FORM 10-Q/A

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

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DART GROUP CORP

CIK:**26938**| IRS No.: **530242973** | State of Incorp.:**DE** | Fiscal Year End: **0131**
Type: **10-Q/A** | Act: **34** | File No.: **000-01946** | Film No.: **97740491**
SIC: **5531** Auto & home supply stores

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

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED July 31, 1997

( ) 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 0-1946

DART GROUP CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	53-0242973
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3300 75th Avenue, Landover, Maryland, 20785
(Address of principal executive offices)
(Zip Code)

(301) 226-1200
(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 ___

At September 12, 1997, the registrant had 1,764,956 shares outstanding of Class A Common Stock, $1.00 par value per share, and 327,270 shares outstanding of Class B Common Stock, $1.00 par value per share. The Class B Stock is the only voting stock and is not publicly traded.

This Amendment No. 1 amends the registrant's Quarterly Report on Form 10-Q (the "Form 10-Q") for the three months ended July 31, 1997 which was filed on September 15, 1997. All capitalized terms not otherwise defined herein shall have the meaning assigned to such terms in the Form 10-Q.

Item 1 (Financial Statements) and Item 2. (Management Discussion and Analysis of Financial Condition and Results of Operations) are hereby amended to present a change in depreciation method as a change in accounting principle for Shoppers Food Warehouse Corporation effective as of the Acquisition date as follows:

DART GROUP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per share data)
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended July 31,		Six Months Ended July 31,	
	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
Sales	$374,217	$163,798	$738,721	$320,326
Other interest and other income	1,896	1,333	2,916	2,741
	376,113	165,131	741,637	323,067
Expenses:				
Cost of sales, store occupancy and warehousing	293,159	128,805	575,047	250,611
Selling and administrative	77,343	35,102	149,574	69,308
Depreciation and amortization	7,165	3,499	13,628	6,930
Interest	6,059	2,161	12,837	4,336
Closed store reserve	(1,500)	-	(1,500)	-
	382,226	169,567	749,586	331,185
Loss before income taxes, equity				

in affiliate, minority interests, extraordinary item and cumulative effect of Shoppers Food accounting change	(6,113)	(4,436)	(7,949)	(8,118)
Income taxes (benefit)	(1,173)	(871)	(2,753)	(1,217)
Loss before equity in affiliate, minority interests, extraordinary item and cumulative effect of Shoppers Food accounting change	(4,940)	(3,565)	(5,196)	(6,901)
Equity in affiliate	-	2,740	-	5,124
Minority interests in loss of consolidated subsidiaries	2,302	527	3,801	1,012
Loss before extraordinary item and cumulative effect of Shoppers Food accounting change	(2,638)	(298)	(1,395)	(765)
Extraordinary item:				
Loss on early extinguishment of debt, net of income taxes of $2,150	(3,126)	-	(3,126)	-
Cumulative effect of Shoppers Food accounting change, net of income taxes of $1.344	-	-	1,729	-
Net loss	$ (5,764)	$ (298)	$ (2,792)	$ (765)

</TABLE>

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DART GROUP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)
(dollars in thousands, except per share data)
(Unaudited)

<TABLE>
<CAPTION>

	Three Months Ended July 31,	Six Months Ended July 31,

	1997	1996	1997	1996
<S>	<C>	<C>	<C>	<C>
Loss per share:				
Loss before extraordinary item and cumulative effect of change in accounting principle	$ (1.36)	$ (.30)	$ (.83)	$ (.66)
Extraordinary item:				
Loss on early extinguishment of debt, net	(1.40)	-	(1.40)	-
Cumulative effect of change in Shoppers Food accounting principle, net	-	-	.78	-
Net loss per share	$ (2.76)	$ (.30)	$ (1.45)	$ (.66)
Weighted average shares outstanding	2,090	2,074	2,089	2,074
Dividends per share of Class A Common Stock	$ .033	$ .033	$ .066	$ .066

</TABLE>

The accompanying notes are an integral part of these statements.

DART GROUP CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

<TABLE>
<CAPTION>

ASSETS	(Unaudited) July 31, 1997	(Audited) January 31, 1997
<S>	<C>	<C>
Current Assets:		
Cash	$ 15,486	$ 12,382
Short-term instruments	31,524	27,276

Marketable debt securities	29,046	5,714
Restricted Proceeds	50,218	-
Accounts receivable	16,468	14,699
Income taxes refundable	4,445	3,802
Merchandise inventories	251,645	218,619
Deferred income tax benefit	7,765	7,324
Other current assets	7,848	6,445
Total Current Assets	414,445	296,261
Property and Equipment, at cost:		
Furniture, fixtures and equipment	173,131	104,541
Buildings and leasehold improvements	33,588	29,873
Land	1,034	1,034
Property under capital leases	31,859	24,472
	239,612	159,920
Accumulated depreciation and amortization	123,160	80,849
	116,452	79,071
Share of equity in Shoppers Food Warehouse Corp.	-	52,802
Goodwill, net of accumulated amortization of $2,357 and $271	148,755	1,890
Deferred income tax benefit	18,036	14,375
Other assets	23,073	5,773
Total Assets	$720,761	$450,172

</TABLE>

The accompanying notes are an integral part of these balance sheets.

DART GROUP CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

<TABLE>
<CAPTION>

	(Unaudited)	(Audited)

LIABILITIES	July 31, 1997	January 31, 1997
<S>	<C>	<C>
Current Liabilities:		
Current portion of mortgages payable	$ 193	$ 1,106
Accounts payable, trade	132,679	102,942
Income taxes payable	2,429	3,322
Accrued salaries and employee benefits	26,568	18,766
Accrued taxes other than income taxes	11,461	9,738
Current portion of reserve for closed facilities and restructuring	6,800	5,701
Other accrued liabilities	69,893	64,215
Current portion of obligations under capital leases	209	209
Total Current Liabilities	250,232	205,999
Mortgages payable	322	353
Crown Books' credit facility	16,487	-
Obligations under capital leases	42,041	30,373
Reserve for closed facilities and restructuring	25,117	27,341
Deferred income taxes	4,845	-
Shoppers Food Senior Notes due 2004	200,000	-
Other Liabilities	2,068	-
Commitments and Contingencies		
Minority interests	63,955	67,750
Stockholders' Equity		
Class A common stock, non-voting, par value $1.00 per share; 3,000,000 shares authorized; 1,964,858 and 1,962,403 shares issued, respectively	1,965	1,962
Class B common stock, voting par value $1.00 per share; 500,000 shares authorized and issued	500	500
Paid-in capital	79,033	78,841
Notes receivable-shareholder	(65,130)	(65,130)
Unrealized gains (losses) on short-term investments	30	(22)
Retained earnings	101,333	104,242
Treasury Stock, 202,340 shares of Class A common stock, at cost	(1,749)	(1,749)
Treasury Stock, 172,730 shares of Class B common stock, at cost	(288)	(288)
Total Stockholders' Equity	115,694	118,356

Total Liabilities and Stockholders' Equity	$720,761	$450,172
	========	========

</TABLE>

The accompanying notes are an integral part of these balance sheets.

DART GROUP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(Unaudited)

<TABLE>
<CAPTION>

	Six Months Ended July 31,	
	1997	1996
<S>	<C>	<C>
Cash Flows from Operating Activities:		
Net income (loss)	$ (2,792)	$ (765)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	12,685	6,930
Loss on early extinguishment of debt	5,276	-
Amortization of deferred financing costs	943	-
Cumulative effect of Shoppers Food accounting change	(1,729)	-
Provision for closed facilities and restructuring	(885)	966
Loss on disposal of fixed assets	269	-
Interest in excess of capital lease payment	378	-
Equity in affiliate	-	(5,124)
Changes in assets and liabilities net of effects of consolidation of Shoppers Food Warehouse Corp.:		
Accounts receivable	7,475	(4,137)
Income taxes refundable or prepaid	1,413	(3,050)
Merchandise inventories	(3,116)	(13,052)
Other current assets	(1,403)	(4,133)
Deferred income tax benefits	(3,456)	(1,047)
Other assets	530	116
Accounts payable, trade	(12,093)	16,493
Income taxes payable	(2,844)	2,351
Accrued salaries and employee benefits	2,916	1,189
Accrued taxes other than income taxes	(1,180)	978
Other current liabilities	(3,581)	(672)
Other liabilities	(380)	-

Reserve for closed facilities	(1,515)	(3,565)
Minority interests	(3,801)	(881)
Net cash used for operating activities	$ (6,890)	$ (7,403)
Cash Flows from Securities and Capital Investment Activities:		
Capital expenditures	$ (11,213)	$ (7,997)
Proceeds from sale of Cabot-Morgan Real Estate joint venture	-	2,000
Cash and cash equivalents of Shoppers Food Warehouse Corp. at February 1, 1997	13,739	-
Acquisition of 50% equity in Shoppers Food Warehouse Corp.	(210,000)	-
Purchases of United States Treasury Bills	(5,960)	(40,165)
Disposition of United States Treasury Bills	987	6,288
Maturities of United States Treasury Bills	-	28,523
Purchases of marketable debt securities	(18,506)	-
Disposition of marketable debt securities	90,558	417

</TABLE>

(Continued on next page)

DART GROUP CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(dollars in thousands)
(Unaudited)

<TABLE>
<CAPTION>

	Six Months Ended July 31, 1997	1996
<S>	<C>	<C>
Maturities of marketable debt securities	4,560	5,894
Net cash used for securities and capital investment activities	$(135,835)	$ (5,040)
Cash Flows from Financing Activities:		
Cash dividends	$ (117)	$ (116)
Proceeds from Note Receivable - Ronald S. Haft	-	11,621
Net borrowing under Crown Books' credit facility	16,487	-
Payments for deferred financing and		

acquisition costs	(16,003)	-
Proceeds from Increasing Rate Notes Due 2000	140,000	-
Redemption of Increasing Rate Notes Due 2000	(140,000)	-
Proceeds from issuance of Senior Notes dues 2004	200,000	-
Funds restricted for settlements	(50,218)	-
Proceeds from stock options exercised	195	717
Principal payments under mortgage obligations	(162)	(148)
Principal payments under capital lease obligations	(105)	(50)
Net cash provided by financing activities	$150,077	$ 12,024
Net increase (decrease) in Cash and Equivalents	$ 7,352	$ (419)
Cash and Equivalents at Beginning of Period	39,658	54,780
Cash and Equivalents at End of Period	$ 47,010	$ 54,361
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the three months for:		
Interest	$ 10,255	$ 3,282
Income taxes	1,700	673

</TABLE>

The accompanying notes are an integral part of these statements.

DART GROUP CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 1997 and 1996
(Unaudited)

NOTE 1 - GENERAL

The accompanying consolidated financial statements reflect the accounts of Dart Group Corporation ("Dart") and its direct and indirect wholly-owned and majority-owned subsidiaries including Trak Auto Corporation ("Trak Auto"), Crown Books Corporation ("Crown Books"), Total Beverage Corporation ("Total Beverage") and Shoppers Food Warehouse Corp. ("Shoppers Food"). The accounts of Shoppers

Food are consolidated with Dart's financial statements as of February 6, 1997, as a result of Dart's acquisition of the 50% equity interest that it did not previously own. Dart, Trak Auto, Crown Books, Total Beverage and Shoppers Food and Dart's other direct and indirect wholly-owned and majority-owned subsidiaries are referred to collectively as the "Company". All significant intercompany accounts and transactions have been eliminated. The unaudited statements as of July 31, 1997 and 1996 reflect, in the opinion of management, all adjustments (normal and recurring in nature) necessary to present fairly the consolidated financial position as of July 31, 1997 and 1996 and the results of operations and cash flows for the periods indicated.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

The results of operations for the three months ended July 31, 1997 are not necessarily indicative of the results to be achieved for the full fiscal year.

NOTE 2 - EARNINGS PER SHARE

Earnings per share is based on the weighted average number of Dart's Class A and Class B common stock, $1.00 par value per share. Common stock equivalents are antidilutive in all periods presented. In reporting earnings per share, Dart's interest in the earnings of its majority-owned subsidiaries is adjusted for the dilutive effect, if any, of these subsidiaries' outstanding stock options. The difference between primary earnings per share and fully diluted earnings per share is not significant for either period.

NOTE 3 - SHORT-TERM INSTRUMENTS AND MARKETABLE DEBT SECURITIES

At July 31, 1997, the Company's short-term instruments include United States Treasury Bills, with a maturity of three months or less, and money market funds. Marketable debt securities include United States Treasury Bills, with a maturity greater than three months, United States Treasury Notes, corporate notes and United States Agency Securities Acceptances.

Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such determination at each

DART GROUP CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 1997 and 1996
(Unaudited)

balance sheet date. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available-for-sale. Securities available-for-sale are carried at fair value, with the unrealized gains and losses, net of tax, reported as a separate component of stockholders' equity. At July 31, 1997, the market value of short-term instruments and marketable debt securities was $30,000 greater than cost (adjusted for income taxes). At July 31, 1997, Shoppers Food investments were classified as held-to-maturity and are recorded at cost. At July 31, 1997, the Company had no investments that qualified as trading securities.

The amortized cost of debt securities classified as available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization and interest are included in interest income. Realized gains and losses are included in other income or expense. The cost of securities sold is based on the specific identification method.

Included in short-term instruments and marketable debt securities were $93,715,000 and $21,094,000 held by majority-owned and wholly-owned subsidiaries at July 31, 1997 and January 31, 1997, respectively. Shoppers Food short-term instruments and marketable debt securities are included for July 31, 1997 but not January 31, 1997.

NOTE 4 - INTERIM INVENTORY ESTIMATES

Trak Auto and Shoppers Food inventories are priced at the lower of last-in, first-out ("LIFO") cost or market. At July 31, 1997, Trak Auto and Shoppers Food inventories determined on a lower of first-in, first-out ("FIFO") cost or market basis would have been greater by $11,747,000 and at January 31, 1997, Trak Auto inventory on a FIFO basis would have been greater by $6,733,000. Crown Books' and Total Beverage's inventories are priced at the lower of FIFO cost or market.

Trak Auto, Shoppers Food and Total Beverage take a physical count of their store and warehouse inventories semi-annually. Crown Books takes a physical count of its inventories annually. Trak Auto and Total Beverage took complete physical inventories for the quarter ended July 31, 1997 and Shoppers Food took physical inventories in 24 of its 35 stores for the quarter ended July 31, 1997. Shoppers Food takes physical inventories of its perishable departments monthly at every store. The Company uses a gross profit method combined with available perpetual inventory information to determine Trak Auto's, Crown Books', and Total Beverage's inventories for quarters when complete physical counts are not taken.

NOTE 5 - CREDIT AGREEMENTS

Trak Auto

In December 1996, Trak Auto entered into a revolving credit facility (the "Facility") with a finance company to borrow up to $25.0 million. Trak Auto intends to use proceeds from drawdowns under the Facility for working capital and other corporate purposes. The Facility has an original term of three years. Borrowings under the Facility bear interest at rates ranging from prime rate minus 0.50% to prime rate plus 0.25%, for prime rate loans, and LIBOR plus 1.5% to LIBOR plus 2.25%, for LIBOR loans. Interest rates are based upon Trak Auto's ratio of debt to tangible net worth. Borrowings are limited to eligible inventory levels, as defined, and are secured by Trak Auto's inventory, accounts receivable, and proceeds from the sale of such assets. The Facility contains certain restrictive covenants including limitations on additional indebtedness, advances to affiliates and payments (limited to $25.0 million) or guarantees (limited to $20.0 million of the $25.0 million) to settle disputes with Haft family members and a maximum leverage ratio covenant.

Interest on prime rate loans is payable monthly. Interest and principal on LIBOR loans is payable between one and six months from the borrowing date. LIBOR loans are subject to a prepayment penalty and may be continued for a subsequent one to six month period. LIBOR loans may be converted to prime rate loans and visa versa. The Facility includes a facility fee of .25% per annum on the unused principal balance, as defined. No single advance may be outstanding for more than 36 months. Trak Auto may terminate the Facility upon 60-days prior written notice to the lender and the lender may terminate it as of December 18, 1999 or on any anniversary date thereafter upon 60-days prior written notice to Trak Auto.

In addition, Trak Auto has a $750,000 commercial letter of credit facility for use in importing merchandise.

As of August 2, 1997, there had been no borrowings under these credit agreements.

Crown Books

On September 12, 1996, Crown Books entered into a revolving credit facility with a finance company to borrow up to $50 million. Crown Books intends to use proceeds from draw-downs under the credit facility for working capital and other corporate purposes. The agreement has an original term of three years. Borrowings under the credit facility include revolving loans and letters of credit which bear interest at a rate equal to the prime rate (as defined in the credit agreement) and LIBOR loans which bear interest at LIBOR plus 2.25%. Interest on prime rate borrowings is payable monthly. Interest and principal on LIBOR loans is payable between one and six months from the borrowing date. LIBOR loans are subject to a prepayment penalty and may be continued for subsequent one to six month periods. LIBOR loans may be converted to prime rate loans and vice versa. The agreement includes a facility fee of .25% per annum on the unused principal balance, as defined. No single advance may be outstanding for more than 36 months.

Borrowings under the credit facility are secured by Crown Books' inventory, accounts receivable and proceeds from the sale of such assets of Crown Books.

DART GROUP CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 1997 and 1996
(Unaudited)

The credit facility also contains certain restrictive covenants, including a limitation on the incurrence of additional indebtedness and places a $13.1 million limitation on payments to settle disputes with Haft family members. There are additional covenants related to tangible net worth. Loans under the credit facility are subject to limitations based upon eligible inventory levels, as defined in the agreement. Crown Books may terminate the credit facility upon 60-days prior written notice to the lender and the lender may terminate it as of September 12, 1999 or on any anniversary date thereafter upon 60-days prior written notice to Crown Books. During fiscal 1997 Crown Books began borrowing under the credit facility. The maximum borrowings outstanding at any one time during the 26 weeks ended August 2, 1997 were $22,148,000 and the outstanding balance as of August 2, 1997 was $16,487,000. Crown Books had $8.5 million available for borrowing at August 2, 1997. In connection with its expansion plans, Crown Books will need to increase its borrowing under its revolving credit facility, subject to limitations contained in the loan agreement. To increase the limit from $25.0 million to $35.0 million, Crown Books is required to maintain a minimum tangible net worth of $73.0 million as of the fiscal year end preceding the election and for each fiscal year end thereafter, and to maintain a minimum tangible net worth of $70.0 million as of the election date and thereafter, in addition to other covenants. To increase the limit from $35.0 million to $50.0 million, Crown Books is required to maintain a minimum tangible net worth of $75.0 million as of the fiscal year end preceding the election and for each fiscal year end thereafter, in addition to other covenants. The average borrowings and weighted average interest rate for the 26 weeks ended August 2, 1997 were $8,148,000 and 8.5%.

NOTE 6 - MINORITY INTEREST

The $63,955,000 of minority interests reflected in the Consolidated Balance Sheet as of July 31, 1997 represents the minority portion of Trak Auto and Crown Books equity owned by the public shareholders of Trak Auto and Crown Books. Income (loss) attributed to the minority shareholders of Trak Auto was $(541,000) and $607,000 for the six months ended July 31, 1997 and 1996, respectively, and $(311,000) and $221,000 for the three months ended July 31, 1997 and 1996, respectively. Loss attributed to the minority shareholders of Crown Books was $(3,260,000) and $(1,619,000) for the six months ended July 31, 1997 and 1996, respectively, and $(1,991,000) and $(748,000) for the three months ended July 31, 1997 and 1996, respectively.

NOTE 7 - SHOPPERS FOOD WAREHOUSE CORP.

Acquisition

On February 6, 1997, Dart acquired the 50% equity interest in Shoppers Food that it did not already own for $210.0 million (the "Acquisition"). Dart financed the Acquisition through the application of $137.2 million in net proceeds from the offering of $140.0 million Increasing Rate Senior Notes due 2000 (the "Increasing Rate Notes") of SFW Acquisition Corp., a newly created wholly-owned subsidiary of Dart and $72.8 million of bridge financing. Immediately after the

DART GROUP CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 1997 and 1996
(Unaudited)

Acquisition, SFW Acquisition Corp. merged into Shoppers Food (with Shoppers Food becoming obligor on the Increasing Rate Notes), Shoppers Food repaid the bridge financing and paid the deferred acquisition costs and deferred financing costs of approximately $7.2 million from its existing cash and short-term investments.

The operating results of Shoppers Food from February 1, 1997 to February 6, 1997 were not material. The unaudited pro forma information, for Dart consolidated, presented below reflects the Acquisition as if it had occurred on February 1, 1996. These results are not necessarily indicative of future operating results or of what would have occurred had the acquisition been consummated at that time.

<TABLE>
<CAPTION>

	Pro Forma (in thousands, except per share data) Three Months Ended August 3, 1996	Six Months Ended August 3, 1996
<S>	<C>	<C>
Revenue	$ 375,890	$ 743,206
Net income (loss)	(393)	(1,839)
Net income (loss) per share	(.88)	(1.02)

</TABLE>

The Acquisition was recorded using the purchase method of accounting. The purchase price has been allocated to the assets and liabilities of Shoppers Food and the remaining excess purchase price over the net assets acquired of $148,858 million represents goodwill which will be amortized over 40 years. In connection with the Acquisition, Shoppers Food adopted Dart's method of depreciating property and equipment on a straight-line basis. Prior to the Acquisition, Shoppers Food used accelerated depreciation methods. The related cumulative effect of the accounting change has been reflected in the accompanying consolidated statements of operations. If this change were applied retroactively it would not be material to any periods presented.

Refinancing

In June 1997, Shoppers Food refinanced the Increasing Rate Notes with $200.0 million aggregate principal amount 9 3/4% Senior Notes due June 15, 2004 (the "Senior Notes"). The net proceeds from the Senior Notes was $193.5 million (after fees and expenses of approximately $6.5 million) of which $143.3 million was used to repay the Increasing Rate Notes (including interest) and $50.0 million (the "Restricted Proceeds") is available to Dart if Dart closes a Haft family settlement. If the closing of a Haft settlement has not occurred on or before June 30, 1998, then Shoppers Food must use the Restricted Proceeds to redeem $50 million aggregate principal amount of the Senior Notes. Interest on the Senior Notes accrued from the date of issuance and is payable semi-annually in arrears on each June 15 and December 15, commencing December 15, 1997. The Senior Notes have certain covenants including limitations on additional indebtedness and are guaranteed by the capital stock of Shoppers Food.

DART GROUP CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 1997 and 1996
(Unaudited)

NOTE 8 - PROPERTY, EQUIPMENT AND DEPRECIATION

Effective February 1, 1997, the Company changed its accounting policy from expensing purchased computer software costs in the year of acquisition to capitalizing and depreciating these costs over the estimated useful life not to exceed five years. Management has determined that these costs benefit future periods.

During the quarter ended July 31, 1997, the Company recorded amortization of computer costs of approximately $270,000. The effect of capitalizing purchased computer software was to decrease the Company's loss by approximately $1.8 million net of income tax benefits.

NOTE 9 - SUBSEQUENT EVENT

On August 18, 1997, Dart entered into an agreement to settle certain litigation and enter into other related transactions (the "RGL Settlement") with Robert M. Haft, Gloria G. Haft, Linda G. Haft and certain related parties (collectively, "RGL"). Under the RGL Settlement, Dart will purchase from RGL 104,976 shares of Dart Class B Common Stock for $14.7 million and 77,244 shares of Dart Class A Common Stock for $6.8 million. In addition, Dart will pay to RGL $9.3 million to terminate all options for shares of Dart Class A Common Stock that they hold or claim and Dart will pay to Robert M. Haft, Linda G. Haft and certain related parties $9.7 million to terminate putative options to purchase shares of Dart/SFW Corp. The Company will pay $250,000 to RGL to terminate any and all rights to purchase shares of the capital stock of Trak Auto and Crown Books.

The RGL Settlement also contemplates the completion of bankruptcy plans of reorganization for the Haft owned partnerships owning Dart's headquarters building in Landover, Maryland and a distribution center leased by Trak Auto in Bridgeview, Illinois. Under these bankruptcy plans the Company would pay $4.4 million to Robert M. Haft and Linda G. Haft (50% of which would be provided by release of Dart funds previously escrowed by Ronald S. Haft) for their interests in these two properties. In addition, the Company would pay $7.0 million to reduce the outstanding mortgage loans on these properties, which thereafter will be wholly-owned by Dart or its affiliates.

DART GROUP CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 1997 and 1996
(Unaudited)

The pro forma Consolidated Balance Sheet presented below reflects the RGL Settlement and related plans of reorganization as if they had occurred on July 31, 1997 (in thousands).

<TABLE>
<CAPTION>

	Unaudited		
ASSETS	Historical July 31, 1997	Pro Forma Adjustments	Pro Forma July 31, 1997
<S>	<C>	<C>	<C>
Current Assets:			
Cash	$ 15,486	$ (1,319)(a)	$ 14,167
Short-term instruments	31,524		31,524
Restricted proceeds	50,218	(50,218)(a)	-
Marketable debt securities	29,046		29,046
Accounts receivable	16,468		16,468
Income taxes refundable	4,445		4,445
Merchandise inventories	251,645		251,645
Deferred income tax benefit	7,765		7,765
Other current assets	7,848		7,848
Total Current Assets	414,445	(51,537)	362,908

Property and Equipment, at cost:			
Furniture, fixtures and equipment	173,131		173,131
Buildings and leasehold improvements	33,588		33,588
Land	1,034	19,758 (b)	20,792
Property under capital leases	31,859	(24,472)(c)	7,387
	239,612	(4,714)	234,898
Accumulated depreciation and amortization	123,160	(9,659)(c)	113,501
	116,452	4,945	121,397
Goodwill	148,755		148,755
Deferred income tax benefit	18,036		18,036
Other assets	23,073		23,073
Total Assets	$ 720,761	$ (46,592)	$ 674,169

</TABLE>

DART GROUP CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 1997 and 1996
(Unaudited)

<TABLE>
<CAPTION>

	Unaudited		
LIABILITIES	Historical July 31, 1997	Pro Forma Adjustments	Pro Forma July 31, 1997
<S>	<C>	<C>	<C>
Current Liabilities:			
Current portion of			

mortgages payable	$ 193	$ 600 (d)	$ 793
Accounts payable, trade	132,679		132,679
Income taxes payable	2,429		2,429
Accrued salaries and employee benefits	26,568		26,568
Accrued taxes other than income taxes	11,461		11,461
Current portion of reserve for closed facilities and restructuring	6,800		6,800
Other accrued liabilities	69,893	(18,325) (d)	51,568
Current portion of obligations under capital leases	209	(209) (c)	-
Total Current Liabilities	250,232	(17,934)	232,298
Mortgages payable	322	25,846	26,168
Crown Books' credit facility	16,487		16,487
Obligations under capital leases	42,041	(30,492) (c)	11,549
Reserve for closed facilities and restructuring	25,117		25,117
Deferred income taxes	4,845		4,845
Shoppers Food Senior Notes	200,000		200,000
Other Liabilities	2,068		2,068
Commitments and Contingencies			
Minority interests	63,955	(82) (e)	63,873
Stockholders' Equity			
Class A common stock	1,965		1,965
Class B common stock	500		500
Paid-in capital	79,033		79,033
Notes receivable-shareholder	(65,130)		(65,130)
Unrealized losses on short-term investments	30		30
Retained earnings	101,333	(2,474) (f)	98,859
Treasury Stock, Class A common stock	(1,749)	(6,759) (g)	(8,508)
Treasury Stock, Class B common	(288)	(14,697) (h)	(14,985)
Total Stockholders' Equity	115,694	(23,930)	91,764
Total Liabilities and			

Stockholders' Equity	$ 720,761	$ (46,592)	$ 674,169
	=========	=========	=========

</TABLE>

DART GROUP CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 1997 and 1996
(Unaudited)

Notes to the Pro Forma Balance Sheet

(a) Reduction in cash and restricted proceeds as follows:

<TABLE>

<S>	<C>
Purchase of Class B Shares	$ 14,697
Purchase of Class A Shares	6,759
Purchase of Class A options	9,287
Purchase Dart/SFW options	9,700
Payment for real estate partnership interests	2,200
Purchase of Trak Auto and Crown Book options	250
Payments to real estate mortgage holders	7,000
Fees related to transaction	1,644

Total	$ 51,537
	=========

</TABLE>

(b) Record purchase of real estate contemplated in October 1995 settlement with Ronald S. Haft and completed with RGL Settlement.
(c) Reverse capital lease assets and lease obligations for purchased real estate.
(d) Record mortgage obligations for purchased real estate net of payments to mortgage holders.
(e) Record effect to minority interest for purchase of subsidiary stock options.
(f) Net effect to the Statement of Operations for purchase of stock options.
(g) Record purchase of Class A Shares.
(h) Record purchase of Class B Shares.

The RGL Settlement requires a supplemental settlement arrangement between Dart and Ronald S. Haft, which has not yet been completed and which cannot be assured. The closing of these transactions is scheduled for late September, subject to the satisfaction of various conditions. Closing of these transactions cannot be assured.

The RGL Settlement, if consummated, would result in the termination of the pending claim by Robert, Gloria and Linda Haft to control of Dart and the settlement of all litigation between them and Dart and its subsidiaries.

Dart anticipates that $50.0 million proceeds from a recent private placement of senior notes by Shoppers Food will be used to fund these transactions. A portion of the cost of these transactions may be allocated to Trak Auto and, possibly, Crown Books. No such allocations have yet been determined.

DART GROUP CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

July 31, 1997 and 1996
(Unaudited)

Settlement Discussions with Herbert Haft

The previously-announced settlement discussions between Dart and Herbert H. Haft have not produced a settlement agreement at this time, though discussions are continuing. There can be no assurance that a settlement agreement between Dart and Herbert H. Haft will be entered into or that, even if a settlement agreement with Herbert H. Haft is entered into, that the settlement transactions will close.

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

Outlook

Except for historical information, statements in this Management's Discussion and Analysis of Financial Condition and Results of Operations are forward-looking. Actual results may differ materially due to a variety of factors, including the results of ongoing litigation (or settlement litigation), the Company's ability to effectively compete in the highly competitive retail book store, automotive aftermarket and grocery businesses, the effect of national and regional economic conditions, and the availability of capital to fund operations. The Company undertakes no obligation and does not intend to update, revise or otherwise publicly release the result of any revisions to these forward-looking statements that may be made to reflect future events or circumstances.

The litigation and any settlement of litigation involving the Haft family members could pose a threat to Dart's liquidity. See "Funding of Possible Settlements" below.

Crown Books' believes that its superstore concept presents growth opportunities and intends to open new Super Crown Books stores in existing and new markets. Realizing these opportunities is dependent upon the successful performance of the superstores and adequate liquidity. In the past, Super Crown Books stores have generated higher sales at converted locations as well as higher gross margins as a result of a favorable change in product mix. During the last three fiscal quarters, the new prototype superstores have performed below Crown Books' expectations. Crown Books is considering certain revisions to the new superstore prototype that may enhance its performance. Without a significant improvement in the performance of all superstores, Crown Books would not expect operating expenses, as a percentage of sales, to decrease as the new stores mature.

The retail book market is highly competitive. The two largest book chains continue to open additional new stores each year in Crown Books' markets, thereby continuing to increase the overall level of competition. Management believes that the markets in which it operates will remain highly competitive in the foreseeable future and, as a result, Crown Books will be significantly challenged to improve operating results in fiscal 1998.

Trak Auto believes that its superstore concept represents the strongest segment of its business and anticipates that all of its new stores will be opened within this concept as Super Trak and Super Trak Warehouse stores in existing and possibly new markets. In the past, these superstores have generated higher sales at locations converted from Classic Trak stores as well as higher gross margins as a result of a change in product mix (increased hard parts). Trak Auto believes that as superstores mature, operating expenses as a percentage of sales will decrease.

The automotive aftermarket is a highly competitive market place. As a result, the industry is consolidating with independent operators and small chains either going out of business or being acquired by larger competitors. Additionally, the do-it-yourself customer base is shrinking due to the increased complexity of automobiles, increased incidences of leasing, and the availability of well-

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

maintained leased vehicles entering the used car market. Trak Auto's management believes that the markets in which it operates will remain highly competitive in the foreseeable future and, as a result, that Trak Auto will be challenged to improve operating results in fiscal 1998.

Shoppers Food is the third leading supermarket operator in the greater Washington, D.C. metropolitan area. Shoppers Food operates in a highly competitive marketplace and its ability to remain competitive depends in part on its ability to open new stores and remodel and update existing stores which will require the continued availability of capital resources.

Trak Auto, Crown Books and Total Beverage intend to continue their practice of reviewing the profitability trends and prospects of existing stores. These companies may from time to time close, relocate or sell stores (or groups of stores) that are not satisfying certain performance objectives. Crown Books currently anticipates closing approximately seven Classic Crown Books stores, two non-prototype Super Crown Books stores and relocating one prototype Super Crown Books store during fiscal 1998.

Liquidity and Capital Resources

Cash, short-term instruments and U.S. government and other marketable debt securities, are the Company's primary source of liquidity. Cash, including short-term instruments and U.S. government and other marketable debt securities increased by $80.9 million to $126.3 million at July 31, 1997 from $45.4 million at January 31, 1997. This increase was due to the consolidation of $84.3 million of Shoppers Food cash and marketable debt securities including the $50.0 million of Restricted Proceeds from the Shoppers Food debt refinancing.

For the quarter ended July 31, 1997, the Company realized a pre-tax yield of approximately 5.3% on United States Treasury Bills and approximately 5.9% on the other marketable debt securities.

Operating activities used $6,890,000 of the Company's funds for the six months ended July 31, 1997 compared to $7,403,000 during the same period one year ago. During the six months ended July 31, 1997 cash was used primarily for Crown Books payments for merchandise inventory and funding loss operations at Crown Books and Dart and was partially offset by cash generated by Trak Auto and Total Beverage operations.

Investing activities used $135,835,000 of the Company's funds for the six months ended July 31, 1997, compared to $5,040,000 during the same period last year. The primary use of funds was primarily for the Acquisition of the 50% equity interest in Shoppers Food (see Note 7 to the Consolidated Financial Statements). Capital expenditures were $11,213,000 (including Shoppers Food) during the six months ended July 31, 1997 compared to $7,997,000 (excluding Shoppers Food) during the six months ended July 31, 1996.

Financing activities provided $150,077,000 to the Company during the six months ended July 31, 1997 due to the proceeds from the Senior Notes at Shoppers Food and the revolving line of credit at Crown Books and was partially offset by payments for deferred financing and acquisition costs at Shoppers Food and funds

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

restricted for possible settlements with the Hafts.

Historically, Dart and each of its subsidiaries generally funded their respective requirements for working capital and capital expenditures with net cash generated from operations and existing cash resources. However, the Company's cash, including marketable debt securities, decreased by approximately $78.1 million (net of the Restricted Proceeds from Shoppers Senior Notes) during the six months ended July 31, 1997, $42.0 million in fiscal 1997 and $104.4 million in fiscal 1996. In fiscal 1997, Crown Books and Trak Auto entered into revolving credit facilities and Shoppers Food is negotiating a revolving credit facility.

Dart's working capital needs primarily consist of funding any operating losses of Total Beverage, payroll and legal fees. Dart expects to meet its working capital needs in fiscal 1998 from existing cash, short-term investments and possible dividends from Shoppers Food as permitted by covenants of the Senior Notes.

The primary capital requirements of Crown Books relate to new store openings and investments in management information systems. Crown Books believes that the net cash expenditures incurred in opening a new store generally approximate $800,000, including inventory purchases, net of accounts payable, and the costs of store fixtures and leasehold improvements, net of landlord contributions. During fiscal 1998, Crown Books expects to open approximately 25 Super Crown Books stores requiring cash expenditures of approximately $20.0 million. As of September 12, 1997, Crown Books has opened nine stores and has entered into lease agreements to open 16 new Super Crown Books stores in fiscal 1998 and four in fiscal 1999 and has entered into an agreement for additional space in an existing store in fiscal 1998. Crown Books expects to have cash expenditures of approximately $2.5 million related to stores that have been closed or will be closed, in fiscal 1998.

Crown Books expects to meet its working capital and capital expenditures in fiscal 1998 with cash generated from improving its inventory turnover, inventory from stores closed during fiscal 1998, income tax refunds and borrowing under its revolving credit agreement. Crown Books had $8.5 million available for borrowing under its revolving credit facility at August 2, 1997. As of August 2, 1997, Crown Books had not improved its inventory turnover as anticipated. Crown Books continues to take steps to improve its inventory turnover on an ongoing basis. Without significant improvement in Crown Books' inventory turnover, Crown Books may not have adequate liquidity to continue its expansion plans.

In connection with its expansion plan, Crown Books will need to increase its borrowing under its revolving credit facility subject to limitations contained in the loan agreement. To increase the limit from $25.0 million to $35.0 million, Crown Books is required to maintain a minimum tangible net worth of $73.0 million as of the fiscal year end preceding the election and for each fiscal year end thereafter, and to maintain a minimum tangible net worth of $70.0 million as of the election date and thereafter, in addition to other covenants. To increase the limit from $35.0 million to $50.0 million, Crown Books is required to maintain a minimum tangible net worth of $75.0 million as

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

of the fiscal year end preceding the election and for each fiscal year end thereafter, in addition to other covenants. As of February 1, 1997 and August 3, 1997, Crown Books' tangible net worth was $84.5 million and $77.6 million, respectively. There can be no assurance that Crown Books' tangible net worth will meet the requirements to increase its revolving credit facility availability above the current $25.0 million limit. There also can be no assurance that if the limit is increased above $25.0 million, that Crown Books' will maintain the required minimum tangible net worth and that it would be able to pay down the revolving credit facility as required. As of August 2, 1997, Crown Books' net deferred tax asset was $12.8 million. If Crown Books' performance does not significantly improve, Crown Books may conclude that it will need to reserve for the asset's recovery. If this event occurs, Crown Books' tangible net worth would likely decrease below $70 million and as a result, Crown Books' borrowing under the credit facility would be limited to $25 million. If Crown Books' borrowing is limited to $25 million and its performance does not sufficiently improve, the Crown Books intends to significantly reduce its expansion plans and take other actions to improve liquidity.

Trak Auto funds its requirements for working capital and capital expenditures with net cash generated from operations, existing cash resources and, if necessary, borrowings under its credit facility. Trak Auto's primary capital requirements relate to remodelings and new store openings (including inventory purchases and the costs of store fixtures and leasehold improvements). As of August 2, 1997, Trak Auto had entered into lease agreements to open seven new Super Trak or Super Trak Warehouse stores.

In December 1996, Trak Auto entered into a revolving credit facility with a finance company to borrow up to $25.0 million. The credit facility has an original term of three years. Borrowings are limited to eligible inventory levels and are secured by Trak Auto's inventory, accounts receivable and proceeds from the sale of those assets. The credit facility contains certain restrictive covenants and a maximum leverage ratio covenant. The covenants include a limitation of $25.0 million on amounts paid (including a $20.0 million limitation on amounts guaranteed) to settle disputes with Haft family members. As of August 2, 1997 Trak Auto had not borrowed under the credit facility.

Shoppers Food estimates that it will make capital expenditures of approximately $11.5 million in the 52 weeks ended January 31, 1998. Such expenditures relate to three new store openings as well as routine expenditures for equipment and maintenance. Management expects that these capital expenditures will be financed primarily through cash flow from operations and a new revolving credit facility. Capital expenditures related to two stores scheduled to open in the following fiscal year are estimated to be approximately $7.0 million.

In February 1997, $137.2 million of the net proceeds from the sale of the Increasing Rate Notes and $72.8 million of Shoppers Food cash, cash equivalents and short-term investments were used to fund the Acquisition. In addition, Shoppers Food paid approximately $7.2 million in fees and expenses incurred by Dart in connection with the Acquisition.

Shoppers Food's interest expense consists primarily of interest on the Increasing Rate Notes and capital lease obligations. Interest expense increased

$8.3 million from $1.1 million during the 26 weeks ended August 3, 1996 to $9.4 million during the 26 weeks ended August 2, 1997 due to the interest paid on the Increasing Rate Notes, which were issued on February 6, 1997 and redeemed on June 25, 1997 and interest accrued on the Senior Notes.

Shoppers Food believes that cash flows from its operations and borrowings under a new revolving credit facility that it is seeking will be adequate to meet its anticipated requirements for working capital, debt service and capital expenditures over the next few years. However, there can be no assurances that Shoppers Food will generate sufficient cash flow from operations or that it will be able to borrow under a new revolving credit facility.

In June 1997, Shoppers Food refinanced the Increasing Rate Notes with $200.0 million aggregate principal amount of its Senior Notes due 2004 (the "Senior Notes"). The net proceeds of the offering were approximately $193.5 million. Shoppers Food used approximately $143.5 million of the net proceeds to repay its Increasing Rate Notes due 2000 (including accrued and unpaid interest through the estimated date of redemption). The remaining net proceeds are available to Dart if and when Dart consummates a settlement with Herbert H. Haft and/or Robert M., Gloria G. and Linda G. Haft or, if not used for such settlement on or prior to June 30, 1998, would be used to redeem $50.0 million aggregate principal amount of the Senior Notes at 101% of the principal amount thereof.

Total Beverage is considering locations for new stores. Total Beverage opened one new store in August 1997 in the Chicago, Illinois metropolitan area and may open another store in fiscal 1998.

Funding of Possible Settlements

Dart and its principal subsidiaries have entered into an agreement to settle certain litigation and enter other related transactions with Robert M. Haft, Gloria G. Haft, Linda G. Haft and certain related parties. In addition, settlement discussions are continuing with each of Herbert H. Haft and Ronald S. Haft. The aggregate payments estimated to be paid by Dart and its subsidiaries in connection with these possible settlements, if all of them occur, would be approximately $92 million (including a loan of $10 million), part of which would be deferred. It is anticipated that Dart would pay substantially all of this amount, though a portion (yet to be determined) could be allocated to Trak Auto and Crown Books. Allocation of any actual settlement obligations among the companies would be in proportion to reflect relative benefits each company receives, as determined by their boards of directors after consultation with outside advisors.

Cash requirements associated with the RGL Settlement and the related plans of reorganization are approximately $52 million. At the closing of the RGL Settlement, if it occurs, Dart will receive from Shoppers Food $50 million of proceeds from the sale of the Senior Notes that has been held in escrow pending such a settlement. Dart presently has not determined a financing plan for the possible settlement under discussion with Herbert H. Haft, which possible settlement would involve total payments of approximately $40 million (including a loan of $10 million). Trak Auto and Crown Books anticipate that they would pay their portion of the settlement obligations from borrowings under their

respective credit facilities.

It has been suggested that Dart sell one or all of its subsidiaries and possibly liquidate. Dart has no plans to liquidate and, although Dart has considered selling all or part of its equity interest in Shoppers Food, Dart presently has no intention of doing so. However, Dart may be open to the possibility of other strategic opportunities. Dart and Crown have had preliminary discussions with certain third parties concerning the possible sale of Dart's interest in Crown Books or the sale of all of Crown Books. There can be no assurance that any such discussions will continue or will result in any agreement for any such sale or as to the terms or timing of any such sale, if one occurs.

Results of Operations

Trak Auto

During the 26 weeks ended August 2, 1997, Trak Auto opened five new Super Trak and two new Super Trak Warehouse stores and closed or converted four classic Trak stores and converted one Super Trak Warehouse to a Super Trak. At August 2, 1997, Trak Auto had 289 stores, including 128 Super Trak stores and 45 Super Trak Warehouse stores.

Sales of $172,128,000 during the 26 weeks ended August 2, 1997 decreased by $5,316,000 or 3.0% compared to sales for the 26 weeks ended August 3, 1996 while sales of $90,523,000 during the 13 weeks ended August 2, 1997 increased $95,000 or 0.1% compared to sales for the same period one year ago. The sales decrease during the 26 weeks ended August 3, 1996 was primarily due to the mild winter conditions in the Midwest and East coast markets as well as the weak performance of the stores in the highly competitive Los Angeles market, during the first quarter. Comparable sales (stores open more than one year) decreased 8.2% and 6.4% for the 26 and 13 weeks ended August 2, 1997. Sales for comparable Super Trak and Super Trak Warehouse stores decreased 8.3% and 7.0% for the 26 and 13 weeks ended August 2, 1997, respectively. Sales for comparable classic Trak stores decreased 8.1% and 5.3% for the 26 and 13 weeks ended August 2, 1997, respectively. Sales for Super Trak and Super Trak Warehouse stores represented 68.7% and 71.5% of total sales during the 26 and 13 weeks ended August 2, 1997 compared to 63.7% and 64.5% for the 26 and 13 weeks ended August 3, 1996, respectively.

Interest and other income decreased by $378,000 and $121,000 for the 26 and 13 weeks ended August 2, 1997, respectively, when compared to the prior year, largely due to reduced income from subleased store locations and reduced recoveries from audits of prior years vendor allowances.

Cost of sales, store occupancy and warehousing expenses as a percentage of sales were 76.8% and 77.2% for the 26 and 13 weeks ended August 2, 1997 compared to 75.3% and 75.8% for the same periods in the prior year. The increases were primarily due to increased occupancy and distribution costs.

Selling and administrative expenses were 21.9% and 22.3% as a percentage of sales for the 26 and 13 weeks ended August 2, 1997 compared to 20.4% for both the 26 and 13 weeks ended August 3, 1996. The increases for the 26 and 13 weeks

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

were due primarily to increased advertising costs (largely due to Trak Auto's entry into the Milwaukee market) and increased payroll costs, as a percentage of sales, due to the decrease in sales during the first quarter.

Depreciation and amortization expenses increased $106,000 for the 26 weeks ended August 2, 1997 compared to the same period one year ago. The increase was due to increased fixed assets for new stores particularly in the Milwaukee market.

Interest expense of approximately $1,864,000 during the 26 weeks ended August 2, 1997 was for interest under capital lease obligations.

The Company recorded an income tax benefit of $1.3 million during the 26 weeks ended August 2, 1997. The tax benefit is the result of Trak Auto's $2,973,000 net operating loss.

Crown Books

During the 26 weeks ended August 2, 1997, the Company opened eight Super Crown Books stores and closed six Classic Crown Books stores and two Super Crown Books store. At August 2, 1997, the Company had 168 stores, including 115 Super Crown Books stores.

Sales of $133,561,000 for the 26 weeks ended August 2, 1997 increased by $4,536,000 or 3.5% compared to the 26 weeks ended August 3, 1996 while sales of $67,018,000 for the 13 weeks ended August 2, 1997 increased by $485,000 or 0.7% compared to the 13 weeks ended August 3, 1996. Comparable sales (sales for stores open for 13 months) decreased 5.6% and 8.1% during the 26 and 13 weeks, respectively. Sales for all Super Crown Books stores represented 82.3% and 82.6% of total sales for the 26 and 13 weeks ended August 2, 1997, respectively, compared to 74.7% and 75.9% for the 26 and 13 weeks ended August 3, 1996, respectively. Sales for all Super Crown Books stores of $109,974,000 and $55,339,000 for the 26 and 13 weeks ended August 2, 1997 increased 14.1% and 9.6% over the prior year and sales for comparable Super Crown Books stores decreased 6.1% and 8.6%. Comparable sales for the new superstore prototype decreased 5.8% and 8.2% for the 26 and 13 weeks ended August 2, 1997. The Company's superstores consist of the original superstores of 6,000 to 10,000 square feet and the new superstore prototype targeted to occupy 15,000 square feet.

Interest and other income decreased by $661,000 and $344,000 during the 26 and 13 weeks ended August 2, 1997 when compared to the same periods one year ago. The decreases were primarily due to reduced interest income as a result of the decrease in funds available for short-term investments.

Cost of sales, store occupancy and warehousing as a percentage of sales were 83.5% and 84.6% for the 26 and 13 weeks ended August 2, 1997 compared to 82.0% and 82.1% for the same periods one year ago. The increases were due to increased store occupancy costs and decreased gross margins.

Selling and administrative expenses as a percentage of sales were 21.6% and 22.0% for the 26 and 13 weeks ended August 2, 1997 compared to 20.2% and 19.8% for the same periods one year ago. The increases were due primarily to

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

increased payroll costs and consulting fees for new management information systems.

Depreciation and amortization expense increased $479,000 for the 26 weeks ended August 2, 1997 compared to the same period one year ago primarily due to the increase in fixed assets for new superstores and to the amortization of computer software.

Interest expense was $699,000 during the 26 weeks ended August 2, 1997 compared to $691,000 during the 26 weeks ended August 3, 1996. Interest expense during the 26 weeks ended August 2, 1997 was primarily due to interest on borrowings under the credit facility while interest expense during the 26 weeks ended August 3, 1996 was primarily due to interest on the Robert M. Haft judgement paid in August 1996.

Shoppers Food

The Company opened one new store in July 1997 for a store count of 35 at August 2, 1997. Subsequent to August 2, 1997, the Company opened its 36th store.

Sales decreased by $0.2 million, from $419.7 million during the 26 weeks ended August 3, 1996 to $419.5 million during the 26 weeks ended August 2, 1997. Sales decreased by $1.1 million, from $210.6 million during the 13 weeks ended August 3, 1996 to $209.5 million during the 13 weeks ended August 2, 1997. Comparable store sales decreased 0.5% and 1.5% during the 26 weeks and 13 weeks ended August 2, 1997, respectively. The decreases were the result of extremely competitive market conditions which affect the geographical area in which the Company operates including the expansion of other supermarket chains into this market.

Gross profit increased by $3.0 million (3.1%), from $96.2 million during the 26 weeks ended August 3, 1996 to $99.2 million during the 26 weeks ended August 2, 1997 and increased by $0.5 million (1.0%), from $48.2 million during the 13 weeks ended August 3, 1996 to $48.7 million during the 13 weeks ended August 2, 1997. Gross profit, as a percentage of sales, increased to 23.6% and 23.3% during the 26 weeks and 13 weeks ended August 2, 1997, respectively from 22.9% for both the 26 weeks and 13 weeks ended August 3, 1996. The increases were primarily due to a more proactive pricing strategy on selected items, to a reduction in the number of items which are offered at special discounts on a weekly basis in stores, and to a higher allowance income achieved through increased vendor participation.

Selling and administrative expenses increased by $2.3 million (3.1%), from $74.4 million during the 26 weeks ended August 3, 1996 to $76.7 million during the 26 weeks ended August 2, 1997 and increased by $1.1 million (3.0%), from $38.0 million during the 13 weeks ended August 3, 1996 to $39.1 million during the 13 weeks ended August 2, 1997. Selling and administrative expenses, as a percentage of sales, increased from 17.7% and 18.0% during the 26 weeks and 13 weeks ended August 3, 1996 to 18.3% and 18.7% during the 26 weeks and 13 weeks ended August 2, 1997. The increases were primarily attributable to increased payroll costs associated with negotiated union rates and store remodeling, to expenses associated with a new store opened in July 1997 and a new store opened in August 1997.

Depreciation and amortization increased $1.2 million from $4.8 million during the 26 weeks ended August 3, 1996 to $6.0 million during the 26 weeks ended August 2, 1997 and increased $1.0 million from $2.5 million during the 13 weeks ended August 3, 1996 to $3.5 million during the 13 weeks ended August 2, 1997. The increases were primarily due to additional depreciation and amortization associated with goodwill, lease rights and refinancing costs, as well as with fixed assets purchased for the new store opened in July 1997.

Operating income was $16.5 million and $6.1 million for the 26 weeks and 13 weeks ended August 2, 1997 compared to $17.0 million and $7.8 million during the same periods in the prior year. The decreases were primarily as a result of higher selling and administrative expenses and higher depreciation and amortization expense, partially offset by higher gross profit.

Interest income decreased $1.3 million and $0.3 million during the 26 weeks and 13 weeks ended August 2, 1997 compared to the 26 weeks and 13 weeks ended August 3, 1996 due to a reduction of funds available for short-term investing as a result of the repayment of the bridge financing associated with Acquisition.

Interest expense increased $8.3 million from $1.1 million during the 26 weeks ended August 3, 1996 to $9.4 million during the 26 weeks ended August 2, 1997 as a result of interest paid on the Increasing Rate Notes and interest accrued on the Senior Notes.

The effective income tax rate for the 26 weeks ended August 2, 1997 was 43.7% compared to 34.6% for the 26 weeks ended August 3, 1996. The increase was primarily attributable to nondeductible amortization of acquisition related goodwill.

On June 26, 1997 the Company sold $200 million aggregate principal amount of its 9.75% senior notes due 2004. Net proceeds were used on July 25, 1997 to repay $143.3 million (including approximately $3.3 million of accrued and unpaid interest) of the existing Increasing Rate Notes and to pay $50.0 million into an escrow account to be used by Dart if and when it consummates a settlement with certain of its shareholders. As a result of this transaction, $5.3 million, representing an unamortized portion of the financing costs incurred to secure initial senior indebtedness, were expensed as an extraordinary item, net of taxes of approximately $1.9 million.

Net income decreased by $8.8 million, from $12.4 million during the 26 weeks ended August 3, 1996 to $3.6 million during the 26 weeks ended August 2, 1997 and by $7.2 million, from $5.9 million during the 13 weeks ended August 3, 1996 to a net loss of $1.3 million during the 13 weeks ended August 2, 1997. These decreases were primarily attributable to increased interest expense associated with the Company's indebtedness and the extraordinary item discussed above offset by the cumulative change in accounting principle.

Total Beverage

Sales decreased $349,000 from $13,857,000 during the 26 weeks ended August 3, 1996 to $13,508,000 during the 26 weeks ended August 2, 1997 due to sales last

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

year ($721,000) at a store closed in April 1996. Sales increased $296,000 from $6,837,000 during the 13 weeks ended August 3, 1996 to $7,133,000 during the 13 weeks ended August 2, 1997. Comparable store sales increased 2.8% and 4.3% during the 26 and 13 weeks ended August 2, 1997, respectively.

Cost of sales and store occupancy as a percentage of sales were 81.5% and 81.2% during the 26 and 13 weeks ended August 2, 1997 compared to 81.7% and 82.0% for the same periods one year ago.

Selling and administrative expenses as a percentage of sales were 21.6% and 20.7% during the 26 and 13 weeks ended August 2, 1997 (excluding a reversal of closed store reserve) compared to 23.5% and 21.4% for the 26 and 13 weeks ended August 3, 1996.

Total Beverage recorded net income of $918,000 and $1,293,000 during the 26 and 13 weeks ended August 2, 1997 compared to net operating losses of $871,000 and $292,000 during the 26 and 13 weeks ended August 3, 1996. The net income for the 26 and 13 weeks ended August 2, 1997 included the reversal of a closed store expense of $1.5 million recorded in fiscal 1996 as a result of a lease termination agreement with the landlord. The net operating loss for the 26 weeks and 13 weeks ended August 3, 1996 included approximately $610,000 and $270,000 paid to outside consultants who had been retained to assist in the development and implementation of a strategic business plan.

Dart Group and Other Corporate

Interest and other income decreased $0.6 million and $0.1 million during the six months and three months ended July 31, 1997, respectively, when compared to the same period in the prior year. The decreases were primarily due to reduced funds available for short-term investments.

Administrative expenses decreased $0.2 million during the six months ended July 31, 1997 primarily due to lower legal expenses as a result of a $17.0 million legal accrual during the last quarter of fiscal 1997 and current year legal billings charged to that accrual.

Interest expense decreased by $1.0 million and 0.5 million during the six months and three months ended July 31, 1997, respectively, when compared to the same period in the prior year. The decreases were primarily due to interest accrued for the Robert M. Haft judgement last year.

Trak Auto and Crown Books file separate income tax returns. Total Beverage and Shoppers Food are included in Dart's income tax returns.

Dart's cumulative total net tax operating loss carryforward is $60,252,000. All net operating loss carryforwards will expire by fiscal 2012. In addition, Dart has an Alternative Minimum Tax credit carryforward of approximately $1,010,000. Dart has a deferred tax valuation allowance of $45,358,000 as of July 31, 1997. Management will continue to evaluate the need for a valuation allowance on a periodic basis.

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

Effect of New Financial Accounting Standard

In February 1997, the Financial Accounting Standards Board issued SFAS No. 128 Earnings Per Share. SFAS No. 128 replaces the presentation of primary earnings per share, previously presented by the Company, with basic earnings per share and requires a reconciliation of the numerator and denominator of basic earnings per share to fully diluted earnings per share. Fully diluted earnings per share is computed similarly to the previous requirements. The Company will be required to adopt SFAS No. 128 in the fourth quarter of fiscal 1998 and to restate all previously presented earnings per share data. The presentation of the Company's basic earnings per share under SFAS No. 128 is not materially different than the amounts presented herein as primary earnings per share.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130 Reporting Comprehensive Income. SFAS No. 130 requires that an enterprise (a) classify items of other comprehensive income by their nature in a financial statement and (b) display the accumulated balance of other comphrehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. The Company will adopt SFAS No. 130 in the first quarter of fiscal 1999 and will provide the necessary disclosures.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 131 Disclosure about Segments of an Enterprise and Related Information which requires the Company to report financial and descriptive information about its reportable operating segments. The Company will adopt SFAS No. 131 at its fiscal year-end January 31, 1999 and will provide the necessary disclosure.

Signatures

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.

DART GROUP CORPORATION

Date: December 1, 1997 By: Ronald T. Rice

RONALD T. RICE
Assistant Vice President

Date: December 1, 1997 Mark A. Flint

MARK A. FLINT
Senior Vice President and
Chief Financial Officer