

SMART & FINAL INC/DE
Form 10-Q
November 10, 2004
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended October 3, 2004

or

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

For the transition period from _____ to _____

Commission File Number 001-10811

SMART & FINAL INC.

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(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

No. 95-4079584
(IRS Employer
Identification No.)

600 Citadel Drive
City of Commerce, California
(Address of principal executive offices)

90040
(Zip Code)

(323) 869-7500

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No .

As of November 8, 2004, the registrant had outstanding 30,665,443 shares of common stock.

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Forward-Looking Statements

When used in this report, the words believe, expect, anticipate and similar expressions, together with other discussion of future trends or results, are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are subject to certain risks and uncertainties, including known and unknown factors as included in the periodic filings by Smart & Final Inc. with the Securities and Exchange Commission and those discussed below that could cause actual results to differ materially from those projected. These forward-looking statements speak only as of the date hereof. All of these forward-looking statements are based on estimates and assumptions made by our management which, although believed to be reasonable, are inherently uncertain and difficult to predict; therefore, undue reliance should not be placed upon such statements. Actual results may differ materially and adversely from such statements due to known and unknown factors. The following important factors, among others, could cause our results of operations to be materially and adversely affected in future periods:

increased competitive pressures;

deterioration in national or regional economic conditions;

interruption and/or inability to obtain adequate supplies of products; and

adverse state or federal legislation or regulation that increases the costs of compliance or adverse findings by a regulator with respect to existing operations.

Many of these factors are beyond our control. Comparability of current and future operating trends and results may be also impacted by other important factors, most notably the effect of the labor action against the three largest southern California retail supermarket chains which commenced early in the 2003 fourth quarter and which was settled in February 2004. There can be no assurance that we will not incur new or additional unforeseen costs in connection with the ongoing conduct of our business. Accordingly, any forward-looking statements included herein do not purport to be predictions of future events or circumstances and may not be realized. Additional information regarding these factors and other risks is included in Item 1. Business - Risk Factors in our 2003 Annual Report on Form 10-K. Except as specifically set forth herein, we undertake no obligation to update any such forward-looking or other statement.

Table of Contents**SMART & FINAL INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(dollars in thousands, except share amounts)

	October 3, 2004	December 28, 2003
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 51,746	\$ 50,949
Accounts receivable, less allowance for doubtful accounts of \$369 in 2004 and \$307 in 2003	13,461	15,524
Inventories	136,186	123,428
Prepaid expenses and other current assets	16,371	27,069
Deferred tax assets	16,035	16,660
Assets of discontinued operations	2,133	4,681
	<u>235,932</u>	<u>238,311</u>
Total current assets	235,932	238,311
Property, plant and equipment:		
Land	66,098	68,042
Buildings and improvements	62,583	64,237
Leasehold improvements	116,255	113,388
Fixtures and equipment	187,260	179,079
	<u>432,196</u>	<u>424,746</u>
Less Accumulated depreciation and amortization	194,867	177,706
	<u>237,329</u>	<u>247,040</u>
Net property, plant and equipment	237,329	247,040
Assets under capital leases, net of accumulated amortization of \$7,523 in 2004 and \$9,417 in 2003	2,230	3,926
Goodwill	34,775	34,775
Deferred tax assets	16,123	16,123
Other assets	59,515	56,743
	<u>\$ 585,904</u>	<u>\$ 596,918</u>
Total assets	\$ 585,904	\$ 596,918
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt and capital leases	\$ 31,334	\$ 61,964
Accounts payable	95,950	94,402
Accrued salaries and wages	20,756	17,220
Other accrued liabilities	35,164	45,646
Liabilities of discontinued operations	2,964	7,296
	<u>186,168</u>	<u>226,528</u>
Total current liabilities	186,168	226,528
Long-term liabilities:		
Obligations under capital leases	2,918	4,511
Notes payable	53,416	53,496
Notes payable to affiliate	33,147	33,173

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Other long-term liabilities	26,236	25,253
Workers' compensation reserve, postretirement and postemployment benefits	37,543	40,380
	<u> </u>	<u> </u>
Total long-term liabilities	153,260	156,813
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$1 par value (authorized 10,000,000 shares; no shares issued)		
Common stock, \$0.01 par value (authorized 100,000,000 shares; 30,724,113 shares issued and outstanding in 2004 and 29,922,821 in 2003)	307	299
Additional paid-in capital	214,776	207,296
Retained earnings	41,967	15,963
Accumulated other comprehensive loss	(9,115)	(9,881)
Notes receivable for common stock	(75)	(100)
Treasury stock, at cost, 86,475 shares in 2004	(1,384)	
	<u> </u>	<u> </u>
Total stockholders' equity	246,476	213,577
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 585,904	\$ 596,918
	<u> </u>	<u> </u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents**SMART & FINAL INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(dollars in thousands, except per share amounts)

	Sixteen Weeks Ended		Forty Weeks Ended	
	October 3, 2004	October 5, 2003	October 3, 2004	October 5, 2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales	\$ 603,161	\$ 538,392	\$ 1,484,428	\$ 1,285,693
Cost of sales, buying and occupancy	494,466	442,892	1,225,567	1,065,735
Gross margin	108,695	95,500	258,861	219,958
Operating and administrative expenses	85,470	77,042	203,932	183,288
Litigation and other charges		(400)		18,000
Income from operations	23,225	18,858	54,929	18,670
Interest expense, net	3,448	5,976	10,859	11,424
Income from continuing operations before income taxes	19,777	12,882	44,070	7,246
Income tax provision	(7,908)	(4,858)	(17,629)	(3,175)
Equity earnings in unconsolidated subsidiary	131	297	485	372
Income from continuing operations	12,000	8,321	26,926	4,443
Discontinued operations, net of tax	(302)	(7,405)	(922)	(67,295)
Income (loss) before cumulative effect of accounting change	11,698	916	26,004	(62,852)
Cumulative effect of accounting change (variable interest entity, net of tax of \$3,534)				(5,301)
Net income (loss)	\$ 11,698	\$ 916	\$ 26,004	\$ (68,153)
Earnings (loss) per common share				
Earnings per common share from continuing operations	\$ 0.40	\$ 0.28	\$ 0.90	\$ 0.15
Loss per common share from discontinued operations	(0.01)	(0.25)	(0.03)	(2.26)
Cumulative effect of accounting change per common share				(0.18)
Earnings (loss) per common share	\$ 0.39	\$ 0.03	\$ 0.86	\$ (2.29)
Weighted average common shares	30,248,982	29,740,307	30,076,409	29,787,585
Earnings (loss) per common share, assuming dilution				
Earnings per common share, assuming dilution, from continuing operations	\$ 0.37	\$ 0.28	\$ 0.85	\$ 0.15
Loss per common share, assuming dilution, from discontinued operations	(0.01)	(0.25)	(0.03)	(2.26)
Cumulative effect of accounting change per common share, assuming dilution				(0.18)

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Earnings (loss) per common share, assuming dilution	\$ 0.36	\$ 0.03	\$ 0.82	\$ (2.29)
Weighted average common shares and common share equivalents	32,183,765	29,924,408	31,718,478	29,787,585