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SMART & FINAL INC/DE  
Form 10-K  
March 15, 2001

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 31, 2000  
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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.  
(Exact name of registrant as specified in its charter)

Delaware  
State or other jurisdiction of  
incorporation or organization)

95-4079584  
(IRS Employer Identification No.)

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

90040  
(zip code)

Registrant's telephone number, including area code: (323) 869-7500  
Securities registered pursuant to Section 12(b) of the Act:

Title of each class -----	Name of each exchange on which registered -----
Common Stock, par value \$.01 per share	New York Stock Exchange

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

None  
(Title of Class)

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

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 this

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Form 10-K. [ ]

As of February 28, 2001, the aggregate market value of Common Stock held  
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by nonaffiliates of the registrant based on the closing price of the Common  
Stock on the New York Stock Exchange composite tape was \$121,746,058  
-----

("nonaffiliates" excludes for this purpose executive officers, directors and the  
registrant's majority shareholder).

As of March 13, 2001, the registrant had outstanding 29,284,964 shares of  
-----  
Common Stock.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for its Annual Meeting of  
Shareholders to be held May 23, 2001 are incorporated by reference into Part III  
of this Form 10-K.

## SMART & FINAL INC.

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### PART I

#### Item 1. Business

##### General

Smart & Final Inc. (the "Company") operated 214 non-membership warehouse grocery stores in Arizona, California, Florida, Idaho, Nevada, Oregon, and Washington at fiscal year end 2000 through its principal subsidiary, Smart & Final Stores Corporation, a California corporation and related entities (collectively "Smart & Final"). These stores operate under the trade names "Smart & Final" and "United Grocers Cash & Carry" ("Cash & Carry"). The Company's subsidiary, Smart & Final de Mexico S.A. de C.V. ("Smart & Final Mexico"), operates seven stores in Mexico through a joint venture with the operators of the Calimax store chain. The joint venture operates as a Mexican domestic corporation under the name Smart & Final del Noroeste, S.A. de C.V. and is reported on the equity basis of accounting.

Smart & Final stores offer a consistent selection of approximately 10,000 food items, supplies and equipment, primarily in institutional sizes and quantities, targeted at small foodservice businesses and other customer groups. The Company believes that Smart & Final is strategically positioned in a substantial niche market between membership warehouse clubs and traditional foodservice operators.

The Company also owns American Foodservice Distributors, a California corporation ("AFD"), which is a holding company for traditional broadline foodservice distributors. At year end, AFD owned 100% of Port Stockton Food Distributors, Inc., a California corporation doing business under the name Smart & Final Foodservice Distributors ("Smart & Final Foodservice"). Smart & Final Foodservice is an institutional full-line food distributor that also operates its own produce and meat processing units in northern California. At year end, AFD also owned 100% of Henry Lee Company, a Florida corporation, and Southern Foods and Orlando Foodservice divisions, meat processing and distribution divisions operating in Florida. All Florida foodservice operations are collectively referred to as "Florida Foodservice".

The Company is a Delaware corporation headquartered in Los Angeles, and at fiscal year end 2000, had approximately 5,640 associates. In fiscal 2000, the Company had sales of \$1,864 million.

Financial information about the Company's segments is incorporated herein by reference from Note 14 to the Consolidated Financial Statements included in this report.

##### Smart & Final Stores

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Smart & Final stores specialize in providing merchandise and customer services to meet the foodservice and related needs of restaurants, caterers, clubs, organizations and small and mid-sized businesses. Most stores also attract value-oriented retail customers who prefer to purchase items in large sizes or quantities. Smart & Final stores carry a broad selection of items in a hybrid, retail/wholesale format. With an average size of 16,851 square feet, the stores' smaller footprint enables the Company to locate a greater number of stores in urban and suburban

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neighborhoods than warehouse club operators, which in turn provides a faster, more convenient shopping experience for the customer.

Smart & Final has experienced significant sales growth despite the expansion of the warehouse club industry in the Company's geographic markets. The Company attributes its store growth to its commitment to be a primary supplier for the needs of small and mid-sized independent foodservice operators. Smart & Final positions itself competitively by offering convenience, attractive pricing, a wide and consistent assortment including high quality corporate brand items, and a high level of customer service. The Company's specific focus on foodservice operators enables Smart & Final to react quickly to changing market requirements and customer needs. Management believes these strategies, together with its unique retail/wholesale concept, provides greater overall value than the competition.

In recent years, Smart & Final has begun operating stores in new geographic areas. In May 1998, the Company acquired 39 Cash & Carry stores, operating mainly in the Pacific Northwest. Smart & Final opened stores in Florida in 1996 and currently operates ten stores in Southern Florida. Although its operations in Florida are not yet profitable, the Company believes the state, with its vibrant economy, its significant Hispanic population, and its concentration of small independent restaurants and businesses, is an attractive growth market for its store concept.

During the early to mid 1990's, the Company focused on opening stores in its existing markets and expanding in northern California. The Company plans to continue expansion in its mature market areas through relocations and remodels of existing stores and new store openings. In 1999 and 2000, Smart & Final concentrated on assimilating the Cash & Carry stores and also opened six new and relocated stores.

During the 1990's, the Company acquired several traditional foodservice distribution companies (See American Foodservice Distributors). Product for stores and foodservice customers is being handled from the same distribution facilities. Management believes that ownership of foodservice distributors facilitates store expansion in new markets because it reduces product costs and distribution expenses inherent in new markets.

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The following table shows certain information regarding the Company's stores for the years indicated:

Fiscal	Fiscal	Fiscal	Fiscal
2000	1999	1998	1997
-----	-----	-----	-----

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USA				
Beginning store count	212	209	167	168
Stores opened:				
New stores	2	3	5	4
Relocations	1	-	3	7
Acquired	-	-	39	-
Stores relocated or closed	(1)	-	(5)	(12)
	-----	-----	-----	-----
Ending store count	214	212	209	167
	-----	-----	-----	-----
MEXICO				
Beginning store count	6	6	5	5
New stores opened	1	-	1	-
	-----	-----	-----	-----
Ending store count	7	6	6	5
	-----	-----	-----	-----
Total Ending Store Count	221	218	215	172
	=====	=====	=====	=====
STATISTICAL DATA:				
Average selling square feet				
per store at end of period:				
USA	16,851	16,736	16,662	15,448
MEXICO	17,681	17,350	17,350	16,946
New store data:				
New markets stores (USA)	-	1	1	1
Average selling square feet:				
USA	18,453	20,900	21,079	21,462
MEXICO	19,667	-	19,368	-

Mexico operations are not consolidated and are reported on the equity basis of accounting.

Developing new stores, from initiation of construction to store opening, requires approximately nine months for new locations and four months for retrofitting of existing buildings. Equipment and inventory for each new store averages \$450,000 and \$390,000, respectively. On average, each retrofitted store costs approximately \$340,000 in leasehold improvements and requires up to \$600,000 of equipment.

Management continually assesses each store's profitability on a pre-tax profit basis after allocation of all corporate expenses. Stores not meeting strategic management objectives for profitability, market penetration, and/or other measures are evaluated for closure or relocation. Generally, stores opened in mature markets are expected to achieve profitability within 18 months of operations. However, there can be no assurance that the Company will be able to open new stores in a timely manner; to hire, train and integrate employees; to continue locating

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and obtaining favorable store sites; and to adapt distribution, management information and other operating systems sufficiently to grow in a successful and profitable manner.

Merchandising

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Customers. Smart & Final stores service two primary customer bases: businesses and household consumers. Business customers include independent restaurants, caterers, mini-marts and other small businesses that do not receive regular delivery. In addition, large chain restaurants and other major foodservice operators use Smart & Final as a fill-in or backup supplier. Household consumers with large families, or those planning a party or stocking their pantry appreciate Smart & Final's convenient locations, high-quality products in large sizes and value. Clubs and organizations also find Smart & Final stores well suited to meet their foodservice needs.

Product Assortment and Quality. Each Smart & Final store carries approximately 10,000 assorted food and related items in bulk sizes and quantities. The Company offers customers a wide product selection, including frozen and refrigerated foods, delicatessen products, fresh produce, paper products, janitorial supplies, restaurant equipment, tobacco, candy, snacks, beverages, and party supplies. Products regularly undergo a formalized profitability review that identifies items that should be added or removed. The Company is continuing the expansion of its fresh assortment by adding items to the selection of meat and produce. The Company believes the size, consistency, and depth of its product assortment satisfies customers' needs.

Product quality is paramount in the Smart & Final product assortment. The Company's quality assurance department insures that its high standards are maintained for all corporate brands and products.

Corporate Brand Positioning. Smart & Final utilizes its own corporate brands within most merchandise categories, providing an alternative to national brands and other corporate and private label brands. Corporate brands are positioned to create brand loyalty and establish an ongoing customer franchise. Furthermore, management believes foodservice customers make purchases based on a quality/value/price perception. Smart & Final corporate brands target leading competitive brands with attention to quality and value. In addition, the profit contribution from corporate brands is generally higher than the comparable national brand product.

During 2000, the Company continued to grow the sales and gross profit contribution of the corporate brands program. Each operating company actively markets the program. The core program consists of a three-quality-tiered structure, analogous to competitive programs. The SmartBuy(R) Brand is a standard grade, quality controlled brand positioned as "the price leader"; Smart & Final(R), the Company's national brand equivalent, is a consistent, quality-driven, competitively priced brand; and Smart & Final Premium Brand(R) represents the highest quality within the product line. There are approximately 2,200 stock keeping units (SKUs) represented by these brands.

In addition to the core corporate brand program, the Montecito(R) and La Romanella(R) corporate brands are designed to reach niche ethnic markets while enhancing our core products.

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The Company's authentic Hispanic-style brand, Montecito, represents over 100 SKUs. The La Romanella brand, a high quality line of Italian-style products, consists of approximately 175 SKUs.

The Company introduced its new Snack'rs(R) brand in 2000. This rapidly expanding brand, now comprising 35 SKUs, is designed to significantly enhance sales and gross margins in the snack food category. In addition, a new brand of spices, Tradewinds(TM) was introduced during the year. The Tradewinds brand replaces the Company's original brand spices and will be sold in all Smart & Final divisions. The Company is developing additional brands for introduction in

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2001.

Management believes that the assortment and value of the Company's corporate brands are an important element in Smart & Final's market positioning.

**Pricing.** Smart & Final attempts to identify and establish competitive pricing on key items in local markets including competitive pricing against warehouse clubs. The Company's pricing strategy is carefully coordinated with its overall assortment strategy and with other marketing programs. Incentives encourage customers to purchase the largest sizes and case quantities, thereby maximizing operating efficiencies within the distribution system. In addition, Smart & Final corporate brand items offer distinct price and value advantages over comparable national brands.

**Customer Service.** Smart & Final focuses on customer service and convenience to encourage more frequent store visits and greater average purchase size. For example, stores offer convenient locations, operating hours and front door parking lots, along with logical layouts and highly readable signage. Smart & Final also maintains a high in-stock service rate, averaging 97%; high product quality; clean stores; friendly, responsible and knowledgeable personnel; and specialized point-of-sale support.

Smart & Final utilizes customer service centers and representatives, provides informative customer materials, and emphasizes associate training that builds customer loyalty. In addition, stores take customers' special orders for a wide variety of products not carried regularly in its assortment. The Company also provides customers with telephone and fax order service, enhancing its in-store capability. The Company also has an associate training program designed to increase store associates' retailing expertise and product knowledge. Smart University, the Company's in-house training center, provides all associates with the opportunity to build their knowledge and acquire additional skills.

**Marketing.** Smart & Final's marketing efforts are focused on building brand awareness and enhancing customer relationships. Brand awareness is built with broad-reach advertising, public relations efforts and strong market entry programs. Customer relationships are enhanced with loyalty card programs, targeted marketing and local store events. Suppliers participate in the Company's marketing programs, thereby reducing Smart & Final's marketing costs.

**Store Design and Size.** Smart & Final stores are designed as convenient warehouse stores dedicated to easing the shopping experience. For the last three years, new and relocated stores have ranged between 12,000 and 34,000 square feet. Smart & Final stores are organized into dry

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grocery, beverages, frozen foods, janitorial, equipment and supplies, candy, snacks, party supplies and other departments. In addition, prototype designs are improved continually to enhance traffic flow, space utilization, departmentalization, adjacencies of merchandise, and overall visual appeal without diluting the convenient warehouse image. Each Smart & Final store normally has three to six checkout counters and is staffed by an average of 17 associates.

**Website.** The Company has a site on the World Wide Web at <http://www.smartandfinal.com>. The Company's site features a catalog of 5,000 professional-quality kitchen equipment and supply items for sale online. Customers can also locate their nearest store or view current product specials on the site. New products and categories, new stores services and menus and recipes for entertaining are featured regularly. Other features of the site include a complete history of the Company, financial information and job

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opportunities. The Company's website is updated on a regular basis.

### Operations

**Procurement.** The Company believes Smart & Final's purchasing policies and procedures result in costs that are comparable to other companies purchasing similar quantities and types of merchandise. Service level goals and investment buying strategies are integral to the purchasing program. In addition, Smart & Final continually utilizes the efficiencies provided by cooperative buying organizations to facilitate low cost purchasing. These buying alliances supplement the normal buying activities of each distribution center. Smart & Final also strives to maintain close working relationships with its major suppliers to reduce its product and distribution costs. The Company is continuing the process of consolidating procurement of national brand products for all operating units. In 2000, several national procurement agreements were negotiated with suppliers, which reduced costs and contributed to increased gross profits.

Smart & Final buys its products from approximately 1,800 different suppliers. The Company has not had any difficulty in the past, and does not expect any difficulties in the future, in obtaining products from suppliers.

**Distribution.** Smart & Final supports the largest percentage of its western U.S. store network from a 445,000 square foot distribution center in Commerce, California that began operations in February 1999. This new facility replaced the older primary and satellite warehouses and, because of its higher ceiling height, has approximately double the aggregate storage capacity of the older facilities.

In northern California, the Company operates a 270,000 square foot distribution facility, a 33,000 square foot freezer facility, an additional 100,000 square foot dry grocery warehouse, and two smaller facilities for fresh meat distribution and auxiliary storage. These facilities serve approximately 4,000 foodservice customers and 38 northern California Smart & Final stores. In Florida, the Company serves approximately 3,200 foodservice customers and ten Smart & Final stores from a 230,000 square foot dry and refrigerated grocery distribution center and a 99,000 square foot frozen food facility in Miami, Florida. The Cash & Carry stores are served through a service agreement with Unified Western Grocers, Inc., a grocery cooperative distributor.

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Smart & Final utilizes computerized inventory management systems, radio frequency technology, and integrated labor management systems in its warehouses.

The Company operates a fleet of 224 tractors and 351 trailers that are either owned or leased. When possible, the Company increases the efficiency of its fleet by filling outbound trucks to capacity and utilizing a backhaul program for inbound deliveries.

**Management Information Systems.** The Company has made substantial investments in new systems during the past several years, and expects to continue to invest in business technology as a means to enhance its competitive position.

The Company's investments included more than \$6 million to replace and upgrade the Point of Sale and Marketing Customer Relationship Management systems. These new systems are designed to enhance the customer shopping experience, help to better understand the Company's customers and to focus on the most important customers' needs while enabling the Company to benefit from electronic commerce.

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The Company's purchasing system enables buyers to manage turnover, buy inventory efficiently, achieve targeted gross margin objectives, track rebates and allowances by vendor, and maintain targeted service levels. The merchandising system enables store assortment to be customized to the needs and characteristics of individual market areas, maximize gross margin return on investment by item and product category, and increase inventory turn. The distribution system manages warehouse inventories, store order selection, and measures enterprise labor productivity.

### American Foodservice Distributors

American Foodservice Distributors ("AFD") is a holding company for the Company's two institutional broadline foodservice distributors, Smart & Final Foodservice and Henry Lee Company, and for its Southern Foods and Orlando Foodservice divisions operating in Florida. Smart & Final Foodservice also owns Davis Lay and Craig and Hamilton branded operations that operate produce and meat processing facilities, respectively. AFD's 2000 sales were \$400.2 million. In addition to a broadline assortment, AFD provides its customers primary services including product delivery, extension of credit and ancillary services such as restaurant equipment and supplies. The full-line assortment for these distributors features dry grocery, frozen foods, fresh meat, deli products, produce, tobacco, health and beauty aids, paper and packaging, janitorial supplies, and restaurant equipment and supplies.

AFD has distribution facilities and offices in Stockton, California and serves northern California markets from the Bay Area on the west to the Sierra on the East, Eureka on the North and Fresno on the South. AFD's northern California operations also serve 38 northern California Smart & Final stores. During 2000, approximately 14% of AFD's northern California sales were Smart & Final corporate brand products.

AFD, through its Henry Lee and Smart & Final Foodservice subsidiaries, is a large member of UniPro Foodservice, Inc., a buying group with annual member sales of over \$12 billion. AFD is also a member of the DMA Major Account sales group.

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AFD's Florida operations are headquartered in Miami, Florida and serves foodservice operator customers primarily located in the State of Florida and certain markets in the Caribbean, and southern and central America. AFD's distribution center in Miami provides the infrastructure to also service Smart & Final stores in Florida. During 2000, approximately 10% of AFD's Florida sales were Smart & Final corporate brand products. AFD serves approximately 7,200 foodservice customers such as restaurants, coffee shops, hotels, cruise ships, and institutions. At year end AFD employed approximately 1,240 associates.

### Smart & Final Mexico

The Company's 100%-owned subsidiary, Smart & Final Mexico, is a Mexican holding company that owns 50% of a joint venture which operates seven stores in Mexico. Operating results from the joint venture are reported on the equity basis of accounting.

### Competition

The Company participates in the highly competitive \$154 billion annual sales domestic food distribution industry. Its competitors include membership and non-membership warehouse stores, wholesale distributors, supermarkets, and other retailers. Many of the Company's competitors have greater financial,

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distribution and marketing resources, as well as greater name recognition than the Company.

The warehouse club industry generated sales of \$61 billion in 1999, approximately 60% of which were in food and related products. The Company's three major warehouse club competitors are Costco Wholesale Corporation, BJ's Wholesale Club and the SAM's Club division of Wal-Mart Stores. The industry has experienced intense price competition, product innovation and rapid store growth over the past several years. The Company competes effectively with membership clubs by offering a broader and more consistent foodservice assortment, more convenient shopping facilities and locations, a high level of customer service and competitive pricing.

The traditional foodservice distribution market, in which AFD operates and in which Smart & Final competes to a lesser extent, is very competitive and highly fragmented. Major competition consists of national operators such as Sysco Corporation, Alliant Foodservice, the U.S. Foodservice division of Ahold USA and many smaller, regional distributors. The top 50 broad-line distributors are believed to represent approximately 30% of the total foodservice market.

Competition from supermarket chains continues to increase as such chains emphasize price and service, while widening their assortment of goods and lowering certain prices to more effectively compete with warehouse clubs.

### Human Resources

The Company strongly emphasizes the career development and retention of its associates. The Company strives to maintain the culture of a highly focused, innovative organization that maximizes associate productivity and contributions. The Company actively recruits and offers

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training opportunities to associates in order to develop qualified candidates for managerial positions as vacancies occur.

Associate training and development programs through the Company's own Smart University encompass all levels of store operations, from entry through management, and emphasize merchandising techniques and customer service goals to ensure top associate quality and productivity. Company mechanisms, such as incentive pay and stock option programs, reward superior performance and motivate associates. In addition, approximately 8.2% of each Smart & Final store's pre-tax profit, after allocation of corporate costs, is paid out as monthly bonuses to the store's full-time associates and selected part-time associates. Cash & Carry store managers and associates receive annual bonuses based on the achievement of specific operating goals.

At fiscal year end, the Company and its subsidiaries employed approximately 5,640 persons, including 4,400 at Smart & Final, 690 at Smart & Final Foodservice, and 550 at Florida Foodservice.

Hourly associates employed by 17 Cash and Carry stores are party to a labor contract previously negotiated between the United Brotherhood of Teamsters ("Teamsters") and United Grocers, Inc. The Cash and Carry Stores were acquired from United Grocers, Inc. in 1998 and Smart & Final assumed the Teamsters Contract. Approximately 100 associates are covered by this contract, which expires April 1, 2001. The Company intends to negotiate a new agreement with the Teamsters. Smart & Final Foodservice is a party to an agreement with its Food Distribution Associates Association, representing approximately 400 associates, which contains certain procedures and policies with respect to management and associate relations. The Company considers relations with its associates to be

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good.

### Item 2. Properties

As of fiscal year end 2000, the Company leased 132 store properties directly from third party lessors, with an average remaining lease term of ten years. The Company leased 15 store properties, at year end, under its secured lease facility described below. In addition, the Company has eight stores on real property that is ground leased from third party lessors. The remaining 59 store properties are owned.

The Company occupies a 445,000 square foot distribution facility in Commerce, California that is leased under the secured lease facility described below. The Company maintains its headquarters in an 81,000 square foot leased facility in Commerce, California.

AFD supports its northern California customers from an owned 33,000 square foot freezer facility and a 270,000 square foot distribution facility leased under the secured lease facility described below. Additionally, the Company has one and a half years remaining under a three-year lease for 100,000 square feet of additional dry grocery warehouse space and leases two smaller facilities for fresh meat distribution and auxiliary storage. These facilities are located in Stockton, California.

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In Florida, AFD operates a 230,000 square foot warehouse in Miami, Florida, including 22,000 square feet of office space. AFD also occupies 7,600 square feet of space used as a maintenance facility for its fleet. Both of these facilities are leased from the former owners of Henry Lee. These leases expire in August 2005. The leases contain terms and rates that are considered equivalent to those available from unrelated third party lessors. AFD also operates a 99,000 square foot frozen food facility in Miami, Florida that is leased under the secured lease facility described below.

The Company plans to continue to lease properties, but also may elect to own some of its new stores on an interim or permanent basis. The Company has a \$90 million secured lease facility, which provides for the lease of the distribution center in Stockton, California and for store expansion and distribution facilities in California and Florida. As of December 31, 2000, \$84.6 million had been utilized under this facility for various store and distribution facilities.

### Item 3. Legal Proceedings

The Company is from time to time involved in litigation incidental to the conduct of its business. While the outcome of lawsuits and other proceedings against the Company cannot be predicted with certainty, in the opinion of management, none of the litigation in which the Company is currently involved, individually or in the aggregate, is expected to result in a material effect on the Company's financial position or results of operations.

### Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to the security holders of the Company for a vote during the quarter ended December 31, 2000.

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## PART II

### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common stock is listed on the New York Stock Exchange ("NYSE") under the symbol SMF. As of March 13, 2001 there were approximately 208 registered holders of the common stock and the closing price per share of the common stock as listed on the NYSE composite tape was \$10.75. The following table sets forth the high and low sales prices of the common stock as reported on the NYSE composite tape for the periods indicated. There were no cash dividends declared during the Company's two most recent fiscal years.

	High	Low
First Quarter of 1999	10 1/8	8
Second Quarter of 1999	12 9/16	8 3/4
Third Quarter of 1999	10 15/16	9 1/8
Fourth Quarter of 1999	9 7/8	6
First Quarter of 2000	8 1/8	5 1/2
Second Quarter of 2000	8 11/16	6 11/16
Third Quarter of 2000	8 1/8	6 3/16
Fourth Quarter of 2000	8 13/16	6 3/8

The declaration and payment of dividends is subject to the discretion of the Company's Board of Directors, and there can be no assurance whether or when dividends will be paid in the future. The Company announced in a press release dated February 17, 1999, that, as part of a program to reduce debt levels and interest expense, dividends on its common stock have been suspended indefinitely. The suspension of dividends was effective following the payment of the fourth quarter 1998 dividend paid on January 29, 1999. Information concerning certain dividend restrictions under the Company's Senior Secured Credit Facility is included under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

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### Item 6. Selected Financial Data

SELECTED FINANCIAL DATA  
(in thousands, except per share and statistical data)

	2000	1999	Fiscal 1998
Income Statement Data:			
Sales	\$1,863,895	\$1,793,142	\$1,793,142
Gross margin	258,083	234,360	
Income from operations	29,974	24,620	
Interest expense, net	13,368	17,997	

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Income (loss) before provision for income taxes, minority share of net income, extraordinary item and cumulative effect of accounting change	16,606	6,623	
Net income (loss)	11,044	4,726	
Earnings (loss) per common share, assuming dilution	0.38	0.18	
Dividend per share (E)	\$ -	\$ -	\$
Weighted average diluted common shares outstanding	29,244	26,321 (F)	
 Financial Data (at fiscal year end):			
Cash and cash equivalents	\$ 23,328	\$ 42,936	\$
Working capital (deficit)	30,403	135,931	
Total assets	582,341	582,599	
Long-term debt and capital leases, excluding current maturities	35,472	157,470	
Stockholders' equity	264,865	253,447 (F)	
 Other Statistical Data:			
Comparable store sales growth	5.5%	5.3%	
Stores at year end (including Mexico)	221	218	
Total retail square footage at year end (thousands)	3,730	3,652	
Sales per selling square foot	\$ 410	\$ 391	\$
Store customer transactions (thousands)	38,493	37,289	
Employees at year end	5,640	5,308	

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- (A) For all years, 52 weeks except fiscal year 1997, which had 53 weeks.
- (B) 1,625,000 of common shares were issued on December 29, 1996 to affiliated companies for \$38 million in connection with acquisition of 91 properties and leasehold interests.
- (C) Amounts include results of Davis Lay division from May 1997 and results of Orlando Foodservice Inc., Capricorn Foods of Central Florida, Inc. and Southern Foods since their dates of asset acquisitions in September 1997.
- (D) Amounts include results of United Grocers Cash & Carry store operations from the date of its acquisition in May 1998.
- (E) Dividends on common stock have been suspended indefinitely by the Company's Board of Directors effective following the payment of the fourth quarter 1998 dividend paid on January 29, 1999.
- (F) 6,496,000 of common shares were issued during the equity offering in June 1999 and increased stockholders' equity by \$57.9 million.

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### Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the "Selected Financial Data" and the financial statements and related notes thereto included elsewhere in this Form 10-K. The following table sets forth the consolidated statements of operations data. Percentages do not aggregate due to rounding.

52 Weeks

52 Weeks

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(Dollars in millions, except per share amounts)	2000		1999	
=====				
Sales:				
Stores	\$ 1,463.7	78.5%	\$ 1,382.0	77.
Foodservice	400.2	21.5	411.1	22.
Sales, consolidated total	1,863.9	100.0	1,793.1	100.
-----				
Cost of sales, buying and occupancy:				
Stores	1,240.5	84.8	1,183.3	85.
Foodservice	365.3	91.3	375.5	91.
Total cost of sales, buying and occupancy	1,605.8	86.2	1,558.8	86.
=====				
Gross margin	258.1	13.8	234.3	13.
-----				
Operating and administrative expenses	228.1	12.2	209.7	11.
-----				
Income from operations	30.0	1.6	24.6	1.
-----				
Interest expense, net	13.4	0.7	18.0	1.
-----				
Income (loss) before income taxes, extraordinary item and cumulative effect of accounting change	16.6	0.9	6.6	0.
-----				
Income taxes	6.4	0.3	2.5	0.
-----				
Income (loss) from consolidated subsidiaries	10.2	0.5	4.1	0.
-----				
Equity earnings in unconsolidated subsidiary	0.8	-	0.7	-
-----				
Extraordinary loss on extinguishment of debt	-	-	0.1	-
-----				
Cumulative effect of accounting change	-	-	-	-
=====				
Net income (loss)	\$ 11.0	0.6%	\$ 4.7	0.
=====				
Earnings (loss) per common share	\$ 0.38		\$ 0.18	
=====				
Earnings (loss) per common share, assuming dilution	\$ 0.38		\$ 0.18	
=====				

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### Results of operations

The Company's net income was \$11.0 million, or \$0.38 per diluted share, in 2000, compared with net income of \$4.7 million, or \$0.18 per diluted share, in 1999, and net loss of \$8.7 million, or \$(0.38) per diluted share, in 1998. The following table sets forth pre-tax income or loss, in millions, for each of the Company's various reportable segments:

	2000		1999	
	-----		-----	
Stores	\$ 36.9		\$ 31.9	\$
Foodservice	(5.3)		(7.5)	

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	-----	-----	
Segment totals	31.6	24.4	
Interest and other corporate expenses	(15.0)	(17.8)	
	-----	-----	
Consolidated pre-tax income (loss)	\$ 16.6	\$ 6.6	\$
	=====	=====	=====

Cost allocation for servicing stores was revised in 2000. If the new allocation method had been used, Foodservice pre-tax loss would have been approximately \$0.7 million greater in 1999 and \$0.6 million lower in 1998, respectively and Stores pre-tax income would have been approximately \$0.7 million higher in 1999 and \$0.6 million lower in 1998, respectively.

### Change in management

In November 1998 the Company announced that Robert J. Emmons would retire from his position as Chief Executive Officer and would resign from the Company's Board of Directors effective January 4, 1999. The Board requested one of its members, Ross Roeder, to assume the position of Chairman of the Board and Chief Executive Officer, replacing Emmons. Roeder immediately proceeded with an assessment of the overall business and developed a plan to redirect the Company's business and improve operating efficiency. As a result, a number of specific actions were taken late in 1998 that reduced earnings for the 1998 fourth quarter and year and contributed to the earnings improvement in subsequent years.

A number of factors impacted the results of operations in 2000 and 1999:

#### Factors affecting 2000 results:

- . Improved margins as a result of the national procurement program, expanded corporate brands, store assortment mix changes and reduced distribution costs.
- . Expanded marketing programs and related strong same store sales growth.
- . Increased incentive compensation based on the Company's better performance.
- . Decreased interest expense primarily due to the \$60 million common stock offering completed in June 1999 and \$35 million of additional debt reduction from cash flows in 2000.

#### Factors affecting 1999 results:

- . Significantly higher interest expense primarily due to higher interest rates as a result of the Company's debt restructuring in late 1998. The increased interest expense moderated in the second half of 1999 due to the debt reduction resulting from the \$60 million common stock offering in June 1999.
- . Outside consulting fees of \$1.5 million were incurred in the third and fourth quarters of 1999. These fees mainly related to improving procurement programs.

During 2000, sales increased only moderately in the first quarter because customer Year 2000 stockpiling late in 1999 and heavy rainfall in the Company's primary markets during the first quarter of 2000 significantly reduced sales. Earnings improved consistently in all quarters of 2000 due to better gross margins at both stores and foodservice, reduced interest expense and, in the last three quarters, strong stores sales growth.

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The improvement in 1999 earnings was attributable to higher sales, primarily from the acquisition of the Cash & Carry stores in May 1998, improved gross margins, and reduced operating expenses.

Quarterly earnings per common share, assuming dilution:

	First -----	Second -----	Third -----	Fourth -----	Year -----
2000	\$ 0.02	\$ 0.11	\$ 0.14	\$ 0.11	\$ 0.38
1999	(0.02)	0.06	0.08	0.06	0.18

Sales. Sales were \$1,863.9 million in 2000, \$1,793.1 million in 1999, and \$1,661.6 million in 1998. Sales include those of the Cash & Carry store operations following its acquisition in May 1998. Cash & Carry sales were \$294.5 million in 2000, \$253.7 million in 1999 and \$164.5 million in 1998 following the acquisition. Total sales increased 3.9% in 2000, 7.9% in 1999 and 14.4% in 1998.

Store sales, including Cash & Carry, increased 5.9% in 2000, 14.6% in 1999 and 14.9% in 1998. Same store sales increased 5.5% in 2000, compared to a 5.3% increase in 1999 and a 0.2% decline in 1998. Fourteen new and relocated stores, three in 2000, three in 1999 and eight in 1998, respectively, were opened during the three-year period. Additionally, 39 stores were acquired from United Grocers, Inc. in 1998. Foodservice sales decreased 2.7% in 2000 and 9.8% in 1999 and increased 12.9% in 1998, respectively. Foodservice sales declined in part due to adoption of tighter credit policies in late 1998 and elimination of unprofitable sales but the rate of decline has stabilized and foodservice sales have increased in recent periods.

Gross margin. As a percentage of sales, gross margin was 13.8% in 2000, 13.1% in 1999, and 12.4% in 1998. Gross margin improved in 2000 due to the national procurement program, expanded corporate brands, store assortment mix changes and improved distribution efficiency. The increase in gross margin in 1999 was due to a number of factors: higher foodservice margins achieved by a focus on improved credit quality and profitability and a lower overall mix of foodservice sales which carry lower margins than store sales. These increases were partially offset by start-up inefficiencies at the Commerce warehouse that began operations in February 1999 and increased store occupancy costs due to new and remodeled stores and new technology.

Operating and administrative expenses. Operating and administrative expenses were 12.2% of sales in 2000, 11.7% in 1999, and 12.3% in 1998. The expense increase in 2000 is attributable to several targeted programs including increased marketing expense that was a factor in the strong sales increases, higher provision for performance-based incentive compensation and increased store labor to provide increased store service levels, despite continuing rigid expense controls. For 1999, expenses as a percentage of sales decreased due to the inclusion of Cash & Carry operations, which operate at lower expense levels, and the intensive corporate-wide expense-

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reduction program implemented early in 1999. The major factors of the higher expenses as a percentage of sales in 1998 were the charges incurred in connection with the program to redirect the Company's business and improve operating efficiency.

Interest expense, net. Interest expense, net decreased in 2000 to \$13.4 million,

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compared to \$18.0 million in 1999 and \$13.3 million in 1998. The decrease in 2000 was primarily due to the debt reduction as a result of the \$60 million common stock offering completed in June 1999 and an additional \$35 million debt reduction from cash flows in 2000. The increase in 1999 was primarily the result of higher interest rates as a result of the Company's debt restructuring in late 1998.

### Equity earnings in unconsolidated subsidiary

The Company has a 50% interest in a Mexico joint venture that operates seven stores in Mexico and produced \$0.8 million in equity earnings in 2000, \$0.7 million in 1999 and \$0.2 million in 1998. Two new stores were opened between 2000 and 1998.

### Liquidity and capital resources

Historically, the Company's primary source of liquidity has been cash flows from operations and retained earnings. In addition, the Company has availability under bank facilities. In 2000, net cash provided by operating activities was \$43.2 million as compared to \$54.4 million in 1999. The decrease in cash provided by operating activities generally reflects the timing of receipts and disbursements. The aggregate amount that will be required for the Company's expansion program and other capital expenditures in 2001 is estimated to be approximately \$40.0 million.

The Company has Senior Secured Credit Facilities ("Credit Facilities") with a group of banks totaling \$240 million, including a \$150 million Revolving Credit Facility ("Revolving Loan") and a \$90 million Secured Lease Facility. These facilities expire on November 13, 2001. At the Company's option, the Revolving Loan can be used to support up to \$10 million of commercial letters of credit. Interest for these facilities is at LIBOR, or the Administrative Agent's reference rate, plus designated amounts. No principal repayments are due prior to the final maturity. However, under certain conditions, pay-downs toward the facilities are treated as permanent reductions to the amount available. As of December 31, 2000, the total amount committed under these facilities was \$219 million reflecting \$21 million of permanent pay-downs during 1999. At fiscal year end 2000, \$87.0 million was outstanding under the Revolving Loan and \$84.6 million was utilized under the Secured Lease Facility. The Senior Secured Credit Facilities contain restrictions on cash dividends declared or paid and capital expenditures and require the Company to maintain certain fixed charge coverage ratios and other financial ratios.

At fiscal year end 2000, the Company's Loan Agreement ("Casino Loan") with Casino USA, Inc. had an outstanding balance of \$16.0 million. The Casino Loan matures on February 15, 2002. No principal repayments are due prior to the final maturity. Interest for this loan is the sum of the rate under Revolving Loan plus 25 basis points. The Casino Loan agreement contains covenants requiring the Company to maintain certain financial ratios.

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At fiscal year end 2000, the Company was in compliance with financial covenants contained in the Senior Secured Credit Facilities and Casino Loan, as amended.

The Credit Facilities expire in November of 2001. The Company plans to restructure and extend these facilities during 2001. Given the Company's significantly improved financial position and excellent relationship with its lending group, the Company expects a successful restructuring process.

The Company had cash and cash equivalents of \$23.3 million,

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stockholders' equity of \$264.9 million and debt, excluding capital leases, of \$115.7 million at the end of fiscal year 2000. The debt consists of \$87.0 million outstanding on the revolving credit line, the \$16.0 million Casino Loan, a \$12.5 million five-year unsecured note issued to United Grocers, Inc. as a result of acquisition of its Cash & Carry stores and \$0.2 million other notes payable. The weighted average interest rate, including all associated fees, on the Company's variable rate debt for 2000 was 11.04%.

The Company expects to be able to fund future acquisitions and other cash requirements by a combination of available cash, cash from operations, lease financings and other borrowings and proceeds from the issuance of equity securities. The Company believes that its sources of funds are adequate to provide for working capital, other capital expenditures, and debt service requirements for the foreseeable future.

### Year 2000

Full compliance of the Company's Year 2000 program was completed before the end of 1999. Subsequent to the end of 1999 and throughout 2000, the Company did not experience any significant issues related to the Year 2000 or receive any reports from third parties indicating any material Year 2000 incidents. All end-of-period reporting programs have been exercised and audited with no material errors discovered. The Company experienced sales increases in the final weeks of fiscal 1999, which it believes were due to customers' stockpiling in preparation for possible year end interruptions in product availability. Consequently, the Company experienced sales decreases in the first few weeks of fiscal 2000.

### Seasonality

Historically, the Company's sales have followed a seasonal pattern in which first quarter sales tend to be the weakest. Third quarter sales are high because the third quarter includes four four-week periods, whereas the other quarters include three four-week periods. Sales distribution by quarter in 2000 was 21% in the first quarter, 24% in the second, 32% in the third, and 23% in the fourth.

### Inflation

The Company's primary costs, merchandise and labor, as well as utility costs are affected by a number of factors that are beyond the Company's control. These factors include the price of merchandise, the competitive climate, and the general and regional economic conditions. As is typical in the food industry, the Company has generally been able to maintain margins by

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adjusting its selling prices. But competitive conditions may, from time to time, render it unable to do so while maintaining or increasing its market share.

### Item 7A. Quantitative and Qualitative Disclosure about Market Risk

The Company is exposed to market risks relating to fluctuations in interest rates and the exchange rate between the U.S. dollar and Mexican Peso. The Company's objective of financial risk management is to minimize the negative impact of interest rate fluctuations on the Company's earnings and cash flows. The Company's exposure to foreign exchange rates is limited. The Company does not hold or issue financial instruments for trading purposes, nor engage in other speculative or leveraged transactions.

Interest rate risk is managed through the use of interest rate collar

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agreements to hedge principal amounts of up to an aggregate of \$100 million. These agreements are entered into with major financial institutions thereby minimizing risk of credit loss. See Note 4 to the consolidated financial statements for a more complete description of the Company's interest rate collars.

### Interest Rate Sensitivity Analysis

The following analysis presents the sensitivity to the earnings of the Company if these changes occurred at December 31, 2000. The range of changes chosen for this analysis reflects the Company's view of changes that are reasonably possible over a one-year period. These forward-looking disclosures are selective in nature and only address the potential impacts from financial instruments. They do not include other potential effects that could impact the Company's business as a result of these changes in interest.

At December 31, 2000, the Company had debt, excluding capital leases, totaling \$115.7 million and interest rate collar agreements with a notional value of \$100 million. The interest rate collar agreements limit LIBOR fluctuations to interest rate ranges from 4.70% to 8.00% and expire during various periods from October 2002 to September 2004. As of December 31, 2000, the six-month LIBOR rate was 6.20%.

At December 31, 2000, the Company had \$103.0 million of variable rate debt and \$12.7 million of fixed rate debt. Holding other variables constant (such as debt levels), the earnings and cash flows impact of a one-percentage point change in interest rates would be approximately \$0.7 million.

### Foreign Currency Risk

The Company's exposure to foreign currency risk is limited to the Company's operations under Smart & Final Mexico and the equity earnings in its Mexico joint venture. The Company's other transactions are conducted in U.S. dollars and are not exposed to fluctuation in foreign currency. The Company does not hedge on foreign currency and therefore is not exposed to such hedging risk.

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### Credit Risk

The Company is exposed to credit risk on accounts receivable. The Company provides credit primarily to foodservice distribution customers in the ordinary course of business and performs ongoing credit evaluations. Concentrations of credit risk with respect to trade receivables are limited due to the number of customers comprising the Company's customer base. The Company currently believes its allowance for doubtful accounts is sufficient to cover customer credit risks.

### 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 (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Such statements are subject to certain risks and uncertainties, including 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 management of the Company which, although believed to be reasonable, are inherently uncertain and difficult to predict; therefore, undue

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reliance should not be placed upon such statements. The following important factors, among others, could cause the Company's results of operations to be adversely affected in future periods: (i) increased competitive pressures from existing competitors and new entrants, including price-cutting strategies, store openings and remodels; (ii) increases in interest rates or the Company's cost of borrowing or a default under any material debt agreements; (iii) deterioration in general or regional economic conditions; (iv) adverse state or federal legislation or regulation that increases the costs of compliance, or adverse findings by a regulator with respect to existing operations; (v) loss of customers or sales weakness; (vi) inability to achieve future sales levels or other operating results; (vii) the unavailability of funds for capital expenditures; and (viii) operational inefficiencies in distribution or other Company systems. Many of such factors are beyond the control of the Company. There can be no assurance that the Company will not incur new or additional unforeseen costs in connection with the ongoing conduct of its business. Accordingly, any forward-looking statements included herein do not purport to be predictions of future events or circumstances and may not be realized. In addition, assumptions relating to budgeting, marketing, advertising, litigation and other management decisions are subjective in many respects and thus susceptible to interpretations and periodic revisions based on actual experience and business developments, the impact of which may cause the Company to alter its marketing, capital expenditure or other budgets, which may in turn affect the Company's financial positions and results of operations.

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### Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following information is included in this section:

Report of Independent Public Accountants	23
Consolidated Balance Sheets	24
Consolidated Statements of Operations	25
Consolidated Statements of Stockholders' Equity	26
Consolidated Statements of Cash Flows	27
Notes to Consolidated Financial Statements	28
Supplementary Data - Summary of Quarterly Results of Operations	50

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### REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Smart & Final Inc.:

We have audited the accompanying consolidated balance sheets of Smart & Final Inc. (a Delaware corporation and a 57.1 percent owned subsidiary of Casino USA, Inc.) and subsidiaries as of December 31, 2000 and January 2, 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three fiscal years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management.

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Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Smart & Final Inc. and subsidiaries as of December 31, 2000 and January 2, 2000, and the results of their operations and their cash flows for each of the three fiscal years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP  
ARTHUR ANDERSEN LLP

Los Angeles, California  
February 16, 2001

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SMART & FINAL INC.  
CONSOLIDATED BALANCE SHEETS  
December 31, 2000 and January 2, 2000  
(dollars in thousands, except share amounts)

		Decemb 20
ASSETS		20
-----		-----
Current assets:		
Cash & cash equivalents		\$
Trade notes and accounts receivable, less allowance for doubtful accounts of \$3,182 in 2000 and \$4,687 in 1999		
Inventories		
Prepaid expenses		
Deferred tax asset		
		-----
Total current assets		
Property, plant and equipment:		
Land		
Buildings and improvements		
Leasehold improvements		
Fixtures and equipment		
		-----
Less - Accumulated depreciation and amortization		
		-----
Net property, plant and equipment		

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Assets under capital leases, net of accumulated  
 amortization of \$8,098 in 2000 and \$7,233 in 1999  
 Goodwill, net of accumulated amortization of \$5,203 in 2000 and \$3,640 in 1999  
 Deferred tax asset  
 Other assets

Total assets

-----  
 \$  
 =====

LIABILITIES AND STOCKHOLDERS' EQUITY  
 -----

Current liabilities:

Current maturities of long-term debt  
 Accounts payable  
 Accrued salaries and wages  
 Other accrued liabilities

-----  
 \$  
 -----

Total current liabilities

Long-term liabilities:

Notes payable, net of current maturities  
 Notes payable to Parent  
 Bank debt  
 Obligations under capital leases  
 Other long-term liabilities  
 Workers' compensation reserve, postretirement and postemployment benefits

Total long-term liabilities

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;  
 29,203,114 shares issued and outstanding in 2000 and 29,136,995 in 1999)  
 Additional paid-in capital  
 Notes receivable for stock  
 Accumulated other comprehensive loss  
 Retained earnings

Total stockholders' equity

Total liabilities and stockholders' equity

-----  
 \$  
 =====

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

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SMART & FINAL INC.  
 CONSOLIDATED STATEMENTS OF OPERATIONS  
 For the Fiscal Years Ended December 31, 2000, January 2, 2000  
 and January 3, 1999  
 (dollars in thousands, except per share amounts)

-----  
 2000

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Sales	\$ 1,863,895
Cost of sales, buying and occupancy	1,605,812
	-----
Gross margin	258,083
Operating and administrative expenses	228,109
	-----
Income from operations	29,974
	-----
Interest expense, net	13,368
	-----
Income (loss) before income taxes, extraordinary item and cumulative effect of accounting change	16,606
Income taxes	6,395
	-----
Income (loss) from consolidated subsidiaries	10,211
Equity earnings in unconsolidated subsidiary	833
	-----
Income (loss) before extraordinary item and cumulative effect of accounting change	11,044
Extraordinary loss on extinguishment of debt, net of tax effect of \$147	-
Cumulative effect of accounting change (start-up costs, net of tax effect of \$758)	-
	-----
Net income (loss)	\$ 11,044
	=====
Earnings (loss) per common share:	
Earnings (loss) per common share before extraordinary item and cumulative effect of accounting change	\$ 0.38
Extraordinary loss on extinguishment of debt per common share	-
Cumulative effect of accounting change per common share	-
	-----
Earnings (loss) per common share	\$ 0.38
	=====
Weighted average common shares	29,191,420
	=====
Earnings (loss) per common share, assuming dilution:	
Earnings (loss) per common share, assuming dilution, before extraordinary item and cumulative effect of accounting change	\$ 0.38
Extraordinary loss on extinguishment of debt per common share	-
Cumulative effect of accounting change per common share	-
	-----
Earnings (loss) per common share, assuming dilution	\$ 0.38
	=====
Weighted average common shares and common share equivalents	29,244,451
	=====
Dividend per common share	\$ -
	=====

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

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
 For the Fiscal Years Ended December 31, 2000, January 2, 2000 and  
 January 3, 1999  
 (dollars in thousands, except share amounts)

	Common Stock		Additional Paid-in Capital	Notes Receivable for Stock	Accu Ot Compre L
	Number of Shares	Amount			
Balance, fiscal year end 1997	22,386,181	\$ 224	\$ 142,865	\$ -	\$
Issuance of common stock	140,998	1	1,772	-	
Restricted stock accrual	-	-	167	-	
Tax benefit associated with stock options exercised	-	-	183	-	
Dividend (\$0.20 per share)	-	-	-	-	
Net income (loss)	-	-	-	-	
Balance, fiscal year end 1998	22,527,179	225	144,987	-	
Issuance of common stock	6,609,816	66	58,925	-	
Notes receivable for stock subscription	-	-	-	(100)	
Restricted stock accrual	-	-	538	-	
Dividend (for restricted stocks canceled)	-	-	-	-	
Net income	-	-	-	-	
Balance, fiscal year end 1999	29,136,995	291	204,450	(100)	
Issuance of common stock	66,119	1	75	-	
Restricted stock accrual	-	-	373	-	
Dividend (for restricted stocks canceled)	-	-	-	-	
Comprehensive income (loss):					
Net income	-	-	-	-	
Other comprehensive income:					
Foreign currency translation gain (loss)	-	-	-	-	
Total comprehensive income (loss)	-	-	-	-	
Balance, fiscal year end 2000	29,203,114	\$ 292	\$ 204,898	\$ (100)	\$

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

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SMART & FINAL INC.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 For the Fiscal Years Ended December 31, 2000,  
 January 2, 2000 and January 3, 1999  
 (dollars in thousands)

Fisc

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	----- 2000 -----
Cash Flows From Operating Activities:	
Net income (loss)	\$ 11,044
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Gain on disposal of fixed assets	(389)
Asset valuation adjustments	-
Depreciation and amortization	32,873
Deferred tax provision (benefit)	(1,373)
Amortization of deferred financing costs	1,784
Extraordinary loss on extinguishment of debt, net of taxes	-
Cumulative effect of accounting change, net of taxes	-
Equity earnings in unconsolidated subsidiary	(833)
Decrease (increase), net of business acquisition, in:	
Trade notes and accounts receivable	(5,282)
Inventories	(15,726)
Prepaid expenses and other	1,409
Increase (decrease), net of business acquisition, in:	
Accounts payable	6,116
Accrued liabilities	2,411
Other liabilities	11,130
	-----
Net cash provided by operating activities	43,164
	-----
Cash Flows From Investing Activities:	
Acquisition of property, plant and equipment	(23,942)
Proceeds from disposal of property, plant and equipment	549
Acquisition of business	-
Other	(4,662)
	-----
Net cash used in investing activities	(28,055)
	-----
Cash Flows From Financing Activities:	
Proceeds from issuance of common stock, net of costs	-
Payments on bank line of credit	(30,500)
Borrowings on bank line of credit	-
Payments on notes payable	(4,217)
Change in payable to Parent and affiliates	-
Quarterly dividend paid	-
Fees paid in connection with debt restructure	-
	-----
Net cash (used in) provided by financing activities	(34,717)
	-----
Increase (decrease) in cash and cash equivalents	(19,608)
Cash and cash equivalents at beginning of year	42,936
	-----
Cash and cash equivalents at end of year	\$ 23,328
	=====
Noncash Investing and Financing Activities:	
Fees in connection with note restructure	\$ -
Equipment acquired as capital lease	-
Note issued in connection with note restructure	-
Note received in connection with fixed assets retired	-
Note retired in connection with note restructure	-
Payable to affiliates retired in connection with note restructure	-
Note to affiliates extinguished for common stock issued	-
Note issued in connection with acquisition of business	-
Construction in progress costs incurred but not paid	5,967

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Total noncash transactions

-----  
\$ 5,967  
=====

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

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## SMART & FINAL INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Summary of Significant Accounting Policies

#### Basis of presentation

Smart & Final Inc. (the "Company") is a Delaware corporation and at fiscal year end 2000 was a 57.1 percent owned subsidiary of Casino USA, Inc. (the "Parent" or "Casino USA"), a California corporation. Casino Guichard-Perrachon, S.A. ("Casino France"), a publicly traded French joint stock limited liability company, is the principal shareholder of the Parent. Collectively, Casino France and its subsidiaries currently own approximately 60.2 percent of the Company's common stock. The Company's principal subsidiary is Smart & Final Stores Corporation, a California corporation, which operates a Cash & Carry division (collectively, "Smart & Final"). The Company owns American Foodservice Distributors ("AFD"), a holding company, which owns 100% of Port Stockton Food Distributors, Inc. ("Port Stockton"), a California corporation, and 100% of Henry Lee Company ("Henry Lee"), a Florida company, and two operating divisions in Florida, Orlando Foodservice and Southern Foods. The Company is engaged in the business of distributing food and related non-food items through wholesale outlets under the trade names "Smart & Final" and "United Grocers Cash & Carry" ("Cash & Carry") and by delivery, under the trade names "Smart & Final Foodservice Distributors", formerly "Port Stockton", and "Henry Lee." The Company also owns 100% of Smart & Final de Mexico S.A. de C.V. ("Smart & Final Mexico"), a Mexican holding company through which the Company owns 50% of a joint venture, Smart & Final del Noroeste S.A. de C.V. ("SFDN"), in Mexico.

#### Principles of consolidation

The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. The Company's 50%-owned joint venture in Mexico, which commenced store operations in December 1993, is accounted for by the equity method of accounting.

All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior years' amounts have been reclassified to conform to the fiscal year 2000 presentation.

#### Fiscal years

The Company's fiscal year ends on the Sunday closest to December 31. Fiscal year 2000, 1999 and 1998 each included 52 weeks. Fiscal years 2000, 1999 and 1998 ended on December 31, 2000, January 2, 2000 and January 3, 1999, respectively. Each of the Company's fiscal years consists of twelve-week periods in the first, second, and fourth quarters of the fiscal year and a sixteen-week period in the third quarter. The fourth quarter of a 53-week year consists of thirteen weeks.

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## SMART & FINAL INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

### Cash and cash equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The carrying amount of cash equivalents is approximately the same as their fair value because of the short maturity of these instruments.

### Credit risk

The Company is exposed to credit risk on accounts receivable. The Company provides credit to customers in the ordinary course of business and performs ongoing credit evaluations. Concentrations of credit risk with respect to trade receivables are limited due to the number of customers comprising the Company's customer base. The Company currently believes its allowance for doubtful accounts is sufficient to cover customer credit risks.

### Inventories

The majority of the Company's inventories consist of merchandise purchased for resale which are stated at the lower of FIFO (first-in, first-out) cost or market.

### Property, plant and equipment

Property, plant and equipment are stated at cost and are depreciated or amortized using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	5-25 years
Fixtures and equipment	3-10 years
Leasehold improvements	Lesser of lease term or useful life of improvement

Costs of normal maintenance and repairs and minor replacements are charged to expense when incurred. Major replacements or betterments of properties are capitalized. When assets are sold or otherwise disposed of, the costs and related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is included in the income statement.

Long-lived assets and certain identifiable intangibles to be held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Also included in property, plant and equipment are costs associated with selection and procurement of real estate sites of \$1,078,000 and \$789,000 as of fiscal year end 2000 and 1999, respectively. These costs are amortized over the remaining lease term of the site with which they are associated.

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### Other assets

Other assets include municipal bonds aggregating \$5,430,000 at each fiscal year end 2000 and 1999, which secure the Company's workers' compensation reserves. The fair value of the municipal bonds, estimated based on quoted market prices for similar investments, approximate their carrying amounts. These municipal bonds have varying maturity dates ranging from 2006 through 2019.

Other assets include debt issuance costs of \$1,460,000 and \$3,486,000 at year end 2000 and 1999, respectively relating to fees paid in connection with the debt restructuring. These costs are being amortized over the term of the related debt.

Capitalized software costs, net of amortization, of \$4,654,000 and \$5,844,000 are included in other assets at fiscal year end 2000 and 1999, respectively. These costs include third party purchased software costs, direct labor associated with internally developed software, and installation costs. Amortization is being recognized over a three to five year period using the straight-line method, and reflects the period over which the benefits of the software are fully realizable and enhance the operations of the business.

### Goodwill

Goodwill is amortized on a straight-line basis over a period not exceeding 40 years. The Company assesses the recoverability of goodwill based on forecasted operating income.

### Stock options

In 1996, the Company adopted Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123"), which encourages, but does not require, the recognition of compensation expense for employee stock-based compensation arrangements using the fair value method of accounting. The Company has elected the disclosure only alternative, and has disclosed the pro forma net income per share amounts in the notes to the consolidated financial statements using the fair-value method.

### Significant accounting estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period.

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### Revenue recognition

Revenue is recognized at the point of sale for store sales and at the time of shipment for foodservice sales.

### Income taxes

The Company recognizes deferred tax assets and liabilities based on the

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liability method, which requires an adjustment to the deferred tax asset or liability to reflect income tax rates currently in effect. When income tax rates increase or decrease, a corresponding adjustment to income tax expense is recorded by applying the rate change to the cumulative temporary differences.

### Foreign currency translations

Assets and liabilities recorded in foreign currencies, as well as the Company's investment in the Mexico joint venture, are translated at the exchange rate on the balance sheet date. Revenues and expenses of the Company's consolidated foreign operations are translated at average rates of exchange prevailing during the year. Beginning in January 2000, in accordance with generally accepted accounting principles, the functional currency for the Company's Mexico operations is the Mexican Peso. As such, foreign currency translation gains and losses are included in other comprehensive income (loss) and reflected in Accumulated other comprehensive loss within Stockholders' equity. During fiscal years 1998 and 1999, in accordance with generally accepted accounting principles, the functional currency was the U.S. dollar and as such, foreign currency translation gains and losses were included in results of operations for those fiscal years.

### Accounting pronouncements

During the first quarter of 1998, the Company adopted the provisions of the American Institute of Certified Public Accountants ("AICPA") Statement of Position 98-5, "Reporting on the Costs of Start-up Activities". This statement requires that costs of start-up activities and organization costs be expensed as incurred. Adoption of this statement resulted in a cumulative effect of accounting change, net of tax, charge of \$1.1 million, or \$0.05 per diluted share.

In June 1998, Financial Accounting Standards Board issued Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", which established accounting and reporting standards for derivative instruments and for hedging activities. SFAS No. 133 was amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of SFAS No. 133," which deferred the implementation of SFAS No. 133 until fiscal years beginning after June 15, 2000. In June 2000, SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" amended SFAS No. 133. Currently, the Company has limited use of

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derivative financial instruments and believes that adoption of SFAS No. 133, as amended by SFAS No. 138, will not have a material impact on its results of operations or financial position.

## 2. Investments in Subsidiaries

Investment in SFDN is accounted for using the equity method of accounting. The Company's Retained earnings included undistributed earnings of SFDN of \$2,438,000 and \$1,605,000 at year end 2000 and 1999, respectively. These earnings are considered retained indefinitely for reinvestment and, accordingly, no provision is provided for United States federal and state income taxes and foreign income taxes.

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### 3. Acquisition of Businesses

On May 15, 1998, the Company acquired the Cash & Carry operating business of United Grocers, Inc. that included 39 stores operating primarily in the Pacific Northwest. The purchase price consisted of \$42.5 million in cash, plus a \$17.5 million five-year unsecured note. The results of store operations for fiscal year 1998 include the results of operations of the acquired Cash & Carry stores since May 15, 1998. The acquisition has been accounted for using the purchase method of accounting. The excess of the aggregate purchase price over the fair market values of the net assets acquired, of \$38.2 million, has been reflected in the balance sheet as Goodwill and is being amortized over forty years.

In January 1998, AFD purchased the remaining 10% of the stock of Henry Lee for \$1.9 million. The Company recorded this acquisition using the purchase method of accounting.

The total assets acquired from these acquisitions and the results of operations at the dates of these asset acquisitions are immaterial relative to the Company's consolidated financial statements.

### 4. Long-Term Debt

#### Revolving Loan

Effective November 13, 1998, the Company entered into Senior Secured Credit Facilities totaling \$240 million with a group of banks. The Senior Secured Credit Facilities include a \$150 million Revolving Credit Facility ("Revolving Loan") and a \$90 million Secured Lease Facility ("Secured Lease Facility"). At the Company's option, the Revolving Loan can be used to support up to \$10 million of commercial letters of credit. Borrowings under the Senior Secured Credit Facilities are collateralized by a security interest in the Company's receivables, inventory and fixed assets. Interest for these facilities is at LIBOR, or the Administrative Agent's reference rate, plus designated amounts. No principal repayments are due prior to the final maturity. However, under certain conditions, pay-downs toward the facilities are required and treated as

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permanent reductions to the amount available. As of December 31, 2000, the total amount available under the Revolving Loan was \$129 million reflecting \$21 million of permanent pay-downs, including \$19.0 million of pay-down after the completion of the Company's common stock offering during the second quarter of 1999. These facilities expire on November 13, 2001 and therefore, the borrowing under the Revolving Loan as of December 31, 2000, \$87.0 million, was classified as a current liability. As of December 31, 2000, the LIBOR rate was 6.20%.

These facilities require the Company to maintain certain financial ratios. As of December 31, 2000, the Company was in compliance with the covenants and provisions of the Senior Secured Credit Facilities, as amended.

#### Casino Loan

On November 13, 1998, the Company entered into a \$55.4 million Loan Agreement ("Casino Loan") with Casino USA. Interest for this loan was at LIBOR plus 4.50%. The Casino Loan matures on February 15, 2002.

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During the second quarter of 1999, \$39.4 million of the Casino Loan was exchanged as consideration for shares subscribed by Casino USA in conjunction with the Company's common stock offering. The Company subsequently issued an addendum to the Casino Loan to reduce the loan principal from \$55.4 million to \$16.0 million and the interest rate from LIBOR plus 4.50%, to the sum of the rate under Revolving Loan plus 25 basis points. The Casino Loan requires that the Company maintain certain financial ratios. As of the end of fiscal year 2000, the Company was in compliance with these covenants, as amended.

### Other long-term debt

The Company has guaranteed \$703,000 of SFDN debt under a Standby Letter of Credit as of December 31, 2000.

In connection with the acquisition of the Cash & Carry operating business of United Grocers, Inc., the Company issued a \$17.5 million five-year unsecured note. At December 31, 2000, the outstanding balance was \$12.5 million. This note is payable in three remaining annual installments of \$2.5 million in 2001, \$5.0 million in 2002 and 2003. This note bears interest at 6.50%. Accrued interest is payable quarterly. Other unsecured notes payable of \$249,000 and \$520,000 at fiscal year end 2000 and 1999, respectively, bear interest at various rates ranging from 6.50% to 8.00%.

### Interest

Interest paid on these notes and bank lines of credit aggregated \$13,829,000, \$20,119,000, and \$10,042,000 for the fiscal years ended 2000, 1999 and 1998, respectively. The effective interest rates on the Company's variable rate debt at December 31, 2000 ranged between 9.03% and 10.75% and at January 2, 2000, between 8.95% and 10.50%.

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Aggregate future principal payments are as follows:

Fiscal Year:

2001.....	\$	89,632,000
2002.....		21,078,000
2003.....		5,004,000
		-----
	\$	115,714,000
		=====

The fair value of the Company's long-term debt, estimated based upon current interest rates offered for debt instruments of the same remaining maturities, approximates the carrying amount.

The Company's involvement with derivative financial instruments has been limited to interest rate collar agreements to limit the impact of interest rate fluctuations on revolving debt. The Company has entered into interest rate collar agreements with various banks to hedge principal amounts of up to an aggregate of \$100 million. These agreements limit LIBOR fluctuations to interest

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rate ranges from 4.70% to 8.00% and expire during various periods from October 2002 to September 2004. As of December 31, 2000, the market rate applied to these agreements did not have an impact on the Company's result of operations or financial position.

### 5. Lease Obligations

As of fiscal year end 2000, the Company leased 132 store properties directly from third party lessors, with an average remaining lease term of ten years. The Company leased 15 store properties, at year end, under its Secured Lease Facility. In addition, the Company has eight stores on real property that is ground leased from third party lessors.

On November 13, 1998, the Company entered into a Secured Lease Facility as mentioned in Long-Term Debt. The Secured Lease Facility provided for the lease of a distribution center for Smart & Final Foodservice and for store expansion and distribution facilities in California and Florida. During fiscal years 2000 and 1999, the Company leased assets valued at approximately \$84.6 million and \$82.9 million, respectively, under this facility. The related minimum lease obligation is included in the table below, in accordance with its original expiration date.

AFD's Miami dry and refrigerated warehouse is leased from the former owners of Henry Lee. The lease contains terms and rates considered equivalent to those available from unrelated third party lessors. The Company guarantees \$1,038,000 of obligations of the former owners of Henry Lee. These obligations are related to properties leased by Henry Lee.

Lease expense for operating leases included in the accompanying financial statements were \$39,208,000 for 2000, \$34,104,000 for 1999 and \$32,248,000 for 1998. All lease expenses were paid to the third party lessors.

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Aggregate minimum future lease payments for real property, as well as equipment and other property at fiscal year end 2000 are as follows:

Fiscal Year:	Operating Leases	Capital Leases
	-----	-----
2001.....	\$ 122,118,000	\$ 2,560,000
2002.....	27,616,000	2,638,000
2003.....	25,758,000	2,430,000
2004.....	24,011,000	2,204,000
2005.....	21,385,000	2,032,000
Subsequent to 2005.....	143,606,000	2,929,000
	-----	-----
Future minimum lease payments	\$ 364,494,000	14,793,000
	=====	
Less amount representing interest.....		3,826,000
		-----
Present value of future lease payments.....		\$ 10,967,000
		=====

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Capital lease obligations vary in amount with interest rates ranging from 5.74% to 19.91%. Interest paid in relation to capital leases aggregated \$1,166,000, \$849,000 and \$882,000 for fiscal years ended 2000, 1999 and 1998, respectively.

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### SMART & FINAL INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

#### 6. Retirement Plans

##### Defined benefit plans

The Company has a noncontributory pension plan covering substantially all full time employees, except for those employees of AFD. The Company funds this plan with annual contributions as required by the Employee Retirement Income Security Act of 1974 (ERISA). Plan assets are held by the trustee, and consist of a diversified portfolio of fixed-income investments and equity securities, including U.S. Government instruments, corporate bonds, money market funds and common stock.

Effective January 1, 1998 the Company adopted a noncontributory supplemental executive retirement plan ("SERP") which provides supplemental income payments for certain Company officers in retirement. The Company has invested in corporate owned life insurance policies as a portion of the funding for these benefits. The cash surrender value of these policies amounted to \$4,286,000 and \$3,248,000 at year end 2000 and 1999, respectively and are included in Other assets in the accompanying consolidated balance sheets.

The following tables set forth the changes in benefit obligation and plan assets of these plans for 2000 and 1999:

	2000	1999
<b>Change in Benefit Obligation</b>		
Benefit obligation at beginning of year	\$ 37,921,000	\$ 42,829,000
Service cost	1,833,000	2,227,000
Interest cost	3,153,000	2,921,000
Plan amendment	124,000	
Actuarial (gain) loss	4,625,000	(6,803,000)
Benefits paid	(1,551,000)	(3,253,000)
	46,105,000	37,921,000
<b>Change in Plan Assets</b>		
Fair value of plan assets at beginning of year	39,667,000	35,173,000
Actual return on plan assets	(1,326,000)	6,483,000
Employer contribution	286,000	1,264,000
Benefits paid	(1,551,000)	(3,253,000)
	37,076,000	39,667,000

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Funded Status	(9,029,000)	1,746,000
Unrecognized prior service cost	3,044,000	3,267,000
Unrecognized net transition obligation	293,000	392,000
Unrecognized actuarial (gain) loss	1,283,000	(8,441,000)
	-----	-----
Accrued benefit cost	\$ (4,409,000)	\$ (3,036,000)
	=====	=====

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Amounts recognized in the statement of financial position at year end 2000 and 1999 consist of:

	2000	1999
	-----	-----
Accrued benefit cost	\$ (4,409,000)	\$ (3,036,000)
Additional minimum liability	(1,711,000)	(368,000)
Intangible asset	1,711,000	368,000
	-----	-----
Net amount recognized	\$ (4,409,000)	\$ (3,036,000)
	=====	=====

The weighted average assumptions used in accounting for these plans at year end 2000 and 1999 were as follows:

	2000	1999
	-----	-----
Discount rate	7.50%	8.00%
Rate of increase in compensation levels	4.50%	4.50%
Expected long-term rate of return on plan assets	9.00%	9.00%

The net periodic benefit cost for fiscal years 2000, 1999, and 1998 includes the following components:

	2000	1999
	-----	-----
Service cost component	\$ 1,833,000	\$ 2,227,000
Interest cost component	3,153,000	2,921,000
Expected return on plan assets	(3,546,000)	(3,173,000)
Amortization of prior service cost	347,000	348,000
Amortization of transition obligation	99,000	97,000
Amortization of actuarial gain	(439,000)	-
	-----	-----
Net expense	\$ 1,447,000	\$ 2,420,000

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The Company contributes to a multi-employer pension plan administered by a trustee on behalf of its 100 union employees. Contributions to this plan are based upon negotiated labor contracts. Information relating to benefit obligations and fund assets as they may be allocable to the Company at December 31, 2000 is not available. Pension expense for this plan was \$507,000 for 2000, \$400,000 for 1999 and \$330,000 for 1998.

Defined contribution plans

The Company offers all qualified full time employees participation in defined contribution plans ("the 401(k) Savings Plans") which are qualified under the requirements of Section 401(k) of the Internal Revenue Code of 1986, as amended. The Smart & Final 401(k) Savings Plan covers all employees of Smart & Final Stores Corporation and related entities which includes the Cash & Carry division employees. This 401(k) Savings Plan allows participants to contribute for fiscal year 2000 up to 15% of their compensation or \$10,500, whichever is lower. The Company automatically matches 25% of each dollar contributed up to 6% of the participant's eligible compensation. Additionally, the Company may at its discretion

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match up to an additional 75% of each dollar contributed up to 6% of the participants' eligible compensation if the Company exceeds certain financial and profitability goals. The Company provided \$250,000 additional match in 2000 and no additional match in 1999 or 1998. The Company provided \$1,051,000, \$785,000, and \$708,000 for contributions to this 401(k) Savings Plan for fiscal years 2000, 1999, and 1998, respectively.

The Company also maintains 401(k) Savings Plans for its Smart & Final Foodservice and Henry Lee subsidiaries. For 2000, these plans allowed participants to contribute up to 15% of their compensation or \$10,500, whichever was lower. Under these plans, the Company automatically matches from 50% to 75% of each dollar contributed up to 6% of the participant's eligible compensation, depending on the plan. The amounts contributed to these plans were \$788,000, \$752,000 and \$549,000 for 2000, 1999 and 1998, respectively.

Deferred compensation plan

Effective January 1, 1995, the Comp