FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

Filing Date: **1999-09-10** | Period of Report: **1999-02-27**
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FILER

CERTIFIED GROCERS OF CALIFORNIA LTD

CIK:**320431**| IRS No.: **950615250** | State of Incorp.:**CA** | Fiscal Year End: **0831**
Type: **10-Q/A** | Act: **34** | File No.: **000-10815** | Film No.: **99709910**
SIC: **5141** Groceries, general line

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
10-QA

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

For the quarterly period ended February 27, 1999

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 0-10815

Certified Grocers of California, Ltd.
(Exact name of registrant as specified in its charter)

California	95-0615250
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5200 Sheila Street, Los Angeles	90040
(Address of principal executive offices)	(Zip Code)

(323) 264-5200
Registrant's telephone number, including area code

(Former Name, former address and former fiscal year, if changed since last report)

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes --- No ---

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class A Shares	46,800	Shares as of February 27, 1999
Class B Shares	361,139	Shares as of February 27, 1999
Class C Shares	15	Shares as of February 27, 1999

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

CERTIFIED GROCERS OF CALIFORNIA, LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

<TABLE>
<CAPTION>

	February 27, 1999 (as restated)	August 29, 1998

	(Unaudited)	
<S>	<C>	<C>
ASSETS		
Current:		
Cash and cash equivalents	$ 8,942	$ 4,105
Accounts and notes receivable, net	96,699	95,672
Inventories	136,960	124,419
Prepaid expenses	4,746	4,744
Deferred taxes	4,277	3,853
Total current assets	251,624	232,793
Properties, at cost	177,858	160,808
Less, accumulated depreciation	(99,518)	(84,509)
	78,340	76,299
Investments	38,232	41,341
Notes receivable	17,756	21,792
Other assets	41,291	16,993
TOTAL ASSETS	$427,243	$389,218
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current:		
Accounts payable	$ 81,600	$ 80,870
Accrued liabilities	60,462	51,767
Notes payable	5,736	743
Patrons' excess deposits and estimated patronage dividends	18,047	13,630
Total current liabilities	165,845	147,010
Notes payable, due after one year	144,332	125,130
Long-term liabilities	23,565	20,440
Patrons' deposits and certificates:		
Patrons' required deposits	11,454	12,147
Subordinated patronage dividend certificates	5,986	6,158
Shareholders' equity:		
Class A Shares	5,602	5,479
Class B Shares	54,404	56,992
Retained earnings	15,577	15,685
Net unrealized gain on appreciation of investments	534	233
Minimum pension liability adjustment	(56)	(56)
Total shareholders' equity	76,061	78,333
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$427,243	$389,218

</TABLE>

The accompanying notes are an integral part of these statements.

CERTIFIED GROCERS OF CALIFORNIA, LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)
(dollars in thousands)

<TABLE>
<CAPTION>

	13 Weeks Ended		26 Weeks Ended	
	February 27, 1999 (as restated)	February 28, 1998	February 27, 1999 (as restated)	February 28, 1998
<S>	<C>	<C>	<C>	<C>
Net sales	$456,787	$462,007	$918,928	$948,960
Costs and expenses:				
Cost of sales	414,255	420,345	837,235	865,565
Distribution, selling and administrative	35,208	33,821	67,457	67,715
Operating income	7,324	7,841	14,236	15,680
Interest expense	(2,981)	(3,292)	(5,837)	(6,507)
Earnings before estimated patronage dividends				

and provision for income taxes	4,343	4,549	8,399	9,173
Estimated patronage dividends	(3,808)	(3,618)	(7,071)	(7,410)
Earnings before income tax provision	535	931	1,328	1,763
Provision for income taxes	162	299	412	584
Net earnings	$ 373	$ 632	$ 916	$ 1,179

</TABLE>

The accompanying notes are an integral part of these statements.

CERTIFIED GROCERS OF CALIFORNIA, LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
FOR THE TWENTY-SIX WEEKS ENDED FEBRUARY 27, 1999 AND FEBRUARY 28, 1998
(dollars in thousands)

<TABLE>
<CAPTION>

<S>	February 27, 1999 (as restated) <C>	February 28, 1998 <C>
Cash flows from operating activities:		
Net earnings	$ 916	$ 1,179
Adjustments to reconcile net earnings to net cash provided (utilized) by operating activities:		
Depreciation and amortization	8,040	7,253
Deferred taxes	(424)	
(Gain) loss on disposal of properties	(28)	171
Decrease (increase) in assets:		
Accounts and notes receivable	(1,027)	3,595
Inventories	(12,541)	9,239
Prepaid expenses	(2)	(471)
Notes receivable	1,384	(2,684)
Increase (decrease) in liabilities:		
Accounts payable	730	(27,243)
Accrued liabilities	8,695	(2,102)
Patrons' excess deposits and estimated patronage dividends	4,417	1,711
Long-term liabilities, other	3,125	732
Net cash provided (utilized) by operating activities	13,285	(8,620)
Cash flows from investing activities:		
Purchase of properties	(8,997)	(9,629)
Proceeds from sales of properties	43	1,181
Increase in other assets	(25,397)	(2,372)
Investment in securities, net	4,446	(1,427)
Proceeds from sale of notes receivable	2,652	
Net cash utilized by investing activities	(27,253)	(12,247)
Cash flows from financing activities:		
Additions to long-term notes payable	19,593	26,548
Additions to short-term notes payable	3,931	
Reduction of short-term notes payable	(365)	(1,317)
Decrease in members' required deposits	(693)	(13)
Redemption of patronage dividend certificates	(172)	
Repurchase of shares from members	(3,909)	(3,802)
Issuance of shares to members	420	260
Net cash provided by financing activities	18,805	21,676
Net increase in cash and cash equivalents	4,837	809
Cash and cash equivalents at beginning of year	4,105	7,900
Cash and cash equivalents at end of period	$ 8,942	$ 8,709
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 6,212	$ 6,632
Income taxes	$ 763	$ 700

</TABLE>

The accompanying notes are an integral part of these statements.

CERTIFIED GROCERS OF CALIFORNIA, LTD., AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. The condensed consolidated financial statements include the accounts of Certified Grocers of California, Ltd. and all of its subsidiaries (the "Company"). Intercompany transactions and accounts with subsidiaries have been eliminated. The interim financial statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations promulgated by the Securities and Exchange Commission (the "Commission"). Certain information and footnote disclosures, normally included in the financial statements prepared in accordance with generally accepted accounting principles, have been omitted pursuant to Commission rules and regulations; nevertheless, management believes that the disclosures are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's latest annual report filed on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results for the full year.

2. The accompanying condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, both of a normal recurring nature and necessary for a fair statement of the results of the interim periods presented. Certain reclassifications have been made to prior period financial statements to present them on a basis comparable with the current period's presentation. The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. The Company reclassified $391,000 from long-term to short-term debt (a noncash financing activity) for the twenty-six weeks ended February 27, 1999, in its Condensed Consolidated Statements of Cash Flows.

4. As of August 30, 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting and display of comprehensive income and its components. Comprehensive income is net income, plus certain other items that are recorded directly to shareholders' equity, bypassing net income. The only items currently applicable to the Company are the unrealized gain or loss on appreciation of investments and the minimum pension liability adjustment. Comprehensive income was $1,213,000 and $1,333,000 for the twenty-six weeks ended February 27, 1999 and February 28, 1998, respectively. Comprehensive income was $474,000 and $565,000 for the thirteen weeks ended February 27, 1999 and February 28, 1998, respectively.

The Financial Accounting Standards Board ("FASB") issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for reporting information about operating segments and requires reporting for selected information about operating segments in financial statements. It also establishes standards for related disclosures about products and services, geographic areas, and major customers. This statement is effective for financial statements for periods beginning after December 15, 1997. Management is in the process of determining the effects on the Company's financial statements.

The FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The statement requires that the Company recognize all derivatives as either assets or liabilities in the balance sheet and measure those instruments at fair value. As amended by SFAS No. 137, this statement is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. Management is in the process of determining the effects on the Company's financial statements.

5. Prior to December 31, 1998, the Company owned an equity interest in SavMax Foods, Inc. ("SavMax"), a member-patron. SavMax is an operator of seven retail grocery stores with retail sales of approximately $110 million per year. The investment consisted of (a) 10% of the outstanding Series A common stock with an original cost of $2.5 million and (b) $6.3 million of 8.5% Series B cumulative redeemable preferred stock. The Company purchased the remaining common and preferred shares of SavMax as of December 31, 1998, for an aggregate purchase price of approximately $4.5 million (see note 9). The transaction also included an ongoing covenant not to compete from a selling shareholder, termination of the sellers' existing employment and consulting agreements and the entry into a consulting arrangement with a selling shareholder. The acquisition has been accounted for as a purchase pursuant to Accounting Principles Board Opinion No.

16, "Business Combinations." Accordingly, the consideration has been allocated to the assets and liabilities based on their relative fair values. The excess of the purchase price

over the fair market value of the net assets was $23.4 million and was recorded as goodwill. Goodwill is based on SavMax's balance sheet dated January 2, 1999 and is subject to final determination based on real estate, leasehold and equipment valuation studies which are not yet complete. The results of the acquired business have been included in the consolidated financial statements from the effective date December 31, 1998 through February 27, 1999. Although SavMax has been consolidated, the Company's plans are to sell its investment to a qualified buyer(s) in the future.

Events Subsequent to the Date of the Financial Statements

6. Subsequent to the end of the quarter, in March 1999, the Company executed a letter of intent with respect to a proposed merger with United Grocers, Inc., a grocery cooperative headquartered in Portland, Oregon. The consummation of the merger is conditional upon the execution of a mutually approved definitive merger agreement following completion of due diligence, approval of the agreement by the shareholders of both entities, required filings with regulatory entities, and other customary conditions.

7. Prior to March 27, 1999, Grocers Capital Company ("GCC") owned 10% of the common stock of K.V. Mart Co. ("KV"), of which Certified director Darioush Khaledi is affiliated. The cost of the investment was approximately $3 million. The Stock Purchase Agreement contained a provision which allowed KV to repurchase the shares upon certain terms and conditions. Prior to March 27, 1999, KV exercised its repurchase rights under the agreement.

On March 27, 1999, the Company, GCC and KV entered into a stock repurchase agreement ("the Agreement"). The Agreement provides that KV shall purchase the shares for $4.5 million, payable in cash and in an interest-bearing note as provided for in the Stock Purchase Agreement. Coincident to the transaction, KV entered into a supply agreement with Certified for a five-year term. The Agreement also provides that for a three year period commencing as of the date of the Agreement, in the event of (i) a change of control of KV or (ii) a breach of the supply agreement by KV, KV shall pay the Company $900,000 or an amount equal to the difference between 10% of the appraised value of KV as of the approximate date of the Agreement (as prepared by an independent third party appraisal firm) and $4.5 million, whichever is greater.

8. Prior to April 5, 1999, the Company subleased a store in Riverside, California to Jax Apple Market, Inc. ("Jax"), of which former Director Willard R. "Bill" MacAloney is a principal. Mr. MacAloney's term as a director expired as of the Shareholders' Meeting held February 23, 1999. The Company asserted that monthly lease and other occupancy-related payments and equipment purchases related to the Riverside store had not been paid timely by Jax. Jax disputed the amounts claimed due by the Company.

On April 5, 1999, the Company entered into an agreement with Jax, Mr. MacAloney and other entities controlled by Mr. MacAloney (collectively, "the MacAloney entities"). Pursuant to the Agreement, the MacAloney entities paid the indebtedness due the Company and its affiliates related to the Riverside store, and the sublease was terminated. In addition, the Company acquired a right of first refusal to purchase all of the common stock related to supermarket entities controlled by Mr. MacAloney for a period of five years.

9. Subsequent to the issuance of the Company's quarterly report on Form 10-Q for the nine months ended May 29, 1999, the Company's management determined to account for the acquisition of SavMax, as described in Note 5, as a purchase pursuant to Accounting Principles Board Opinion No. 16 "Business Combinations". As a result, the financial statements for the six-month period ended February 27, 1999 have been restated from the amounts previously reported to reflect the consolidation of SavMax with the Company. This restatement decreased current assets by $10,000 and increased total assets by $11,000. Shareholder's equity and net earnings each increased by $4.

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

General

Subsequent to the end of the quarter, in March 1999, the Company executed a letter of intent with respect to a proposed merger with United Grocers, Inc., a grocery cooperative headquartered in Portland, Oregon. The consummation of the merger is conditional upon the execution of a mutually approved definitive merger agreement following completion of due diligence, approval of the agreement by the shareholders of both entities, required filings with regulatory entities, and other customary conditions.

Liquidity and Capital Resources

The Company relies upon cash flow from operations, patron deposits, shareholdings, and borrowings under the Company's credit lines, to finance operations. Net cash provided by operating activities totaled $13.3 million for the first twenty-six weeks of fiscal 1999 (the "1999 period"). Net cash provided for the 1999 period is primarily due to decreased long-term notes receivable in the distribution operations, increased accrued liabilities in the distribution, insurance and SavMax operations, and increased long-term liabilities in the distribution and SavMax operations. Net cash utilized by operating activities totaled $8.6 million for the first twenty-six weeks of fiscal 1998 (the "1998 period"). Working capital was $85.8 million at February 27, 1999 and August 29, 1998. The Company's current ratio was 1.5 to 1 at February 27, 1999 and 1.6 to 1 at fiscal 1998 year end, respectively. Working capital varies primarily as a result of seasonal inventory requirements.

Capital expenditures totaled $9.0 million in the first twenty-six weeks of fiscal 1999. The 1999 expenditures include purchases of computer equipment, leasehold improvements, warehouse equipment and retail store equipment.

The Company has $80,000,000 in Senior Notes (the "Senior Notes") outstanding to certain life insurance companies and pension funds. The Senior Notes are unsecured, due in April 2008 and bear interest at 7.22% per annum. The Company also has a $100,000,000 revolving credit facility with a group of banks (the "Revolving Credit"). The Revolving Credit is unsecured, expires in April 2003 and bears interest at the bank's base rate or at an adjusted LIBOR rate plus a margin ranging from 0.375% to 0.90% depending on the Company's leverage ratio. Both the Senior Notes and the Revolving Credit (the "Credit Agreements") limit the incurrence of additional funded debt, restrict the issuance of secured indebtedness and prohibit the payment of dividends (other than patronage dividends). The Credit Agreements contain various financial covenants pertaining to working capital, adjusted tangible net worth, funded debt to EBITDA, funded debt to total capitalization, fixed charge coverage and similar provisions. Obligations under the Credit Agreements are senior to the rights of member patrons with respect to deposits and patronage dividend certificates. GCC's existing $10,000,000 credit agreement also remains in place.

The Company entered into a five-year interest rate collar agreement during February 1999 in relation to certain borrowings on its variable rate Revolving Credit. The collar agreement was put in place without incurring any costs. The hedge agreement is structured such that the Company pays a variable rate of interest between 6% (cap rate) and 4.94% (floor rate) based on a notional amount of $50,000,000. The weighted average interest rate on borrowings on the revolving credit were 5.96% at February 27, 1999.

Certified distributes at least 20% of the patronage dividends in cash and distributes Class B Shares as a portion of the patronage dividends distributed to its member-patrons.

Patrons are generally required to maintain subordinated deposits with the Company and member-patrons purchase Class B Shares to satisfy this requirement, in whole or in part. Upon termination of patron status, the withdrawing patron will be entitled to recover deposits in excess of its obligations to the Company if permitted by the applicable subordination provisions, and a member-patron also will be entitled to have its shares redeemed, subject to applicable legal requirements, Company policies and credit agreement limitations. The Company's current redemption policy limits the Class B Shares that the Company is obligated to redeem in any fiscal year to 5% of the number of Class B Shares deemed outstanding at the end of the preceding fiscal year. In fiscal 1998, this limitation restricted the Company's redemption of shares to 19,300 shares for $3.4 million. In fiscal 1999, the 5% limitation

restricted the Company's redemption of shares to 19,007 shares for $3.5 million. The number of shares tendered for redemption at February 27, 1999, totaled 64,007 (or approximately $11.7 million using fiscal 1998 year end book value), which exceeds the amount that can be redeemed in fiscal 2000. Consequently, the Company will be required to make redemptions in fiscal 2000, 2001, 2002, and 2003 with such redemptions approximating $11.7 million based on 1998 year end book value. The redemption price for shares is based upon their book value as of the end of the year preceding redemption. Cash to fund redemption of shares is provided from operations, patron deposits, current shareholdings and borrowings under the Company's credit lines.

Year 2000

The Company has had an active Year 2000 ("Y2K") program since August 1996. This program includes a detailed review of the Company's software applications, hardware, and embedded technology. The Company has utilized an outside consultant to assess the embedded chip technology within its facilities. This assessment found 95% of the chips to be either already compliant or in the process of being updated by various vendors.

In 1996, the Company began assessing the application software of the Company to determine risk of Y2K failure. The assessment process was used to identify the business applications that would be at risk for potential century date impact and to prioritize the critical, moderate, and low risk applications for remediation or replacement. Applications that will be impacted by Y2K are scheduled for remediation or replacement. The Company is approximately 85% complete with replacing or remediating business critical applications, 60% complete with respect to applications that were identified as moderate risk and 35% complete as to low risk applications. The schedules for remediation or replacement are reviewed monthly by management. The Company expects that 100% of all critical and moderate risk applications will be completed by August 1999.

The Company had decided to replace certain systems that were not Y2K compliant. The systems being replaced are older systems that would have been replaced prior to Y2K regardless of the non-compliant issue. The estimated total cost of the Y2K project, including replacement of the systems, is approximately $5.9 million. The estimated total cost of the new systems is approximately $3 million. The remaining $2.9 million will be expensed. The total amount incurred on the project through February 27, 1999 was $4.8 million, of which $2.3 million related to the cost to remediate software and $2.5 million related to the replacement of systems including hardware.

The Company has notified its members of the Y2K issues through newsletters, meetings, and discussions. Certified's Interactive Ordering Program, which allows retailers to order electronically, and CertiNet, which is a comprehensive in-store system, are Y2K compliant.

The Y2K project team is also addressing interaction with vendors and the potential impact of Y2K issues. The Company has completed the upgrade and implementation of the Y2K compliant version of the Uniform Commercial Standard ("UCS") transactions. The Company is working with UCS vendors to make sure that processing of orders, invoices, and payments via electronic data interchange will be Y2K compliant. For those UCS vendors that are not ready for Y2K, the Company will have a contingency plan that will convert the vendor's data into Y2K compliant data before processing through the Company's systems.

Additionally, the Company is a member of the National Grocers Association's ("NGA") Year 2000 Task Force, which was formed to assist retailers in resolving the Y2K problem in their businesses through the sharing of information. The objectives of this group are to: (1) identify the hardware and software systems at risk; (2) communicate with the vendor community and establish definitive position statements regarding cash systems; and (3) communicate these findings to NGA members. Many of Certified's members are members of NGA. A comprehensive report of the findings of the Task Force is available to all members and vendors that are associated with Certified and the contents thereof have been discussed at several recent industry meetings. The Company has set up an electronic bulletin board with information on Y2K issues for its members.

As the Y2K program progresses, the Company will be developing additional contingency plans. The Company's contingency plans will be intended to address both remediation of systems and the overall business operating risk.

Since the Company has not confirmed with its members or vendors on their state of readiness for Y2K, it is not possible for the Company to assess the potential business interruption impact. Failure of the Company's members or vendors to be Y2K compliant could have a material adverse impact on the Company's operations. However, as discussed above, the Company is actively working with members and vendors to address the Y2K issues.

Results of Operations

The following table sets forth selected financial data of the Company expressed as a percentage of sales for the periods indicated below:

<TABLE>
<CAPTION>

	Thirteen Week Period		Twenty-six Week Period	
	1999	1998	1999	1998
<S>	<C>	<C>	<C>	<C>

Net sales	100%	100%	100%	100%
Cost of sales	90.7	91.0	91.1	91.2
Distribution, selling and administrative	7.7	7.3	7.4	7.1
Operating income	1.6	1.7	1.5	1.7
Interest expense	0.7	0.7	0.6	0.7
Estimated patronage dividends	0.8	0.8	0.8	0.8
Earnings after dividend and before income taxes	0.1	0.2	0.1	0.2
Provision for income taxes	0.0	0.1	0.0	0.1
Net earnings	0.1	0.1	0.1	0.1

</TABLE>

Thirteen Week Period

Net sales

Net sales totaled $456.8 million for the 1999 period as compared to $462.0 million in the 1998 period. The sales decrease of $5.2 million represents a 1.1% decrease over the 1998 period. The reduction in sales is primarily the result of reduced sales to Hughes Family Markets, Inc. ("Hughes"), Nob Hill General Store Inc. ("Nob Hill"), and Megafood Stores ("Megafoods"). Hughes, Nob Hill, and Megafoods were acquired by entities that have self-distribution programs. The volume lost as a result of Hughes, Nob Hill, and Megafoods transactions has been partially offset by the addition of North State Grocery Company as a member-patron in October 1998 and increased sales to the ongoing membership base.

Cost of sales

In the 1999 period cost of sales were $414.3 million (90.7% of net sales) compared to $420.3 million (91.0% of net sales) in the 1998 period. The overall gross margin as a percentage of net sales is slightly higher compared to the comparable period in 1998. The increase in gross margin is due to additional gross margin from retail sales generated by SavMax, which Certified acquired in December 1998. The increased margins were partially offset by increased claims expense of $2.0 million in one of Certified's insurance subsidiaries and lower margins in the cooperative divisions.

Distribution, selling and administrative

Distribution, selling and administrative expenses were $35.2 million (or 7.7% of net sales) in the 1999 period, as compared to $33.8 million (or 7.3% of net sales) in the 1998 period. The increase is due to additional costs of $3.6 million related to retail operations of SavMax. These costs were partially offset by efficiency improvements in warehouse and delivery expenses in the 1999 period.

Interest

Interest expense in the 1999 period is comparable to the 1998 period (0.7% of net sales). The $311,000 decrease is primarily due to lower interest rates associated with the $180.0 million refinancing completed in April 1998.

Estimated patronage dividends

Estimated patronage dividends totaled $3.8 million for the 1999 period as compared to $3.6 million for the 1998 period. The increase is due to improvements in distribution, selling and administrative expenses and interest expense as discussed above.

Net earnings

Net earnings for the 1999 period were $373,000 compared to net earnings of $632,000 for the 1998 period. Net earnings are generated by the Company's subsidiaries, which do not distribute patronage dividends. Accordingly, subsidiary earnings are retained by the Company in order to enhance the book value per share.

Twenty-six Week Period

Net sales

Net sales totaled $918.9 million for the 1999 period as compared to $949.0 million in the 1998 period. The sales decrease of $30.0 million represents a 3.2% decrease over the 1998 period. The reduction in sales is primarily the result of reduced sales to Hughes and Nob Hill. Hughes and Nob Hill were acquired by entities that have self-distribution programs; accordingly, product supply to the Hughes and Nob Hill stores migrated into the corresponding self-distribution facilities in the period between March 1998 through November 1998. The $59 million volume lost as a result of the Hughes and Nob Hill transactions has been partially offset by $14.9 million from the addition of North State Grocery Company as a member-patron in October 1998 and increased sales to the ongoing membership base.

Cost of sales

In the 1999 period cost of sales were $837.2 million (91.1% of net sales) compared to $865.6 million (91.2% of net sales) in the 1998 period. The overall gross margin as a percentage of net sales is slightly higher compared to the comparable period in 1998. The increase in gross margin is due to additional gross margin from retail sales generated by SavMax, which Certified acquired in December 1998. The increased margins were partially offset by increased claims expense of $3.2 million in one of Certified's insurance subsidiaries and lower margins in the cooperative divisions.

Distribution, selling and administrative

Distribution, selling and administrative expenses were $67.5 million (or 7.4% of net sales) in the 1999 period, as compared to $67.7 million (or 7.1% of net sales) in the 1998 period. The increase as a percentage of sales is due to additional costs of $3.6 million related to retail operations of SavMax. These costs were partially offset by efficiency improvements in warehouse and delivery expenses in the 1999 period.

Interest

Interest expense in the 1999 period decreased from $6.5 million (0.7% of net sales) in the 1998 period to $5.8 million (0.6% of net sales) in the 1999 period. The decrease is primarily due to lower interest rates associated with the $180.0 million refinancing completed in April 1998.

Estimated patronage dividends

Estimated patronage dividends totaled $7.1 million for the 1999 period as compared to $7.4 million for the 1998 period. The reduction is due to lower sales through the cooperative divisions offset by reduced interest costs.

Net earnings

Net earnings for the 1999 period were $916,000 compared to net earnings of $1,179,000 for the 1998 period. Net earnings are generated by the Company's subsidiaries, which do not distribute patronage dividends. Accordingly, subsidiary earnings are retained by the Company in order to enhance the book value per share.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage well-defined interest rate risks. The Company entered into a five-year interest rate collar agreement during February 1999 in relation to certain borrowings on its variable rate Revolving Credit. The collar agreement was put in place without incurring any costs. The hedge agreement is structured such that the Company pays a variable rate of interest between 6% (cap rate) and 4.94% (floor rate) based on a notional amount of $50,000,000. The weighted average interest rate on borrowings on the revolving credit were 5.96% at February 27, 1999.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit 27. Financial Data Schedule.

(b) Reports on Form 8-K
None.

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

Certified Groceers of California, Ltd.

(Registrant)

Dated: September 10, 1999

By ALFRED A. PLAMANN

Alfred A. Plamann
President and
Chief Executive Officer

By RICHARD J. MARTIN

Richard J. Martin
Senior Vice President --
Finance & Administration
and Chief Financial Officer

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