FLEMING COMPANIES INC /OK/
Form 10-K
March 06, 2002

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

FORM 10-K

(Mark One)
[X] Annual report pursuant to section 13 or 15(d) of the
Securities Exchange Act of 1934
For the fiscal year ended December 29, 2001

OR

[ ] Transition report pursuant to section 13 or 15(d) of the
Securities Exchange Act of 1934

Commission file number 1-8140

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

OKLAHOMA	48-0222760
(State of Incorporation)	(I.R.S. Employer Identification Number)

1945 Lakepointe Drive
PO Box 299013
Lewisville, Texas 75029
(972) 906-8000

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $2.50 Par Value	New York Stock Exchange
	Pacific Stock Exchange
	Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 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. [X] Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. [ ]

The aggregate market value of the common stock of Fleming Companies, Inc. held by nonaffiliates is $801 million (based on the New York Stock Exchange closing price on February 25, 2002).

As of February 25, 2002, 44,478,000 shares of common stock were outstanding.

Documents Incorporated by Reference

Part III of this report has been incorporated by reference from our 2002 proxy statement in connection with our 2002 annual meeting of shareholders, which the Registrant will file no later than 120 days after the end of the fiscal year covered by this report.

PART I

ITEM 1. BUSINESS

Fleming is the industry leader in the wholesale distribution of consumable goods, and also has a growing presence in operating "price impact" supermarkets. Through our distribution segment, we distribute products to customers that operate approximately 3,000 supermarkets, 6,800 convenience stores and over 2,000 supercenters, discount stores, limited assortment stores, drug stores, specialty stores and other stores across the United States. At December 29, 2001, our retail segment operated 116 stores, predominantly supermarkets that focus on low prices and high quality perishables. In the fiscal year ended December 29, 2001, we generated total net sales of $15.6 billion.

Our distribution segment net sales were $13.3 billion for 2001, an 18.9% increase over the prior period. Distribution represented approximately 85% of total net sales in 2001. To supply our customers, we have a network of 24 full-line distribution centers and six general merchandise/specialty foods and five convenience store distribution centers that have a total of approximately 21 million square feet of warehouse space.

Our retail segment net sales were $2.3 billion for 2001, which represented approximately 15% of total net sales. Of this amount, $1.9 billion was attributable to continuing operations, which represents a 1.1% increase over the prior period. As of December 29, 2001, we owned and operated 94 price impact supermarkets and five additional supermarkets that we are converting to the price impact format. Price impact supermarkets offer everyday low prices that are typically below the prices of market-leading conventional supermarkets. These stores typically cost less to build, maintain and operate than conventional supermarkets. In addition, we operated 17 limited assortment stores under the yes!LESS(R) banner. Limited assortment stores offer a narrow selection of low-price, private label food and other consumable goods, as well as general merchandise at deep-discount prices.

In recent years, consumers have been shifting their purchases of food and other consumable goods away from conventional full-service grocery stores toward other retail channels, such as price impact supermarkets, discount stores, supercenters, convenience stores, drug stores and ethnic food stores. Since 1998, we have repositioned our distribution segment to become a highly efficient supplier to these retail channels. As a result, our distribution segment has experienced renewed sales growth. In addition, we believe price-sensitive consumers are underserved in the retail grocery market, and we have repositioned our retail segment to expand our presence in the price impact format.

REPOSITIONING OF FLEMING

Since 1998, in the course of implementing our strategic initiatives, we have, among other accomplishments:

- closed or consolidated 12 distribution centers, which resulted in:
  - -- increased sales per full-line distribution center on a weighted average basis by more than 40% from $389 million in 1998 to $552 million in 2001, and
  - -- increased sales per full-line distribution center employee on a weighted average basis by 23% from 1998 to 2001;

- currently centralized approximately 84% of our purchasing operations in our customer support center near Dallas, Texas;
- centralized our accounting, human resources, information technology and other support services in our shared services center in Oklahoma City, Oklahoma;
- sold or closed 238 conventional supermarkets through the end of 2001;
- opened 40 additional price impact supermarkets; and
- instituted a "culture of thrift" among our employees, in part through our Low Cost Pursuit Program.

We believe these initiatives have lowered our cost structure, improved the economics we can offer our traditional retail customers and strengthened our appeal to new channel retailers. We believe these improvements have been the key to our ability to increase distribution segment sales for the last eight consecutive quarters (year-over-year comparisons). We added approximately $1.6 billion (pro forma for acquisitions) in gross annualized distribution segment sales from both new channel retailers and our traditional supermarket customers in 2001.

OUR DISTRIBUTION SEGMENT

Our distribution segment sells food and non-food products to supermarkets, convenience stores, supercenters, discount stores, limited assortment stores, drug stores, specialty stores and other stores across the United States. Net sales for our distribution segment were $13.3 billion for fiscal 2001, excluding sales to our own retail stores. Sales to our own retail stores totaled $1.2 billion during fiscal 2001.

Customers Served. Our distribution segment serves a wide variety of retail operations located in all 50 states, the Caribbean and the South Pacific. The segment serves customers operating as conventional supermarkets (averaging approximately 23,000 total square feet), superstores (supermarkets of 30,000 square feet or more), supercenters (a combination of discount store and supermarket encompassing 110,000 square feet or more), warehouse stores ("no-frills" operations of various large sizes), combination stores (which have a high percentage of non-food offerings) and convenience stores (generally under 4,000 square feet and offering only a limited assortment of products).

Our top ten customers accounted for approximately 27% of our total net sales during 2001. Kmart Corporation, our largest customer, represented approximately 20% of our total net sales in 2001. No other single customer represented more than 2% of our 2001 net sales. In February 2001, we announced a ten-year distribution agreement under which we supply to Kmart substantially all of the food and consumable products in all current and future Kmart and Kmart supercenter stores in the United States and the Caribbean. Shipments under this new supply agreement began in April 2001, with full implementation in July 2001. This supply arrangement includes grocery, frozen, dairy, packaged meat and seafood, produce, bakery/deli, fresh meat, cigarettes, tobacco and candy.

Pricing. The distribution segment uses market research and cost analyses as a basis for pricing its products and services. We have three basic marketing programs for our distribution business: FlexMate, FlexPro and FlexStar.

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The FlexMate marketing program prices product to customers at a quoted sell price, a selling price established by us that might include a mark-up. Under the FlexPro and FlexStar programs, grocery, frozen and dairy products are priced at their net acquisition value, which is generally comparable to the net cash price paid by the distribution segment. Customers pay fees for specific activities related to the selection and distribution of products. Certain vendor allowances and service income are passed through to the customer under the FlexPro and FlexStar programs, but service charges are different between the two programs.

Kmart product pricing for grocery, frozen, dairy, produce, packaged meat, bakery and deli products follows the FlexPro/FlexStar pricing methodology, using net acquisition value and passing through vendor allowances. Random weight meat and deli products are priced at our last received cost. Certain other items are priced at net acquisition value plus a negotiated fee. In addition, Kmart pays us a logistics fee equal to a percentage of purchases, based on volume, and a negotiated fixed annual procurement fee.

Private Label. Fleming's private label brands are Fleming-owned brands that we offer exclusively to our customers. Our predominant brand is BestYet, and we also market a small number of products under the Comida Sabrosa and Exceptional Value brands. Private label lines offer quality products that are equal or superior in quality to comparable nationally advertised brands and value brand products at more competitive prices. As part of our Kmart distribution agreement, Kmart has adopted our BestYet private label program in its Kmart and Kmart supercenter stores and pays fees to us based on brand management. We believe our private label brands generate higher margins for us and for our customers than nationally advertised brands and other value brand products because we are able to acquire them at lower costs.

Controlled labels are offered only in stores operating under specific banners (which may or may not be controlled by us). Controlled labels are products for which we have exclusive distribution rights to a particular customer or in a specific region. We offer two controlled labels, IGA and Piggly Wiggly brands, which are national quality brands.

Procurement. We have currently centralized approximately 84% of our merchandise procurement in our customer support center near Dallas, Texas. This makes more efficient use of our procurement staff, improves buying efficiency for us and selling efficiency for our suppliers and reduces the cost of goods. We believe our customer support center near Dallas is one of the largest volume-buying locations of consumable goods in the United States. We believe that our centralized purchasing capabilities and the volume discount pricing we have achieved are valuable to national retailers as well as the smaller, independent retailers that make up our traditional customer base. We make a small percentage of our procurement decisions at the distribution center level where local market needs and trends can best be addressed, such as decisions regarding local brand or niche products, and where transportation costs may be minimized.

Retail Services and Franchising. Retail services are marketed, priced and delivered separately from other distribution operations. Our retail services marketing and sales personnel look for opportunities to cross-sell additional retail services as well as other distribution segment products to their customers. Through our retail account executive, or RAE, programs, we become closely involved in the strategic planning and long-term success of our customers. Incentive compensation for our RAEs is based on the performance of the customers they serve. We also license from third parties for our own use or grant franchises to retailers to use certain registered trade names.

Acquisitions. In April 2001, we acquired Minter-Weisman Co., a wholesale distribution company serving over 800 convenience stores in Minnesota, Wisconsin and surrounding states. In September 2001, we

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acquired certain assets and inventory of Miller & Hartman South, LLC, a wholesale distributor serving over 1,800 convenience stores in Kentucky and surrounding states. During August 2001, we facilitated the third-party purchase of 36 stores located in New Mexico and Texas from Furrs Supermarkets, most of which were purchased by Fleming-supplied independent operators.

Facilities and Transportation. Our distribution segment operates 24 full-line distribution centers which are responsible for the distribution of national brands and private label Fleming brands, including groceries, meat, dairy and delicatessen products, frozen foods, produce, bakery goods and a variety of related food and non-food items. Six general merchandise and specialty food operating units distribute health and beauty care items and other items of general merchandise as well as specialty foods. Five warehouse facilities serve convenience stores. All facilities are equipped with modern material handling equipment for receiving, storing and shipping large quantities of merchandise. Our distribution centers comprise approximately 21 million square feet of warehouse space. Additionally, the distribution segment rents, on a short-term basis, approximately 904,000 square feet of off-site temporary storage space. Transportation arrangements and operations vary by distribution center and may vary by customer.

Capital Invested in Customers. As part of our services to retailers, we provide capital to certain customers by extending credit for inventory purchases, by becoming primarily or secondarily liable for store leases, by leasing equipment to retailers and by making secured loans to customers:

- Extension of Credit for Inventory Purchases. Customary trade credit terms are usually the day following statement date for customers on FlexPro or FlexStar and up to seven days for other marketing plan customers. Convenience store trade credit terms average approximately 14 days.

- Store and Equipment Leases. We lease stores for sublease to certain customers. At December 29, 2001, we were the primary lessee of approximately 600 retail store locations subleased to and operated by customers. We also lease a substantial amount of equipment to retailers.

- Secured Loans and Lease Guarantees. We selectively make loans to customers primarily for store expansions or improvements. These loans are typically secured by inventory and store fixtures, have personal guarantees, bear interest at rates above the prime rate, and are for terms of five to ten years. Loans are approved by our business development committee following written approval standards. We believe our loans to customers are illiquid and would not be investment grade if rated. From time to time, we also guarantee the lease obligations of certain of our customers.

RECENT DEVELOPMENTS

On January 22, 2002, Kmart and certain of its U.S. subsidiaries filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. Kmart, our largest customer, accounted for 20% of our net sales in 2001 and 10% of our net sales in 2000. Kmart has announced that it will disclose its store closure plan in March 2002. See Risk Factors in Management's Discussion and Analysis.

OUR RETAIL SEGMENT

As of December 29, 2001, our retail segment operated 116 supermarkets, including 99 price impact supermarkets primarily under the Food 4 Less and Rainbow Foods banners. In addition, we operated 17 limited assortment stores under the yes!LESS banner, 11 of which we opened in 2001.

As part of our strategic plan, we sold or closed 238 of our conventional format supermarkets to focus resources on growing our price impact and limited assortment stores. The following chart illustrates the number of supermarkets and limited assortment stores we operated as of the dates indicated:

	December 29, 2001	December 30, 2000	December 25, 1999	Decem 1
Continuing Stores				
Price Impact(1)	99	74	71	
Limited Assortment	17	6	--	
Subtotal	116	80	71	
Non-Strategic Stores	--	107	171	
Total	116	187	242	

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(1) The number of price impact stores at December 29, 2001 includes five Sentry Foods stores that we are converting to the price impact format in early 2002.

Price Impact Supermarkets. As of December 29, 2001, our retail segment owned and operated 94 price impact supermarkets, of which 42 are located in Minnesota, 26 in Northern California, eight in Wisconsin, seven in the Salt Lake City, Utah area, six in Texas, four in the Phoenix, Arizona area, and one in Las Cruces, New Mexico. We also owned and operated five Sentry Food Stores in Wisconsin, two of which have been converted to the price impact format since year-end and three that we are converting in the next few months. Our price impact stores average approximately 45,000 square feet and offer deep-discount, everyday low prices well below those offered by conventional supermarkets and carry prices for grocery products that are also generally lower than supercenters. Our price impact supermarkets are particularly known for their quality meat and produce offerings. Our price impact supermarkets that have been open at least one year generated average weekly sales of approximately $450,000 per store for the year ended December 29, 2001.

Our price impact supermarkets serve price-sensitive middle-income consumers who may have larger-than-average families. These stores have a wider trade area than conventional supermarkets yet are generally more convenient to shop than supercenters. Our price impact supermarkets offer name-brand food and consumable goods at significantly lower prices than conventional format retail store operators because of the many low-cost features of our stores. These features include: offering a reduced number of product selections, focusing on popular, name-brand products and product categories; employing flow-through distribution methods that reduce product storage and handling expense; and minimizing store operating costs.

These stores do not cost as much as conventional stores to construct and maintain, as price impact stores typically feature cement floors, cinder block walls and exposed ceilings which combine the typically separate storage and display areas. In addition, the efficiencies in the store design and operations result in lower overall operating expenses. Because price impact stores cost less to build and maintain than conventional supermarkets, we expect to be able to grow our price impact supermarket operations while incurring lower capital expenditures.

We believe price-sensitive consumers are underserved on a nationwide basis. We believe the success of our price impact stores is based on an underserved trade area and does not require significant market share. As a result, we spend less on advertising and marketing for these stores compared to conventional format stores.

Acquisitions. In April 2001, we purchased seven Food 4 Less stores located in Central California from Whitco Foods, Inc. which we continue to operate as price impact stores under the Food 4 Less banner. In August 2001, we purchased five Smith's Food & Drug Stores located in New Mexico and Texas from Kroger Co. which we operate under the Rainbow Foods banner.

Limited Assortment Stores. In 2000, we began to develop our limited assortment retail concept operating under the yes!LESS trade name, operating stores averaging 12,000 to 15,000 square feet of selling space. Our yes!LESS concept is designed to appeal to a needs-based consumer, primarily with low-price private label food and other consumables and an attractive selection of general merchandise products at opening price points. Eleven stores were opened in 2001. As of December 29, 2001, there were 17 yes!LESS retail stores open, 16 in Texas and one in Louisiana.

PRODUCTS

We supply a full line of national brands and Fleming brands, including groceries, meat, dairy and delicatessen products, frozen foods, produce, bakery goods and a variety of general merchandise, health and beauty care and other related items. During 2001, the average number of stock keeping units, or SKUs, carried in full-line distribution centers was approximately 16,000. General merchandise and specialty food operating units carried an average of approximately 20,000 SKUs. SKU's carried by our distribution centers that primarily distribute to convenience stores was approximately 6,000. During 2001, our product mix as a percentage of sales was approximately 61% groceries, 33% perishables and 6% general merchandise.

SUPPLIERS

We purchase our products from numerous vendors and growers. As a large customer with centralized procurement, we are able to secure favorable terms and volume discounts on many of our purchases, leading to lower unit costs. We purchase products from a diverse group of suppliers and believe we have adequate sources of supply for substantially all of our products.

COMPETITION

Our distribution segment operates in a competitive market. Our primary competitors are national, regional and local food distributors and national chains that perform their own distribution. The principal factors on which we compete include price, quality and assortment of product lines, schedules and reliability of delivery and the range and quality of customer services.

The primary competitors of our retail segment supermarkets are national, regional and local grocery chains, as well as supercenters, independent supermarkets, convenience stores, drug stores, restaurants and fast food outlets. Principal competitive factors include price, quality and assortment, store location and format, sales promotions, advertising, availability of parking, hours of operation and store appeal.

INTELLECTUAL PROPERTY

We or our subsidiaries use many trade names registered either by us or by third parties from whom we license the rights to use such trade names at either the federal or state level or a combination of both, such as Piggly Wiggly, PWPETRO, Piggly Wiggly xpress, Super 1 Foods, Festival Foods, Jubilee Foods, Jamboree Foods, MEGAMARKET, Shop 'N Kart, ABCO Desert Market, American Family, Big Star,

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Big T, Big Bear, Big Dollar, Buy for Less, County Pride Markets, Rainbow Foods, Red Fox, Sentry, Shop N Bag, Super Duper, Super Foods, Super Thrift, Thriftway and Value King.

We license the Food 4 Less service mark and trade name from Ralph's Grocery Company, a subsidiary of Kroger Co., and have the exclusive right to use and sublicense the name in California excluding certain areas of Southern California. We also have the exclusive license to use and sublicense the name in all other states, excluding certain areas in various states previously licensed to others by Ralph's or its predecessors. Additionally, should the rights to such a previously licensed area terminate, we would automatically obtain the exclusive license for that area. The Food 4 Less license agreement generally provides for protected trade area status for five years after the date that we, our franchisees or Ralph's commit to entering a new market area under the Food 4

Less banner. However, we are not prohibited by the licensing agreement from opening stores under a different trade name in any of these areas.

EMPLOYEES

At December 29, 2001, we had approximately 23,000 full-time and part-time employees, with 11,000 employed by the distribution segment, 10,000 by the retail segment and 2,000 employed in shared services, customer support and other functions.

Approximately 42% of our employees are covered by collective bargaining agreements. Most of these agreements expire at various times throughout the next five years. We consider our employee relations in general to be satisfactory.

ITEM 2. PROPERTIES

The following table sets forth facilities information with respect to our distribution segment:

LOCATION	APPROXIMATE SQUARE FEET (IN THOUSANDS)	OWN
FULL-LINE DISTRIBUTION CENTERS:		
Ewa Beach, HI	361	
Ft. Wayne, IN	1,043	
Fresno, CA	828	
Garland, TX	1,175	
Geneva, AL	793	
Kansas City, KS	937	
La Crosse, WI	907	
Lafayette, LA	443	
Lincoln, NE	516	
Lubbock, TX	762	
Massillon, OH	874	
Memphis, TN	1,071	
Miami, FL	764	
Milwaukee, WI	600	
Minneapolis, MN	480	
Nashville, TN	941	
North East, MD	591	
Oklahoma City, OK	671	
Phoenix, AZ	1,033	
Sacramento, CA	787	
Salt Lake City, UT	555	
South Brunswick, NJ	526	
Superior, WI	371	
Warsaw, NC	672	
Total	17,701	
GENERAL MERCHANDISE DISTRIBUTION CENTERS:		
Dallas, TX	262	
King of Prussia, PA	377	
La Crosse, WI	163	
Memphis, TN	495	
Sacramento, CA	439	
Topeka, KS	223	

Total	1,959
CONVENIENCE STORE DISTRIBUTION CENTERS:	
Altoona, PA	172
Leitchfield, KY	169
Marshfield, WI	157
Plymouth, MN	239
Romeoville, IL	125
Total	862
TEMPORARY STORAGE:	
Outside storage facilities -- typically rented on a short-term basis	904
Total for distribution	21,426

In addition to the above, we have five closed distribution facilities in various states and we are actively marketing them.

As of December 29, 2001, our retail segment operated 116 supermarkets in a variety of formats in Arizona, California, Minnesota, New Mexico, Louisiana, Texas, Utah and Wisconsin. Our continuing chains included 94 price impact supermarkets, five supermarkets which we are converting to the price impact format in early 2002, and 17 limited assortment stores. For more information, see the subsection "Our Retail Segment."

Our shared service center office is located in Oklahoma City, Oklahoma. The shared service center occupies leased office space totaling approximately 229,000 square feet. Our customer support center near Dallas, Texas occupies leased office space totaling approximately 153,000 square feet.

We own and lease other significant assets, such as inventories, fixtures and equipment and capital leases.

ITEM 3. LEGAL PROCEEDINGS

The following paragraphs describe two recently resolved legal proceedings. For additional information see the Litigation Charges and the Contingencies footnotes in the notes to the consolidated financial statements.

Class Action Suits. In 1996, we and certain of our present and former officers and directors were named as defendants in nine purported class action suits filed by certain stockholders. All cases were filed in the United States District Court for the Western District of Oklahoma and in 1997 were consolidated. The

plaintiffs in the consolidated cases sought undetermined but significant damages, and asserted liability for our alleged "deceptive business practices," and our alleged failure to properly account for and disclose the contingent liability created by the David's Supermarkets case, a lawsuit we settled in April 1997 in which David's sued us for allegedly overcharging for products. The plaintiffs claimed that these alleged practices led to the David's case and to other material contingent liabilities, caused us to change our manner of doing business at great cost and loss of profit, and materially inflated the trading price of our common stock.

In February 2000, the court dismissed the plaintiffs' complaint with prejudice. In September 2001 the plaintiff lost their appeal to the Tenth Circuit and in October 2001 their petition for a rehearing to the court was denied. The plaintiffs did not request a review of the judgment of the lower courts to the United States Supreme Court. As a result, all appeals by the plaintiffs are exhausted and the judgment of the courts, as outlined above, will stand unchanged.

Welsh. In April 2000, the operators of two grocery stores in Texas filed an amended complaint in the United States District Court for the Western District of Texas, Pecos Division (Welsh v. Fleming Foods of Texas, L.P.). The amended complaint alleged product overcharges, breach of contract, fraud, conversion, breach of fiduciary duty, negligent misrepresentation and breach of the Texas Deceptive Trade Practices Act, and sought unspecified actual damages, punitive damages, attorneys' fees and pre-judgment and post-judgment interest. On December 31, 2001, the parties executed a settlement agreement that resolved all claims related to the case. Fleming is not required to pay any amounts to the plaintiffs pursuant to this settlement.

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

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

We are a party to or threatened with various other litigation and contingent loss situations arising in the ordinary course of our business including disputes with the following parties: customers; vendors; owners or creditors of financially troubled or failed customers; suppliers; landlords and lessees; employees regarding labor conditions, wages, workers' compensation matters and alleged discriminatory practices; insurance carriers; and tax assessors.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2001.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Fleming common stock is traded on the New York, Chicago and Pacific stock exchanges under the symbol FLM. As of February 25, 2002, approximately 44.5 million outstanding shares were owned by 14,000 shareholders of record and approximately 15,500 beneficial owners whose shares are held in street name by brokerage firms and financial institutions. The high and low common stock prices per share were as follows:

	2001		2000	
QUARTER	HIGH	LOW	HIGH	LOW
First	$ 26.80	$ 10.75	$ 16.25	$ 8.69
Second	36.14	23.97	16.56	12.75
Third	37.89	23.55	17.63	12.38
Fourth	29.60	18.05	15.06	10.31

Cash dividends on Fleming common stock have been paid for 85 consecutive years. Dividends are generally declared on a quarterly basis with holders as of the record date being entitled to receive the cash dividend on the payment date. Cash dividends of $.02 per share were paid on a quarterly basis in 2001 and 2000.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data for the Company and its subsidiaries for the periods and at the dates indicated. The selected financial data were derived from our consolidated financial statements and accounting records. The data presented below should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

	2001(a)	2000(b)	1999(c)	1998(d)
		(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)		
Net sales	$ 15,628	$ 14,444	$ 14,272	$ 14,678
Earnings (loss) before extraordinary charge	27	(122)	(45)	(511)
Net earnings (loss)	23	(122)	(45)	(511)
Diluted net earnings (loss) per common share before extraordinary charge	0.60	(3.15)	(1.17)	(13.48)

Diluted net earnings (loss) per common share	0.52	(3.15)	(1.17)	(13.48)
Total assets	3,655	3,403	3,573	3,491
Long-term debt and capital leases	1,760	1,610	1,602	1,503
Cash dividends declared per common share	.08	.08	.08	.08

See Item 3. Legal Proceedings, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 8. Financial Statements and Supplementary Data.

(a) The results in 2001 reflect charges totaling $24 million ($25 million after-tax) relating to the strategic plan, $70 million ($42 million after-tax) for unusual items and $6 million ($3 million after-tax) related to an extraordinary charge.

(b) The results in 2000 reflect charges of $309 million ($183 million after-tax) relating to the strategic plan and income of less than $1 million ($1 million loss after-tax) for unusual items.

(c) The results in 1999 reflect charges totaling $137 million ($92 million after-tax) related to the strategic plan and income of $6 million ($3 million after-tax) for unusual items.

(d) The results in 1998 reflect charges totaling $668 million ($543 million after-tax) related to the strategic plan.

(e) The results in 1997 reflect a charge of $19 million ($9 million after-tax) related to an unusual item and $22 million ($13 million after-tax) related to an extraordinary charge.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements in this report may be forward-looking. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in the Risk Factors included in this report.

RESULTS OF OPERATIONS FOR 2001, 2000 AND 1999

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

	2001	2000	1999
Net sales	100.00%	100.00%	100.0

Gross margin	7.61	9.33	10.0
Less:			
Selling and administrative	6.14	8.22	8.8
Interest expense	1.06	1.21	1.1
Interest income	(.16)	(.23)	(.2
Equity investment results	.01	.06	.0
Impairment/restructuring charge (credit)	(.15)	1.47	.7
Litigation charge (credit)	.31	(.01)	-
Total expenses	7.21	10.72	10.5
Income (loss) before taxes and extraordinary charge	.40	(1.39)	(.4
Taxes on income (loss)	.23	(.54)	(.1
Income (loss) before extraordinary charge	.17%	(.85)%	(.3

Included in amounts reported under generally accepted accounting principles (GAAP) are charges (credits) related to our strategic plan and certain other unusual items that affect the year-to-year comparisons of operating results. The following tables show which income statement caption these items affected and reconcile our reported gaap amounts to adjusted amounts for 2001, 2000 and 1999. The adjusted amounts are not presentations made in accordance with GAAP and are not a better indicator of our operating performance. We believe the ability to compare GAAP amounts and adjusted amounts on a year-to-year basis is important to understand the impact of these items and the changes in our operations.

(IN THOUSANDS)		ADJUSTMENTS		
2001	GAAP	STRATEGIC PLAN(1)	UNUSUAL ITEMS(2)	ADJUS
Net sales	$ 15,627,744	$ (2,740)	$ --	$ 15,62
Costs and expenses:				
Cost of sales	14,437,841	(32,781)	(2,500)	14,40
Selling and administrative	960,590	(17,501)	(17,300)	92
Interest expense	165,534	--	(2,833)	16
Interest income	(25,586)	--	1,102	(2
Equity investment results	1,533	--	--	
Impairment/restructuring credit	(23,595)	23,595	--	
Litigation charge	48,628	--	(48,628)	
Total costs and expenses	15,564,945	(26,687)	(70,159)	15,46

Income before taxes	$ 62,799	$ 23,947	$ 70,159	$ 15

2000	GAAP	STRATEGIC PLAN(1)	UNUSUAL ITEMS(3)	ADJUS
Net sales	$ 14,443,815	$ 2,181	$ (8,636)	$ 14,43
Costs and expenses:				
Cost of sales	13,096,915	(56,990)		13,03
Selling and administrative	1,186,919	(36,550)	(10,426)	1,13
Interest expense	174,569	--	--	17
Interest income	(32,662)	--	--	(3
Equity investment results	8,034	(315)	--	
Impairment/restructuring charge	212,845	(212,845)	--	
Litigation credit	(1,916)	--	1,916	
Total costs and expenses	14,644,704	(306,700)	(8,510)	14,32
Income (loss) before taxes	$ (200,889)	$ 308,881	$ (126)	$ 10

1999	GAAP	STRATEGIC PLAN(1)	UNUSUAL ITEMS(4)	ADJUST
Net sales	$ 14,272,036	$ 94	$ (5,600)	$ 14,26
Costs and expenses:				
Cost of sales	12,834,869	(17,806)		12,81
Selling and administrative	1,261,631	(15,124)	(8,966)	1,23
Interest expense	165,180	--	--	16
Interest income	(40,318)	--	9,157	(3
Equity investment results	10,243	(832)	--	
Impairment/restructuring charge	103,012	(103,012)	--	
Total costs and expenses	14,334,617	(136,774)	191	14,19
Income (loss) before taxes	$ (62,581)	$ 136,868	$ (5,791)	$ 6

(1) See the Impairment/Restructuring Charge (Credit) and Related Costs footnote in the notes to the consolidated financial statements.

(2) Includes $19.8 million in charges related to the Kmart bankruptcy reorganization ($2.5 million in cost of sales and $17.3 million in selling and administrative), net additional interest expense of $1.7 million due to early retirement of debt ($2.8 million in interest expense and $1.1 million in interest income) and $48.6 million in charges from litigation settlements (in litigation charge).

(3) Includes $8.6 million in gains from the sale of distribution facilities (in net sales), $10.4 million in charges related to retail stores (in selling and administrative) and income of $1.9 million relating to litigation settlements (in litigation credit).

(4) Includes income of $5.6 million in gains from the sale of distribution facilities (in net sales), $31.0 million in charges to close certain retail stores and income of $22.0 million from extinguishing a portion of the self-insured workers' compensation liability (both netted in selling and administrative) and interest income of $9.2 million related to refunds of federal income taxes from prior years (in interest income).

Net Sales.

Our net sales increased by over 8% to $15.63 billion in 2001, following a 1% increase to $14.44 billion in 2000 from $14.27 billion in 1999. 2001 and 1999 were 52-week years; 2000 was a 53-week year.

Distribution segment net sales increased 19% in 2001 and 6% in 2000. The net growth in 2001 was a result of several factors including increased activity with Kmart, acquisitions of certain assets of Miller & Hartman South and the stock of Minter-Weisman Co. (combined annualized sales of approximately $850 million) and growth in distribution sales from a wide variety of new-channel and conventional customers, offset by customer closings and the consolidation of self-distributing chains. New-channel customers, including convenience stores, supercenters, limited assortment stores, drug stores and self-distributing chains, are an important part of our strategic growth plan. Sales to customers other than Kmart increased over 4% in 2001 compared to 2000 (over 6% on a 52-week comparable basis). In 2000, the increase in sales was primarily due to new business added from independent retailers, convenience stores, e-tailers, and supercenter customers, including Super Target stores. This increase was partially offset by a loss of previously announced sales from Randall's (in 1999) and United (in 2000). In 1999, sales to Randall's and United accounted for less than 4% of our total sales. We expect sales to customers other than Kmart to increase at least 5% in 2002, factoring in known losses due to bankruptcies, customer closings and the consolidation of self-distributing chains.

Kmart Corporation, our largest customer, accounted for 20% and 10% of our total net sales in 2001 and 2000, respectively. In 2001, we became the sole supplier of food and consumable products to Kmart Corporation's more than 2,100 stores and supercenters. We began shipments under the new ten-year agreement in April 2001, with full implementation in July 2001. Sales to Kmart increased to approximately $3.1 billion in 2001 from $1.4 billion in 2000. In January 2002, Kmart filed voluntary petitions for chapter 11 bankruptcy. Kmart has announced that it will announce its store closure plan in March 2002. At that time, we will be able to better assess the impact on our future sales.

Retail segment sales decreased 28% in 2001, following a 12% decrease in 2000. The primary reasons for the decreases in both 2001 and 2000 relate to the divestiture of under-performing and non-strategic conventional retail stores to increase focus on our price impact retail stores partially offset by store acquisitions. We operated 116, 187 and 242 retail stores at the end of 2001, 2000 and 1999, respectively. Sales in our price impact retail stores increased over 14% in 2001 with the number of stores increasing from 74 at the beginning of 2001 to 99 at the end of 2001. Same store sales in 2001 increased 1.1 % over 2000.

Gross Margin.

Gross margin as a percentage of net sales, decreased to 7.61% in 2001 from 9.33% in 2000 and 10.07% for 1999. The decrease was primarily due to a change in mix between the distribution and retail segments. The sales of the distribution segment represent a larger portion of total company sales in 2001 compared to 2000 and in 2000 compared to 1999 due to the continual increase in distribution sales as well as the divestiture of non-strategic retail. The distribution segment has lower margins as a percentage of sales versus the retail segment.

Distribution segment gross margin as a percentage of sales increased to 4.81% in 2001 from 4.70% in 2000 and decreased in 2000 from 4.93% in 1999. Adjusted gross margin as a percentage of sales decreased to 4.88% in 2001 from 4.93% in 2000 and 4.97% in 1999. The decrease in 2001 was primarily due to increased Kmart business that is at a lower margin, and the decrease in 2000 was due primarily to increased transportation costs due to the consolidation of distribution centers. Both years' decreases were partially offset by the centralization of procurement to support services.

Retail segment gross margin as a percentage of sales decreased to 21.58% in 2001 from 23.05% in 2000 and increased in 2000 from 22.26% in 1999. Adjusted gross margin as a percentage of sales decreased to 22.50% in 2001 from 23.37% in 2000 but increased in 2000 from 22.47% in 1999. The decreasing margin in 2001 reflects our transition out of conventional retail and into price impact retail, which has lower shelf prices and gross margins. Improvements in 2000 compared to 1999 were primarily due to the divesting or closing of under-performing stores.

Selling and Administrative Expenses.

Selling and administrative expenses decreased as a percentage of net sales to 6.14% in 2001 from 8.22% in 2000 and 8.84% in 1999. The decreases were due to asset rationalization, our low cost pursuit program, and centralizing administrative functions, but also due to a reduction in the volume of the retail segment. The distribution segment has lower selling and administrative expenses as a percentage of sales versus the retail segment.

Distribution segment selling and administrative expenses as a percentage of sales decreased to 1.77% in 2001 from 1.88% in 2000 and 2.12% in 1999. Adjusted selling and administrative expenses as a percentage of sales decreased to 1.61% in 2001 from 1.74% in 2000 and 2.05% in 1999. The primary reasons for the decreases during these years are due to leveraging the effect of sales growth and low cost pursuit initiatives along with centralizing administrative functions to support services.

Retail segment selling and administrative expenses as a percentage of sales decreased to 21.13% in 2001 from 23.18% in 2000 and 33.01% in 1999. Adjusted selling and administrative expenses as a percentage of sales decreased to 20.78% in 2001 from 22.68% in 2000 and 23.17% in 1999. The decrease is primarily attributed to our shift in focus from conventional retail to price impact retail, a format that has lower operating expense levels than conventional retail.

Operating Earnings.

For distribution and retail segments, we measure operating earnings as sales less cost of sales less selling and administrative expenses. The change in operating earnings is a combination of the explanations included in sales, gross margin and selling and administrative expenses described above.

Operating earnings as a percentage of net sales for 2001 were 1.47%, up from 1.11% in 2000 and down in 2000 from 1.23% in 1999. Adjusted operating earnings as a percentage of net sales increased to 1.90% in 2001 from 1.78% in 2000 and 1.49% in 1999.

Distribution segment operating earnings as a percentage of net sales for 2001 were 2.98%, up from 2.66% in 2000 and down in 2000 from 2.75% in 1999. Adjusted operating earnings as a percentage of net sales increased to 3.23% in 2001 from 3.10% in 2000 and 2.86% in 1999.

Retail segment operating earnings as a percentage of sales for 2001 were 2.40%, up from 1.89% in 2000 and a loss of .04% in 1999. Adjusted operating earnings as a percentage of net sales increased to 3.67% in 2001 from 2.72% in 2000 and 1.14% for 1999.

Interest Expense.

Interest expense in 2001 was $166 million, down from $175 million in 2000 and 2000 was up from $166 million in 1999. The decrease in 2001 was due primarily to lower average debt balances for revolver loans and capitalized lease obligations along with lower average interest rates for revolver and term loans. The increase in 2000 related to both higher average balances and interest rates. The $166 million in 2001 included $3 million of interest expense related to the early retirement of debt in the first quarter of 2001.

For 2001, interest rate hedge agreements resulted in a $2.5 million reduction of net interest expense compared to additional expense of $0.9 million in 2000 and $4.8 million in 1999. The company enters into interest rate swap transactions to manage our debt portfolio and interest rate risks. See the Long-term Debt footnote in the notes to the consolidated financial statements for further discussion of these transactions.

Interest Income.

Interest income of $26 million in 2001 decreased from $33 million in 2000 and $40 million in 1999 due to reduced customer and other interest-bearing receivable balances, lower interest rates and an unusual item in 1999 related to interest on refunds of federal income taxes from prior years. The $26 million in 2001 included $1 million of interest income related to the early retirement of debt in the first quarter of 2001.

Equity Investment Results.

Equity investment results improved to a loss of $1.5 million for 2001 compared to losses of $8.0 million for 2000 and $10.2 million for 1999. The improvement is due to the liquidation of investments resulting in a smaller portfolio.

Impairment/Restructuring Charge (Credit).

The pre-tax charge for our strategic plan totaled $24 million for 2001, $309 million for 2000 and $137 million for 1999. Of these totals, a recovery of $24 million in 2001 and charges of $213 million and $103 million in 2000 and 1999, respectively, were reflected in the impairment/restructuring charge (credit) line with the balance of the charges reflected in other financial statement lines. See the Impairment/Restructuring Charge (Credit) and Related Costs footnote in the notes to the consolidated financial statements for further discussion of these charges.

Litigation Charge.

In 2001, we recorded litigation settlements and other related pre-tax expenses totaling $49 million related to the settlement of the Storehouse Markets, Inc., et al., Don's United Super, et.al., Coddington Enterprises, Inc., et.al, J&A Foods, Inc. et. al., R&D Foods, Inc. et.al., and Robandee United Super, Inc., et.al., and other cases. In 2000, we recorded $2 million of net income in settlements relating to other cases. See Item 3. Legal Proceedings and the Contingencies footnote in the notes to the consolidated financial statements for further discussion regarding these litigation charges.

Taxes on Income.

The effective tax rates used for 2001, 2000 and 1999 were 57.4%, 39.2% and 28.5%, respectively, with 2000 and 1999 representing a tax benefit. These are blended rates taking into account operations activity, strategic plan activity, write-offs of non-deductible goodwill and the timing of these transactions during the year. The effective tax rate for 2001 was high due to the impact of goodwill permanent differences from the sale of certain retail stores.

Extraordinary charge.

We reflected an extraordinary after-tax charge of $3 million ($6 million pre-tax) in 2001 due to the early retirement of debt. See the Long-term Debt footnote in the notes to the consolidated financial statements for further discussion regarding the debt retirement.

Certain Accounting Matters.

The Financial Accounting Standards Board (FASB) issued SFAS No. 142 -- Goodwill and Other Intangible Assets. One of the provisions of this standard is to require use of a non-amortization approach to account for purchased goodwill and other indefinite intangibles. Under that approach, goodwill and intangible assets with indefinite lives would not be amortized to earnings over a period of time. Instead, these amounts would be reviewed for impairment and expensed against earnings only in the periods in which the recorded values are more than implied fair value. We are currently testing for impairment and expect to have such testing defined by the end of the first quarter of 2002; the tests will be performed by the end of the second quarter of 2002. Goodwill amortization in 2001 was $21.2 million. Our estimate of the impact that goodwill amortization had on the diluted per share amount for 2001, excluding the strategic plan charges, litigation charges, Kmart credit loss and net additional interest expense due to the early retirement of debt, was $0.43 per share.

The FASB Emerging Issues Task Force (EITF) reached a consensus on EITF 00-25 - Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products and EITF 01-9 - Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products). EITF 00-25 and EITF 01-9 provide guidance on income statement classification on consideration paid to a reseller of a vendor's products. They will be implemented in the first quarter of 2002, as required, and will provide for certain reclassifications of revenues and cost of sales within our financial statements totaling approximately $70 million for 2001 with no effect on gross margin or earnings.

The FASB issued SFAS No. 143 - Accounting for Asset Retirement Obligations. We are studying the impact that SFAS 143 has on our financial statements and planning to implement it in fiscal year 2003, as required. The FASB issued SFAS No. 144 - Accounting for the Impairment or Disposal of Long-Lived Assets. We will implement SFAS 144 as of the beginning of fiscal year 2002, as required. In December 2001, the AICPA's Accounting Standards Executive Committee issued Statement of Position (SOP) 01-6, Accounting by Certain Entities (Including Entities With Trade Receivables) That Lend to or Finance the Activities of Others. The SOP is effective for our 2002 fiscal year. This SOP provides guidance on the accounting for and disclosure of amounts due to us from customers included in our accounts and notes receivable. We do not expect the adoption of these new standards to have a significant effect on our results of operations or financial position.

Critical Accounting Policies and Estimates.

The preparation of our consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts. The estimates and assumptions are evaluated on an on-going basis and are based on historical experience and on various other factors that are believed to be reasonable. Estimates

and assumptions include, but are not limited to, customer receivables, inventories, assets held for sale, fixed asset lives, intangible assets, income taxes, self-insurance reserves, retirement benefits, and contingencies and litigation. We have also chosen certain accounting policies when options are available, including:

- the last-in, first-out (LIFO) method to value a majority of our inventories; and
- the intrinsic value method, or APB Opinion No. 25, to account for our common stock incentive awards.

These accounting policies are applied consistently for all years presented. Our operating results would be affected if other alternatives were used. Information about the impact on our operating results of using LIFO and APB Opinion No. 25 is included in the footnotes to our consolidated financial statements.

We believe that the following represent our more critical estimates and assumptions used in the preparation of our consolidated financial statements, although not inclusive.

- We record estimates for certain health and welfare and workers' compensation and casualty insurance costs that are self-insured programs. Should a greater amount of claims occur compared to what was estimated or costs of the medical profession increase beyond what was anticipated, reserves recorded may not be sufficient and additional costs to the consolidated financial statements could be required.

- We record allowance for credit losses based on estimates of customers' ability to pay and the fair value of collateral. If the financial condition of our customers or the fair value of the collateral were to deteriorate, additional allowances may be required.

- We record reserves for closed stores based on future lease commitments, anticipated future subleases of properties and current risk-free interest rates. If interest rates or the real estate leasing markets change, additional reserves may be required.

LIQUIDITY AND CAPITAL RESOURCES

In the fiscal year ended December 29, 2001, our principal sources of cash were cash flows from operating activities, the sale of certain assets and investments and debt offerings. During this period, sources of long-term capital, excluding shareholders' equity, were borrowings under our credit facility, lessors of equipment and retail locations, and the issuance of bonds in the capital market. On December 29, 2001, we had $347 million available under the revolving portion of our credit facility and $475 million of net working capital (including $17 million of cash and cash equivalents).

Net cash provided by (used in) operating activities.

Net cash used in operating activities was $32 million for the year ended December 29, 2001, compared to cash provided by operating activities of $127 million for the same period in 2000. The use of cash in 2001 can be attributed to an increase in inventories and trade receivables as a result of growth in our distribution business. The growth can be attributed to a long-term supply agreement with Kmart Corporation and other new customers added during the year. The Kmart contract alone required approximately $150 million of additional working capital investment.

The use of cash in 2001 was partially offset by lower cash payments for strategic plan expenditures of $68 million compared to $118 million in 2000. Although the strategic plan has been completed, cash requirements for recorded liabilities will continue for the next few years as closed-store leases and multi-employer pension obligations are paid.

Net cash used in investing activities.

Net cash used in investing activities totaled $190 million in fiscal 2001 compared to $48 million for 2000. Included in the 2001 net investment expenditures were $238 million for capital expenditures and $121 million for acquisitions of businesses. Offsetting these expenditures in part were $146 million in proceeds from the sale of property and equipment and conventional retail stores.

For fiscal 2002, capital expenditures are expected to be approximately $200 million to maintain our distribution system, grow our price impact retail operations, and further upgrade our information technology systems. Acquisitions of supermarket groups or chains or distribution operations will be made only on a selective basis and are not necessarily included in the $200 million estimate above.

Net cash provided by (used in) financing activities.

For fiscal 2001, net cash provided by financing activities was $209 million compared to a use of $55 million in 2000. Included in 2001 was a net increase in long-term debt of $187 million. In March of 2001, we issued $355 million of 10 1/8% senior notes that mature April 1, 2008 and $150 million of 5 1/4% convertible senior subordinated notes that mature March 15, 2009. The proceeds were used to redeem all of the 10 5/8% notes due December 2001 and to pay down outstanding revolver loans. Also in March 2001, we sold $50 million of common stock in a private placement. In October 2001, we sold an additional $150 million of our existing 10 5/8% senior subordinated notes due 2007 and the proceeds were used to pay down outstanding revolver loans. The net increase in debt can primarily be attributed to various new Kmart business from the long-term supply agreement and acquisitions in 2001. Also in 2001, capital lease obligations decreased $46 million as a result of lease terminations and payments to lessors.

EBITDA

We generated $476 million, $456 million and $411 million of adjusted EBITDA for fiscal 2001, 2000 and 1999, respectively. "Adjusted EBITDA" is earnings before extraordinary items, interest expense, income taxes, depreciation and amortization, equity investment results, LIFO provision and unusual adjustments (e.g., strategic plan charges and other unusual expense or income items). Adjusted EBITDA should not be considered as an alternative measure of our net income, operating performance, cash flow or liquidity. It is provided as additional information related to our ability to service debt; however, conditions may require conservation of funds for other uses. Although we believe adjusted EBITDA enhances a reader's understanding of our financial condition, this measure, when viewed individually, is not necessarily a better indicator of any trend as compared to conventionally computed measures (e.g., net sales, net earnings, net cash flows, etc.). Finally, amounts presented may not be comparable to similar measures disclosed by other companies.

The following table sets forth our calculation of adjusted EBITDA (in millions):

	2001	2000	1999
Net income (loss) before extraordinary charge	$ 27	$ (122)	$ (45)
Add back:			
Taxes on income (loss)	36	(79)	(18)
Depreciation/amortization	166	169	158
Interest expense	166	175	165
Equity investment results	2	8	10
LIFO	(12)	3	11
EBITDA	385	154	281
Add back non-cash strategic plan charges and unusual items*	8	129	92
EBITDA excluding non-cash			

strategic plan charges	393	283	373
Add back strategic plan charges and unusual items ultimately requiring cash*	83	173	38
Adjusted EBITDA	$ 476	$ 456	$ 411

* - Excludes amounts already added back: interest expense of $3 million for 2001; depreciation/amortization of $7 million for 2000; and equity investment results of $1 million for 1999.

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

For fiscal 2002, our principal sources of liquidity and capital are expected to be cash flows from operating activities, our ability to borrow under the revolving portion of our credit facility, and our ability to access the capital markets. In addition, lease financing may be employed for new retail stores, distribution facilities and certain equipment. Management believes the sources mentioned will be adequate to meet working capital needs, capital expenditures, expenditures for acquisitions (if any), strategic plan reserve payouts and other capital needs for the remainder of fiscal 2002.

Contractual Obligations and Commitments.

We enter into certain obligations in the normal course of business with contractual future cash payments as summarized below:

Payments due in:

	FISCAL 2002	FISCAL 2003	FISCAL 2004	FISCAL 2005	FISCAL 2006
				(IN MILLIONS)	
Long-term debt(1)	$ 30	$ 240	$ 299	$ --	$ -
Capital lease obligations(2)	62	61	60	59	5
Operating leases(2)	85	75	69	59	5
Closed store reserves	17	17	9	5	
Pension withdrawals(3)	10	4	--	--	-
Litigation settlement payout	11	11	--	--	-

(1) See Long-Term Debt in the notes to the consolidated financial statements.

(2) See Lease Agreements in the notes to the consolidated financial statements.

(3) See Impairment/Restructuring Charge (Credit) and Related Costs in the notes to the consolidated financial statements. Includes contingency reserves with payments estimated.

We are also contingently committed to certain off balance sheet obligations in the normal course of business with future expirations as summarized below:

Commitments expire in:

	FISCAL 2002	FISCAL 2003	FISCAL 2004	FISCAL 2005	FISCAL 2006	THE AF
				(IN MILLIONS)		
Letters of credit *	$ 1	$ --	$ --	$ --	$ --	$
Loan guarantees	2	--	--	--	--	
Lease guarantees	4	3	2	1	2	

* - Most of our letters of credit guarantee self-insurance reserves.

To the extent a change of control would occur, we could be required to pay significant amounts to current management in connection with change in control agreements.

RISK FACTORS

There are many factors that affect our business and results of operations. The following is a description of some of the important factors that may cause actual results of our operations in future periods to differ materially from those currently expected or desired.

WE HAVE A SUBSTANTIAL AMOUNT OF DEBT AND DEBT SERVICE OBLIGATIONS, WHICH COULD ADVERSELY AFFECT OUR FINANCIAL HEALTH.

We have a substantial amount of debt outstanding. The following chart shows certain important credit statistics as of December 29, 2001.

Total debt (including capital leases).........	$ 1,811 million
Shareholders' equity..........................	498 million
Total capitalization..........................	2,309 million
Debt to capitalization........................	78%

Our debt could have important consequences to you. For example, it could:

- make it more difficult to satisfy our long term debt obligations;
- require us to dedicate a substantial portion of our cash flow to payments on our debt;
- increase our vulnerability to general adverse economic and industry conditions;
- limit our ability to fund future working capital, capital expenditures and other general corporate requirements;
- limit our flexibility in planning for, or reacting to, changes in our

business and the industry in which we operate; and

- limit, along with the financial and other restrictive covenants in our debt, among other things, our ability to borrow additional funds.

Our subsidiaries and we may be able to incur substantial additional debt in the future, including secured debt. The terms of the indentures governing our outstanding debt do not fully prohibit us or our subsidiaries from doing so. As of December 29, 2001, our credit facility permitted additional borrowings of up to $347 million. If new debt is added to our and our subsidiaries' current debt levels, the related risks that we and they now face could intensify.

Our ability to make payments on and to refinance our debt will depend on our financial and operating performance, which may fluctuate significantly from quarter to quarter and is subject to prevailing economic conditions and to financial, business and other factors beyond our control.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our credit facility in an amount sufficient to enable us to pay our debt or to fund our other liquidity needs. We may need to refinance all or a portion of our debt on or before maturity. We cannot assure you that we will be able to refinance any of our debt on commercially reasonable terms or at all.

WE MAY BE MATERIALLY ADVERSELY AFFECTED BY THE BANKRUPTCY OF KMART CORPORATION.

Kmart Corporation is our largest customer, accounting for 20% of our net sales in 2001. On January 22, 2002, Kmart and certain of its subsidiaries filed voluntary petitions for relief under

Chapter 11 of the U.S. Bankruptcy Code. Shortly thereafter, Kmart and Fleming entered into a critical vendor agreement under the terms of which Kmart paid us $76 million and we agreed to supply Kmart for two years. We will assert a prepetition claim in the bankruptcy proceeding for obligations under our ten-year distribution agreement. A material portion of this claim may not be paid by Kmart.

The terms of our distribution agreement provide that Kmart can terminate if, among other things, the volume of Kmart's purchases decline by certain amounts, if we materially breach our obligations, including a failure to maintain specified service levels, or if we experience certain types of changes of control. Kmart can also elect to terminate the distribution agreement on 12-months written notice given after the fifth anniversary of its effective date, with the termination to take place at the end of a transition period of up to an additional 12 months at Kmart's discretion.

Subject to the effect of the critical vendor agreement, Kmart has the right to assume or reject the distribution agreement with us. If Kmart rejects it, a breach by Kmart will result, effective immediately prior to the bankruptcy filing date, but we may still have to supply Kmart for a 12-month transition period. If Kmart assumes the distribution agreement, it would be required to cure all defaults, including payment of our prepetition claim.

Because Kmart is a substantial portion of our business, negative information about Kmart's performance, financial condition, business prospects and progress through its bankruptcy may adversely affect the market and prices of our securities.

We cannot predict at this date what affect this bankruptcy will have on us, but if Kmart chooses to close a large number of its stores, our sales and earnings could be materially adversely affected. Further, a failure by Kmart to successfully reorganize or to continue as a going concern would have a material adverse effect on us. Also, although no material litigation is currently outstanding, we may be involved in litigation related to the Kmart bankruptcy, including litigation with vendors from whom we ordered product.

THE INDENTURES GOVERNING OUR PUBLICLY TRADED NOTES, OUR CREDIT FACILITY AND OUR OTHER EXISTING INDEBTEDNESS CONTAIN PROVISIONS THAT COULD MATERIALLY RESTRICT OUR BUSINESS.

The indentures governing our publicly traded notes, our credit facility and our other existing indebtedness contain a number of significant covenants that, among other things, restrict our ability to:

- dispose of assets;
- incur additional debt;
- guarantee third-party obligations;
- repay other debt or amend other debt instruments;
- create liens on assets;
- enter into capital leases;
- make investments, loans or advances;
- make acquisitions or engage in mergers or consolidations;
- make capital expenditures; and
- engage in certain transactions with our subsidiaries and affiliates.

Under our credit facility and indentures, we are required to meet a number of financial ratios and tests. If we fail to achieve a ratio or test, it could result in an event of default and cause a cross-default under additional documents governing our other existing indebtedness. Such a default would permit our lenders to declare all amounts borrowed thereunder to be due and payable, together with accrued and unpaid interest, and our senior lenders could terminate their commitments to make further extensions of credit under our credit facility. If we were unable to repay debt to our secured lenders, they could proceed against the collateral securing the debt.

IF THE CUSTOMERS TO WHOM WE LEND MONEY OR SUBLEASE REAL PROPERTY OR FOR WHOM WE GUARANTEE STORE LEASE OBLIGATIONS FAIL TO REPAY US, IT COULD HARM OUR FINANCIAL CONDITION.

We provide subleases, extend loans to and make investments in many of our retail store customers, often in conjunction with the establishment of long-term supply contracts. As of December 29, 2001, we had an aggregate of $118 million in outstanding loans to our customers. Our loans to our customers are not investment grade and are highly illiquid. We also have investments in customers through direct financing leases of real property and equipment, lease guarantees, operating leases or credit extensions for inventory purchases.

Although we have credit policies and apply cost/benefit analyses to these investment decisions, we face the risk that credit losses from existing or future investments or commitments could adversely affect our financial condition. Our credit loss expense from receivables as well as from investments in customers was $38 million in 2001 (including a $17 million charge related to the Kmart bankruptcy) and $29 million in 2000.

VARIOUS CHANGES IN THE DISTRIBUTION AND RETAIL MARKETS IN WHICH WE OPERATE HAVE LED AND MAY CONTINUE TO LEAD TO REDUCED SALES AND MARGINS AND LOWER PROFITABILITY FOR OUR CUSTOMERS AND, CONSEQUENTLY, FOR US.

The distribution and retail markets in which we operate are undergoing accelerated change as distributors and retailers seek to lower costs and provide additional services in an increasingly competitive environment. An example of this is the growing trend of large self-distributing chains consolidating to reduce costs and gain efficiencies. Eating away from home and alternative format food stores, such as warehouse stores and supercenters, have taken market share from traditional supermarket operators, including independent grocers, many of whom are our customers. Vendors, seeking to ensure that more of their promotional fees and allowances are used by retailers to increase sales volume, increasingly direct promotional dollars to large self-distributing chains. We believe that these changes have led to reduced sales, reduced margins and lower profitability among many of our customers and, consequently, for us. If the strategies we have developed in response to these changing market conditions are not successful, it could harm our financial condition and business prospects.

CONSUMABLE GOODS DISTRIBUTION IS A LOW-MARGIN BUSINESS AND IS SENSITIVE TO ECONOMIC CONDITIONS.

We derive most of our revenues from the consumable goods distribution industry. This industry is characterized by a high volume of sales with relatively low profit margins. Significant portions of our sales are at prices that are based on product cost plus a percentage markup. Consequently, our results of operations may be negatively impacted when consumable goods prices go down, even though our percentage markup may remain constant. The consumable goods industry is also sensitive to national and regional economic conditions, and the demand for our consumable goods has been adversely affected from time to time by economic downturns. Additionally, our distribution business is sensitive to increases in fuel and other transportation-related costs.

WE FACE INTENSE COMPETITION IN BOTH OUR DISTRIBUTION AND RETAIL MARKETS, AND IF WE ARE UNABLE TO COMPETE EFFECTIVELY IN THESE MARKETS, IT COULD HARM OUR BUSINESS.

Our distribution group operates in a highly competitive market. We face competition from local, regional and national food distributors on the basis of price, quality and assortment, schedules and reliability of deliveries and the range and quality of services provided. We also compete with retail supermarket chains that self-distribute, purchasing directly from vendors and distributing products to their supermarkets for sale to the consumer. Consolidation of self-distributing chains may produce even stronger competition for our distribution group.

Our retail group competes with other food outlets on the basis of price, quality and assortment, store location and format, sales promotions, advertising, availability of parking, hours of operation and store appeal. Traditional mass merchandisers have gained a growing foothold in food marketing and distribution with alternative store formats, such as warehouse stores and supercenters, which depend on concentrated buying power and low-cost distribution technology. We expect that stores with alternative formats will continue to increase their market share in the future. Retail consolidations not only produce stronger competition for our retail group, but may also result in declining sales in our distribution group if our existing customers are acquired by self-distributing chains or if self-distributing chains are otherwise able to increase their market share.

Some of our competitors have greater financial and other resources than we do. In addition, consolidation in the industry, heightened competition among our vendors, new entrants and trends toward vertical integration could create additional competitive pressures that reduce our margins and adversely affect our business. If we fail to successfully respond to these competitive pressures or to implement our strategies effectively, it could have a material adverse effect on our financial condition and business prospects.

BECAUSE WE OWN AND OPERATE REAL ESTATE, WE FACE THE RISK OF BEING HELD LIABLE FOR ENVIRONMENTAL DAMAGES THAT MAY OCCUR ON OUR PROPERTIES.

Our facilities and operations are subject to various laws, regulations and judicial and administrative orders concerning protection of the environment and human health, including provisions regarding the transportation, storage, distribution, disposal or discharge of certain materials. In conformity with these provisions, we have a comprehensive program for testing, removal, and replacement or repair of our underground fuel storage tanks and for site remediation where necessary. Although we have established reserves that we believe will be sufficient to satisfy the anticipated costs of all known remediation requirements, we cannot assure you that these reserves will be sufficient.

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

VARIOUS LEGAL ACTIONS, GOVERNMENTAL INVESTIGATIONS AND PROCEEDINGS AND CLAIMS ARE PENDING OR THREATENED OR MAY BE ASSERTED IN THE FUTURE AGAINST US.

We are a party to or threatened with various legal proceedings, claims and contingent loss situations arising in the ordinary course of our business including:

- disputes with customers and vendors;
- disputes with owners or creditors of financially troubled or failed customers;
- disputes with employees regarding labor conditions, wages, workers' compensation matters and alleged discriminatory practices;
- disputes with insurance carriers;
- disputes with landlords and lessees; and
- disputes with tax authorities;

some of which may be for substantial amounts. We will incur the costs of defending such legal proceedings and claims whether or not they have merit. We intend to vigorously defend against all lawsuits, but we cannot predict the outcome of any case. An unfavorable outcome in any case could be expensive and harm our business and financial condition.

BECAUSE WE SELL FOOD AND OTHER PRODUCTS, WE ARE SUBJECT TO PRODUCT LIABILITY CLAIMS.

Like any other seller of food and other products, we face the risk of exposure to product liability claims in the event that people who purchase products we sell become injured or experience illness as a result. We believe that we have sufficient primary and excess umbrella liability insurance to protect us against any product liability claims that may arise. However, this insurance may not continue to be available at a reasonable cost, or, even if it is available, it may not be adequate to cover our liabilities. We generally seek contractual indemnification and insurance coverage from parties supplying our products, but this indemnification or insurance coverage is limited, as a practical matter, to the creditworthiness of the indemnifying party and the policy limits of any insurance provided by suppliers. If we do not have adequate insurance or contractual indemnification to cover our liabilities, product liability claims relating to defective food and other products could materially reduce our earnings.

OUR CURRENT STRATEGY INVOLVES GROWTH THROUGH ACQUISITIONS, WHICH REQUIRES US TO INCUR SUBSTANTIAL COSTS AND POTENTIAL LIABILITIES FOR WHICH WE MAY NEVER REALIZE THE ANTICIPATED BENEFITS.

Part of our growth strategy for our retail group involves selective strategic acquisitions of stores operated by others. In addition, our distribution group intends to seek strategic acquisitions of other distribution centers on a limited basis. Since the beginning of 2000, we have acquired several different businesses. In April 2001, we acquired Minter-Weisman Co., a wholesale distribution company serving over 800 convenience stores in Minnesota, Wisconsin and surrounding states. In April 2001, we also purchased seven Food 4 Less stores located in Central California from Whitco Foods, Inc. which we continue to operate as price impact stores under the Food 4 Less banner. During August 2001, we facilitated the third-party purchase of 36 stores located in New Mexico and Texas from Furrs Supermarkets, most of which were purchased by Fleming-supplied independent operators. In September 2001, we purchased five Smith's Food & Drug Stores located in New Mexico and Texas from Kroger Co. which we operate under our price impact format. Also in September 2001, we purchased certain assets and inventory of Miller & Hartman South, LLC, a wholesale distributor serving over 1,800 convenience stores in Kentucky and surrounding states.

We cannot assure you that we will be able to continue to implement our growth strategy, or that this strategy will ultimately be successful. We regularly engage in evaluations of potential acquisitions and are in various stages of discussion regarding possible acquisitions, certain of which, if consummated, could be significant to us. Any potential acquisitions may result in significant transaction expenses, increased interest and amortization expense, increased depreciation expense and increased operating expense, any of which could have a material adverse effect on our operating results.

Achieving the benefits of these acquisitions will depend in part on our ability to integrate those businesses with our business in an efficient manner. We cannot assure you that this will happen or that it will happen in an efficient manner. Our consolidation of operations following these acquisitions may require substantial attention from our management. The diversion of management attention and any difficulties encountered in the transition and integration process could have a material adverse effect on our ability to achieve expected net sales, operating expenses and operating results for these acquired businesses. We cannot assure you that we will realize any of the anticipated benefits of any acquisition, and if we fail to realize these anticipated benefits, our operating performance could suffer. Furthermore, we may not be able to identify suitable acquisition candidates, obtain acceptable financing or consummate any new acquisitions.

WE OPERATE IN A COMPETITIVE LABOR MARKET, AND A SUBSTANTIAL NUMBER OF OUR EMPLOYEES ARE COVERED BY COLLECTIVE BARGAINING AGREEMENTS.

Our continued success will depend on our ability to attract and retain qualified personnel in both our distribution and retail groups. We compete with other businesses in our markets with respect to attracting and retaining qualified employees. A shortage of qualified employees would require us to enhance our wage and benefits packages in order to compete effectively in the hiring and retention of qualified employees or to hire more expensive temporary employees. In addition, about 42% of our employees are covered by collective bargaining agreements, most of which expire at various times over the course of the next five years. We cannot assure you that we will be able to renew our collective bargaining agreements, that our labor costs will not increase, that we will be able to recover any increases through increased prices charged to customers or that we will not suffer business interruptions as a result of strikes or other work stoppages. If we fail to attract and retain qualified employees, to control our labor costs, or to recover any increased labor costs through increased prices charged to our customers, it could harm our business.

TERRORIST ATTACKS AND OTHER ACTS OF VIOLENCE OR WAR MAY AFFECT THE MARKETS ON WHICH THE NOTES TRADE, THE MARKETS IN WHICH WE OPERATE, OUR OPERATIONS AND OUR PROFITABILITY.

Terrorist attacks may negatively affect our operations and your investment. There can be no assurance that there will not be further terrorist attacks against the United States or U.S. businesses. These attacks or armed conflicts may directly impact our physical facilities or those of our suppliers or customers. Furthermore, these attacks may make travel and the transportation of our supplies and products more difficult and more expensive and ultimately affect our sales.

Also as a result of terrorism, the United States has entered into an armed conflict which could have a further impact on our sales, our supply chain, and our ability to deliver product to our customers. Political and economic instability in some regions of the world may also result and

could negatively impact our business. The consequences of any of these armed conflicts are unpredictable, and we may not be able to foresee events that could have an adverse effect on our business or your investment.

More generally, any of these events could cause consumer confidence and spending to decrease or result in increased volatility in the United States and worldwide financial markets and economy. They also could result in economic recession in the United States or abroad. Any of these occurrences could have a significant impact on our operating results, revenues and costs and may result in the volatility of the market price for our securities and on the future price of our securities.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure in the financial markets consists of changes in interest rates related to our investment in notes receivable, the balance of debt obligations outstanding, and derivatives employed from time to time to hedge long term fixed interest rates as well as changes on variable interest rate debt. We do not use foreign currency exchange rate forward contracts or commodity contracts and do not have any material foreign currency exposure. We do not use financial instruments or derivatives for any trading purposes. From time to time, we may use simple derivative transactions, such as interest rate swap transactions. At fiscal year-end 2001, we had contracts for $210 million of fixed-to-floating interest rate swaps in place (see the Long-Term Debt footnote in the notes to the consolidated financial statements for more detail regarding our interest rate swaps).

To help maintain liquidity and finance business operations, we obtained a long-term credit commitment from banks and other financial institutional lenders under which term loans and revolving loans are made. Such loans carry variable interest rates based on the London interbank offered interest rate (LIBOR) plus a borrowing margin for different interest periods, such as one week, one month, and other periods up to one year. To assist in managing our debt maturities and diversify our sources of debt capital, we also use long-term debt which carries fixed interest rates.

Changes in interest rates in the credit and capital markets may have a material impact on our interest expense and interest income, as well as on the fair values for our investment in notes receivable, our outstanding debt obligations and any financial derivatives used. The table below presents a summary of the categories of our financial instruments according to their respective interest rate profiles. For notes receivable, the table shows the principal amount of cash we expect to collect each year according to the scheduled maturities, as well as the average interest rates applicable to such maturities. For debt obligations, the table shows the principal amount of cash we expect to pay each year according to the scheduled maturities, as well as the average interest rates applicable to such maturities. For derivatives, the table shows when the notional principal contracts terminate.

SUMMARY OF FINANCIAL INSTRUMENTS

			MATURITIES OF		
(IN MILLIONS, EXCEPT RATES)	FAIR VALUE AT 12/30/00	FAIR VALUE AT 12/29/01	2002	2003	200

NOTES RECEIVABLE WITH VARIABLE INTEREST RATES					
Principal receivable	$ 97	103	14	21	19
Average variable rate receivable	12.1%	11.18%	Based on the referenced		
NOTES RECEIVABLE WITH FIXED INTEREST RATES					
Principal receivable	$ 19	19	5	4	2
Average fixed rate receivable	9.8%	9.87%	9.91%	9.95%	10.01
DEBT WITH VARIABLE INTEREST RATES					
Principal payable	$ 427	318	30	240	49
Average variable rate payable	8.1%	4.0%	Based on LIBOR plus a ma		
DEBT WITH FIXED INTEREST RATES					
Principal payable	$ 668	1,124	0	0	250
Average fixed rate payable	10.6%	9.7%	6.5%	5.1%	10.5
FIXED-TO-FLOATING RATE SWAPS					
Amount payable	None	9			
Notional amount					
Average variable rate payable	None	7.1%	Based on LIBOR plus a ma		
Average fixed rate receivable	None	10.1%			

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Part IV, Item 14(a) 1. Financial Statements.

ITEM 9. CHANGES IN AND DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS OF THE REGISTRANT

Information regarding Directors and Executive Officers appearing under the headings "Board of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement relating to our 2002 Annual Meeting of the Shareholders (the "2002 Proxy Statement") is incorporated herein by reference, which we will file within 120 days after the end of the fiscal year covered by this report.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Fleming Companies, Inc. as of March 1, 2002 were as follows:

NAME	AGE	PRESENT POSITION
Mark S. Hansen................................	47	Chairman and Chief Executive Officer
J.R. Campbell.................................	57	Executive Vice President, Merchandising
Thomas G. Dahlen..............................	47	Executive Vice President and President, Marketing
E. Stephen Davis..............................	61	Executive Vice President and President,
Ron Griffin...................................	48	Executive Vice President and Chief Info
William H. Marquard...........................	42	Executive Vice President, Business Deve Officer
Scott M. Northcutt............................	40	Executive Vice President, Human Resourc
Neal J. Rider.................................	40	Executive Vice President and Chief Fina
Michael J. Carey..............................	55	Senior Vice President, Western Operatio
Charles L. Hall...............................	51	Senior Vice President, Real Estate and
Carlos M. Hernandez...........................	47	Senior Vice President, General Counsel
Matthew H. Hildreth...........................	36	Senior Vice President, Finance and Trea
Leonard Kaye..................................	63	Senior Vice President, Eastern Operatio
Timothy R. LaBeau.............................	47	Senior Vice President, Operations
William A. Merrigan...........................	56	Senior Vice President, Logistics
Philip B. Murphy..............................	53	Senior Vice President, Procurement
Mark D. Shapiro...............................	42	Senior Vice President, Finance and Oper
Thomas A. Zatina..............................	50	Senior Vice President, Northern Operati

Mark S. Hansen joined us as Chairman and Chief Executive Officer in November 1998. Prior to joining us, Mr. Hansen served as President and Chief Executive Officer of SAM'S Club, a division of Wal-Mart Stores, Inc., from 1997 through 1998. Prior to joining Wal-Mart, Mr. Hansen served in multiple capacities at PETsMART, Inc., a retailer of pet food, pet supplies and related products, including as President and Chief Executive Officer from 1989 to 1997. Prior to 1989, Mr. Hansen served in various management capacities in the supermarket industry. He serves as an executive advisory board member of Swander Pace Capital and is a director of Applebee's Restaurants and Amazon.com.

J.R. Campbell joined us as our Executive Vice President, Merchandising and Supply in January 2002. Prior to joining us, Mr. Campbell served for over 20 years in various capacities at Wal-Mart Stores, Inc., including Senior Vice President and General Merchandise Manager of Wal-Mart Stores, Senior Vice

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President of Merchandising for Sam's Club, and most recently as President, Global Sourcing Division of Wal-Mart Stores.

Thomas G. Dahlen joined us as our Executive Vice President and President, Retail and Corporate Marketing in April 2001. From 1999 until joining us, Mr. Dahlen served as President and Chief Executive Officer of Furrs Supermarkets, Inc. From 1994 until 1999, Mr. Dahlen served in multiple capacities at Ralph's Supermarkets Division of the Yucaipa Companies, including Executive Vice President from 1998 to 1999, and Senior Vice President, Sales and Marketing from 1994 to 1998.

E. Stephen Davis joined us in 1960 and has served as our Executive Vice President and President, Wholesale since February 2000. Prior to that, Mr. Davis has served us in various positions, including Executive Vice President, Food Distribution from 1998 to February 2000, Executive Vice President, Operations from 1997 to 1998, Executive Vice President, Food Operations from 1996 to 1997 and Executive Vice President, Distribution from 1995 to 1996.

Ron Griffin joined us as Executive Vice President and Chief Information Officer in January 2002. Prior to joining us, Mr. Griffin served for over 10 years in various capacities at The Home Depot, Inc., including most recently as Senior Vice President and Chief Information Officer.

William H. Marquard joined us as Executive Vice President, Business Development and Chief Knowledge Officer in June 1999. From 1991 until joining us, Mr. Marquard was a partner in the consulting practice of Ernst & Young.

Scott M. Northcutt joined us as Senior Vice President, Human Resources in January 1999 and he became Executive Vice President, Human Resources in February 2000. From 1997 until joining us, Mr. Northcutt was Vice President-People Group at SAM's Club, a division of Wal-Mart Stores, Inc. From 1988 to 1995, he served as Vice President-Human Resources and from 1995 to 1996, he served as Vice President-Store Operations at Dollar General Corporation.

Neal J. Rider joined us as Executive Vice President and Chief Financial Officer in January 2000. From 1999 until joining us, Mr. Rider was Executive Vice President and Chief Financial Officer at Regal Cinemas, Inc. From 1980 to 1999, Mr. Rider served in multiple capacities at American Stores Company, including Treasurer and Controller responsibilities from 1994 to 1997 before becoming Chief Financial Officer in 1998.

Michael J. Carey joined us in 1983 and has served as our Senior Vice President, Western Operations since June 2000. Prior to that, Mr. Carey served as our Operating Group President from 1998 to June 2000, our President, LaCrosse Division from 1996 to 1998, and our Director of IGA Marketing from 1994 to 1996.

Charles L. Hall joined us as Senior Vice President, Real Estate and Store Development in June 1999. From 1998 until joining us, he was Senior Vice President-Real Estate and Store Development at Eagle Hardware and Garden, Inc. From 1992 to 1998, he served as Vice President of Real Estate Development at PETsMART, Inc.

Carlos M. Hernandez joined us in March 2000 as Associate General Counsel and Assistant Secretary and has served as our Senior Vice President, General Counsel and Secretary since February 2001. Prior to joining us, Mr. Hernandez was employed in various capacities at Armco Inc. from 1981 to 1999, and then as an attorney at AK Steel Holding Corporation from October to December 1999.

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Matthew H. Hildreth joined us as Senior Vice President, Finance and Treasurer in May 2001. Prior to joining us, Mr. Hildreth served in various positions at JPMorgan since 1989, including most recently as Vice President and Sector Head of North American Trucking for JPMorgan's Transportation and Logistics Group.

Leonard Kaye joined us in 1963 and has served as our Senior Vice President, Eastern Operations since June 2000. Prior to that, Mr. Kaye served us in various positions, including Operating Group President, President, Memphis Division and Operations Manager.

Timothy R. LaBeau joined us in January 2002 as Senior Vice President of

Operations. Prior to joining us, Mr. LaBeau served as President and Chief Executive Officer of Royal Ahold subsidiary American Sales Company from 1998 to December 2001. Prior to that, Mr. LaBeau served as Executive Vice President of Merchandising and Procurement for Ahold USA from 1994 to 1998.

William A. Merrigan joined us in November 2000 and has served as our Senior Vice President, Logistics since May 2001. Prior to joining us, Mr. Merrigan served as Senior Vice President of Logistics at Nash Finch Company from 1998 to November 2000. Prior to that, Mr. Merrigan served in various senior positions at Wakefern Food Corporation from 1986 to 1998, including most recently as Vice President of Logistics and Transportation.

Philip B. Murphy joined us in October 2000 as Vice President of Grocery, and has served as our Senior Vice President, Procurement since May 2001. Prior to that, Mr. Murphy served as Senior Vice President and General Manager of Services at PETsMART, Inc. from 1995 to 2000.

Mark D. Shapiro joined us in June 2001 as Senior Vice President, Finance. Prior to joining us, Mr. Shapiro served in various positions at Big Lots, Inc. since 1992, including most recently as Senior Vice President and Chief Financial Officer.

Thomas A. Zatina joined us in June 2001 as Senior Vice President, Northern Operations. Prior to joining us, Mr. Zatina served in various positions at Bozzuto's, Inc., a Connecticut-based wholesale distributor, since 1986, including most recently as Executive Vice President and Chief Operating Officer.

ITEM 11. EXECUTIVE COMPENSATION

The information in the 2002 Proxy Statement set forth under the captions "Employment Contracts, Termination of Employment and Change of Control Arrangements", "Summary Compensation Table", "Directors Compensation", "Performance Graph", "Pension Plan", "Long-Term Incentive Plan - Awards in Last Fiscal Year", "Report of the Compensation and Organization Committee" and "Stock Option Information" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the captions "Beneficial Ownership" and "Securities Authorized for Issuance Under Equity Compensation Plans" of the 2002 Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the caption "Certain Relationships and Related Transactions" of the 2002 Proxy Statement is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements:

- o Consolidated Statements of Operations - For the years ended December 29, 2001, December 30, 2000 and December 25, 1999
- o Consolidated Balance Sheets - At December 29, 2001 and December 30, 2000
- o Consolidated Statements of Cash Flows - For the years ended December 29, 2001, December 30, 2000 and December 25, 1999
- o Consolidated Statements of Shareholders' Equity - For the years ended December 29, 2001, December 30, 2000 and December 25, 1999
- o Notes to Consolidated Financial Statements - For the years ended December 29, 2001, December 30, 2000 and December 25, 1999
- o Independent Auditors' Report
- o Quarterly Financial Information (Unaudited)

2. Financial Statement Schedule:

   Schedule II - Valuation and Qualifying Accounts (filed here within)

3. Exhibits:

   The exhibits listed in the accompanying Index to Exhibits are filed or incorporated by reference as part of this Annual Report.

(b) Reports on Form 8-K:

1. On November 11, 2001, we disclosed a communication to certain of our institutional stockholders.

2. On October 15, 2001, we reported that (i) on September 5, 2001, we planned to issue new 10-year senior subordinated notes in a private placement, and (ii) on October 5, 2001, we entered into a purchase agreement for the private issuance and sale, pursuant to Rule 144A and Regulation S, of $150 million of our 10 5/8% Series C Senior Subordinated Notes due 2007 and on October 15, 2001, we closed this transaction.

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 29, 2001, DECEMBER 30, 2000 AND DECEMBER 25, 1999
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	2001	2000	1999
Net sales	$ 15,627,744	$ 14,443,815	$ 14,272,036
Costs and expenses (income):			
Cost of sales	14,437,841	13,096,915	12,834,869
Selling and administrative	960,590	1,186,919	1,261,631
Interest expense	165,534	174,569	165,180
Interest income	(25,586)	(32,662)	(40,318)
Equity investment results	1,533	8,034	10,243
Impairment/restructuring charge (credit)	(23,595)	212,845	103,012
Litigation charge (credit)	48,628	(1,916)	--
Total costs and expenses	15,564,945	14,644,704	14,334,617
Income (loss) before taxes	62,799	(200,889)	(62,581)
Taxes on income (loss)	36,022	(78,747)	(17,853)
Net income (loss) before extraordinary charge	26,777	(122,142)	(44,728)
Extraordinary charge, net of tax	(3,469)	--	--
Net income (loss)	$ 23,308	$ (122,142)	$ (44,728)
Basic net income (loss) per share:			
Before extraordinary charge	$ 0.63	$ (3.15)	$ (1.17)
Extraordinary charge, net of tax	(0.08)	--	--
Net income (loss)	$ 0.55	$ (3.15)	$ (1.17)
Diluted net income (loss) per share:			
Before extraordinary charge	$ 0.60	$ (3.15)	$ (1.17)
Extraordinary charge, net of tax	(0.08)	--	--
Net income (loss)	$ 0.52	$ (3.15)	$ (1.17)
Weighted average shares outstanding			
Basic	42,588	38,716	38,305
Diluted	44,924	38,716	38,305

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
AT DECEMBER 29, 2001 AND DECEMBER 30, 2000
(IN THOUSANDS)

ASSETS	2001	2000
Current assets:		
Cash and cash equivalents	$ 17,325	$ 30,380
Receivables, net	588,269	509,045
Inventories	1,014,695	831,265
Assets held for sale	30,066	165,800
Other current assets	89,716	86,583
Total current assets	1,740,071	1,623,073
Investments and notes receivable, net	105,651	104,467
Investment in direct financing leases	83,118	102,011
Property and equipment:		
Land	39,644	40,242
Buildings	373,510	356,376
Fixtures and equipment	653,009	565,472
Leasehold improvements	219,058	210,970
Leased assets under capital leases	203,497	197,370
Construction in progress	135,781	57,039
	1,624,499	1,427,469
Less accumulated depreciation and amortization	(704,844)	(653,973)
Net property and equipment	919,655	773,496
Other assets	252,008	255,445
Goodwill, net	554,190	544,319
TOTAL ASSETS	$ 3,654,693	$ 3,402,811
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 971,791	$ 943,279
Current maturities of long-term debt	29,865	38,171
Current obligations under capital leases	21,410	21,666
Other current liabilities	242,061	229,272
Total current liabilities	1,265,127	1,232,388
Long-term debt	1,427,929	1,232,400
Long-term obligations under capital leases	331,836	377,239
Other liabilities	131,582	133,592

Commitments and contingencies		
Shareholders' equity:		
Common stock, $2.50 par value, authorized - 100,000 shares, issued and outstanding - 44,438 and 39,618 shares	111,095	99,044
Capital in excess of par value	567,720	513,645
Reinvested earnings (deficit)	(121,160)	(144,468)
Accumulated other comprehensive income - additional minimum pension liability	(59,436)	(41,029)
Total shareholders' equity	498,219	427,192
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 3,654,693	$ 3,402,811

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 29, 2001, DECEMBER 30, 2000 AND DECEMBER 25, 1999
(IN THOUSANDS)

	2001	2000
Cash flows from operating activities:		
Net income (loss)	$ 23,308	$ (122,142)
Adjustments to reconcile net income (los		