 28 corporate-owned supermarkets which operate under the Piggly Wiggly and Dick's Supermarkets banners. We earn our retail revenue by selling products purchased from our wholesale segment and other merchandise to retail consumers. Compared to our wholesale segment, our retail segment generates higher gross profit margins, but has higher operating and administrative expenses.

During the first quarter of 2003 we continued to be affected by competitive store openings. Our competitors opened new stores in four of our markets in the first quarter. Fierce competition, along with the softness of the economy, continues to contribute to the minimal increase in our franchise and corporate retail comparative store sales.

Annually, our fiscal year ends on the Saturday closest to December 31. As such, the current fiscal year is a 53-week period while the prior year was a 52-week period. Consistent with 2002, our first quarter of 2003 is comprised of 16-weeks and the second and third quarters will consist of 12-weeks each. Our fourth quarter for 2003 will consist of 13-weeks but is typically made up of 12-weeks, as in 2002.

RESULTS OF OPERATIONS

The following table sets forth certain items from our Consolidated Statements of Earnings as a percentage of net sales and the variance in the percentages for the first quarter of 2003 compared to the first quarter of 2002.

	Percent of net sales		Va
	For the 16-weeks ended		
	April 19, 2003	April 20, 2002	
Net sales	100.0%	100.0%	0
Retail net sales	50.0%	50.2%	(0
Wholesale net sales	50.0%	49.8%	0
Gross margin	20.3%	19.9%	0
Selling, general and administrative expenses	17.0%	16.6%	0
Depreciation and amortization	1.4%	1.2%	0
Operating income	2.0%	2.0%	0
Earnings before income taxes	1.7%	1.7%	0
Net earnings	1.0%	1.0%	0

NET SALES

Information regarding our net sales for the 16-weeks ended April 19, 2003 and April 20, 2002 is set forth in the following table (in thousands):

	For the 16-weeks ended	
	April 19, 2003	April 20, 2002
Retail net sales	$ 93,943	$ 92,516
Wholesale net sales	93,727	91,623
Total sales	$ 187,670	$ 184,139

Net sales for our first quarter of 2003 were a record $187.7 million, compared to $184.1 million for the same period in 2002. The increase of $3.5 million, or 1.9%, was due primarily to increases in wholesale net sales and the January 2003 opening of our new corporate store in Kenosha, Wisconsin.

RETAIL NET SALES

Retail net sales for our first quarter of 2003 increased 1.5% to $93.9 million compared to $92.5 million for the same period in 2002. Our retail net sales improvement was primarily due to the January 2003 opening of our new corporate Piggly Wiggly Fresh MarketCircle store in Kenosha, Wisconsin.

Comparable store sales for our corporate Piggly Wiggly and Dick's Supermarkets and franchised supermarkets on an aggregate basis increased 0.15% for the first quarter of 2003. Comparable store sales represent sales of all corporate and franchised stores that were open throughout the first quarter of 2003 and 2002. The minimal increase is due in large part to fierce competition in certain market areas in which we operate and the continued softness of the economy. Additionally, shoppers continue to be more selective in their purchases which has reduced the average customer purchase.

As part of our continuing efforts to expand our existing supermarkets and supermarket brands, we are planning additional retail store openings. We are planning our first entry into the Iowa market with the expected 2003 fourth quarter opening of our new, 30,000 square foot Dick's Supermarkets corporate store and fuel station/convenience store in Maquoketa, IA. We also plan to open our corporate replacement store on the north side of Sheboygan, Wisconsin in August 2003. This will be our third Piggly Wiggly Fresh MarketCircle store and will also feature our new "Pig Stop" gas station and

convenience store. Finally, we have entered into an agreement to purchase a Rainbow Foods store located in Racine, Wisconsin from Fleming Companies, Inc. and one of its affiliates. We expect to close this acquisition in July 2003 and intend to operate the store as a corporate Piggly Wiggly store.

WHOLESALE NET SALES

Wholesale net sales for the first quarter of 2003 increased 2.3% to $93.7 million compared to $91.6 million for the same period in 2002. Since the first quarter of 2002, our wholesale net sales have increased as a result of the February 2003 opening of a replacement franchise supermarket in Omro, Wisconsin and the conversion of an independent supermarket in Cambridge, Wisconsin in August 2002. Wholesale net sales were also positively impacted by approximately $500,000 as a result of our serving as a temporary secondary wholesale supplier to a group of local supermarkets otherwise generally supplied by one of our competitors which has filed for bankruptcy protection. We expect that these additional wholesale sales will continue at least into the second quarter of 2003.

We expect our wholesale net sales to be further positively impacted over the next 12 months by our expanded and renovated franchise replacement store projects ongoing in Mayville, Mosinee and Cross Plains, Wisconsin and our planned new franchise replacement stores in Juneau and Union Grove, Wisconsin.

GROSS MARGIN

Our gross margin for the first quarter of 2003 increased to 20.3% from 19.9% for the same period in 2002. The primary factor contributing to the gross margin improvement was a one-time positive book-to-physical inventory adjustment of approximately $500,000 related to the completion of the final phase of our wholesale systems project, partially offset by lower perishable gross margins subsequent to the implementation of the wholesale system.

Gross margin was also impacted by the application of Emerging Issues Task Force Issue ("EITF") No. 02-16, "Accounting by a Customer (including a Reseller) for Certain Consideration Received from a Vendor." during the first quarter. Applying the provisions prescribed by EITF No. 02-16 resulted in the reclassification of certain cash consideration received from our vendors. In the past, we recognized certain vendor rebates and advertising consideration received in excess of direct advertising costs as a reduction of our selling, general and administrative expenses. EITF No. 02-16 specifies that if the amount of cash consideration paid by the vendor exceeds the cost being reimbursed, that the excess amount should be characterized as a reduction of cost of products sold when recognized in the reseller's income statement. The reclassification we recorded reduced our cost of products sold and, correspondingly, increased our selling, general and administrative expenses for the first quarter of 2003 and 2002 by $1.3 million and $1.5 million, respectively.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Our selling, general and administrative expenses, as a percent of net sales, increased to 17.0% for our first quarter of 2003 compared to 16.6% for the same period in 2002. The increase was principally attributable to higher operating costs compared to net sales as discussed below.

Despite adding an employee health insurance cost-sharing program in the first quarter of 2003, we continue, like other companies, to experience significant increases in health and accident insurance costs. For the first quarter of 2003, our health and accident and other benefit costs increased nearly $500,000 or 14.5% over the prior year. For the first quarter of 2003, we experienced higher than normal claims, which increased our self-insured costs. We anticipate that our claims experience will even out to a more normal level during the remainder of the year; however, there can be no assurance this will occur.

Due to the ongoing and increasingly competitive nature of the supermarket industry, some of our franchised and corporate retail stores continue to experience operational challenges in their respective

marketplaces. In order to further improve our overall financial results, we continue to 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. It is possible that one or more of these actions may be taken in the next 12 months. While we have not incurred any significant retail repositioning expenses during the past few years, implementing any of these alternatives could result in our incurring significant repositioning or restructuring charges in the future.

NET EARNINGS

Our operating income for our first quarter increased by 1.7% to $3.75 million, compared to $3.68 million for our 2002 first quarter. As a percent of net sales, our operating income was 2.0% in the first quarters of both years. Our earnings before income taxes for the first quarter of 2003 increased 0.7%, to $3.2 million, compared to $3.1 million for the first quarter of 2002. As a percent of net sales, earnings before income taxes for the first quarter remained unchanged from the prior year at 1.7%. Net earnings for the first quarter of 2003 increased 0.7% to $1.93 million compared to $1.91 million for the same period in 2002. Almost entirely due to stock repurchases, diluted earnings per share for the first quarter of 2003 increased 5.6% to a record $0.38 compared to $0.36 for the same period in 2002. Diluted weighted average common shares and equivalents outstanding for the first quarter of 2003 were 5,095,000 compared to 5,265,000 for the same period in 2002.

Many of our peer companies measure the profitability of their sales using the net earnings to net sales ratio. This ratio represents the net earnings margin realized from each dollar of net sales. Our 2003 first quarter net earnings to net sales ratio was 1.03% compared to 1.04% for the first quarter of 2002.

LIQUIDITY AND CAPITAL RESOURCES

SUMMARY

At April 19, 2003, we had cash and equivalents totaling $13.9 million. At year-end 2002, cash and equivalents aggregated $14.3 million. The net cash outflow of approximately $304,000 was attributable to various operational, investing and financing activities. Our working capital position at April 19, 2003 increased 9.7% to $31.6 million, compared to $28.8 million at December 28, 2002. Our current ratio at April 19, 2003 was 1.65 to 1.00, compared to 1.56 to 1.00 at December 28, 2002. As of April 19, 2003, we had unsecured revolving bank credit facilities aggregating $35.0 million, with $7.4 million remaining available for use. Our current working capital levels provide us with a very favorable and strong liquidity position. Additionally, we continue to remain in compliance with all credit facility debt covenants.

CASH FLOWS FROM OPERATING ACTIVITIES

During our first quarter of 2003, our net cash provided by operations was $1.5 million, compared to of $3.0 million for the same period in 2002. The primary reason contributing to the decrease in net operating cash inflows as compared to 2002 was the first quarter increase in our receivables from franchise and trade customers of $4.8 million compared to $3.0 million for the first quarter of 2002. The increase in receivables was partly offset by the reduction in the amount of land and building held for resale. In the first quarter of 2003, cash inflows from completed land and building held for resale projects was $3.0 million compared to $1.9 million of cash inflows from projects completed during the first quarter of 2002. Additional changes in operating cash flows in the first quarter of 2003 were due to the combined effect of changes in inventory and accounts payable.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash outflows from investing activities for our first quarter of 2003 totaled $1.8 million, compared to $4.1 million for the same period in 2002. Nearly $2.1 million of capital items were purchased during the first quarter of 2003 compared to $4.3 million for the same period in 2002. Expenditures for retail equipment and fixtures were nearly $800,000, expenditures related to the

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expansion of the distribution centers were nearly $600,000, and corporate office technology expenditures were nearly $200,000 which accounted for approximately $1.6 million of the cash outflow. Additionally, approximately $500,000 of the investing outflow related to capital expenditures for our on going systems project.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash outflows from financing activities for our first quarter totaled $46,000 compared to $932,000 in cash inflows for the same period in 2002. The change was primarily due to increased acquisition of treasury stock during the first quarter of 2003 compared to the same period in 2002. We repurchased nearly 106,000 shares of our own common stock for an aggregate price of $1.7 million, compared to 51,000 shares aggregating $924,000 for the first quarter of 2002.

During the first quarter of 2003, we increased the borrowing on our $35.0 million revolving credit facility by $2.2 million to $27.6 million from $25.4 million at December 28, 2002. Our ratio of total liabilities to shareholders' investment for the 2003 first quarter was 2.05 compared to 2.09 at fiscal year end 2002 and 1.64 at the end of the first quarter of 2002. The increase in the ratio of liabilities to shareholders' investment since the first quarter of 2002 is primarily due to an increase of $11.6 million on our $35.0 million revolving credit facility to fund working capital and capital expenditures.

At the end of the quarter, approximately $2.9 million remained available from our current Board-authorized $30 million share repurchase plan approved in

July 2002. Also, in March 2003, our board of directors declared a second quarter 2003 cash dividend of $0.09 per share of common stock. The dividend is payable on June 6, 2003 to shareholders of record on May 23, 2003 and is expected to approximate $450,000 in the aggregate.

MAJOR 2003 COMMITMENTS

During the first quarter of 2003, we successfully completed the installation of the infrastructure and wholesale business segments of our systems project. The next two phases are the retail business segment and the services segment. For the retail business segment, we are nearly complete in the final selection of the software. Additionally, a point of sale phase was added to our project. This addition will include the replacement of the point of sale equipment and software at our retail stores and is estimated to add about $5.0 million to the total cost of the project. We plan to begin implementation of the services segment, which includes human resources, payroll and financial reporting, during the second quarter of 2003. From the start of 2003 until the targeted completion in late 2005, we expect to spend $13.5 million on our systems project, with approximately $4.4 million planned for 2003.

Our 2003 capital budget is approximately $14.8 million, compared to our actual 2002 capital spending of $13.7 million. This budget is comprised of approximately $7.9 million for corporate retail replacement supermarkets, $1.3 million for distribution center additions, $4.4 million for the business systems project and $1.2 million for other technology-related and office upgrade projects. At the end of the first quarter of 2003, we have approximately $12.7 million remaining to be expended this year out of our total $14.8 million capital budget. Our 2003 capital budget does not include any amounts that may be required to acquire any multiple-store supermarket chains or fund any similar opportunities.

Special Note Regarding Forward-Looking Statements

Certain matters discussed in our Form 10-Q 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 expectation that we will continue serving as a temporary secondary wholesale supplier to a group of local supermarkets during our second quarter; (b) plans to remodel existing supermarkets, open additional corporate supermarkets and convert existing supermarkets to franchised supermarkets; (c) our anticipated claims experience related to our self-insured health benefits; and (d) the possibility that we may incur retail repositioning expenses in the future. 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 franchise and corporate retail store operators; and (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. 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our only variable rate financial instrument subject to interest rate risk 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 $27.5 million under this facility as of April 19, 2003 and, as a result, increases in market interest rates would cause our interest expense to increase and our earnings before income taxes to decrease. Based on our outstanding revolving credit facility borrowings as of April 19, 2003, a 100 basis point increase in market interest rates would increase our annual interest expense by approximately $275,000. Similarly, a 100 basis point decrease in the market interest rate would reduce our annual interest expense by approximately $275,000.

We believe that our exposure to market risks related to changes in foreign currency exchange rates and trade accounts receivable is immaterial.

Item 4. Procedures and Controls

a. Evaluation of disclosure controls and procedures:

Based on their respective 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 have 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:

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.

PART II OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

As part of our annual compensation to our independent directors, on January 30, 2003, we issued 449 shares of our Common Stock to each of our five non-employee directors that are not otherwise compensated by us for professional services. We issued such shares with out registration under the Securities Act of 1933 in reliance on Section 4(2) of such Act.

Item 9. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

We filed a current report on Form 8-K dated February 25, 2003 pursuant to item 9 with respect to our press release for the fiscal year ended December 28, 2002 and related disclosure requirements of Regulation FD.

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SIGNATURES

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.

Dated: June 3, 2003

By: /s/ Elwood F. Winn

Elwood F. Winn,
President and Chief Executive Officer

Dated: June 3, 2003

By: /s/ S. Patric Plumley

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

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CERTIFICATION

I, Elwood F. Winn, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

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

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

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

DATE: June 3, 2003

By: /s/ Elwood F. Winn

Elwood F. Winn,
President and Chief Executive Officer

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CERTIFICATION

I, S. Patric Plumley, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

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

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

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

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

DATE: June 3, 2003 By: /s/ S. Patric Plumley

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