FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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FILER

SOUTHLAND CORP
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SIC: **5412** Convenience stores

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

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FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998

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 Numbers 0-676 and 0-16626

THE SOUTHLAND CORPORATION
(Exact name of registrant as specified in its charter)

TEXAS	75-1085131
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2711 North Haskell Ave., Dallas, Texas	75204-2906
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code, 214-828-7011

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
None	N/A

Securities Registered pursuant to Section 12(g) of the Act:
Common Stock, $.0001 Par Value

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $280,616,663 at March 12, 1999, based upon 138,149,742 shares held by persons other than officers, directors and 5% owners.

409,941,168 shares of Common Stock, $.0001 par value (the registrant's only class of Common Stock), were outstanding as of March 12, 1999.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the listed Parts and Items of Form 10-K: Definitive Proxy Statement for April 28, 1999 Annual Meeting of Shareholders: Part III, a portion of Item 10 and Items 11, 12 and 13.

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THE SOUTHLAND CORPORATION
ANNUAL REPORT ON FORM 10-K
For the year ended December 31, 1998

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*Included in Form 10-K by incorporation by reference to the Registrant's Proxy Statement, dated March 25, 1999, for the April 28, 1999 Annual Meeting of Shareholders.

SOME OF THE MATTERS DISCUSSED IN THIS FORM 10-K CONTAIN FORWARD-LOOKING STATEMENTS REGARDING THE COMPANY'S FUTURE BUSINESS PROSPECTS WHICH ARE SUBJECT TO CERTAIN RISKS AND UNCERTAINTIES, INCLUDING COMPETITIVE PRESSURES, ADVERSE ECONOMIC CONDITIONS AND GOVERNMENT REGULATIONS. THESE ISSUES, AND OTHER FACTORS WHICH MAY BE IDENTIFIED FROM TIME TO TIME IN THE COMPANY'S REPORTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED IN THE FORWARD-LOOKING STATEMENTS.

</TABLE>

PART I

ITEM 1. BUSINESS.

GENERAL

The Southland Corporation ("Southland," the "Company" or "Registrant"), conducting business principally under the name 7-ELEVEN, is the largest convenience store chain in the world, with approximately 18,200 Company-operated, franchised and licensed locations worldwide, and is among the nation's largest retailers. The Company, with executive offices at 2711 North Haskell Avenue, Dallas, Texas 75204 (telephone 214/828-7011), was incorporated in Texas in 1961 as the successor to an ice business organized in 1927. Unless the context otherwise requires, the terms "Company," "Southland" and "Registrant" as used herein include The Southland Corporation and its subsidiaries and predecessors. The Company has announced its intention to change its name to "7-Eleven, Inc." in 1999, and shareholder approval for the change is being requested at the 1999 Annual Meeting of Shareholders.

In 1998, the Company's operations (for financial reporting purposes) were conducted in one operating segment -- the Operating, Franchising and Licensing of Convenience Food Stores, primarily under the 7-ELEVEN name.

The 7-ELEVEN trademark has been registered since 1961 and is well known throughout the United States and in many other parts of the world. The Company believes that 7-ELEVEN is the leading name in the convenience store industry. The Company has, over the past several years, implemented its strategic plan to divest all its non-convenience store operations, and has trimmed its store operations by consolidating its efforts in certain market areas and by closing less profitable stores. During 1998, the Company focused on the continued development of a point-of-sale automated retail information system, and by year-end point-of-sale registers had been installed in approximately 2,500 stores, 700 of which were operational with the other 1,800 in training. In addition, for the second year in a row, the Company increased the number of stores included in its operations in the U.S. and Canada. This increase resulted from two acquisitions - Christy's Market and 'red D mart' - and from the development of new sites, with a total of 299 stores being opened during the year, while only 96 stores were closed. In addition, the Company also added some highly successful new products in 1998 (such as 7-ELEVEN CAFE COOLER, a frozen cappuccino-like beverage, and prepaid cellular phone cards) and increased, by almost 500, the number of stores receiving daily delivery of fresh foods.

At December 31, 1998, the Company's operations included 5,560 7-ELEVEN convenience stores in the United States and Canada, and 66 other retail locations, including Christy's Markets, a HIGH'S Dairy Store and Quik Marts. The Company also has an equity interest in over 240 convenience stores in Mexico. Area licensees, including Seven-Eleven Japan Co., Ltd. ("Seven-Eleven Japan"), or their franchisees, operate additional 7-ELEVEN stores in certain areas of the United States, in 16 foreign countries and the U.S. territories of Guam and Puerto Rico.

During 1998, the Company continued to focus on the implementation of its business plan, by emphasizing to each store operator the importance of offering that store's customers an ever-changing broad selection of the quality products and services that they want at fair everyday prices in a quick, speedy transaction and in a clean, safe and friendly environment, utilizing the tools of item-by-item control of inventory, proper ordering techniques (ordering the right products in the right amounts at the right time), introduction of new products which are "first, best or only" at 7-ELEVEN, and remaining in stock, at all times, on each particular store's best-selling items.

THE RESTRUCTURINGS. In 1987, the Company was financially restructured through a leveraged buyout (the "LBO") and in October 1990, filed a voluntary bankruptcy petition under Chapter 11 of the U.S. Bankruptcy Code. On February 21, 1991, the U.S. Bankruptcy Court for the Northern District of Texas issued an order (the "Confirmation Order") confirming the Company's Plan of Reorganization (the "Plan") and on March 4, 1991, the Confirmation Order became final and non-appealable. The Plan provided for holders of the Company's then outstanding debt and equity securities (the "Old Securities") to receive new debt securities, common stock and, in certain cases, cash, in exchange for their Old Securities and, pursuant to a Stock Purchase Agreement, for IYG Holding Company ("IYG"), which is jointly owned by Ito-Yokado Co., Ltd. ("Ito-Yokado") and Seven-Eleven Japan Co., Ltd. ("Seven-Eleven Japan"), both Japanese corporations, to acquire approximately 70% of the Company's outstanding shares for $430 million in cash. Seven-Eleven Japan is the Company's largest area licensee, operating approximately 7,605 7-ELEVEN stores in Japan and, through its wholly-owned subsidiary Seven-Eleven (Hawaii), Inc., 48 7-ELEVEN stores in Hawaii.

OPERATING, FRANCHISING AND LICENSING OF CONVENIENCE FOOD STORES

7-ELEVEN STORES. On December 31, 1998, the Company's operations included 5,626 stores in the United States and Canada, operated principally under the name 7-ELEVEN. An additional 440 stores (in the United States) are operated by area licensees. These stores are located in 31 states, the District of Columbia, and five provinces of Canada. During 1998, the Company opened 144 new convenience stores, twenty of which were rebuilds or relocations of existing stores and 124 of which were new locations, and added an additional 155 through two regional acquisitions. In addition, 96 convenience stores were closed during the year (including relocations and rebuilds), mostly due to changing market patterns, lease expirations and the closing of selected stores that were not profitable.

The Company's convenience stores are extended-hour retail stores, emphasizing convenience to the customer and providing beverages, candy, fresh take-out foods, groceries, tobacco items, self-serve gasoline (at about 2,200 stores), dairy products, non-food merchandise, specialty items, certain financial services, lottery tickets, and incidental services. Generally, the Company's stores are open every day of the year and are located in neighborhood areas, on main thoroughfares, in shopping centers, or on other sites where they are easily accessible and have ample parking facilities for quick in-and-out shopping. Stores are generally from 2,400 to 3,000 square feet in size and carry 2,300 to 2,800 items. The vast majority of the stores operate 24 hours a day. The stores attract early and late shoppers, lunch-time customers, weekend and holiday shoppers and

customers who may need only a few items at any one time and desire rapid service. The Company's sales are affected by seasonality and weather, because many of the Company's traditional products attract more shoppers during warm and dry weather and during the longer daylight hours of the summer months, when leisure-time activities are more prevalent.

Substantially all convenience store sales are for cash (including sales for which checks are accepted), although major credit cards, along with the "Citgo Plus" credit card, are accepted in most markets for purchases of both merchandise and gasoline. Credit card sales currently account for approximately 8.6% of sales, including gasoline. This percentage has increased over the past few years with the installation of additional "Pay-At-The-Pump" equipment which has positively affected the volume of credit card purchases of gasoline.

UPDATING THE STORE FIXTURES AND EQUIPMENT. The Company has, over the past five years, been engaged in a major effort to remodel and update its stores throughout the U.S. and Canada. During the past two years, the Company has made modifications in the stores to to accommodate the new point-of-sale ("POS") equipment that is part of the Company's proprietary new retail information system. During 1998, approximately 5,000 stores received new 7-ELEVEN CAFE COOLER machines to sell a variety of featured frozen cappuccino flavors. Also, virtually all stores received a new "Feature End Cap" to display and maximize sales of seasonal, holiday, and special event merchandise. Stores that are permitted to sell wine received a new fixture to display featured premium wines in the sales area. Approximately 2,000 stores also received new shelving, pastry and frozen treat novelty cases that are more user friendly, in addition to changing the store layouts to be more attractive and inviting and provide greatly enhanced display of new or featured items. In addition, during 1998, the Company tested various new cigarette merchandisers, and has plans to change the way cigarettes are displayed in the stores, both to be more attractive and to comply with all new regulations relating to sales of tobacco products.

MERCHANDISING. Each store's merchandise includes a selection of core items which is supplemented by those optional items that are selected by the individual store operators to meet their customers' local needs and preferences. The store operators are expected to know what will sell best in their respective stores and attractively display the items with the highest potential so that they are easy for customers to find. In addition, during 1998, store operators were encouraged to delete slow-moving and excess inventory to be able to showcase new items. Merchandising strategy includes aggressively searching for new products that can initially be offered exclusively at 7-ELEVEN, thus attracting customers because they have to come to 7-ELEVEN if they want that new item. New products are crucial to the growth of 7-ELEVEN because customer demands constantly change and 7-ELEVEN's products and services are constantly being adjusted to serve those needs.

The emphasis has been on maintaining a product mix with an expanded selection of higher quality fresh foods through the use of third-party owned and operated commissaries and bakeries that manufacture food products to 7-ELEVEN's specifications, and combined distribution centers ("CDC's") that allow for frequent delivery of the fresh or perishable merchandise (see "Distribution," below). As of year end, daily deliveries of freshly made sandwiches and bakery products were available to approximately 3,300 stores.

NEW PRODUCTS. New product introductions contributed significantly to the Company's overall sales increases in 1998. Products like 7-ELEVEN CAFE COOLER and prepaid cellular phone cards were among the most popular. Much of the improvement in merchandise sales can be attributed to the aggressive introduction of new products at 7-ELEVEN.

FRESH FOODS AND FOOD PRODUCTS. During 1998, the Company continued its initiative to introduce more fresh food products of a higher quality into the stores, utilizing daily deliveries from local commissaries and bakeries, operated by companies with expertise in foodservice. These companies prepare food to 7-ELEVEN specifications exclusively for the stores and have the product delivered in the exact quantities ordered by the stores through the CDC program (see "Distribution, Fresh Products," below). In 1998, the Company began to offer four new fresh food lines: the hearty SUPER BIG SUB, an improved THE PITA sandwich, tasty microwavable sandwiches called DELI CENTRAL WARM-UPS and breakfast sandwiches.

In 1998, the Company successfully introduced a new line of monthly featured grill products which are grilled fresh on the in-store grill and served on a hot dog bun: the 1/3 lb. Biggest BIG BITE, the JALAPENO CHEESEBURGER BIG BITE, the SPICY BITE, the TURKEY BIG BITE and the Maple Sausage BREAKFAST BITE. These are proprietary products that compete with the products available at other quick-serve restaurants, but are more convenient to eat because of their shape.

The introduction of SUPER BIG SUBS in March and April added a cornerstone to the fresh food business. The Company introduced 13 varieties of "sub" sandwiches in 1998. The products include specially formulated "sub" rolls that work well in refrigeration, natural cheese, specially designed sauces and quality meats. By adding items each month with different features, the stores can focus more on the new item introductions, which provide a variety of alternatives for the store's customers.

By the end of 1998, there were eight DELI CENTRAL commissary facilities and eight WORLD OVENS bakeries providing fresh-made foods to approximately 3,300 stores. By year-end, commissaries were located in Dallas, Denver, San Jose, New Jersey, Long Island, Orlando, Chicago and Virginia. Six commissary facilities operate in Canada, providing fresh foods (sandwiches, salads, desserts) to stores in Canada, seven days a week. Bakeries preparing WORLD OVENS products now operate in Dallas, San Jose, Baltimore, Denver, Orlando, Chicago, Long Island and Virginia.

BEVERAGES. During 1998, the Company introduced 7-ELEVEN CAFE COOLER, a frozen cappuccino-type product, which was the most noteworthy new product in 1998. The addition of new flavors late in the summer kept this product "fresh." In addition, the Company continued to expand its corporate brand QUALITY CLASSIC SELECTION spring water and sparkling water, adding new flavors, as well as bringing out the sparkling waters in a 20 oz. size. In addition, QUALITY CLASSIC SELECTION MIXSTERS were introduced for the holiday party season along with a raspberry ginger ale. The Company continues to adjust the product selection of its juices, drinks, waters and isotonics, to meet seasonal and demographic demands.

In the second half of the year, the Company also began offering a selection of premium domestic and imported wines, which are being attractively merchandised in a new, specially designed wine display rack, along with product identifiers to help customers make their selections. The premium wine program proved very popular during the November and December holiday periods.

The Company also continued to build and promote its SLURPEE brand by continuing its BRAIN FREEZE promotions, and, just prior to the busy summer selling season, introducing a clear plastic SLURPEE STRATA cup to make flavor mixing more fun for SLURPEE customers of all ages. The SLURPEE brand was expanded into the Health and Beauty Care category by successfully launching SLURPEE ICE Lip Balm in the most popular SLURPEE flavors, and into the candy area by introducing SLURPEE Sour Drops.

In the hot beverage area, as a complement to promoting its ever-popular 7-ELEVEN Exclusive Blend coffee, the Company continued to emphasize its own proprietary regular and decaffeinated CAFE SELECT line of gourmetflavored coffees and coffee roasts, hot chocolates and cappuccinos, introducing the fresh ground French Roast, Blueberry Creme and Honey Nut Roast coffees and Raspberry Mocha cappuccino.

SNACKS. More than half the stores in the U.S. now have new two-sided frozen treat novelty cases for special display of ice cream and other frozen treats. SLURPEE ICE products became available during 1998 as an ice cream novelty, with additional flavors and new packaging planned for future introduction.

NON-FOOD ITEMS. The Company has continued to aggressively market its prepaid long distance phone cards, adding both prepaid cellular phone service and pagers to its product mix. A cellular phone package was also offered around the holidays as a gift idea.

The Company continues to have the largest ATM network of any retailer (approximately 4,800 in the U.S., with over 450 in Canada). In addition, the Company is testing, in 37 stores in Austin, Texas, the world's first integrated, self-service, automated financial services center, the 7-ELEVEN SERVICE CENTER ("FSC"). The FSC is a 9-foot wide machine that allows customers to cash checks, send money transfers, pay bills and make ATM transactions. It also sells money orders and phone cards and will accept cash or bank cards for purchases. Customers use simple, menu-driven touch-screens, featuring instructions in English or Spanish, to perform their transactions. Those who need personal attention or have questions are able to speak with a bilingual customer service representative. The Company continues to be one of the nation's leading retailers of money orders.

The Company's seasonal merchandising strategy put a major focus on the key holidays, starting with Halloween, in the fourth quarter. Over 4,500 new Feature Fixture racks were delivered to the stores, which are moveable and provide versatility for the stores to merchandise high potential seasonal products. Novelty gift merchandise was featured, as were fresh mini pumpkins for Halloween and potted evergreens and poinsettias for Christmas. "Holiday staples" such as key seasonal baking ingredients (pumpkin, yams, whipped topping) and non-food items such as baking pans, film, batteries and holiday paper products were featured on the new Feature Fixtures. The Company responded to the explosive growth in demand for one-time use cameras by introducing SNAPPIX as its proprietary brand for a 35mm, 27-exposure flash camera and 200- and 400-speeds of 35mm film. The 7-ELEVEN collectible truck series was repeated again for the 1998 holiday season. A 7-ELEVEN plastic tow truck branded with the CITGO logo was introduced in 1998. In addition, the die cast panel truck, a 1948 Ford, had commemorative logos celebrating the 10th anniversary of BIG BITE hot dogs, Coke SLURPEE semi-frozen beverages and DOUBLE GULP fountain drinks. These new additions, coupled with the focus on avoiding out-of-stock conditions during the holidays, contributed in a meaningful way to the stores' improvements during the last four months of the year.

TOBACCO PRODUCTS. During 1998, the Company began preparing for a major change in the merchandising of the Cigarette and Tobacco category, assuming that there will be ever-increasing restrictions and regulations on the display and selling of these products. A great deal of time and attention was devoted to the development and field testing of a number of fixture and placement options for these products. Over 300 stores actually had a variety of concepts installed, and based on store and customer feedback, as well as category performance results, a new approach to "back counter" merchandising has been adopted. This new concept complies with all current local, state, and federal regulations on the sale of cigarettes and other tobacco products, as well as with any anticipated future restrictions. At the same time, it greatly improves the total category presentation to our adult smoker customers.

The Company continued to offer premium cigars and is testing a new tube cigar program from several major manufacturers. These less expensive, longer lasting varieties better fit the 7-ELEVEN customer base.

GASOLINE. 1998 was a record year for gasoline, as higher volume per store and an additional 159 stores selling gasoline combined to increase gallons sold by 137 million bringing total gallons sold to over 1.5 billion. Approximately 2,175 7-ELEVEN stores and other Southland self-serve outlets were offering gasoline at year-end 1998. The Company has remodeled over 1,200 gasoline locations over the last five years to meet the new EPA standards that became effective as of year-end 1998. Over 200 of these remodels were done in 1998. At the same time, the Company decided to stop selling gasoline at several low-volume locations due to the cost of the equipment upgrades necessary to meet the new federal standards.

The Company monitors gasoline sales to maintain a steady supply of petroleum products to the Company's stores, to determine competitive retail pricing, to provide the appropriate product mix at each location and to manage inventory levels, based on market conditions. Approximately 1,200 stores are now equipped to accept credit cards for the purchase of gasoline at the pump, which makes gasoline shopping at 7-ELEVEN stores even more convenient for the credit customer. Almost all of the Company's stores that sell gasoline offer CITGO-branded gasoline.

The Company has a long-term product purchase agreement with CITGO Petroleum Corporation ("Citgo") under which Southland purchases substantially all its U.S. gasoline requirements from Citgo at market-related prices through the year 2006.

Holders of the "Citgo Plus" credit card can use the card to finance purchases of gasoline, as well as other merchandise, at 7-ELEVEN stores. At year-end, there were approximately 1.8 million active "Citgo Plus" credit card accounts.

DISTRIBUTION.

FRESH PRODUCTS. By the end of 1998, approximately 3,300 (an addition of 480 during the year) stores in Texas, Colorado, Maryland, Delaware, Virginia, Florida, California, Pennsylvania, New Jersey, New York, Indiana, Illinois, Wisconsin, Nevada, the District of Columbia and Canada were receiving daily deliveries from seventeen combined distribution centers ("CDCs"). The CDC concept "combines" products from multiple suppliers, for daily distribution by a third party operator of the CDC. In so doing, 7-ELEVEN reduces the number of deliveries that a store must accept throughout the day, freeing up time for its store operators to accomplish other tasks, and also keeping more of the limited parking lot space available for customer use. Additionally, store operators are provided extensive CDC management reports, which allow them to make better informed ordering and other business decisions. In 1999, by using excess capacity at existing CDC facilities, the Company plans to add approximately 500 stores to those served by the CDCs.

The CDCs are strategically located throughout North America, and deliver products like 7-ELEVEN's proprietary lines of DELI CENTRAL fresh foods and WORLD OVENS fresh bakery products. CDCs also provide dairy products, juices, eggs, bread, packaged bakery, produce, fresh cut flowers, snack foods, magazines and other perishable items to 7-ELEVEN stores every day of the year.

WAREHOUSE PRODUCTS. The Company continued to utilize the distribution services of McLane Company, Inc. ("McLane"), pursuant to a ten-year contract entered into in 1992, for delivery of warehouse products to all of the Company's corporate stores and those franchise stores that utilize McLane for distribution services. McLane serves Southland using two former Southland distribution centers and eight additional distribution centers throughout the country.

SUPPLY AGREEMENTS. In connection with the sale of the Company's Reddy Ice and Dairies Group divisions, both in 1988, the Company entered into long-term contracts to purchase the products historically supplied to the Company's stores by such divested operations. Although both contracts have expired, the Company has continued to buy from those vendors.

RETAIL INFORMATION SYSTEM. In 1994, the Company began development of its own proprietary retail information system, which is being implemented in phases, over a multi-year period. The system is designed to build efficiencies into ordering, distribution and merchandising processes and to provide timely and accurate store information on an item-by-item basis. At the end of 1998, the system was in live operation in 700 stores with an additional 1,800 stores in training. The rollout is scheduled to be complete by the end of 1999.

PRODUCT CATEGORIES. The Company does not record merchandise sales on the basis of product categories. However, based upon the total dollar volume of store purchases, management estimates that the percentages of its 7-ELEVEN convenience store merchandise sales in the United States and Canada by principal product categories for the last three years were as follows:

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Product Categories	Years Ended December 31		
	1998	1997	1996
Beverages	23.7%	23.2%	22.6%
Tobacco Products	23.7%	22.5%	22.3%
Beer/Wine	11.3%	11.8%	12.2%
Candy/Snacks	9.5%	9.8%	9.8%
Non-Foods	6.9%	7.5%	7.6%
Food Service	6.0%	5.9%	5.8%
Dairy Products	5.3%	5.6%	5.8%
Customer Services	4.8%	4.4%	4.4%
Other	4.6%	4.9%	5.0%
Baked Goods	4.2%	4.4%	4.5%
Total	100%	100%	100%

</TABLE>

In addition, gasoline sales accounted for 23.2%, 25.7% and 26.0% in 1998, 1997 and 1996, respectively, of the Company's total sales in the U.S. and Canada.

LOCAL REGULATIONS. In certain areas where stores are located, state or local laws limit the hours of operation or sale of certain products, most significantly alcoholic beverages, tobacco products, possible inhalants and lottery tickets. State and local regulatory agencies have the authority to approve, revoke, suspend or deny applications for and renewals of permits and licenses relating to the sale of these products or to seek other remedies. In most states, such agencies have discretion to determine if a licensee is qualified to be licensed, and denials may be based on past noncompliance with applicable statutes and regulations, as well as on the involvement of the licensee in criminal proceedings or activities which in such agencies' discretion are determined to adversely reflect on the licensee's qualifications. Such regulation is subject to legislative and administrative change from time to time.

In addition, federal regulations now require retailers to have procedures in place to determine the age of persons wanting to purchase tobacco products. The Company anticipates that in the future there may be additional restrictions on the sale of tobacco products.

FRANCHISES AND LICENSES.
FRANCHISES. At December 31, 1998, 2,960 7-ELEVEN stores were operated by independent franchisees under the Company's franchise program for individual 7-ELEVEN stores. Sales by stores operated by franchisees (which are included in the Company's net sales) were approximately $3.035 billion for the year ended December 31, 1998.

In its franchise program for individual 7-ELEVEN stores, the Company selects qualified applicants and trains the individuals who will participate personally in operating the store. The franchisee pays the Company an initial fee, which varies by store, and is generally calculated based upon gross profit experience for the store or market area, to cover certain costs relating to the franchising of the store, and may provide a profit. Under the standard form of franchise agreement, the Company leases or subleases, to the franchisee, a ready-to-operate 7-ELEVEN store that has been fully equipped and stocked. The Company bears the costs of acquiring the land, building and equipment, as well as most utility costs and property taxes.

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The standard franchise agreement has an initial term of 10 years. The franchisee pays for all business licenses and permits, as well as all in-store selling expenses. The Company finances a portion of these costs, as well as the ongoing operating expenses and purchases of inventory. Under the standard agreements that are currently in effect, the Company receives a share in the gross profit of the store (ranging from 50% to 58%) depending on certain variables related to the individual store. This is called the "7-ELEVEN Charge." The franchise may be terminated by the franchisee at any time, or by the Company only for the causes, and upon such notices, as are specified in the franchise agreement and as provided by applicable law.

The Company continues to encourage existing successful franchisees to franchise multiple locations. This provides growth opportunities for current franchisees within the 7-ELEVEN system by encouraging them to pursue additional stores and may result in increased income for the franchisee, partly by creating opportunities for lower per unit operating expenses for the franchisee and the Company.

AREA LICENSES. As of December 31, 1998, the Company had granted domestic area licenses to six companies which were operating 440 convenience stores using the 7-ELEVEN system and name in certain areas of Hawaii, Indiana (using the name SUPER-7 in Indianapolis), Maryland, Michigan, New Mexico, Ohio, Oklahoma, Pennsylvania, Texas, Utah and West Virginia. Although parts of Kentucky, Nevada and Virginia are also covered by area licenses, there are no stores currently operated under the area licenses in those states.

As of the end of 1998, foreign area license agreements covered the operation of 7,605 7-ELEVEN stores in Japan, 1,908 in Taiwan, 1,105 in Thailand, 398 in China (350 of which are in Hong Kong), 177 in Australia, 171 in South Korea, 151 in Malaysia, 149 in the Philippines, 89 in Singapore, 47 in Sweden, 45 in Norway, 30 in Denmark, 20 in Spain, 12 in Puerto Rico, 9 in Brazil, 8 in Guam and 7 in Turkey. The Company has an equity interest in the Brazilian and Puerto Rican area licensees.

During 1998, the Company's licensee in the United Kingdom divested all of its retail business including its 7-ELEVEN stores so the Company no longer has a presence in the United Kingdom.

Stores operating under area licenses are not included in the number of Company operating units, and their sales are not included in the Company's revenue. Revenues from initial fees paid for area licenses and continuing royalties based on the sales volume of the stores are included in Other Income.

INTERNATIONAL AFFILIATES. The Company also has an equity interest in 236 convenience stores in Mexico operated by 7-ELEVEN Mexico. There are five additional stores in Mexico operated under a sublicense. The 7-ELEVEN stores in Mexico feature merchandise and services essentially the same as 7-ELEVEN stores in the U.S. Sales from the stores in Mexico are not included in Southland's revenues, but Southland's equity in their operating results is included in Other Income and has not been material.

OTHER RETAIL. As of December 31, 1998, the Company operated 53 Christy's Markets (see "Acquisitions," below), eight Quik Mart high-volume gasoline outlets combined with a mini-convenience store ranging in size from 300 to 1,600 square feet of sales space stocked primarily with snack food, candy, cold drinks and other immediately consumable items, three other CITGO-branded high-volume, multi-pump, self-service gasoline-dispensing locations, one HIGH'S Dairy Store located in Virginia, which is similar in size and location to a 7-ELEVEN store and one other retail location in Illinois.

OTHER INFORMATION ABOUT THE COMPANY

MAJORITY OWNER. IYG Holding Company, a Delaware corporation (the "Purchaser" or "IYG"), is a jointly owned subsidiary of Ito-Yokado and Seven-Eleven Japan, formed for the specific purpose of purchasing the Common Stock of the Company. Ito-Yokado owns 51% and Seven-Eleven Japan owns 49%, respectively, of IYG.

ITO-YOKADO. Ito-Yokado is among the largest retailing companies in Japan. Its principal business consists of the operation of approximately 150 superstores that sell a broad range of food, clothing and household goods. In addition, its activities include operating two restaurant chains doing business under the names "Denny's" and "Famil" and a chain of supermarkets.

All of Ito-Yokado's operations are located in Japan except for some limited purchasing activities. Ito-Yokado guarantees the Company's $650 million commercial paper facility. In addition, in 1995, Ito-Yokado purchased $153 million of 4.5% Convertible Quarterly Income Debt Securities due 2010 issued by the Company and, in February, 1998, purchased $40.8 million of 4.5% Convertible Quarterly Income Debt Securities due 2013 issued by the Company.

SEVEN-ELEVEN JAPAN. Seven-Eleven Japan is the most profitable retailer in Japan. Seven-Eleven Japan is a 50.3%-owned subsidiary of Ito-Yokado. Seven-Eleven Japan is the largest area licensee of the Company with approximately 7,605 7-ELEVEN stores in Japan and owns Seven-Eleven (Hawaii), Inc., which, as of year-end 1998, operated an additional 48 7-ELEVEN stores in Hawaii under a separate area license agreement covering that state. In November 1995, Seven-Eleven Japan purchased $147 million of 4.5% Convertible Quarterly Income Debt Securities due 2010 issued by the Company and, in February 1998, purchased $39.2 million of 4.5% Convertible Quarterly Income Debt Securities due 2013, issued by the Company.

RESEARCH AND DEVELOPMENT. The Company conducted extensive testing in 1998 of new recipes, products, packaging and imaging of the fresh food case in connection with the development and merchandising of new fresh food products. The Company's test kitchen was involved in taste tests and testing of equipment used for cooking and displaying food products, including quality assurance testing. Total expenditures for research and development in 1998 were $2.2 million.

TRADEMARKS. The Company's 7-ELEVEN trademark has been registered since 1961 and is well known throughout the United States and in many other parts of the world. Other trademarks and service marks owned by the Company include SUPER-7, SLURPEE, BIG GULP, BIG BITE, DELI CENTRAL, WORLD OVENS and QUALITY CLASSIC SELECTION, as well as many additional trade names, marks and slogans relating to other individual types of foods, beverages and other items.

ADVERTISING. In 1998, the Company's radio and television advertising used a new angel campaign, which focused on 7-ELEVEN CAFE COOLER, the variety of cold beverages available at 7-ELEVEN stores, and, in the Austin, Texas area, the new financial service center. Radio advertising was used to highlight specific products such as party platters during January, new French roast coffee, new breakfast sandwiches, the new Slurpee Strata cup and also the Splitzo cup, Cafe Cooler, new fresh food items, non-carbonated beverages and the refillable acrylic coffee mug. The Company was a sponsor of the CITGO NASCAR race car and of the very popular PBS children's series "Wishbone."

COMPETITION. During the past few years the Company, like other traditional convenience retailers, has experienced increased competitive pressures from supermarkets and drug stores offering extended hours and services, as well as from an increasing number of convenience-type stores built by the oil companies. The convenience retailing industry is also being negatively impacted by demographic factors (such as an aging population) and an erosion of demand for certain of its traditional core products, including cigarettes, soft drinks and beer. While many retailers are also facing increased competition from the Internet, the Company does not currently think that its sales will be impacted by the availability of merchandise over the Internet.

It is widely recognized that 7-ELEVEN is the most prominent name in the convenience retailing industry. However, the Company's convenience retailing operations represent only a very small percentage of the highly competitive food retailing industry. Independent industry sources estimate that in the United States annual sales in 1997 (the most recent data available) for the convenience store industry were approximately $156.2 billion (including $83.8 billion of gasoline) and that over 95,700 store units were in operation. The industry traditionally has narrow net profit margins. In addition, the Company's stores compete with a number of national, regional, local and independent retailers, including grocery and supermarket chains, grocery wholesalers and buying clubs, other convenience store chains, oil company gasoline/mini-convenience "g-stores," independent food stores, and fast food chains as well as variety, drug and candy stores. In sales of gasoline, the Company's stores compete with other food stores and service stations and generate only a very small percentage of the gasoline sales in the United States. Each store's ability to compete is dependent on its location, accessibility and individual service. Growing competitive pressures from new participants in the convenience retailing industry and the rapid growth in numbers of convenience-type stores opened by oil companies over the past few years have intensified competitive pressures for the Company.

EMPLOYEES. At December 31, 1998, the Company had 32,368 employees, of whom approximately 29 percent were considered to be either temporary or part-time employees. None of the Company's employees in the U.S. or Canada were subject to collective bargaining agreements at year-end. However, a total of approximately 120 nonsupervisory employees in Canada (65 at the food production center in Richmond, British Columbia and 55 at five separate stores in British Columbia) have had the United Food and Commercial Workers Union ("UFCW") certified as their agent for collective baragaining. The Company is negotiating with the UFCW in an effort to reach mutually satisfactory collective bargaining agreements with respect to the covered employees at these locations.

ENVIRONMENTAL MATTERS.
GENERAL. The operations of the Company are subject to various federal, state and local laws and regulations relating to the environment. Certain of the more significant federal laws are the Resource Conservation and Recovery Act of 1976, The Comprehensive Environmental Response Compensation and Liability Act of 1980, the Superfund Amendments and Reauthorization Act of 1986 and the Clean Air Act. The implementation of these laws by the United States Environmental Protection Agency ("EPA") and the states will continue to affect the Company's operations by imposing increased operating and maintenance costs and capital expenditures required for compliance. Additionally, the procedural provisions of these laws can result in increased lead times and costs for new facilities.

Violation of any federal environmental statutes or regulations or orders issued thereunder, as well as relevant state and local laws and regulations, could result in civil or criminal enforcement actions.

For a description of Current Environmental Projects And Proceedings, see "Management's Discussion and Analysis of Financial Condition and Results of Operations, Environmental" beginning on page 35, below.

ACQUISITIONS. Both the 'red D mart' and Christy's Market acquisitions include retail gasoline outlets that are subject to certain environmental regulations. Under the terms of the acquisition agreements, the sellers are responsible for ensuring compliance with all applicable environmental regulations existing as of the closing date. In addition, the acquisition agreements provide that the sellers will remain responsible for the expense of any future environmental cleanup which is required under applicable legal requirements and which results from existing conditions at the sites as of the closing date.

RISK FACTORS. The Company's business is conducted in a highly competitive environment. Sales are subject to general economic conditions, such as inflation, unemployment and consumer spending. In addition, interest rate fluctuations can impact both the Company and its suppliers. The Company can also be affected by variations in the wholesale price of raw materials (for example, gasoline, coffee beans and similar commodities) due to factors outside the Company's control that cause changes in the supply and demand for such raw materials. These price variations can materially impact retail price, sales volume and gross profit margin on affected products. It is expected that changes in tobacco legislation and pricing by cigarette manufacturers will have an impact on sales and margins in the tobacco category. In addition, the Company intends to open approximately 200 stores in 1999, which can be impacted by the speed at which new sites/acquisitions can be located, negotiated, permitted and constructed. Changes in the minimum wage rate also can be expected to impact the number and quality of workers available for employment by the Company as well as the Company's labor costs. Demand for many of the Company's products are seasonal and weather sensitive. Therefore, unfavorable weather conditions can adversely affect sales. These factors, among others, may have an impact on the Company in 1999 and thereafter.

EXECUTIVE OFFICERS OF THE REGISTRANT

OFFICERS AS OF DECEMBER 31, 1998. The names, ages, positions and offices with the registrant of all current executive officers, as well as the Chairman of the Board and the Vice Chairman of the Board, of the Company are shown in the following chart. The term of office of each executive officer is at the pleasure of the board of directors. The business experience of each such executive officer for at least the last five years, and the period during which he or she served in office, as well as the date each was employed by the Company, are reflected in the applicable footnotes to the chart. Mr. Ito and Mr. Suzuki, as Chairman of the Board and Vice Chairman of the Board, respectively, are officers of the Board and are not administrative executive officers.

<TABLE>
<CAPTION>

NAME	AGE AT 3-01-99	POSITIONS AND OFFICES WITH REGISTRANT AT 12/31/98
<S>	<C>	<C>
Masatoshi Ito	74	Chairman of the Board and Director (1)
Toshifumi Suzuki	66	Vice Chairman of the Board and Director (2)
Clark J. Matthews,II	62	President, Chief Executive Officer, Secretary and Director (3)
James W. Keyes	43	Executive Vice President and Chief Operating Officer and Director (4)
Masaaki Asakura	56	Senior Vice President (5)
Rodney A. Brehm	51	Senior Vice President (6)
Joseph F. Gomes	59	Senior Vice President, Logistics (7)
Gary Rose	53	Senior Vice President, Merchandising (8)
Bryan F. Smith, Jr.	46	Senior Vice President and General Counsel (9)
Terry L. Blocher	54	Vice President, Canada Division (10)
Paul L. Bureau, Jr.	57	Vice President, Corporate Tax (11)
Frank Crivello	45	Vice President, Northeast Division (12)
Cynthia L. Davis	44	Vice President, Central Division (13)
Krista Fuller	44	Vice President, Development (14)
Jeff Hamill	44	Vice-President, Southwest Division (15)
John Harris	52	Vice President, Florida Division (16)
Gary Lockhart	53	Vice President, Gasoline Supply (17)
Dave Podeschi	48	Vice President, Foods Merchandising (18)
Nathan D. Potts	60	Vice President, Non-Foods Merchandising (19)
Sharon R. Powell	47	Vice President, Fresh Foods (20)
Jeffrey Schenck	48	Vice President, Great Lakes Division (21)
Ezra Shashoua	44	Treasurer (22)
Linda Svehlak	53	Vice President, Information Systems (23)
Donald E. Thomas	40	Vice President and Controller (24)
Rick Updyke	39	Vice President, Planning (25)
David A. Urbel	57	Vice President, Finance (26)

</TABLE>

(1) Chairman of the Board and Director of the Company since March 5, 1991. Director and Honorary Chairman of Ito-Yokado Group, which includes Ito-Yokado Co., Ltd., Seven-Eleven Japan Co., Ltd. and Denny's Japan Co., Ltd., as well as other companies. Ito-Yokado Co., Ltd. is one of Japan's leading diversified retailing companies which, together with its subsidiaries and affiliates, operates superstores, convenience stores, department stores, supermarkets, specialty shops and discount stores. President of Ito-Yokado Co., Ltd. from 1958 to 1992. Chairman of Seven-Eleven Japan Co., Ltd. from 1978 to 1992, and President from 1973 to 1978. Chairman of Denny's Japan Co., Ltd. from 1981 to 1992, and President from

1973 to 1981. Chairman of Famil Co., Ltd. since 1986. Chairman of York Mart Co., Ltd. since 1979. Chairman of Robinson's Japan Co., Ltd. since 1995. Chairman of Maryann Co., Ltd. since 1977. President of Oshman's Japan Co., Ltd. since 1984. Statutory Auditor of Steps Co., Ltd. since 1992. Chairman of York-Keibi Co., Ltd. since 1989. President of Union Lease Co., Ltd. since 1985. Statutory Auditor of Daikuma Co., Ltd. since 1982. Chairman of Marudai Co., Ltd. since 1989. Director of Seven-Eleven (Hawaii), Inc. since 1989. Chairman of Umeya Co., Ltd. since 1981. Director of Shop America Limited since 1990. Director and Chairman of the Board of IYG Holding Company since 1990.

(2) Vice Chairman of the Board and Director of the Company since March 5, 1991. President and Chief Executive Officer of Ito-Yokado Co., Ltd., one of Japan's leading diversified retailing companies which, together with its subsidiaries and affiliates, operates superstores,

convenience stores, department stores, supermarkets, specialty shops and discount stores, since October 1992 and Director since 1971; Executive Vice President from 1985 to 1992; Senior Managing Director from 1983 to 1985; Managing Director from 1977 to 1983; employee since 1963. Chairman of the Board and Chief Executive Officer of Seven-Eleven Japan Co., Ltd. since October 1992 and Director since 1973; President from 1975 to 1992; Senior Managing Director from 1973 to 1975. Statutory Auditor of Robinson's Japan Co., Ltd. since 1984. Chairman of Daikuma Co., Ltd. since 1985. President of Seven-Eleven (Hawaii), Inc. since 1989. President of Shop America Limited since 1990. President and Director of IYG Holding Company since 1990.

(3) Director of the Company since March 5, 1991, and from 1981 until December 15, 1987; President and Chief Executive Officer since March 5, 1991 and Secretary since April 1995; Executive Vice President (or Senior Executive Vice President) and Chief Financial Officer from 1979 to 1991; Vice President and General Counsel from 1973 to 1979; employee of the Company since 1965.

(4) Director of the Company since April 23, 1997; Executive Vice President and Chief Operating Officer since May 1, 1998; Chief Financial Officer from May 1996; Senior Vice President, Finance, from June 1993 to April 1996; Vice President, Planning and Finance, from August 1992 to June 1, 1993; Vice President and/or Vice President, National Gasoline, from August 1991 to August 1992; General Manager, National Gasoline, from 1986 to 1991; employee of the Company since 1985.

(5) Director of the Company since April 23, 1997; Senior Vice President from May 1, 1998 to present; Vice President from May 1997 to April 1998; General Manager and Overseas Liaison, Planning Department, Seven-Eleven Japan Co., Ltd., from 1995 to 1997; Executive Vice President and General Manager, Seven-Eleven (Hawaii), Inc., from 1991 to 1994; employee of Seven-Eleven Japan Co., Ltd. since 1976.

(6) Senior Vice President since January 1, 1999; Senior Vice President, Chesapeake Division from May 1998 to December 1998; Senior Vice President, Southwest Division from May 1997 to April 1998; Senior Vice President, Distribution from May 1996 to April 1997; Senior Vice President, Distribution and Foodservice, from June 1993 to April 1996; Vice President, Merchandising, from February 1992 to June 1993; Vice President, Marketing, from 1990 to 1992; Vice President, Northwest Region, 7-ELEVEN Stores, from 1989 to 1990; National Marketing Manager from 1986 to 1989; Division Manager, Central Pacific Division, 7-ELEVEN Stores, from 1979 to 1986; employee of the Company since 1972.

(7) Senior Vice President, Logistics from May 1, 1998 to present; Vice President, Logistics, from May 1997 to April 1998; Vice President, Central Division, from May 1996 to April 1997; Division Manager, August 1993 to April 1996; Operations Manager, January 1992 to August 1993; Operations Division Manager from June 1989 to January 1992; employee of the Company since 1978.

(8) Senior Vice President, Merchandising from May 1, 1998 to present; Vice President, Non-Foods Merchandising from May 1997 to April 1998; Vice President, Gasoline and Environmental Services from May 1995 to April 1997; National Gasoline Manager from January 1991 to April 1995; Manager, East/West Gasoline from November 1987 to January 1991; employee of the Company since 1968.

(9) Senior Vice President and General Counsel from May 1, 1995 to present; Vice President and General Counsel from August 1992 to April 1995; Assistant General Counsel from January 1990 to July 1992; Associate General Counsel from January 1987 to December 1989; employee of the Company since 1980.

(10) Vice President, Canada Division, from March 1998 to present; Vice President, Human Resources from March 1997 to February 1998; Vice President, Southwest Division, from May 1995, to April 1997; Division Manager from February 1985 to April 1995; employee of the Company since 1971.

(11) Vice President, Corporate Tax, from May 1993 until retirement in February 1999; Corporate Tax Manager from March 1983 to May 1993; Partner, Touche Ross & Co., from 1978 to 1983; employee of the Company from 1983 to 1999.

(12) Vice President, Northeast Division from May 1, 1996 to present; Division Manager from October 1987 to April 1996; employee of the Company since 1981.

(13) Vice President, Central Division, from May 1, 1997 to present; Division Manager from February 1997 to April 1997; Product Director from January 1995 to February 1997; Category Manager from November 1993 to January 1995; Merchandising Manager from September 1992 to November 1993; Operations Division Manager from November 1990 to August 1992; Division Manager from October 1987 to October 1990; employee of the Company since 1978.

(14) Vice President, Development from May 1, 1998 to present; Vice President, Construction and Maintenance, from July 1997 to April 1998; Manager, Corporate Maintenance from April 1992 to July 1997; Division Operations Manager from November 1990 to January 1992; Division Manager from October 1987 to October 1990; employee of the Company since 1981.

(15) Vice President, Southwest Division from May 1, 1998 to present; Southwest Division Manager from January 1998 to April 1998; Southwest Division Sales/Marketing Manager from March 1997 to December 1997; Southwest Division Merchandising Manager from March 1992 to February 1997; employee of the Company since 1979.

(16) Vice President, Florida Division, from May 1, 1998 to present; Vice President, Chesapeake Division from May 1997 to April 1998; Vice President, Florida Division from May 1996 to April 1997; Division Manager from October 1987 to April 1996; employee of the Company since 1979.

(17) Vice President, Gasoline Supply, from May 1, 1998 to present; General Manager, Gasoline Supply from September 1997 to April 1998; employee of the Company since 1997. General Manager, Product Supply and Distribution, CITGO Petroleum Corporation, a petroleum refining and marketing company, from 1984 until September 1997.

(18) Vice President, Foods Merchandising from May 1, 1998 to present; Manager, Business Systems Development - Merchandising from December 1994 to April 1998; Retail Automation Study Team Leader from May 1993 to December 1994; employee of the Company since 1980.

(19) Vice President, Non-Foods Merchandising from May 1, 1998 until retirement in February 1999; Vice President, Foods Merchandising, from May 1997 to April 1998; Product Director from May 1993 to April 1997; Regional Merchandising Manager, March 1992 to April 1993; General Manager from November 1990 to March 1992; Division Manager from 1989 to 1990; Regional Marketing Manager from 1985 to 1989; employee of the Company from 1971 to 1999.

(20) Vice President, Fresh Foods from March 23, 1998 to present; Vice President, Florida Division, from May 1997 to March 1998; Division Manager, April 1997; Division Logistics Manager from March to April 1997; Fresh Foods Area Operations Manager from March 1995 to February 1997; Market Manager from December 1993 to February 1995; Director of Operations from September 1992 to November 1993; Operations Division Manager from April 1992 to August 1992; employee of the Company since 1974.

(21) Vice President, Greater Midwest Division from May 1, 1996 to present; Division Manager from October 1987 to April 1997; employee of the Company since 1976.

(22) Treasurer from May 1, 1998 to present; Assistant General Counsel from December 1989 to April 1998; employee of the Company since 1982.

(23) Vice President, Information Systems, from May 1997 to present; Manager, MIS from May 1992 to April 1997; Systems Manager from December 1984 to May 1992; employee of the Company since 1970.

(24) Vice President and Controller from May 1, 1997 to present; Controller from August 1995 to April 30, 1997; Assistant Controller from January 1993 to July 1995; employee of the Company since 1993. Financial Manager, The Trane Company, from April 1992 to December 1992; Senior Manager, Audit Department, Deloitte & Touche, from January 1990 to March 1992; Audit Department, Deloitte & Touche, from 1989 to 1992.

(25) Vice President, Planning from May 1, 1998 to present; Manager of Planning from February 1997 to April 1998; Manager Investor Relations & Business Analysis from November 1995 to February 1997; Consulting Group Manager from December 1994 to November 1995; Manager Investor Relations from January 1994 to December 1994; employee of the Company since 1984.

(26) Vice President, Finance from May 1, 1998 until retirement on April 30, 1999; Vice President and Treasurer from May 1997 to May 1998; Vice President, Planning and Treasurer from August, 1992 to April 1997; Vice President since April, 1992 and Treasurer since December 1987; Deputy Treasurer from 1984 to 1987; Assistant Treasurer from 1983 to 1984; employee of the Company from 1970 until 1999.

FORMER OFFICERS. The names, ages, positions and offices formerly held with the registrant and the business experience for at least the five years preceding their departure from Southland of all persons who served as officers of the Company during 1998 but who no longer serve as such are shown below. Also shown for each such person is the period during which he or she served in his or her office, as reflected in the footnotes to the following chart.

Name	Age at 3-01-99
Robert E. Bailey (1)	56
Wendy W. Barth (2)	42
John S. Brune (3)	52
Stephen B. Krumholz (4)	49
Stephen B. LeRoy (5)	46

(1) Vice President from May 1997 to March 1998; Vice President, Northwest Division from May 1995 to April 1997; Division Manager from November 1990 to April 1995; Regional Vice President from May 1986 to October 1990; employee of the Company from 1970 to 1998.

(2) Vice President, Sales and Marketing, from May 1, 1997 to October 1998; Product Director from May 1993 to April 1997; Group Product Manager from September 1989 to March 1992; employee of the Company from 1989 to 1998.

(3) Vice President, Northwest Division from May 1, 1997 to November 1998; Division Manager from February 1997 to April 1997; Director of Operations from January 1994 to February 1997; Division Manager from September 1992 to December 1993; General Manager from November 1990 to August 1992; employee of the Company from 1974 to 1998.

(4) Director from April 23, 1997 to February 1998; Executive Vice President and Chief Operating Officer from June 1993 to February 1998; Senior Vice President, Operations, from August 1992 to June 1993; Senior Vice President, 7-ELEVEN Stores Operations, from 1990 to August 1992; employee of the Company from 1972 to 1998.

(5) Senior Vice President, International and Real Estate from May 1, 1995 to March 1998; Vice President, International and Real Estate, from May 1994 to April 1995; Vice President Real Estate and Licensed Operations, from August 1992 to May 1994; Vice President, Atlantic Region, 7-ELEVEN Stores, from 1990 to 1992; employee of the Company from 1975 to 1998.

Item 2. PROPERTIES

In February, 1997, the Company refinanced all of its remaining debt under the Prior Credit Agreement. The new Credit Agreement is unsecured and, therefore, the encumbrances on all the Company's properties were released.

7-ELEVEN

The following table shows the location and number of the Company's

7-ELEVEN convenience stores (excluding stores under area licenses and of certain affiliates) in operation on December 31, 1998.

<TABLE>
<CAPTION>

STATE/PROVINCE	OPERATING 7-ELEVEN CONVENIENCE STORES		
	OWNED	LEASED (a)	TOTAL
U.S.			
<S>	<C>	<C>	<C>
Arizona	45	55	100
California	243	929	1,172
Colorado	61	169	230
Connecticut	7	46	53
Delaware	10	17	27
District of Columbia	4	14	18
Florida	230	222	452
Idaho	6	8	14
Illinois	59	90	149
Indiana	9	30	39
Kansas	7	9	16
Maine	0	25	25
Maryland	89	222	311
Massachusetts	13	96	109
Michigan	52	60	112
Missouri	32	49	81
Nevada	94	101	195
New Hampshire	3	17	20
New Jersey	74	132	206
New York	43	194	237
North Carolina	2	5	7
Ohio	11	4	15
Oregon	37	95	132
Pennsylvania	60	105	165
Rhode Island	0	11	11
Texas	115	171	286
Utah	41	70	111
Vermont	0	4	4
Virginia	201	403	604
Washington	54	158	212
West Virginia	10	13	23
Wisconsin	15	0	15
CANADA			
Alberta	27	102	129
British Columbia	22	125	147
Manitoba	14	35	49
Ontario	30	77	107
Saskatchewan	20	23	43
Total	1,740	3,886	5,626

</TABLE>

(a) Of the 7-ELEVEN convenience stores set forth in the foregoing table, 606 are leased by the Company from The Southland Corporation Employees' Savings and Profit Sharing Plan (the "Savings and Profit Sharing Plan"). As of year-end 1998, the Company also leased 18 closed convenience stores or office locations from the Savings and Profit Sharing Plan.

At the end of 1998, the 7-ELEVEN stores group was using 63 offices in 20 states and Canada.

ACQUISITIONS. On May 4, 1998, the Company purchased all of the capital stock of Christy's Market, Inc., of Brockton, Massachusetts, thereby acquiring 135 Christy's Market convenience stores plus six additional locations, located in the New England area.

	Leased	Owned	Total
Operating Stores	133	2	135
Closed Stores	3	0	3
Offices	1	0	1

Vacant Land	2	0	2
Total	139	2	141

On May 12 1998, the Company purchased the assets of 20 'red D mart' onvenience stores plus one additional location, in the South Bend, Indiana, area from MDK Corporation of Goshen, Indiana.

	Leased	Owned	Total
Operating Stores	20	0	20
Vacant Land	1	0	1

These acquired locations, to the extent they have been converted to 7-ELEVEN stores, are included in the table on page 18.

OTHER RETAIL. As shown in the following table, at year-end 1998, the Company operated 53 Christy's Market stores in Connecticut, Massachusetts, Maine, New Hampshire and Vermont, eight Quik Marts and three other high volume gasoline dispensing locations in California, Illinois, Indiana, Texas and Virginia, one HIGH'S Dairy Store located in Virginia and one other retail location in Illinois.

The following table shows the location and number of the Company's other operating retail locations including Christy's Markets, Quik Marts, HIGH'S and other locations in operation on December 31, 1998.

STATE	OTHER OPERATING RETAIL LOCATIONS		
	OWNED	LEASED	TOTAL
California	3	0	3
Connecticut	0	5	5
Illinois	2	1	3
Indiana	0	1	1
Massachusetts	0	24	24
Maine	0	14	14
New Hampshire	0	6	6
Texas	2	0	2
Virginia	3	1	4
Vermont	0	4	4
Total	10	56	66

The Company plans to either close or convert most of these units to 7-ELEVEN stores over the next few years.

OTHER INFORMATION ABOUT PROPERTIES AND LEASES. At December 31, 1998, there were 45 7-ELEVEN stores in various stages of construction. The Company owned or was under contract to purchase 66, and had leases on 102, undeveloped convenience store sites. In addition, the Company held 87 7-ELEVEN, HIGH'S and Quik Mart properties available for sale consisting of 39 unimproved parcels of land, 34 closed store locations and 14 parcels of excess property adjoining store locations. At December 31, 1998, 15 of these properties were under contract for sale.

On December 31, 1998, the Company held leases on 261 closed store or other non-operating facilities, 18 of which were leased from the Savings and Profit Sharing Plan. Of these, 212 were subleased to outside parties.

Generally, the Company's store leases are for primary terms of from 14 to 20 years, with options to renew for additional periods. Many leases contain provisions granting the Company a right of first refusal in the event the lessor decides to sell the property. Many of the Company's store leases, in addition to minimum annual rentals, provide for percentage rentals based upon gross sales in excess of a specified amount and for payment of taxes, insurance and maintenance.

OTHER PROPERTIES. The Company also leases 53,580-square-feet of office/warehouse space in Denver, Colorado, for an equipment warehouse and service center. The Company also owns a 287-acre tract in Great Meadows, New Jersey. The chemical plant that was located on this property has now been demolished and a part of the property is currently involved in environmental clean-up. The Company holds tracts in Dallas, Texas, not included in the corporate headquarters, totaling approximately two acres which are available for sale.

CORPORATE. The Company's corporate office headquarters is in Dallas, Texas in a 42-story office building, known as Cityplace Center East. The Company's lease covers the entire Cityplace Tower, but gives the Company the right to sublease to other parties. Since 1996, subleases with third parties have been in place so that (including the space leased by Southland) the building is virtually completely leased or reserved for expansion under current leases. The Company currently utilizes other office space in and around Dallas (although most corporate office space is consolidated in Cityplace Center East).

ITEM 3. LEGAL PROCEEDINGS

THE FOLLOWING INFORMATION UPDATES THE STATUS OF CERTAIN PREVIOUSLY REPORTED PENDING LITIGATION INVOLVING THE COMPANY.

7-ELEVEN OWNERS FOR FAIR FRANCHISING, ET AL. V. THE SOUTHLAND CORPORATION ("OFFF") VALENTE, ET AL. V. THE SOUTHLAND CORPORATION, ET AL.

As previously reported, the Company is a defendant in two legal actions, which are referred to as the 7-ELEVEN OFFF and VALENTE cases, filed by franchisees in 1993 and 1996, respectively, asserting various claims against the Company, including claims that Southland wrongfully failed to

credit the franchisees' accounts with the value of equipment and with various rebates, discounts and allowances that Southland received from various vendors.

A nationwide settlement of the litigation was negotiated. In connection with the settlement, the OFFF and VALENTE cases have been combined on behalf of a nationwide class of all persons who operated 7-ELEVEN convenience stores in the continental United States at any time between January 1, 1987 and July 31, 1997, pursuant to franchise agreements with Southland. Class members have overwhelmingly approved the settlement, and the court presiding over the settlement process gave its final approval of the settlement on April 24, 1998. The settlement provides that (i) former franchisees will share in a settlement fund of $7 million to be paid by the Company; (ii) the Company will pay an additional $4,750,000 to cover plaintiffs' attorneys' fees and expenses; and (iii) certain changes will be made to the franchise agreements with current franchisees.

Notices of appeal of the order approving the settlement were filed on behalf of three of the attorneys who represented the class, six former franchisees and two current franchisees. One of these current franchisees has dismissed his appeal. The settlement agreement will not become effective until the appeals are resolved. However, the settlement agreement provides that while the appeals are pending the Company will pay certain maintenance and supply expenses relating to the cash registers and retail information system equipment of current franchisees that are members of the settlement class. If the settlement is overturned on appeal, the Company has the right to require franchisees to repay the amounts that the company paid for these expenses while the appeals were pending. The Company's payment of these expenses will not have a material impact on the Company's earnings, and the Company's accruals are sufficient to cover the total settlement costs, including the payment due to former franchisees when the settlement becomes effective.

Pursuant to the terms of the settlement agreement, the Judge in the VALENTE case, which was pending in District Court in Dallas County, entered an order striking the class action allegations in the petition and dismissing with prejudice the claims of the named plaintiffs.

EMIL V. SPARANO, ET AL. V. THE SOUTHLAND CORPORATION, ET AL.

Southland and three of its current and former officers and directors (John P. Thompson, Jere W. Thompson and Clark J. Matthews, II (collectively the "Individual Defendants")), are defendants in a lawsuit entitled EMIL V. SPARANO, ET AL. V. THE SOUTHLAND CORPORATION, ET AL., Case No. 94 C 2098. The lawsuit was filed in the United States District Court for the Northern District of Illinois in March, 1994. Plaintiffs are several franchisees of 7-ELEVEN stores in Illinois, Pennsylvania, New Jersey and Nevada; they represent a nationwide class of all persons who have owned 7-ELEVEN franchises anywhere in the United States at any time from December 1, 1987 through March 4, 1991.

Only one claim against the Individual Defendants and the Company was certified to proceed as a class action. That claim alleges that certain misleading statements were made to the class members regarding the financial condition of the Company during the period following the leveraged buyout of the Company in 1987 and continuing until the Company emerged from bankruptcy in March, 1991.

On March 4, 1999, the judge granted summary judgment in favor of the Company on the class claim, ruling that the Company made no misleading statements to its franchisees as plaintiffs had alleged. The named plaintiffs have individual breach of contract claims remaining in the case, but all class claims have been dismissed.

DEFAULT INTEREST CLAIM

As previously reported, subsequent to the Company's bankruptcy filing on October 24, 1990, the Company's senior lenders (the "Banks") under the Credit Agreement filed a proof of claim demanding, among other things, default interest, as a result of the Company's having failed to make an interest payment due June 15, 1990. The amount of default interest in dispute was $12,186,870, which was calculated under the Credit Agreement on the average daily outstanding bank debt balance from the date of notice of default to the confirmation of the Plan of Reorganization. A few of the individual Bank's claims have been settled so that the disputed amount is now approximately $9.6 million. The Company objected to the claim for default interest. On March 17, 1992, the Bankruptcy Court ruled in favor of the Banks' claim. The Company recognized the amount of the potential liability in its 1991 year-end financial statements.

The Company appealed this decision to the United States District Court for the Northern District of Texas. On March 27, 1997, the District Court affirmed. On December 2, 1998, the United States Court of Appeals for the Fifth Circuit also affirmed. The case has been returned to the Bankruptcy Court for final disposition and the Company expects to make payment on the unsettled amount of the claim in 1999.

GENERAL

In addition, the Company is also occasionally sued by persons who allege that they have incurred property damage and personal injuries as a result of releases of motor fuels from underground storage tanks operated by the Company at its retail outlets. It is the Company's policy to vigorously defend against such claims. Except as specifically disclosed in this section on "Legal Proceedings" or in the section on "Environmental Matters", above, the Company does not believe that its exposure from such claims, either individually or in the aggregate, is material to its business or financial condition.

Information concerning other legal proceedings is incorporated herein from "Management's Discussion and Analysis, Environmental," beginning on page 35, below.

In the ordinary course of business, the Company is also involved in various other legal proceedings which, in the Company's opinion, are not material, either individually or in the aggregate.

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

No matters were submitted to a vote of security holders during the fourth quarter of 1998.

PART II

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

The Company's Common Stock, $.0001 par value per share, is the only class of common equity of the Company and represents the only voting securities of the Company. There are 409,941,168 shares of Common Stock issued and outstanding and, as of March 12, 1999, there were 2,670 record holders of the Common Stock. The Company's Common Stock is traded on The Nasdaq Stock Market under the symbol "SLCM". The following information has been provided to the Company by The Nasdaq Stock Market.

QUARTERS	PRICE RANGE HIGH	LOW	CLOSE
1998			
FIRST	$ 3.03125	$ 1.5625	$ 2.078125
SECOND	3.03125	2.0625	2.750
THIRD	3.03125	2.0625	2.500
FOURTH	2.375	1.750	1.90625
1997			
FIRST	$ 3.5625	$ 2.65625	$ 3.15625
SECOND	3.6875	3.125	3.34375
THIRD	3.40625	2.50	2.5625
FOURTH	2.875	1.71875	2.125

(a) These quotations reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

The indentures governing the Company's outstanding debt securities do not permit the payment of cash dividends except in limited circumstances. The Credit Agreement also restricts the Company's ability to pay cash dividends on the Common Stock.

Under Texas law, cash dividends may only be paid (a) out of the surplus of a corporation, which is defined as the excess of the total value of the corporation's assets over the sum of its debt, the par value of its stock and the consideration fixed by the corporation's board of directors for stock without par value, and (b) only if, after giving effect thereto, the corporation would not be insolvent, which is defined to mean the inability of a corporation to pay its debts as they become due in the usual course. Surplus may be determined by a corporation's board of directors by, among other things, the corporation's financial statements or by a fair valuation or information from any other method that is reasonable in the circumstances. No assurances can be given that the Company will have sufficient surplus to pay any cash dividends even if the payment thereof is not otherwise restricted.

<TABLE>
<CAPTION>

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL DATA

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	YEARS ENDED DECEMBER 31 1998	1997	1996	1995	1994
	(DOLLARS IN MILLIONS, EXCEPT PER-SHARE DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
Merchandise sales	$ 5,573.6	$ 5,181.8	$ 5,084.0	$ 5,063.7	$ 5,066.0
Gasoline sales.	1,684.2	1,789.4	1,784.9	1,682.1	1,618.5
Net sales	7,257.8	6,971.2	6,868.9	6,745.8	6,684.5
Other income.	92.0	89.4	86.4	78.5	74.6
Total revenues.	7,349.8	7,060.6	6,955.3	6,824.3	6,759.1
LIFO charge	2.9	0.1	4.7	2.6	3.0
Depreciation and amortization	194.7	196.2	185.4	166.4	162.7
Interest expense, net	91.3	90.1	90.2	85.6	95.0
Earnings before income taxes and extraordinary gain	82.6	115.3	130.8	101.5	73.5

Income taxes (benefit).	31.9	45.3	41.3	(66.1)(a)	(18.5)(b)
Earnings before extraordinary gain.	50.7	70.0	89.5	167.6	92.0
Net earnings.	74.0 (c)	70.0	89.5	270.8 (d)	92.0
Earnings before extraordinary gain per common share:					
Basic.	.12	.17	.22	.41	.22
Diluted.	.12	.16	.20	.40	.22
Total assets.	2,415.8	2,090.1	2,039.1	2,081.1	2,000.6
Long-term debt, including current portion .	1,940.6	1,803.4	1,707.4	1,850.6	2,351.2

</TABLE>

(a) Income taxes (benefit) include an $84.3 million tax benefit from recognition of the remaining portion of the Company's net deferred tax assets.

(b) Income taxes (benefit) include a $30 million tax benefit from recognition of a portion of the Company's net deferred tax assets.

(c) Net earnings include an extraordinary gain of $23.3 million on debt redemption as explained in Note 9 to the Consolidated Financial Statements.

(d) Net earnings include an extraordinary gain of $103.2 million on debt redemption.

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

Some of the matters discussed in this annual report contain forward-looking statements regarding the Company's future business which are subject to certain risks and uncertainties, including competitive pressures, adverse economic conditions and government regulations. These issues, and other factors, which may be identified from time to time in the Company's reports filed with the SEC, could cause actual results to differ materially from those indicated in the forward-looking statements.

RESULTS OF OPERATIONS

SUMMARY OF RESULTS OF OPERATIONS

The Company's net earnings for the year ended December 31, 1998 were $74.0 million, compared to net earnings of $70.0 million in 1997 and $89.5 million in 1996.

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31		
(DOLLARS IN MILLIONS, EXCEPT PER-SHARE DATA)	1998	1997	1996
<S>	<C>	<C>	<C>
Earnings before income taxes and extraordinary gain	$ 82.6	$115.3	$130.8
Income tax expense	(31.9)	(45.3)	(41.3)
Extraordinary gain on debt redemption (net of tax)	23.3	-	-
Net earnings	$ 74.0	$ 70.0	$ 89.5
Net earnings per common share - Basic	$ .18	$ .17	$ .22
Net earnings per common share - Diluted	$ .17	$ .16	$ .20

</TABLE>

The decline in the Company's earnings before income taxes and extraordinary gain is primarily due to several material charges incurred in 1998. These charges include $14.1 million associated with write-offs of computer equipment and development costs, $11.4 million for deletion of excess or slow-moving inventory and $7.6 million in severance and related costs. In addition, costs associated with the implementation of the Company's strategic initiatives continue to unfavorably impact short-term profits (see Operating, Selling, General and Administrative Expenses).

MANAGEMENT STRATEGIES

Since 1992, the Company has been committed to several key strategies that it believes, over the long term, will provide further differentiation from competitors and allow 7-Eleven to maintain its position as the premier convenience retailer. These strategies include: upgrading and expanding the store base; a customer-driven approach to product selection; an everyday-fair-pricing policy on all items; daily delivery of fresh perishable items; introduction of high-quality, ready-to-eat fresh foods; and the implementation of a state-of-the-art retail information system.

Prior to 1997, the Company focused on upgrading its store base, through remodeling existing stores and closing underachieving stores. In late 1996, the Company completed the most extensive remodeling program in its history. Current upgrade programs will focus on retail information systems, food service and other merchandising programs. Beginning in late 1996, the Company began to focus its efforts on growing its store base. The Company recorded the first increase in its total store base in 10 years in 1997. Store openings or acquisitions over the last three years totaled 299, 61 and 44 in 1998, 1997 and 1996, respectively. Store growth in 1998 was aided by acquisitions of 135 Christy's Market convenience stores and 20 'red D mart' stores. Also, an additional 45 stores were under construction at December 31, 1998. In 1999, new store openings are once again expected to outpace closings, with the expansion occurring in existing markets to enhance the economies of scale associated with the Company's fresh food and combined-distribution initiatives. In recent years, the Company has pruned its store base, closing or disposing of those stores that either could not support its strategies, were not expected to achieve an acceptable level of profitability in the future or had leases which expired. As a result, store closings during the past three years totaled 96, 60 and 46 in 1998, 1997 and 1996, respectively. The Company expects to close slightly fewer stores in 1999 than it did in 1998. The store additions and closings discussed above include relocations, rebuilds and seasonal activity.

The customer-driven approach to merchandising focuses on providing the customer a selection of quality products at a good value. This is being accomplished by emphasizing the importance of ordering at the store level, removing slow-moving items and aggressively introducing new, high-potential products in the early stages of their life cycle. This process represents an ongoing effort to satisfy customers' ever-changing preferences.

The Company's everyday-fair-pricing strategy is designed to provide consistent reasonable prices on all items. When the everyday-fair-pricing strategy was introduced, some product prices were lowered, while others were increased to achieve more consistency. Going forward, as the Company achieves lower product costs, it plans to migrate toward lower retail prices.

Daily delivery of high-quality, ready-to-eat foods, along with other time-sensitive or perishable items, is another key management strategy. Implementation of this strategy includes third-party development and operation of combined distribution centers ("CDC"), fresh-food commissaries and bakery facilities in many of the Company's markets around the country. The commissary and bakery ready-to-eat items, like fresh sandwiches and pastries, along with goods from multiple vendors such as dairy products, bread, produce and other perishable goods, are "combined" at a distribution center and delivered daily to each store. In addition to providing fresher products, improved in-stock conditions and quicker response time on new items, the combined distribution is also intended to provide lower product costs, in part from vendors' savings, through this approach. At the end of 1998, approximately 3,300 stores were serviced by daily distribution facilities. Expansion of these programs to another 500 stores is anticipated in 1999.

The development of a retail information system ("RIS") began in 1994. The initial phase, completed in early 1996, involved installing in-store processors ("ISP") in each store to automate accounting and other store-level tasks. The current phase involves the installation of point-of-sale registers with scanning capabilities, as well as tools on the ISP to assist

with ordering and product assortment, and a hand-held unit for ordering product from the sales floor. At the end of 1998, point-of-sale registers had been installed in nearly 2,500 stores in either a live or training mode. After completion, the system will provide each store, along with the Company's suppliers and distributors, on-line information to make better decisions in anticipating customer needs. Management believes that the effective utilization of daily sales data gathered by the system will improve sales through reducing out-of-stock incidents and will enhance each individual store's product mix to better match customers' needs. In addition, the system will assist with monitoring inventories to better control shortage and product write-offs. While implementation costs during the rollout phase are expected to exceed the short-term benefits, the anticipated long-term benefits of this system, coupled with further cost reductions resulting from automation, are expected to help the Company reach its goal of sustained profitable growth over the long term. This phase of the system is currently expected to be fully operational for all stores by the fall of 1999.

(EXCEPT WHERE NOTED, ALL PER-STORE NUMBERS REFER TO AN AVERAGE OF ALL STORES RATHER THAN ONLY STORES OPEN MORE THAN ONE YEAR.)

SALES

The Company recorded net sales of $7.26 billion for the year ended December 31, 1998, compared to sales of $6.97 billion in 1997 and $6.87 billion in 1996. The increase in net sales over the last two years was a result of same-store merchandise sales growth, combined with an increase in stores. The following table illustrates the growth in merchandise sales:

MERCHANDISE SALES GROWTH DATA (per-store)

	YEARS ENDED DECEMBER 31		
	1998	1997	1996
INCREASE/(DECREASE) FROM PRIOR YEAR			
U.S. same-store sales growth	5.7%	1.5%	1.4%
U.S. same-store real sales growth,excluding inflation	3.1%	0.6%	(1.0)%
7-Eleven inflation	2.5%	0.9%	2.4%

The fourth quarter of 1998 was the sixth consecutive quarter of favorable U.S. same-store real sales growth, the longest stretch this decade. Same-store merchandise sales growth was 7.2% over the last six months, which is also the largest such increase this decade. The Company believes that this trend is, in part, a result of changes made to the merchandising organization and its processes in the second quarter of 1997.

While average per-store merchandise sales growth has been fairly consistent among the various geographical areas, category results have been mixed:

Categories with significant 1998 merchandise sales increases were cigarettes, Cafe Cooler, fresh foods/bakery, coffee, prepaid phone cards and Slurpee. CIGARETTE SALES increased primarily due to retail price increases associated with manufacturer cost increases, which have had an unfavorable impact on margin. CAFE COOLER, a frozen non-carbonated drink introduced in the spring, provided incremental growth in per-store sales. SLURPEE and NON-CARBONATED DRINK sales are up substantially, partially due to the introduction of new products, flavors and packaging. The Company has plans to revitalize certain mature categories like soft drinks/fountain and candy, which

have had declining sales over the last couple of years. Other categories which had slight declines in 1998 include newspapers/publications and packaged bakery/bread.

Categories driving the 1997 merchandise sales increase were coffee, Slurpee, non-carbonated beverages, tobacco, services, fresh bakery and roller grill products. Categories that were flat or had slight declines included fountain drinks, bread, candy and soft drinks.

During 1998, the Company's retail price of gasoline dropped 18 cents per gallon, or 14.3%. As a result, gasoline sales dollars per store decreased 10.6% in 1998, compared to 1997, after a decline of 0.9% in 1997 versus 1996. Gas gallon sales per store increased 4.2% when compared to 1997, primarily due to new store volumes, which are higher than existing stores. Contributing to the 1997 decrease was a .7% decline in average per-store gallon volume with retail gasoline prices being virtually flat compared to 1996.

OTHER INCOME

Other income of $92.0 million for 1998 was $2.6 million higher than 1997 and $5.7 million higher than 1996. The improvement over the last two years is a combination of increased royalty income from licensed operations, combined with fees generated from higher levels of franchising activity. In 1998, nearly $53 million of the royalties were from area license agreements with SEJ. One year following repayment of the Company's 1988 yen-denominated loan, currently projected for 2001, royalty payments from SEJ will be reduced by approximately two-thirds in accordance with terms of the license agreement.

GROSS PROFITS

MERCHANDISE GROSS PROFIT DATA

	YEARS ENDED DECEMBER 31		
	1998	1997	1996
Merchandise Gross Profit - DOLLARS IN MILLIONS	$ 1,927.6	$ 1,828.4	$ 1,787.7
Gross margin profit percent	34.58%	35.29%	35.16%
INCREASE/(DECREASE) FROM PRIOR YEAR - ALL STORES			
Average per-store gross profit dollar change	3.2%	2.3%	2.1%
Margin percentage point change	(.71)	.13	(.19)
Average per-store merchandise sales	5.2%	1.9%	2.7%

The improvement in 1998 total merchandise gross profit dollars, compared to 1997, was due to a combination of higher per-store sales and more stores, as the margin percentage decreased 71 basis points. Total merchandise gross profit dollars increased in 1997 from both higher average per-store sales and a higher margin.

Merchandise margin declined in 1998 primarily due to product cost increases and continuing refinement of the Company's everyday-fair-pricing strategy. Merchandise margin was also impacted by introductory costs associated with new product offerings, combined with the further rollout of the Company's fresh food initiatives into four new markets. More aggressive retail pricing continues to present a challenge in today's increasingly more competitive environment. Although overall merchandise margin declined, several categories impacted margin favorably, including Cafe Cooler, commissions/services and coffee. Management is actively working to improve merchandise margin while providing fair and consistent prices.

The increase in merchandise margin in 1997 was primarily due to improved sales in some higher-margin categories like Slurpee, coffee, non-carbonated beverages and services. These increases were partially offset by higher write-offs, as the Company focused on expanding its fresh-food program, both geographically and with new products.

Cigarettes currently contribute nearly 22% of the Company's total merchandise sales and more than 15% of merchandise gross profit. With the recent and pending legal settlements between cigarette manufacturers and several state governments, as well as potential additional taxes and litigation threatened by the federal government, the Company anticipates that the cost of cigarettes could continue to rise. Additionally, there are numerous examples of pending state and federal legislation aimed at reducing minors' consumption of tobacco products, which include significant increases in cigarette taxes. Although the Company expects merchandise margin percent to be negatively impacted by these price increases, it is impossible to predict the impact potential cost increases could have on the Company's gross profit dollars, due to uncertainties regarding competitors' reactions and consumers' buying habits.

GASOLINE GROSS PROFIT DATA

	YEARS ENDED DECEMBER 31		
	1998	1997	1996
Gasoline Gross Profit - DOLLARS IN MILLIONS	$ 208.0	$ 183.8	$ 188.1
Gross profit margin (in cents per gallon)	13.48	13.07	13.45
INCREASE/(DECREASE) FROM PRIOR YEAR			
Average per-store gross profit dollar change	7.5%	(3.5)%	(1.4)%
Margin point change (in cents per gallon)	.41	(.38)	(.17)
Average per-store gas gallonage	4.2%	(.7)%	(.1)%

Gasoline gross profits improved $24.3 million in 1998 over 1997. This improvement was due to more gas stores, higher average per-store gas gallonage and a favorable change in cents-per-gallon gross profit. In general, 1998 market conditions created a situation where the wholesale cost of gasoline was significantly lower than in either 1997 or 1996. These conditions helped ease the competitive pressures that had been narrowing margins over the previous two years.

In 1997, gasoline gross profits declined $4.4 million from the levels achieved in 1996. Excluding the stores on the West Coast, the Company's gasoline gross profits increased $1.2 million in 1997 compared to 1996. This increase was comprised of a slight improvement in average per-store gallons and an increase in the number of gas stores. The stores on the West Coast (24% of the Company's total gas stores) were impacted by industry product supply problems and intense competitive conditions, creating a situation where, in some cases, the Company's cost exceeded other operators' retail price of gasoline.

OPERATING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES ("OSG&A")

	YEARS ENDED DECEMBER 31		
(DOLLARS IN MILLIONS)	1998	1997	1996
Total operating, selling, general and administrative expenses	$ 2,053.8	$ 1,896.2	$ 1,841.2
Ratio of OSG&A to sales	28.3%	27.2%	26.8%
Increase/(decrease)in OSG&A compared to prior year	$ 157.6	$ 55.0	$ (33.3)

The ratio of OSG&A expenses to sales increased 1.1 percentage points in 1998, compared to 1997. This increase is primarily due to a decline of 18 cents per gallon in 1998's retail price of gasoline. Adjusting for comparable gasoline prices, the ratio of OSG&A to sales was flat, when compared to 1997.

The increase in 1998 OSG&A expense over 1997 levels was partially due to charges of $14.1 million associated with write-offs of computer equipment and development costs and $7.6 million in severance and related costs. Other factors impacting OSG&A were increased store labor costs, a higher amount of gross profits shared with the franchisees (due to higher gross profits earned by franchisees), costs associated with operating additional stores and more environmental expenses. In addition, OSG&A expenses increased due to the Company's implementation of its retail information system and other strategic initiatives. Expenses associated with the Company's retail information system were approximately $13 million higher in 1998 than in 1997. While the ratio of OSG&A expenses to sales will vary on a quarterly basis, management believes this ratio will not improve significantly during the rollout phase of the retail information system.

The increase in OSG&A expenses, and the ratio to sales, in 1997 compared to 1996, was primarily the result of the following factors: incremental costs related to the retail information system initiatives; higher store labor costs due to a tight labor market and increases in the minimum wage rate; more depreciation expense due to the extensive remodeling program completed in late 1996, completion of new stores and other initiatives; more environmental remediation; and higher store insurance due to the comparison with favorable claims experience reflected in 1996.

The Company continues to review the functions necessary to enable its stores to respond faster and more cost efficiently to rapidly changing customer needs and preferences. In conjunction with this review, management continues to realign and reduce personnel in order to eliminate non-essential costs, while devoting resources to the implementation of its retail information system and other strategic initiatives (see Management Strategies). During 1998, accruals of $7.6 million were made representing severance benefits for close to 120 management and administrative employees whose positions have been, or will be terminated. The benefit from these reductions on an annualized basis approximates the charge, with the majority of the benefit carrying forward to future years.

The Company is a defendant in two legal actions, which are referred to as the 7-Eleven OFFF and Valente cases, filed by franchisees in 1993 and 1996, respectively, asserting various claims against the Company. A nationwide settlement was negotiated and, in connection with the settlement, these two cases have been combined on behalf of a class of all persons who operated 7-Eleven convenience stores in the United States at

any time between January 1, 1987 and July 31, 1997, under franchise agreements with the Company. Class members have overwhelmingly approved the settlement, and the court presiding over the settlement process gave its final approval of the settlement on April 24, 1998. The settlement provides that former franchisees will share in a settlement fund and that certain changes will be made to the franchise agreements with current franchisees.

Notices of appeal of the order approving the settlement were filed on behalf of three of the attorneys who represented the class, six former franchisees and two current franchisees. One of these current franchisees has dismissed his appeal. The settlement agreement will not become effective until the appeals are resolved. However, the settlement agreement provides that while the appeals are pending the Company will pay certain maintenance and supply expenses relating to the cash registers and retail information system equipment of current franchisees that are members of the settlement class. If the settlement is overturned on appeal, the Company has the right to require franchisees to repay the amounts that the Company paid for these expenses while the appeals were pending. The Company's payment of these expenses had no material impact on 1998 earnings and should have no material impact on future earnings. The Company's accruals are sufficient to cover the total settlement costs, including the payment due to former franchisees when the settlement becomes effective.

INTEREST EXPENSE, NET

Net interest expense increased $1.2 million in 1998, compared to 1997. This increase is primarily due to a higher average debt balance in 1998, combined with the redemption of a portion of the Company's public debt securities (see Extraordinary Gain) which were accounted for under SFAS No. 15 (see discussion below), partially offset by the write-off of deferred costs associated with the Company's refinancing of its credit agreement in February 1997.

Approximately 43% of the Company's debt contains floating rates that will be unfavorably impacted by rising interest rates. Nearly 30% of the Company's floating rate debt exposure to rising interest rates has been eliminated as a result of an interest rate swap agreement (see Interest Rate Swap Agreement). The weighted-average interest rate for such debt, including the impact of the interest rate swap agreement, was 5.7% for 1998 versus 5.8% for both 1997 and 1996.

The Company expects net interest expense in 1999 to increase approximately 10% over 1998 based on anticipated levels of debt and interest rate projections. Factors increasing 1999 interest expense include higher borrowings to finance new store development and other initiatives, combined with the redemption of $65 million of the Company's public debt securities in 1998 and early 1999, which were accounted for under SFAS No. 15 (see Extraordinary Gain).

In accordance with SFAS No. 15, no interest expense is recognized on the Company's public debt securities. These securities were recorded at an amount equal to the future undiscounted cash payments, both principal and interest, and accordingly, the cash interest payments are charged against the recorded amount of such securities and are not treated as interest expense. Accordingly, interest expense on debt used to redeem public debt securities would increase the Company's reported interest expense.

Net interest expense decreased slightly in 1997 compared to 1996 due to lower average borrowing throughout the year, partially offset by lower interest income. The lower interest income was primarily the result of a new money order agreement in 1996 that eliminated interest income from the funding arrangement; however, it provided lower cost of goods and operating costs, which more than offset the impact of the lost interest.

INTEREST RATE SWAP AGREEMENT

In June 1998, the Company entered into an interest rate swap agreement that fixed the interest rate on $250 million notional principal amount of existing floating rate debt at 5.4% through June 2003. A major financial institution, as counterparty to the agreement, agreed to pay the Company a floating interest rate based on three-month LIBOR during the term of the agreement in exchange for the Company paying a fixed interest rate. The impact on net interest expense for the fourth quarter and for 1998 was nominally favorable as a result of this agreement. The swap agreement granted the counterparty the option, upon expiration of the initial swap term, of extending the agreement for an additional five years at a fixed interest rate of 5.9%. This option component of the agreement was recognized at fair value and was marked to market. Due to declining interest rates, the Company recognized OSG&A expense related to the option component of $0.5 million in the fourth quarter and $3.7 million for 1998.

In February 1999, the Company amended the terms of the interest rate swap agreement. The fixed rate was increased to 6.1% and the term of the swap was extended to February 2004; the remaining terms of the swap agreement were unchanged. In exchange for the increase in the fixed rate, the five-year extension option held by the counterparty was terminated.

INCOME TAXES

The Company recorded tax expense in 1998 from earnings before extraordinary gain of $31.9 million, compared to expense of $45.3 million in 1997 and $41.3 million in 1996. The decrease in 1998 income tax expense, compared to 1997, resulted from lower earnings before tax, in large part due to charges discussed in the Summary of Results of Operations section. The 1998 extraordinary gain was net of $14.9 million of tax expense. Higher income tax expense in 1997, when compared to 1996, was due to a settlement of an IRS tax examination, resulting in a $7.3 million tax benefit in 1996.

EXTRAORDINARY GAIN

During 1998, the Company redeemed $45.6 million of its public debt securities resulting in a $23.3 million after-tax gain. The gain resulted from the retirement of future undiscounted interest payments as recorded under SFAS No. 15, combined with repurchasing a portion of the debentures below their face amount. As a result of the redemptions, the face amount of the debentures has been reduced by the following: 100% of the 12% Second Priority Senior Subordinated Debentures, 5.8% of the 5% First Priority Senior Subordinated Debentures, 6.3% of the 4.5% Second Priority Senior Subordinated Debentures-Series A and 1.3% of the 4% Second Priority Senior Subordinated Debentures-Series B. The Company's cash outlay, including fees, was $42.2 million, which was financed through the issuance of $80 million of 4-1/2% Convertible Quarterly Income Debt Securities ("1998 QUIDS") due 2013. The 1998 QUIDS were issued to Ito-Yokado Co., Ltd. and Seven-Eleven Japan Co., Ltd., the joint owners of IYG Holding Company, the Company's majority shareholder.

In the first quarter of 1999, the Company redeemed an additional $19.4 million of its public debt securities resulting in a $4.3 million after-tax gain.

LIQUIDITY AND CAPITAL RESOURCES

The majority of the Company's working capital is provided from three sources: i) cash flows generated from its operating activities; ii) a $650 million commercial paper facility (guaranteed by Ito-Yokado Co., Ltd.); and iii) short-term seasonal borrowings of up to $400 million (reduced by outstanding letters of credit) under its revolving credit facility. The Company believes that operating activities, coupled with available short-term working capital facilities, will provide sufficient liquidity to fund current commitments for operating and capital expenditure programs, as well as to service debt requirements. Actual capital expenditure funding will be dependent on the level of cash flow generated from operating activities and the funds available from financings.

In January 1999, the Company expanded the existing commercial paper facility from $400 million to $650 million. The commercial paper is unsecured but is fully and unconditionally guaranteed by Ito-Yokado Co., Ltd.

In April 1998, the Company entered into a financing agreement for 12.5 billion yen, or $96.5 million, monetizing a portion of its future yen royalty stream. The financing, which bears interest at 2.325%, is secured by a pledge (secondary to the 1988 yen-denominated loan) of the future royalty payments from Seven-Eleven Japan associated with the Company's Japanese 7-Eleven trademarks. Payment of principal and interest on the debt is non-recourse to the Company and will commence when the 1988 yen-denominated loan is paid in full, which is currently estimated to be in 2001. It is anticipated that this 1998 loan will be fully repaid in 2006.

In February 1998, the Company issued $80 million of 1998 QUIDS, which is subordinated to all existing debt except the 1995 Convertible Quarterly Income Debt Securities due 2010, which have the same priority ranking. The debt has a 15-year life, no amortization and an interest rate of 4.5%. The instrument gives the Company the right to defer interest payments thereon for up to 20 consecutive quarters. The debt mandatorily converts into 32,508,432 shares of the Company's common stock if the price of the Company's common stock achieves certain levels after the third anniversary of issuance. A portion of the proceeds from the 1998 QUIDS was used to redeem a portion of the Company's public debt securities.

Southland's credit agreement, established in February 1997, includes a $225 million term loan and a $400 million revolving credit facility, which has a sublimit of $150 million for letters of credit ("Credit Agreement"). The Credit Agreement contains certain financial and operating covenants requiring, among other things, the maintenance of certain financial ratios, including interest and rent coverage, fixed-charge coverage and senior indebtedness to net earnings before extraordinary items and interest, taxes, depreciation and amortization ("EBITDA"). The covenant levels established by the Credit Agreement generally require continuing improvement in the Company's financial condition. In March 1999, the

financial covenant levels required by these instruments were amended prospectively in order to allow the Company flexibility to continue its store growth strategy. In connection with this amendment, the interest rate on borrowings was changed to a reserve-adjusted Eurodollar rate plus .475% instead of the previous increment of .225%.

For the period ended December 31, 1998, the Company was in compliance with all of the covenants required under the Credit Agreement, including compliance with the principal financial and operating covenants under the Credit Agreement (calculated over the latest 12-month period) as follows:

<TABLE>
<CAPTION>

Covenants	Actuals	Requirements Minimum	Requirements Maximum
Interest and rent coverage*	2.08 to 1.0	1.80 to 1.0	-
Fixed charge coverage	1.67 to 1.0	1.50 to 1.0	-
Senior indebtedness to EBITDA	3.74 to 1.0	-	4.10 to 1.0
Capital expenditure limit (tested annually)	$413 million		$425 million

*INCLUDES EFFECTS OF THE SFAS NO. 15 INTEREST PAYMENTS NOT RECORDED IN INTEREST EXPENSE.

</TABLE>

In 1998, the Company repaid $196.5 million of debt of which $42.1 million related to the redemption of the Company's subordinated debentures (see Extraordinary Gain) and $10.9 million was for debt assumed in the Christy's acquisition (see Capital Expenditures - Acquisitions). The remaining principal reduction of $143.5 million included $56.3 million for quarterly installments due on the term loan, $40.9 million for principal payments on the Company's yen-denominated loan (secured by the royalty income stream from SEJ), $20.5 million for SFAS No. 15 interest and $20.4 million on capital leases. Outstanding balances at December 31, 1998, for commercial paper, term loan and revolver, were $368.3 million, $168.8 million and $295.0 million, respectively. As of December 31, 1998, outstanding letters of credit issued pursuant to the Credit Agreement totaled $71.1 million.

CASH FROM OPERATING ACTIVITIES

Net cash provided by operating activities was $232.8 million for 1998, compared to $197.9 million in 1997 and $261.0 million in 1996. Contributing to the decline in cash provided by operating activities in 1997, when compared to 1996, was an increase in inventories, caused by a December 1997 cigarette buy-in and generally higher per-store inventory levels.

CAPITAL EXPENDITURES

In 1998, net cash used in investing activities consisted primarily of payments of $380.9 million for property and equipment and $32.9 million for acquisitions (see Capital Expenditures - Acquisitions). The majority of the property and equipment capital was used for new store development, continued implementation of the Company's retail information system, remodeling stores, new equipment to support merchandising initiatives, upgrading retail gasoline facilities, replacing equipment and complying with environmental regulations.

The Company expects 1999 capital expenditures, excluding lease commitments, to exceed $375 million. Capital expenditures are being used to develop or acquire new stores, upgrade store facilities, further implement the retail information system, replace equipment, upgrade gasoline facilities and comply with environmental regulations. The amount of

expenditures during the year will be materially impacted by the proportion of new store development funded through capital expenditures versus leases and the speed at which new sites/acquisitions can be located, negotiated, permitted and constructed.

CAPITAL EXPENDITURES - ACQUISITIONS

In May 1998, the Company purchased all of the capital stock of Christy's Market, Inc., of Brockton, Mass., thereby acquiring 135 Christy's Market convenience stores, located in the New England area. Also in May 1998, the Company purchased the assets of 20 'red D mart' convenience stores in the South Bend, Indiana, area from MDK Corporation of Goshen, Indiana.

CAPITAL EXPENDITURES - GASOLINE EQUIPMENT

The Company incurs ongoing costs to comply with federal, state and local environmental laws and regulations primarily relating to underground storage tank ("UST") systems. The Company does not anticipate any 1999 capital improvements required to comply with environmental regulations relating to USTs as well as above-ground vapor recovery equipment at store locations, but will spend approximately $15-20 million on such capital improvements from 2000 through 2002.

ENVIRONMENTAL

In December 1988, the Company closed its chemical manufacturing facility in New Jersey. The Company is required to conduct environmental remediation at the facility, including groundwater monitoring and treatment for a projected 15-year period. This remediation program will commence in 1999 with the performance of certain engineering and design work. The Company has recorded undiscounted liabilities representing its best estimates of the clean-up costs of $8.7 million at December 31, 1998. In 1991, the Company and the former owner of the facility entered into a settlement agreement pursuant to which the former owner agreed to pay a substantial portion of the clean-up costs. Based on the terms of the settlement agreement and the financial resources of the former owner, the Company has a receivable recorded of $5.1 million at December 31, 1998.

Additionally, the Company accrues for the anticipated future costs and the related probable state reimbursement amounts for remediation activities at its existing and previously operated gasoline sites where releases of regulated substances have been detected. At December 31, 1998, the Company's estimated undiscounted liability for these sites was $41.9 million. This estimate is based on the Company's prior experience with gasoline sites and its consideration of such factors as the age of the tanks, location of tank sites and experience with contractors who perform environmental assessment and remediation work. The Company anticipates that substantially all of the future remediation costs for detected releases at these sites as of December 31, 1998, will be incurred within the next four to five years.

Under state reimbursement programs, the Company is eligible to receive reimbursement for a portion of future remediation costs, as well as a portion of remediation costs previously paid. Accordingly, at December 31, 1998, the Company has recorded a net receivable of $46.7 million for the estimated probable state reimbursements. In assessing the probability of

state reimbursements, the Company takes into consideration each state's fund balance, revenue sources, existing claim backlog, status of clean-up activity and claim ranking systems. As a result of these assessments, the recorded receivable amount is net of an allowance of $10.0 million. While there is no assurance of the timing of the receipt of state reimbursement funds, based on its experience, the Company expects to receive the majority of state reimbursement funds, except from California, within one to three years after payment of eligible remediation expenses, assuming that the state administrative procedures for processing such reimbursements have been fully developed. The Company estimates that it may take one to six years to receive reimbursement funds from California. Therefore, the portion of the recorded receivable amount that relates to sites where remediation activities have been conducted has been discounted at 4.6% to reflect their present value. Thus, the recorded receivable amount is also net of a discount of $4.1 million.

The estimated future assessment and remediation expenditures and related state reimbursement amounts could change within the near future as governmental requirements and state reimbursement programs continue to be implemented or revised.

ENVIRONMENTAL - ACQUISITIONS

Both the 'red D mart' and Christy's Market acquisitions include retail gasoline outlets that are subject to certain environmental regulations. Under the terms of the acquisition agreements, the sellers are responsible for ensuring compliance with all applicable environmental regulations existing as of the closing date. In addition, the acquisition agreements provide that the sellers will remain responsible for the expense of any future environmental cleanup, which is required under applicable legal requirements and which results from conditions existing at the sites (see Capital Expenditures - Acquisitions).

YEAR 2000

The Year 2000 issue ("Y2K") is the result of computer software programs being coded to use two digits rather than four to define the applicable year. Some of the Company's older computer programs that have date-sensitive coding may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations, causing disruptions of operations.

The Company has approached the Y2K issue in phases. A Year 2000 Project Office Manager, together with a strong support organization, has designed a Y2K work plan that is currently being implemented. The Y2K work plan includes: (1) identifying and inventorying all Year 2000 tasks and items; (2) assigning priorities to all tasks and items; (3) remediation of information systems ("IS") applications code, testing and reintegration to production, as well as testing all replaced systems software and non-remediated applications; (4) contacting third-party vendors to verify their compliance and perform selected interface tests with major vendors; (5) determining the Company's Y2K responsibilities to its franchisees, subsidiaries and affiliates; (6) establishing contingency alternatives assuming worst-case scenarios.

The Company continues to progress favorably in its completion of the various tasks and target dates identified in the Y2K work plan. The Company believes it has identified and prioritized all major Y2K-related items. In addition, numerous non-IS, merchandise, equipment, financial institution, insurance and public utility vendors have been contacted, inquiring as to their readiness and the readiness of their respective vendors. At this time

the Company is performing follow-up efforts with the above vendors as required. Testing compliance with major vendors is now being planned and is scheduled to begin June 1, 1999. The following reflects management's assessment of the Company's Year 2000 state of readiness:

STATE OF READINESS AS OF DECEMBER 31, 1998

<TABLE>
<CAPTION>

PHASE	ESTIMATED PERCENT COMPLETE	ESTIMATED COMPLETION DATE
<S>	<C>	<C>
INTERNAL IS AND NON-IS SYSTEMS AND EQUIPMENT:		
Awareness	98%	Dec. 1999 *
Assessment changes required	95%	March 1999
Remediation or replacement	85%	June 1999
Testing	20%	Sept. 1999
Contingency Planning	15%	June 1999 *
SUPPLIERS, CUSTOMERS AND THIRD-PARTY PROVIDERS:		
Awareness-Identify companies	95%	April 1999
Assessment questionnaire completed by major suppliers	60%	May 1999 *
Assessment review with third-party providers	25%	May 1999
Review contractual commitments	40%	June 1999
Risk Assessment	50%	May 1999
Contingency Planning	5%	June 1999 *
Testing as applicable	5%	Sept. 1999

* INDICATES WORK SHOULD BE SIGNIFICANTLY FINISHED AT THE ESTIMATED COMPLETION DATE, BUT THE COMPANY WILL CONTINUE TO REEVALUATE AWARENESS, SEND FOLLOW-UP QUESTIONNAIRES AND UPDATE CONTINGENCY PLANS AS NEEDED.

</TABLE>

The Company estimates that the cost of the Year 2000 Project will be approximately $7-8 million, of which about $3 million will be capital costs. The costs incurred to date are $1 million, with the remaining cost for outside consultants, software and hardware applications to be funded through operating cash flow. This estimate includes costs related to the upgrade and/or replacement of computer software and hardware; costs of remediated code testing and test result verification; and the reintegration to production of all remediated applications. In addition, the costs include the testing of applications and software currently certified as Year 2000 compliant. The Company does not separately track the internal costs incurred for the Y2K project, which are primarily the related payroll costs for the IS and various user personnel participating in the project.

Due to the general uncertainty inherent in the Year 2000 process, primarily due to issues surrounding the Y2K readiness of third-party suppliers and vendors, a reasonable worst-case scenario is difficult to determine at this time. The Company does not anticipate more than temporary isolated disruptions attributed to Year 2000 issues to affect either the Company or its primary vendors. The Company is concentrating on four critical business areas in order to identify, evaluate and determine the scenarios requiring the development of contingency plans: (1) merchandise ordering and receipt, (2) petroleum products ordering and receipt, (3) human resource systems and (4) disbursement systems. To the extent vendors are unable to deliver products due to their own Year 2000 issues, the Company believes it will generally have alternative sources for comparable products and does not expect to experience any material business

disruptions. Although considered unlikely, the failure of public utility companies to provide telephone and electrical service could have material consequences. Contingency planning efforts will escalate as the Company continues to receive and evaluate responses from all of its primary merchandise vendors and service providers. These contingency plans are scheduled to be complete by June 1999.

The costs of the Y2K project and the date on which the Company plans to complete the Year 2000 modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third-party modification plans and other factors. As a result, there can be no assurance that these forward-looking estimates will be achieved and the actual costs and vendor compliance could differ materially from the Company's current expectations, resulting in a material financial risk. In addition, while the Company is making significant efforts in addressing all anticipated Year 2000 risks within its control, this event is unprecedented and consequently there can be no assurance that the Year 2000 issue will not have a material adverse impact on the Company's operating results and financial condition.

MARKET-SENSITIVE INSTRUMENTS AND RISK MANAGEMENT

The following discussion summarizes the financial and derivative instruments held by the Company at December 31, 1998, which are sensitive to changes in interest rates, foreign exchange rates and equity prices. The Company uses interest-rate swaps to manage the primary market exposures associated with underlying liabilities and anticipated transactions. The Company uses these instruments to reduce risk by essentially creating offsetting market exposures. In addition, the two yen-denominated loans serve to effectively hedge the Company's exposure to yen-dollar currency fluctuations. The instruments held by the Company are not leveraged and are held for purposes other than trading. There are no material quantitative changes in market risk exposure at December 31, 1998, when compared to December 31, 1997.

In the normal course of business, the Company also faces risks that are either nonfinancial or nonquantifiable. Such risks principally include country risk, credit risk and legal risk and are not represented in this discussion.

INTEREST-RATE RISK MANAGEMENT

The table below presents descriptions of the floating-rate financial instruments and interest-rate-derivative instruments held by the Company at December 31, 1998. The Company entered into an interest-rate swap to achieve the appropriate level of variable and fixed-rate debt as approved by senior management. Under the interest-rate swap, the Company agreed with other parties to exchange the difference between fixed-rate and floating-rate interest amounts on a quarterly basis.

For the debt, the table below presents principal cash flows that exist by maturity date and the related average interest rate. For the swap, the table presents the notional amounts outstanding and expected interest rates that exist by contractual dates. The notional amount is used to calculate the contractual payments to be exchanged under the contract. The variable rates are estimated based on implied forward rates in the yield curve at the reporting date. Additionally, the interest rate on the bank debt reflects a LIBOR margin of 22.5 basis points as prescribed in the Credit Agreement.

(DOLLARS IN MILLIONS)

	1999	2000	2001	2002	2003	There-after	Total	Fair Value
Floating-Rate Financial Instruments:								
Bank debt	$56	$56	$56	$295	$0	$0	$463	$463
Commercial paper	$18	$0	$0	$0	$0	$350	$368	$368
Average interest rate	5.2%	5.2%	5.3%	5.2%	5.3%	5.4%	5.2%	
Interest-Rate Derivatives:								
Notional amount	$250	$250	$250	$250	$250	$250	$250	$(11)
Average pay rate	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	
Average receive rate	5.1%	5.2%	5.2%	5.3%	5.3%	5.4%	5.3%	

The $11 million fair value of the interest-rate swap represents an estimate of the payment amount if the Company chose to terminate the swap. See Notes 9 and 10 to the Consolidated Financial Statements for detailed information on both floating- and fixed-rate liabilities. See Note 11 to the Consolidated Financial Statements for fair value and derivative discussions, including the mark-to-market adjustment relating to the unwinding of the swap's option component in February 1999.

FOREIGN-EXCHANGE RISK MANAGEMENT

The Company recorded over $68 million in royalty income in 1998 that was impacted by fluctuating exchange rates. Approximately 77% of such royalties were from area license agreements with SEJ. SEJ royalty income will not fluctuate with exchange rate movements since the Company has effectively hedged this exposure by using the royalty income to make principal and interest payments on its yen-denominated loans (see Notes 9 and 11 to the Consolidated Financial Statements). The Company is exposed to fluctuating exchange rates on the non-SEJ portion of its royalties earned in foreign currency, but based on current estimates, future risk is not material.

The Company has several wholly or partially owned foreign subsidiaries and is susceptible to exchange-rate risk on earnings from these subsidiaries. Based on current estimates, the Company does not consider future foreign-exchange risk associated with these subsidiaries to be material.

EQUITY-PRICE RISK MANAGEMENT

The Company has equity securities, which are classified as available for sale and are carried in the Consolidated Balance Sheet at fair value. Changes in fair value are recognized as other comprehensive earnings, net of tax, as a separate component of shareholders' equity. At December 31, 1998, the Company held the following available-for-sale marketable equity securities:

(DOLLARS IN MILLIONS)

	Cost	Fair Value	Impact of 20% Change In Market Price
568,788 shares of ACS common stock	$0	$25.6	$5.1

151,452 shares of Precept common stock	$0	$1.4	$0.3

</TABLE>

The Affiliated Computer Services, Inc. stock ("ACS") was obtained in 1988 as partial consideration for Southland to enter into a mainframe data processing contract with ACS. At the time, ACS was a privately held start-up company and accordingly the stock was valued with no cost. Subsequently ACS became a public company and Precept Business Services, Inc. ("Precept") was spun off from ACS and also became a public company.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market-Sensitive Instruments and Risk Management" page 38.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements for the
Years Ended December 31, 1998, 1997 and 1996

<TABLE>
<CAPTION>

THE SOUTHLAND CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1998 AND 1997
(DOLLARS IN THOUSANDS, EXCEPT PER-SHARE DATA)

ASSETS	1998	1997
<S>	<C>	<C>
CURRENT ASSETS:		
Cash and cash equivalents	$ 26,880	$ 38,605
Accounts receivable	148,046	126,495
Inventories	101,045	104,540
Other current assets	162,631	117,001
Total current assets	438,602	386,641
PROPERTY AND EQUIPMENT	1,652,932	1,416,687
OTHER ASSETS	324,310	286,753
	$ 2,415,844	$ 2,090,081

LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)

CURRENT LIABILITIES:		
Trade accounts payable	$ 136,059	$ 118,222
Accrued expenses and other liabilities	362,398	353,844
Commercial paper	18,348	48,744
Long-term debt due within one year	151,754	208,839
Total current liabilities	668,559	729,649
DEFERRED CREDITS AND OTHER LIABILITIES	220,653	187,414
LONG-TERM DEBT	1,788,843	1,594,545
CONVERTIBLE QUARTERLY INCOME DEBT SECURITIES	380,000	300,000
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY (DEFICIT):		
Common stock, $.0001 par value; 1,000,000,000 shares authorized; 409,922,935 shares issued and outstanding	41	41
Additional capital	625,574	625,574
Accumulated deficit	(1,278,009)	(1,352,057)
Accumulated other comprehensive earnings	10,183	4,915
Total shareholders' equity (deficit)	(642,211)	(721,527)
	$ 2,415,844	$ 2,090,081

</TABLE>

See notes to consolidated financial statements.

<TABLE>
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THE SOUTHLAND CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED DECEMBER 31, 1998 1997 AND 1996
(DOLLARS IN THOUSANDS, EXCEPT PER-SHARE DATA)

<S>	1998 <C>	1997 <C>	1996 <C>
REVENUES:			
Merchandise sales (including $466,013, $438,489 and $437,573 in excise taxes)	$ 5,573,606	$ 5,181,762	$ 5,084,024
Gasoline sales (including $577,457, $532,635 and $524,414 in excise taxes)	1,684,184	1,789,383	1,784,888
Net sales	7,257,790	6,971,145	6,868,912
Other income	92,021	89,412	86,351
	7,349,811	7,060,557	6,955,263
COSTS AND EXPENSES:			
Merchandise cost of goods sold	3,645,974	3,353,323	3,296,316
Gasoline cost of goods sold	1,476,144	1,605,603	1,596,745
Total cost of goods sold	5,122,118	4,958,926	4,893,061
Operating, selling, general and administrative expenses	2,053,791	1,896,206	1,841,174
Interest expense, net	91,289	90,130	90,204
	7,267,198	6,945,262	6,824,439
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY GAIN	82,613	115,295	130,824
INCOME TAXES	31,889	45,253	41,348

EARNINGS BEFORE EXTRAORDINARY GAIN	50,724	70,042	89,476
EXTRAORDINARY GAIN ON DEBT REDEMPTION (net of tax effect of $14,912)	23,324	-	-
NET EARNINGS	$ 74,048	$ 70,042	$ 89,476
EARNINGS BEFORE EXTRAORDINARY GAIN PER COMMON SHARE:			
Basic	$ .12	$ .17	$ .22
Diluted	.12	.16	.20
EXTRAORDINARY GAIN ON DEBT REDEMPTION PER COMMON SHARE:			
Basic	$ .06	$ -	$ -
Diluted	.05	-	-
NET EARNINGS PER COMMON SHARE:			
Basic	$ .18	$ .17	$ .22
Diluted	.17	.16	.20

See notes to consolidated financial statements.

</TABLE>

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<CAPTION>

THE SOUTHLAND CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	1998		1997		1996		
	ENDING BALANCE	ACTIVITY	ENDING BALANCE	ACTIVITY	ENDING BALANCE	ACTIVITY	BEGINNING BALANCE
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
COMMON STOCK SHARES ISSUED AND OUTSTANDING	409,922,935	-	409,922,935	-	409,922,935	-	409,922,935
COMMON STOCK, $.0001 PAR VALUE	$ 41	$ -	$ 41	$ -	$ 41	$ -	$ 41
ADDITIONAL CAPITAL	625,574	-	625,574	-	625,574	-	625,574
ACCUMULATED EARNINGS (DEFICIT)	(1,278,009)	74,048	(1,352,057)	70,042	(1,422,099)	89,476	(1,511,575)
ACCUMULATED OTHER COMPREHENSIVE EARNINGS:							
Foreign Currency Translation (Activity net of ($1,255), ($672),($167) income tax benefit)	(6,273)	(1,997)	(4,276)	(1,040)	(3,236)	(258)	(2,978)
Unrealized Gain (Loss) on Equity Securities (Activity net of $4,645, ($1,006), $1,674 deferred taxes)	16,456	7,265	9,191	(1,574)	10,765	2,619	8,146
TOTAL ACCUMULATED OTHER COMPREHENSIVE EARNINGS (LOSS)	10,183	5,268	4,915	(2,614)	7,529	2,361	5,168
ACCUMULATED COMPREHENSIVE EARNINGS (LOSS)	(1,267,826)	79,316	(1,347,142)	67,428	(1,414,570)	91,837	(1,506,407)
TOTAL SHAREHOLDERS' EQUITY (DEFICIT)	$ (642,211)	$ 79,316	$ (721,527)	$ 67,428	$ (788,955)	$ 91,837	$ (880,792)

See notes to consolidated financial statements.

</TABLE>

<TABLE>
<CAPTION>

THE SOUTHLAND CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS)

<S>	1998 <C>	1997 <C>	1996 <C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$ 74,048	$ 70,042	$ 89,476
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Extraordinary gain on debt redemption	(23,324)	-	-
Depreciation and amortization of property and equipment	175,086	177,174	166,347
Other amortization	19,611	19,026	19,026
Deferred income taxes	19,190	31,812	23,790
Noncash interest expense	1,725	2,342	1,746
Other noncash expense	4,557	96	182
Net loss on property and equipment	9,631	2,391	1,714
(Increase) decrease in accounts receivable	(29,428)	(6,560)	4,824
Decrease (increase) in inventories	11,306	(16,010)	(4,046)
Increase in other assets	(28,576)	(6,117)	(2,598)
Decrease in trade accounts payable and other liabilities	(1,014)	(76,250)	(39,421)
Net cash provided by operating activities	232,812	197,946	261,040
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payments for purchase of property and equipment	(380,871)	(232,539)	(194,373)
Proceeds from sale of property and equipment	8,607	39,648	14,499
Increase in restricted cash	(22,810)	-	-
Acquisition of businesses, net of cash acquired	(32,929)	-	-
Other	8,379	6,908	9,588
Net cash used in investing activities	(419,624)	(185,983)	(170,286)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from commercial paper and revolving credit facilities	7,231,795	5,907,243	4,292,215
Payments under commercial paper and revolving credit facilities	(7,032,120)	(5,842,539)	(4,249,134)
Proceeds from issuance of long-term debt	96,503	225,000	-
Principal payments under long-term debt agreements	(196,477)	(299,005)	(140,388)
Proceeds from issuance of convertible quarterly income debt securities	80,000	-	-
Other	(4,614)	(551)	-
Net cash provided by (used in) financing activities	175,087	(9,852)	(97,307)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(11,725)	2,111	(6,553)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	38,605	36,494	43,047
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 26,880	$ 38,605	$ 36,494
RELATED DISCLOSURES FOR CASH FLOW REPORTING:			
Interest paid, excluding SFAS No.15 Interest	$ (99,240)	$ (97,568)	$ (100,777)
Net income taxes paid	$ (11,721)	$ (10,482)	$ (18,918)
Assets obtained by entering into capital leases	$ 33,643	$ 56,745	$ 3,761

See notes to consolidated financial statements.

</TABLE>

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

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1. ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION - The Southland Corporation and subsidiaries ("the Company") is owned approximately 65% by IYG Holding Company, which is jointly owned by Ito-Yokado Co., Ltd. ("IY") and Seven-Eleven Japan Co., Ltd. ("SEJ"). The Company operates more than 5,600 7-Eleven and other convenience stores in the United States and Canada. Area licensees, or their franchisees, and affiliates operate approximately 12,600 additional 7-Eleven convenience stores in certain areas of the United States, in 16 foreign countries and in the U. S. territories of Guam and Puerto Rico.

The consolidated financial statements include the accounts of The Southland Corporation and its subsidiaries. Intercompany transactions and account balances are eliminated. Prior-year and quarterly amounts have been reclassified to conform to the current-year presentation.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Merchandise and gasoline sales and cost of goods sold of stores operated by franchisees are consolidated with the results of Company-operated stores. Merchandise and gasoline sales of stores operated by franchisees are $3,034,951, $2,880,148 and $2,860,768 from 2,960, 2,868 and 2,927 stores for the years ended December 31, 1998, 1997 and 1996, respectively.

The gross profit of the franchise stores is split between the Company and its franchisees. The Company's share of the gross profit of franchise stores is its continuing franchise fee, generally ranging from 50% to 58% of the merchandise gross profit of the store, which is charged to the franchisee for the license to use the 7-Eleven operating system and trademarks, for the lease and use of the store premises and equipment, and for continuing services provided by the Company. These services include merchandising, advertising, recordkeeping, store audits, contractual indemnification, business counseling services and preparation of financial summaries. In addition, franchisees receive the greater of one cent per gallon sold or 25% of gasoline gross profit as compensation for measuring and reporting deliveries of gasoline, conducting pricing surveys of competitors, changing the prices and

cleaning the service areas. The total gross profit earned by the Company's franchisees of $551,003, $524,941 and $520,216 for the years ended December 31, 1998, 1997 and 1996, respectively, is included in the Consolidated Statements of Earnings as operating, selling, general and administrative expenses ("OSG&A").

Sales by stores operated under domestic and foreign area license agreements are not included in consolidated revenues. All fees or royalties arising from such agreements are included in other income. Initial fees, which have been immaterial, are recognized when the services required under the agreements are performed.

OPERATING SEGMENT - As of January 1, 1998, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 is effective for fiscal years beginning after December 15, 1997, and establishes standards for reporting information about a company's operating segments. It also establishes standards for related disclosures about products and services, geographic areas and major customers.

The Company operates in a single operating segment - the operating, franchising and licensing of convenience food stores, primarily under the 7-Eleven name. Revenues from external customers are derived principally from two major product categories - merchandise and gasoline. The Company's merchandise sales are comprised of groceries, beverages, tobacco products, beer/wine, candy/snacks, fresh foods, dairy products, non-food merchandise and services. Services include lottery, ATM and money order service fees/commissions for which there are little, if any, costs included in merchandise cost of goods sold.

The Company does not record merchandise sales on the basis of product categories. However, based on the total dollar volume of store purchases, management estimates that the percentages of its convenience store merchandise sales by principal product category for the last three years were as follows:

Product Categories	Years Ended December 31		
	1998	1997	1996
Beverages	23.7%	23.2%	22.6%
Tobacco Products	23.7%	22.5%	22.3%
Beer/Wine	11.3%	11.8%	12.2%
Candy/Snacks	9.5%	9.8%	9.8%
Non-Foods	6.9%	7.5%	7.6%
Food Service	6.0%	5.9%	5.8%
Dairy Products	5.3%	5.6%	5.8%
Customer Services	4.8%	4.4%	4.4%
Other	4.6%	4.9%	5.0%
Baked Goods	4.2%	4.4%	4.5%
Total Merchandise Sales	100%	100%	100%

The Company does not rely on any major customers as a source of revenue. Excluding area license royalties, which are included in other income as stated above, the Company's operations are concentrated in the United States and Canada. Approximately 8% of the Company's net sales for the years ended December 31, 1998, 1997 and 1996 are from Canadian operations, and approximately 5% of the Company's long-lived assets for the years ended December 31, 1998 and 1997 are located in Canada.

OTHER INCOME - Other income is primarily area license royalties and franchise fee income. The area license royalties include amounts from area license agreements with SEJ of approximately $53 million, $50 million and $47 million for the years ended December 31, 1998, 1997 and 1996, respectively. Under the present franchise agreements, initial franchise fees are generally calculated based on gross profit experience for the store or market area. These fees cover certain costs including training, an allowance for lodging for the trainees and other costs relating to the franchising of the store. The Company defers the recognition of these fees in income until its obligations under the agreement are completed. For the years ended December 31, 1998, 1997 and 1996, respectively, franchisee fee income was $11,881, $8,309 and $9,358.

OPERATING, SELLING, GENERAL AND ADMINISTRATIVE EXPENSES - Buying and occupancy expenses are included in OSG&A. Advertising costs, also included in OSG&A, generally are charged to expense as incurred and were $40,144, $35,111 and $34,707 for the years ended December 31, 1998, 1997 and 1996, respectively.

INTEREST EXPENSE - Interest expense is net of interest income of $12,021, $8,788 and $10,649 for the years ended December 31, 1998, 1997 and 1996, respectively.

INCOME TAXES - Income taxes are determined using the liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets include tax carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

CASH AND CASH EQUIVALENTS - The Company considers all highly liquid investment instruments purchased with maturities of three months or less to be cash equivalents. Cash and cash equivalents include temporary cash investments of $29,167 and $5,240 at December 31, 1998 and 1997, respectively, stated at cost, which approximates market.

INVENTORIES - Inventories are stated at the lower of cost or market. Cost is generally determined by the LIFO method for stores in the United States and by the FIFO method for stores in Canada.

DEPRECIATION AND AMORTIZATION - Depreciation of property and equipment is based on the estimated useful lives of these assets using the straight-line method. Buildings and leaseholds are depreciated over periods generally ranging from five to twenty

years, and equipment is generally depreciated over a three-to-ten-year period. Acquisition and development costs for significant business systems and related software for internal use are capitalized and are depreciated on a straight-line basis over a three-to-seven-year period based on their estimated useful lives. Amortization of capital leases, improvements to leased properties and favorable leaseholds is based on the remaining terms of the leases or the estimated useful lives, whichever is shorter.

Foreign and domestic area license royalty intangibles were recorded in 1987 at the fair value of future royalty payments and are being amortized over 20 years using the straight-line method. The 20-year life is less than the estimated lives of the various royalty agreements, the majority of which are perpetual. The excess of cost over fair value of net assets acquired is recorded as goodwill and amortized on a straight-line basis over 40 years.

STORE CLOSINGS / ASSET IMPAIRMENT - Provision is made on a current basis for the write-down of identified owned-store closings to their net realizable value. For identified leased-store closings, leasehold improvements are written down to their net realizable value and a provision is made on a current basis if anticipated expenses are in excess of expected sublease rental income. The Company's long-lived assets, including goodwill, are reviewed for impairment and written down to fair value whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

INSURANCE - The Company has established insurance programs to cover certain insurable risks consisting primarily of physical loss to property, business interruptions resulting from such loss, workers' compensation, employee healthcare, comprehensive general and auto liability. Third-party insurance coverage is obtained for property and casualty exposures above predetermined deductibles as well as those risks required to be insured by law or contract. Provisions for losses expected under the insurance programs are recorded based on independent actuarial estimates of the aggregate liabilities for claims incurred.

EMPLOYEE BENEFIT PLANS - As of January 1, 1998, the Company adopted the provisions of SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits," which is an amendment of SFAS No. 87, No. 88 and No. 106. SFAS No. 132 revises employers' disclosures related to pension and other postretirement plans by requiring, among other things, standardization of disclosures among such plans as well as additional information on the changes in benefit obligations and fair values of plan assets. It also eliminates certain other disclosures no longer deemed useful. SFAS No. 132 is effective for financial periods beginning after December 15, 1997, and will have no effect on the Company's financial position or results of operations as it does not change the measurement or recognition criteria for such plans.

The Company has adopted the disclosure-only requirements of SFAS No. 123, "Accounting for Stock-Based Compensation," and therefore continues to apply the provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its stock-based compensation plans. Pursuant to the requirements of SFAS No. 123, which defines a fair-value-based method of accounting for employee stock options, the Company provides pro forma net earnings and earnings-per-share disclosures as if it were using that statement to account for its employee stock option plans.

ENVIRONMENTAL - Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are expensed by the Company. Expenditures that extend the life of the related property or prevent future environmental contamination are capitalized. The Company determines its liability on a site-by-site basis and records a liability when it is probable and can be reasonably estimated. The estimated liability of the Company is not discounted.

A portion of the environmental expenditures incurred for gasoline sites is eligible for refund under state reimbursement programs. A related receivable is recorded for estimated probable refunds. The receivable is discounted if the amount relates to remediation activities which have already been conducted. A receivable is also recorded to reflect estimated probable reimbursement from other parties.

COMPREHENSIVE EARNINGS - In January 1998, the Company adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income," which is required for fiscal years beginning after December 15, 1997. The statement establishes standards for reporting comprehensive earnings and its components in a full set of general-purpose financial statements. Comprehensive earnings are the changes in equity of a business enterprise during a period from net earnings and other events, except activity resulting from investments by owners and distributions to owners.

2. ACQUISITIONS

On May 4, 1998, the Company purchased 100% of the common stock of Christy's Market, Inc., a Massachusetts company that operates 135 convenience stores in the New England area. On May 12, 1998, the Company purchased the assets of 20 'red D mart' convenience stores in the South Bend, Indiana, area from MDK Corporation of Goshen, Indiana.

These acquisitions were accounted for under the purchase method of accounting and, accordingly, the results of operations of the acquired businesses have been included in the accompanying consolidated financial statements from their dates of acquisition. Pro forma information is not provided as the impact of the acquisitions does not have a material effect on the Company's results of operations, cash flows or financial position.

The following information is provided as supplemental cash flow disclosure for the acquisitions of businesses as reported in the Consolidated Statements of Cash Flows for the year ended December 31, 1998 (dollars in thousands):

Fair value of assets acquired	$ 75,479
Fair value of liabilities assumed	42,478
Cash paid	33,001
Less cash acquired	72
Net cash paid for acquisitions	$ 32,929

3. ACCOUNTS RECEIVABLE

<TABLE>
<CAPTION>

<S>	December 31 1998 <C>	1997 <C>
	(Dollars in Thousands)	
Trade accounts receivable	$ 59,985	$ 50,235
Franchisee accounts receivable	74,176	55,449
Environmental cost reimbursements (net of long-term portion of $42,012 and $38,716) - see Note 14	9,798	12,219
Other accounts receivable	12,854	15,388
	156,813	133,291
Allowance for doubtful accounts	(8,767)	(6,796)
	$ 148,046	$ 126,495

</TABLE>

4. INVENTORIES

	December 31 1998	1997
	(Dollars in Thousands)	
Merchandise	$ 74,835	$ 78,022
Gasoline	26,210	26,518
	$ 101,045	$ 104,540

Inventories stated on the LIFO basis that are included in inventories in the accompanying Consolidated Balance Sheets were $50,242 and $59,914 for merchandise and $21,070 and $21,446 for gasoline at December 31, 1998 and 1997, respectively. These amounts are less than replacement cost by $33,804 and $26,980 for merchandise and $600 and $4,545 for gasoline at December 31, 1998 and 1997, respectively.

5. OTHER CURRENT ASSETS

<TABLE>
<CAPTION>

<S>	December 31 1998 <C>	1997 <C>
	(Dollars in Thousands)	
Prepaid expenses	$ 26,670	$ 22,640
Deferred tax assets - see Note 15	61,260	65,640
Restricted cash - see Note 10	22,810	-
Advances for lottery and other tickets	22,247	20,856
Reimbursable equipment purchases under the master lease facility - see Note 13	22,892	2,254
Other	6,752	5,611
	$ 162,631	$ 117,001

</TABLE>

6. PROPERTY AND EQUIPMENT

	December 31 1998	December 31 1997
	(Dollars in Thousands)	
Cost:		
Land	$ 493,369	$ 461,568
Buildings and leaseholds	1,437,542	1,356,856
Equipment	1,084,694	911,598
Construction in process	102,524	38,152
	3,118,129	2,768,174
Accumulated depreciation and amortization	(1,465,197)	(1,351,487)
	$ 1,652,932	$ 1,416,687

7. OTHER ASSETS

	December 31 1998	December 31 1997
	(Dollars in Thousands)	
SEJ license royalty intangible (net of accumulated amortization of $181,034 and $165,019)	$ 137,466	$ 153,482
Other license royalty intangibles (net of accumulated amortization of $32,259 and $29,423)	24,345	27,181
Environmental cost reimbursements - see Note 14	42,012	38,716
Goodwill (net of accumulated amortization of $449)	30,671	-
Investments in domestic securities	27,011	15,101
Other (net of accumulated amortization of $7,060 and $5,827)	62,805	52,273
	$ 324,310	$ 286,753

8. ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31 1998	December 31 1997
	(Dollars in Thousands)	
Insurance	$ 54,059	$ 69,412
Compensation	47,216	42,931
Taxes	51,807	52,400
Lotto, lottery and other tickets	37,446	36,922
Other accounts payable	36,492	30,989
Environmental costs - see Note 14	22,364	19,818
Profit sharing - see Note 12	16,490	14,780

Interest	20,432	17,173
Other current liabilities	76,092	69,419
	$ 362,398	$ 353,844

</TABLE>

The Company continues to review the functions necessary to enable its stores to respond faster, more creatively and more cost efficiently to rapidly changing customer needs and preferences. To accomplish this goal, the Company continues to realign and reduce personnel.

For the year ended December 31, 1998, the Company accrued $7,643 for severance benefits for the reduction in force of approximately 120 management and administrative employees. The cost of the severance benefits was recorded in OSG&A and, as of December 31, 1998, $2,730 of severance benefits has been paid against the accrual. There was no material change in estimate of the accrual during 1998.

9. DEBT

<TABLE>
<CAPTION>

	December 31	
	1998	1997
	(Dollars in Thousands)	
<S>	<C>	<C>
Bank Debt Term Loans	$ 168,750	$ 225,000
Bank Debt revolving credit facility	295,000	62,000
Commercial paper	350,000	350,000
5% First Priority Senior Subordinated Debentures due 2003	317,866	350,556
4-1/2% Second Priority Senior Subordinated Debentures (Series A) due 2004	144,472	159,823
4% Second Priority Senior Subordinated Debentures (Series B) due 2004	22,590	23,645
12% Second Priority Senior Subordinated Debentures (Series C) due 2009	-	51,853
Yen Loans	223,751	168,198
7-1/2% Cityplace Term Loan due 2005	272,883	277,926
Capital lease obligations	137,152	125,777
Other	8,133	8,606
	1,940,597	1,803,384
Less long-term debt due within one year	151,754	208,839
	$ 1,788,843	$ 1,594,545

</TABLE>

BANK DEBT - In February 1997, the Company became obligated to a group of lenders under a new, unsecured credit agreement ("Credit Agreement") that includes a $225 million term loan and a $400 million revolving credit facility. A sublimit of $150 million for letters of credit is included in the revolving credit facility. In addition, to the extent outstanding letters of credit are less than the $150 million maximum, the excess availability can be used for additional borrowings under the revolving credit facility.

Payments on the term loan, which matures on December 31, 2001, commenced March 31, 1998, when the first installment of 16 quarterly installments of $14,063 was paid. Upon expiration of the revolving credit facility in February 2002, all the then-outstanding letters of credit must expire and may need to be replaced, and all other amounts then outstanding will be due and payable in full. At December 31, 1998, outstanding letters of credit under the facility totaled $71,124.

Interest on the term loan and borrowings under the revolving credit facility is generally payable quarterly and is based on a variable rate equal to the administrative agent bank's base rate or, at the Company's option, at a rate equal to a reserve-adjusted Eurodollar rate plus .225% per year. A fee of .325% per year on the outstanding amount of letters of credit is required to be paid quarterly. In addition, a facility fee of .15% per year is charged on the aggregate amount of the credit agreement facility and is payable quarterly. The weighted-average interest rate on the term loan outstanding at December 31, 1998 and 1997, respectively, was 5.6% and 6.1%. The weighted-average interest rate on the revolving credit facility borrowings outstanding at December 31, 1998 and 1997, respectively, was 5.6% and 8.5%.

The Credit Agreement contains various financial and operating covenants which require, among other things, the maintenance of certain financial ratios including interest and rent coverage, fixed-charge coverage and senior indebtedness to earnings before interest, income taxes, depreciation and amortization. The Credit Agreement also contains various covenants which, among other things, (a) limit the Company's ability to incur or guarantee indebtedness or other liabilities other than under the Credit Agreement, (b) restrict the Company's ability to engage in asset sales and sale/leaseback transactions, (c) restrict the types of investments the Company can make and (d) restrict the Company's ability to pay cash dividends, redeem or prepay principal and interest on any subordinated debt and certain senior debt.

In March 1999, the Credit Agreement was amended prospectively to change the existing financial covenant levels to allow the Company more flexibility and to increase the levels of capital expenditures allowable to continue its store-growth strategy. Also, in connection with this amendment, the interest rate on borrowings was changed to a reserve-adjusted Eurodollar rate plus .475% instead of the previous increment of .225%.

COMMERCIAL PAPER - As of December 31, 1998, the Company had a facility that provided for the issuance of up to $400 million in commercial paper. Effective January 15, 1999, the availability of borrowings under this facility was increased to $650 million. At both December 31, 1998 and 1997, $350 million of the respective $368,348 and $398,744 outstanding principal amounts, net of discount, was classified as long-term debt since the Company intends to maintain at least this amount outstanding during the next year. Such debt is unsecured and is fully and unconditionally guaranteed by IY. IY has agreed to continue its guarantee of all commercial paper issued through 2000. While it is not anticipated that IY would be required to perform under its commercial paper guarantee, in the event IY makes any payments under the guarantee, the Company and IY have entered into an agreement by which the Company is required to reimburse IY subject to restrictions in the Credit Agreement. The weighted-average interest rate on commercial paper borrowings outstanding at December 31, 1998 and 1997, respectively, was 5.2% and 5.8%.

DEBENTURES - The Debentures are accounted for in accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring," and were recorded at an amount equal to the future undiscounted cash payments, both principal and interest ("SFAS No. 15 Interest"). Accordingly, no interest expense will be recognized over the life of these securities, and cash interest payments will

be charged against the recorded amount of such securities. Interest on all of the Debentures is payable in cash semiannually on June 15 and December 15 of each year.

The 5% First Priority Senior Subordinated Debentures, due December 15, 2003 ("5% Debentures"), had an outstanding principal balance of $254,293 at December 31, 1998, and are redeemable at any time at the Company's option at 100% of the principal amount.

The Second Priority Senior Subordinated Debentures were issued in three series, and each series is redeemable at any time at the Company's option at 100% of the principal amount and are described as follows:

- 4-1/2% Series A Debentures, due June 15, 2004 ("4-1/2% Debentures"), had an outstanding principal balance of $115,809 at December 31, 1998.

- 4% Series B Debentures, due June 15, 2004 ("4% Debentures"), had an outstanding principal balance of $18,516 at December 31, 1998.

- 12% Series C Debentures, due June 15, 2009 ("12% Debentures"), were redeemed by the Company on March 31, 1998, with a portion of the proceeds from the issuance of $80 million principal amount of Convertible Quarterly Income Debt Securities due 2013 ("1998 QUIDS") to IY and SEJ (see Note 10). The 12% Debentures had an outstanding principal balance of $21,787 when they were redeemed.

The Company also utilized a portion of the proceeds from the 1998 QUIDS to purchase $15,700 principal amount of its 5% Debentures, $7,845 principal amount of its 4-1/2% Debentures and $250 principal amount of its 4% Debentures during the fourth quarter of 1998. The partial purchases of these debentures, together with the redemption of the 12% Debentures, resulted in an extraordinary gain of $23,324 (net of current tax effect of $14,912) as a result of the discounted purchase price and the inclusion of SFAS No. 15 Interest in the carrying amount of the debt.

In addition, the Company purchased $15,000 principal amount of its 5% Debentures in January 1999 and $4,418 principal amount of its 4-1/2% Debentures in February 1999 with a portion of the proceeds of the 1998 QUIDS. These partial purchases resulted in an extraordinary gain of $4,290 (net of current tax effect of $2,743) in 1999 as a result of the discounted purchase price and the inclusion of SFAS No. 15 Interest in the carrying amount of the debt.

Prior to the partial purchases, the 5% Debentures were subject to a sinking fund payment of $8,696 due on December 15, 2002. The Company used its purchase of the 5% Debentures to satisfy all sinking fund requirements so that no sinking fund payments remain.

The Debentures contain certain covenants that, among other things, (a) limit the payment of dividends and certain other restricted payments by both the Company and its subsidiaries, (b) require the purchase by the Company of the Debentures at the option of the holder upon a change of control, (c) limit additional indebtedness, (d) limit future exchange offers, (e) limit the repayment of subordinated indebtedness, (f) require board approval of certain asset sales, (g) limit transactions with certain stockholders and affiliates and (h) limit consolidations, mergers and the conveyance of all or substantially all of the Company's assets.

The First and Second Priority Senior Subordinated Debentures are subordinate to the borrowings outstanding under the Credit Agreement and to previously outstanding mortgages and notes that are either backed by specific collateral or are general unsecured, unsubordinated obligations. The Second Priority Debentures are subordinate to the First Priority Debentures.

YEN LOANS - In March 1988, the Company monetized its future royalty payments from SEJ, its area licensee in Japan, through a loan that is nonrecourse to the Company as to principal and interest ("1988 Yen Loan"). The original amount of the yen-denominated debt was 41 billion yen (approximately $327 million at the exchange rate in March 1988) and is collateralized by the Japanese trademarks and a pledge of the future royalty payments. By designating its future royalty receipts during the term of the loan to service the monthly interest and principal payments, the Company has hedged the impact of future exchange rate fluctuations. Payment of the debt is required no later than March 2006 through future royalties from SEJ. The Company believes it is a remote possibility that there will be any principal balance remaining at that date because current royalty projections suggest the 1988 Yen Loan could be repaid as early as 2001. Upon the later of February 28, 2000, or the date which is one year following the final repayment of the 1988 Yen Loan, royalty payments from SEJ will be reduced by approximately two-thirds in accordance with the terms of the license agreement. The interest rate was 6.25% as of December 31, 1997, and was reset to 3.10% on March 10, 1998. The new rate was .5% in excess of the Japanese long-term lending rate on that date.

On April 30, 1998, funding occurred on an additional yen-denominated loan ("1998 Yen Loan") for 12.5 billion yen or $96.5 million of proceeds. The 1998 Yen Loan has an interest rate of 2.325% and will be repaid from the Seven-Eleven Japan area license royalty income beginning in 2001, after the 1988 Yen Loan has been retired. Both principal and interest of the loan are nonrecourse to the Company. The Company utilized a short-term put option to lock-in the exchange rate and avoid the risk of foreign currency exchange loss. The put option was financed by selling a call option with the same yen amount and maturity as the put option. Due to market conditions, the call option was not exercised and, as a result, income of $1.6 million was recognized during 1998. Proceeds of the loan were designated for general corporate purposes.

CITYPLACE DEBT - Cityplace Center East Corporation ("CCEC"), a subsidiary of the Company, constructed the headquarters tower, parking garages and related facilities of the Cityplace Center development and is currently obligated to The Sanwa Bank, Limited, Dallas Agency ("Sanwa"), which has a lien on the property financed. The debt with Sanwa has monthly payments of principal and interest based on a 25-year amortization at 7.5%, with the remaining principal due on March 1, 2005 (the "Cityplace Term Loan").

The Company is occupying part of the building as its corporate headquarters and the balance is subleased. As additional consideration through the extended term of the debt, CCEC will pay to Sanwa an amount that it receives from the Company which is equal to the net sublease income that the Company receives on the property and 60% of the proceeds, less $275 million and permitted costs, upon a sale or refinancing of the building.

MATURITIES - Long-term debt maturities assume the continuance of the commercial paper program. The maturities, which include capital lease obligations as well as SFAS No. 15 Interest accounted for in the recorded amount of the Debentures, are as follows (dollars in thousands):

1999	$ 151,754
2000	150,881
2001	132,794
2002	78,700
2003	306,872
Thereafter	1,119,596
	$ 1,940,597

10. CONVERTIBLE QUARTERLY INCOME DEBT SECURITIES

In November 1995, the Company issued $300 million principal amount of Convertible Quarterly Income Debt Securities due 2010 ("1995 QUIDS") to IY and SEJ. The 1995 QUIDS have an interest rate of 4.5% and give the Company the right to defer interest payments thereon for up to 20 consecutive quarters. The holder of the 1995 QUIDS can convert the debt into a maximum of 72,111,917 shares of the Company's common stock. The conversion rate represents a premium to the market value of the Company's common stock at the time of issuance of the 1995 QUIDS. As of December 31, 1998, no shares had been issued as a result of debt conversion.

In February 1998, the Company issued $80 million principal amount of 1998 QUIDS, which have a 15-year life, no amortization and an interest rate of 4.5%. The instrument gives the Company the right to defer interest payments thereon for up to 20 consecutive quarters. The debt mandatorily converts into 32,508,432 shares of the Company's common stock if the Company's stock achieves certain levels after the third anniversary of issuance. A portion of the proceeds from the 1998 QUIDS was used to redeem the Company's 12% Debentures at par and to fund the partial purchases of its other Debentures (see Note 9). At December 31, 1998, the Company had $22,810 designated as restricted cash to be used for future purchases of Debentures. The 1998 QUIDS, together with the 1995 QUIDS (collectively, "Convertible Debt"), are subordinate to all existing debt.

In addition to the principal amount of the Convertible Debt, the financial statements include interest payable of $723 in 1998 and $563 in 1997 as well as interest expense of $16,801, $13,733 and $13,658 in 1998, 1997 and 1996, respectively, related to the Convertible Debt.

11. FINANCIAL INSTRUMENTS

FAIR VALUE - The disclosure of the estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methodologies as indicated below.

The carrying amounts of cash and cash equivalents, trade accounts receivable, trade accounts payable and accrued expenses and other liabilities are reasonable estimates of their fair values. Letters of credit are included in the estimated fair value of accrued expenses and other liabilities.

The carrying amounts and estimated fair values of other financial instruments at December 31, 1998, are listed in the following table:

<TABLE>
<CAPTION>

<S>	Carrying Amount <C>	Estimated Fair Value <C>
	(Dollars in Thousands)	
Bank Debt	$ 463,750	$ 463,750
Commercial Paper	368,348	368,348
Debentures	484,928	334,609
Yen Loans	223,751	250,922
Cityplace Term Loan	272,883	301,404
Convertible Debt - not practicable to estimate fair value	380,000	-

</TABLE>

The methods and assumptions used in estimating the fair value for each of the classes of financial instruments presented in the table above are as follows:

- The carrying amount of the Bank Debt approximates fair value because the interest rates are variable.

- Commercial paper borrowings are sold at market interest rates and have an average remaining maturity of less than 47 days. Therefore, the carrying amount of commercial paper is a reasonable estimate of its fair value. The guarantee of the commercial paper by IY is an integral part of the estimated fair value of the commercial paper borrowings.

- The fair value of the Debentures is estimated based on December 31, 1998, bid prices obtained from investment banking firms where traders regularly make a market for these financial instruments. The carrying amount of the Debentures includes

$96,309 of SFAS No. 15 Interest.

- The fair value of the Yen Loans is estimated by calculating the present value of the future yen cash flows at current interest and exchange rates.

- The fair value of the Cityplace Term Loan is estimated by calculating the present value of the future cash flows at current interest rates.

- It is not practicable, without incurring excessive costs, to estimate the fair value of the Convertible Debt (see Note 10) at December 31, 1998. The fair value would be the sum of the fair values assigned to both an interest rate and an equity component of the debt by a valuation firm.

DERIVATIVES - The Company uses derivative financial instruments to reduce its exposure to market risk resulting from fluctuations in both foreign exchange rates (see Note 9) and interest rates. On June 26, 1998, the Company entered into an interest rate swap agreement that fixed the interest rate at 5.395% on $250 million notional principal amount of floating rate debt until June 26, 2003. The interest rate swap had a fair value of $(10,821) as of December 31, 1998, which reflects the estimated amount that the Company would have to pay to terminate the swap. This agreement was amended on February 9, 1999, and the Company will pay a fixed interest rate of 6.096% on the floating rate debt until February 9, 2004. A major financial institution, as counterparty to the agreement, will pay the Company a floating interest rate based on three-month LIBOR during the term of the agreement in exchange for the Company paying the fixed interest rate. Interest payments related to the original agreement commenced September 28, 1998, and interest payments related to the amended agreement will commence on May 9, 1999. Interest payments are made quarterly by both parties. Except for the option component discussed below, the swap is accounted for as a hedge and, accordingly, any difference between amounts paid and received under the swap are recorded as interest expense. The impact on net interest expense as a result of this agreement was nominally favorable for the year ended December 31, 1998, and the Company does not anticipate a material impact on its earnings as a result of the amended agreement. The Company is at risk of loss from this swap agreement in the event of nonperformance by the counterparty.

Upon expiration of the initial swap term, the original agreement was extendible for an additional five years at the option of the counterparty. This extendible option component of the original agreement was unwound by the amended agreement. The option component was recognized at fair value and marked to market as of December 31, 1998, and also at the time of unwinding. Due to declining interest rates throughout the third and fourth quarters, the Company recognized $3,677 of expense related to the option component. However, with respect to its unhedged floating rate debt, the Company experienced a positive economic benefit from the declining interest rates during the same period. In the first quarter of 1999, the Company recognized income of $1,505 as a result of the mark-to-market adjustment of the option component through the date of the unwinding.

The Company is currently reviewing SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 becomes effective for all fiscal quarters of fiscal years beginning after June 15, 1999, and earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 1998. The Company intends to adopt the provisions of this statement as of January 1, 2000. The impact of the adoption of SFAS No. 133 has not been determined at this time due to the Company's continuing investigation of its financial instruments and the applicability of SFAS No. 133 to them.

12. EMPLOYEE BENEFIT PLANS

PROFIT SHARING PLANS - The Company maintains profit sharing plans for its U.S. and Canadian employees. In 1949, the Company excluding its Canadian subsidiary ("Southland") adopted The Southland Corporation Employees' Savings and Profit Sharing Plan (the "Savings and Profit Sharing Plan") and, in 1970, the Company's Canadian subsidiary adopted the Southland Canada, Inc., Profit Sharing Pension Plan. In 1997, the name of the Canadian plan was changed to the Southland Canada, Inc., Pension Plan. These plans provide retirement benefits to eligible employees.

Contributions to the Savings and Profit Sharing Plan, a 401(k) defined contribution plan, are made by both the participants and Southland. Southland contributes the greater of approximately 10% of its net earnings minus the amount contributed to The Southland Corporation Supplemental Executive Retirement Plan for Eligible Employees (the "Supplemental Executive Retirement Plan") or an amount determined by Southland. Net earnings are calculated without regard to the contribution to the Savings and Profit Sharing Plan, federal income taxes, gains from debt repurchases and refinancings and, at the discretion of Southland's president, income from accounting changes. The contribution by Southland is generally allocated to the participants on the basis of their individual contribution and years of participation in the Savings and Profit Sharing Plan. The provisions of the Southland Canada, Inc., Pension Plan are similar to those of the Savings and Profit Sharing Plan. Total contributions to these plans for the years ended December 31, 1998, 1997 and 1996 were $13,403, $12,977 and $14,069, respectively, and are included in OSG&A.

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN - Effective January 1, 1998, the Company established the Supplemental Executive Retirement Plan, which is an unfunded employee benefit plan maintained primarily to allow compensation to be deferred by highly compensated employees as defined by the Internal Revenue Service. Benefits under this plan constitute general obligations of the Company, subject to the claims of general creditors of the Company, and participants have no security or other interest in such funds.

Contributions to the Supplemental Executive Retirement Plan, a deferred compensation plan, are made by the participant and may be made by the Company. A participant may elect to defer a maximum of 12 percent of eligible compensation. The Company may make a matching contribution, if so authorized each plan year, up to a maximum of six percent of the participant's eligible compensation minus the amount of the participant's deferral to the Savings and Profit Sharing Plan. Matching contributions, if any, will be credited to the participant's account at the same rate that Southland matches under the Savings and Profit Sharing Plan, but using years of service with the Company, minus one, rather than years of participation in the Savings and Profit Sharing Plan to determine a participant's group. There were no Company contributions to this plan for the year ended December 31, 1998.

POSTRETIREMENT BENEFITS - The Company's group insurance plan (the "Insurance Plan") provides postretirement medical and dental benefits for all retirees that meet certain criteria. Such criteria include continuous participation in the Insurance Plan ranging from 10 to 15 years depending on hire date, and the sum of age plus years of continuous service equal to at least 70. The Company contributes toward the cost of the Insurance Plan a fixed dollar amount per retiree based on age and number of dependents covered, as adjusted for actual claims experience. All other future costs and cost increases will be paid by the retirees. The Company continues to fund its cost on a cash basis; therefore, no plan assets have been accumulated.

The following information on the Company's Insurance Plan is provided:

	December 31 1998	December 31 1997
	(Dollars in Thousands)	
CHANGE IN BENEFIT OBLIGATION:		
Net benefit obligation at beginning of year	$ 21,238	$ 21,197
Service cost	536	521
Interest cost	1,523	1,535
Plan participants' contributions	2,953	2,413
Actuarial (gain) loss	894	(704)
Gross benefits paid	(4,230)	(3,724)
Net benefit obligation at end of year	$ 22,914	$ 21,238
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	$0	$0
Employer contributions	1,277	1,311
Plan participants' contributions	2,953	2,413
Gross benefits paid	(4,230)	(3,724)
Fair value of plan assets at end of year	$0	$0
Funded status at end of year	$ (22,914)	$ (21,238)
Unrecognized net actuarial (gain) loss	(6,270)	(7,724)
Accrued benefit costs	$ (29,184)	$ (28,962)

	Years Ended December 31 1998	1997	1996
	(Dollars in Thousands)		
COMPONENTS OF NET PERIODIC BENEFIT COST:			
Service cost	$ 536	$ 521	$ 595
Interest cost	1,523	1,535	1,496
Amortization of actuarial (gain) loss	(560)	(603)	(498)
Net periodic benefit cost	$ 1,499	$ 1,453	$ 1,593
WEIGHTED-AVERAGE ASSUMPTIONS USED:			
Discount rate	6.75%	7.25%	7.50%
Rate of compensation increase	5.00%	5.00%	5.00%
Health care cost trend on covered charges:			
1996 trend	N/A	N/A	11.00%
1997 trend	N/A	10.00%	10.00%
1998 trend	9.00%	9.00%	9.00%
Ultimate trend	6.00%	6.00%	6.00%
Ultimate trend reached in	2001	2001	2001

There was no effect of a one-percentage-point increase or decrease in assumed health care cost trend rates on either the total service and interest cost components or the postretirement benefit obligation for the years ended December 31, 1998, 1997 and 1996 as the Company contributes a fixed dollar amount.

STOCK INCENTIVE PLAN - The Southland Corporation 1995 Stock Incentive Plan (the "Stock Incentive Plan") was adopted by the Company in October 1995 and approved by the shareholders in April 1996. The Stock Incentive Plan provides for the granting of stock options, stock appreciation rights, performance shares, restricted stock, restricted stock units, bonus stock and other forms of stock-based awards and authorizes the issuance of up to 41 million shares over a ten-year period to certain key employees and officers of the Company. All options granted in 1998, 1997 and 1996 were granted at an exercise price that was equal to the fair market value on the date of grant. The options granted are exercisable in five equal installments beginning one year after grant date with possible acceleration thereafter based upon certain improvements in the price of the Company's common stock.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for the options granted: for each year presented, expected life of five years and no dividend yields, combined with risk-free interest rates of 4.50%, 5.81% and 6.39% in 1998, 1997 and 1996, respectively, and expected volatility of 61.76% in 1998, 51.37% in 1997 and 55.49% in 1996.

A summary of the status of the Stock Incentive Plan as of December 31, 1998, 1997 and 1996, and changes during the years ending on those dates, is presented below:

<TABLE>
<CAPTION>

	1998		1997		1996	
Fixed Options	Shares (000's)	Weighted-Average Exercise Price	Shares (000's)	Weighted-Average Exercise Price	Shares (000's)	Weighted-Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	10,500	$2.8903	7,618	$3.0895	3,864	$3.1875
Granted	3,359	1.9063	3,390	2.4690	3,978	$3.0000
Exercised	-	-	-	-	-	-
Forfeited	(431)	2.8693	(508)	3.0679	(224)	3.1875
Outstanding at end of year	13,428	$2.6448	10,500	$2.8903	7,618	$3.0895
Options exercisable at year-end	4,044	$3.0074	2,126	$3.1231	728	$3.1875
Weighted-average fair value of options granted during the year	$1.0741		$1.2691		$1.6413	

</TABLE>

<TABLE>
<CAPTION>

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Options Outstanding at 12/31/98	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Options Exercisable at 12/31/98	Weighted-Average Exercise Price
<C>	<C>	<C>	<C>	<C>	<C>
$1.9063	3,359,300	9.79	$1.9063	-	-
2.4690	3,234,500	8.87	2.4690	646,900	$2.4690
3.0000	3,515,940	7.75	3.0000	1,406,376	3.0000
3.1875	3,318,100	6.81	3.1875	1,990,860	3.1875
1.9063 - 3.1875	13,427,840	8.30	2.6448	4,044,136	3.0074

</TABLE>

The Company is accounting for the Stock Incentive Plan under the provisions of APB No. 25 and, accordingly, no compensation cost has been recognized. If compensation cost had been determined based on the fair value at the grant date for awards under this plan consistent with the method prescribed by SFAS No. 123, the Company's net earnings and earnings per share for the years ended December 31 ,1998, 1997 and 1996, would have been reduced to the pro forma amounts indicated in the table below:

<TABLE>
<CAPTION>

	1998	1997	1996
	(Dollars in Thousands, Except Per-Share Data)		
<S>	<C>	<C>	<C>
Net earnings:			
As reported	$74,048	$70,042	$89,476
Pro forma	72,017	68,542	88,520
Earnings per common share:			
As reported:			
Basic	$ .18	$ .17	$ .22
Diluted	.17	.16	.20
Pro forma:			
Basic	$ .18	$ .17	$ .22
Diluted	.16	.16	.20

</TABLE>

13. LEASES

LEASES - Certain property and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms from 14 to 20 years with options to renew for additional periods, and equipment leases are for terms from one to ten years. The leases do not contain restrictions that have a material effect on the Company's operations.

In April 1997, the Company obtained commitments from the same group of lenders that participated in the Credit Agreement (see Note 9) for up to $115 million of lease financing under a master lease facility to be used primarily for electronic point-of-sale equipment associated with the Company's retail information system. As of December 31, 1998, the Company had received $44,748 of the available funding under the lease facility and intends to use the remainder of the funding as the system rollout continues. Lease payments are variable based on changes in LIBOR.

Individual leases under this master lease facility have initial terms that expire on June 30, 2000, at which time the Company has an option to cancel all leases under this facility by purchasing the equipment or arranging its sale to a third party. The Company also has the option to renew the leases semiannually until five years after the beginning of the individual leases. At each semiannual renewal date, the Company has the option to purchase the equipment and end the lease. Individual leases may be extended beyond five years through an extended rental agreement.

The composition of capital leases reflected as property and equipment in the Consolidated Balance Sheets is as follows:

<TABLE>
<CAPTION>

	December 31	
	1998	1997
	(Dollars in Thousands)	
<S>	<C>	<C>
Buildings	$ 129,520	$ 111,946
Equipment	47,568	43,115
	177,088	155,061
Accumulated amortization	(69,989)	(72,059)

	$ 107,099	$ 83,002
	===========	===========

</TABLE>

The present value of future minimum lease payments for capital lease obligations is reflected in the Consolidated Balance Sheets as long-term debt. The amount representing imputed interest necessary to reduce net minimum lease payments to present value has been calculated generally at the Company's incremental borrowing rate at the inception of each lease.

Future minimum lease payments for years ending December 31 are as follows:

<TABLE>
<CAPTION>

<S>	Capital Leases <C>	Operating Leases <C>
	(Dollars in Thousands)	
1999	$ 34,116	$ 122,657
2000	31,653	105,298
2001	28,481	91,640
2002	22,805	75,597
2003	14,846	56,588
Thereafter	85,633	221,003
Future minimum lease payments	217,534	$ 672,783
Estimated executory costs	(55)	
Amount representing imputed interest	(80,327)	
Present value of future minimum lease payments	$ 137,152	

</TABLE>

Minimum noncancelable sublease rental income to be received in the future, which is not included above as an offset to future payments, totals $14,436 for capital leases and $14,571 for operating leases.

Rent expense on operating leases for the years ended December 31, 1998, 1997 and 1996, totaled $143,539, $136,516 and $132,760, respectively, including contingent rent expense of $10,441, $9,360 and $9,438, but reduced by sublease rent income of $5,909, $6,620 and $7,175. Contingent rent expense on capital leases for the years ended December 31, 1998, 1997 and 1996, was $1,818, $1,987 and $2,088, respectively. Contingent rent expense is generally based on sales levels or changes in the Consumer Price Index.

LEASES WITH THE SAVINGS AND PROFIT SHARING PLAN - At December 31, 1998, the Savings and Profit Sharing Plan owned 12 stores leased to the Company under capital leases and 612 stores leased to the Company under operating leases at rentals which, in the opinion of management, approximated market rates at the date of lease. In addition, in 1998, 1997 and 1996, there were 99, 64 and 38 leases, respectively, that either expired or, as a result of properties that were sold by the Savings and Profit Sharing Plan to third parties, were canceled or assigned to the new owner. Also, five properties and one property, respectively, were sold to the Company by the Savings and Profit Sharing Plan in 1998 and 1997.

Included in the consolidated financial statements are the following amounts related to leases with the Savings and Profit Sharing Plan:

	December 31 1998	December 31 1997
	(Dollars in Thousands)	
Buildings (net of accumulated amortization of $886 and $4,830)	$ 281	$ 513
Capital lease obligations (net of current portion of $56 and $709)	$ 314	$ 321

	Years Ended December 31 1998	1997	1996
	(Dollars in Thousands)		
Rent expense under operating leases and amortization of capital lease assets	$19,987	$23,961	$25,670
Imputed interest expense on capital lease obligations	$ 59	$ 159	$ 299
Capital lease principal payments included in principal payments under long-term debt agreements	$ 594	$ 1,183	$ 1,580

14. COMMITMENTS AND CONTINGENCIES

MCLANE COMPANY, INC. - In connection with the 1992 sale of distribution and food center assets to McLane, the Company and McLane entered into a ten-year service agreement under which McLane is making its distribution services available to 7-Eleven stores in the United States. If the Company does not fulfill its obligation to McLane during this time period, the Company must reimburse McLane on a pro-rata basis for the transitional payment received at the time of the transaction. The original payment received of $9,450 in 1992 is being amortized to cost of goods sold over the life of the agreement. The Company has exceeded the minimum annual purchases each year and expects to exceed the minimum required purchase levels in future years.

CITGO PETROLEUM CORPORATION - In 1986, the Company entered into a 20-year product purchase agreement with Citgo to buy specified quantities of gasoline at market prices. These prices are determined pursuant to a formula based on the prices posted by gasoline wholesalers in the various market areas where the Company purchases gasoline from Citgo. Minimum required annual purchases under this agreement are generally the lesser of 750 million gallons or 35% of gasoline purchased by the Company for retail sale. The Company has exceeded the minimum required annual purchases each year and expects to exceed the minimum required annual purchase levels in future years.

ENVIRONMENTAL - In December 1988, the Company closed its chemical manufacturing facility in New Jersey. As a result, the Company is required to conduct environmental remediation at the facility and has submitted a clean-up plan to the New Jersey Department of Environmental Protection (the "State"), which provides for active remediation of the site for approximately a three-to-five-year period as well as continued groundwater monitoring and treatment for a projected 15-year period. The Company has received conditional approval of its clean-up plan. The projected 15-year clean-up period represents a reduction from the previously reported 20-year period and is a result of revised estimates as determined by an independent environmental management company in the first quarter of 1997. These revised estimates, which generally resulted from the conditional approval of the Company's plan, reduced both the estimated time and the estimated costs to complete the project and resulted in decreasing the liability and the related receivable balances by $16.3 million and $9.7 million, respectively. The Company has recorded undiscounted liabilities representing its best estimates of the clean-up costs of $8,726 and $10,442 at December 31, 1998 and 1997, respectively. Of this amount, $6,462 and $8,624 are included in deferred credits and other liabilities and the remainder in accrued expenses and other liabilities for the respective years.

In 1991, the Company and the former owner of the facility executed a final settlement pursuant to which the former owner agreed to pay a substantial portion of the clean-up costs. Based on the terms of the settlement agreement and the financial resources of the former owner, the Company has recorded receivable amounts of $5,098 and $6,126 at December 31, 1998 and 1997, respectively. Of this amount, $3,750 and $4,907 are included in other assets and the remainder in accounts receivable for 1998 and 1997, respectively.

Additionally, the Company accrues for the anticipated future costs and the related probable state reimbursement amounts for remediation activities at its existing and previously operated gasoline store sites where releases of regulated substances have been detected. At December 31, 1998 and 1997, respectively, the Company's estimated undiscounted liability for these sites was $41,897 and $40,880, of which $21,797 and $22,880 are included in deferred credits and other liabilities and the remainder is included in accrued expenses and other liabilities. These estimates were based on the Company's prior experience with gasoline sites and its consideration of such factors as the age of the tanks, location of tank sites and experience with contractors who perform environmental assessment and remediation work. The Company anticipates that substantially all of the future remediation costs for detected releases at these sites as of December 31, 1998, will be incurred within the next four or five years.

Under state reimbursement programs, the Company is eligible to receive reimbursement for a portion of future remediation costs, as well as a portion of remediation costs previously paid. Accordingly, the Company has recorded net receivable amounts of $46,712 and $44,809 for the estimated probable state reimbursements, of which $38,262 and $33,809 are included in other assets and the remainder in accounts receivable for 1998 and 1997, respectively. In assessing the probability of state reimbursements, the Company takes into consideration each state's fund balance, revenue sources, existing claim backlog, status of clean-up activity and claim ranking systems. As a result of these

assessments, the recorded receivable amounts in other assets are net of allowances of $9,992 and $9,704 for 1998 and 1997, respectively. While there is no assurance of the timing of the receipt of state reimbursement funds, based on the Company's experience, the Company expects to receive the majority of state reimbursement funds, except from California, within one to three years after payment of eligible remediation expenses, assuming that the state administrative procedures for processing such reimbursements have been fully developed. The Company estimates that it may take one to six years to receive reimbursement funds from California. Therefore, the portion of the recorded receivable amounts that relates to remediation activities which have already been conducted has been discounted at 4.6% and 5.7% in 1998 and 1997, respectively, to reflect its present value. The 1998 and

1997 recorded receivable amounts are net of discounts of $4,051 and $6,048, respectively.

The estimated future remediation expenditures and related state reimbursement amounts could change within the near future as governmental requirements and state reimbursement programs continue to be implemented or revised.

15. INCOME TAXES

The components of earnings before income taxes and extraordinary gain are as follows:

	Years Ended December 31		
	1998	1997	1996
	(Dollars in Thousands)		
Domestic (including royalties of $68,329, $67,259 and $63,536 from area license agreements in foreign countries)	$ 78,719	$ 109,982	$ 124,316
Foreign	3,894	5,313	6,508
	$ 82,613	$ 115,295	$ 130,824

The provision for income taxes on earnings before extraordinary gain in the accompanying Consolidated Statements of Earnings consists of the following:

	Years Ended December 31		
	1998	1997	1996
	(Dollars in Thousands)		
Current:			
Federal	$ 1,146	$ 1,182	$ 5,054
Foreign	10,753	11,559	10,704
State	800	700	1,800
Subtotal	12,699	13,441	17,558
Deferred:			
Provision	19,190	31,812	23,790
Income taxes before extraordinary gain	$ 31,889	$ 45,253	$ 41,348

Included in the accompanying Consolidated Statements of Shareholders' Equity (Deficit) at December 31, 1998, 1997 and 1996, respectively, are $10,521, $5,877 and $6,882 of income taxes provided on unrealized gains on marketable securities.

Reconciliations of income taxes (benefit) before extraordinary gain at the federal statutory rate to the Company's actual income taxes provided are as follows:

<TABLE>
<CAPTION>

Years Ended December 31

	1998	1997	1996
	(Dollars in Thousands)		
Taxes at federal statutory rate	$ 28,915	$ 40,353	$ 45,788
State income taxes, net of federal income tax benefit	520	455	1,170
Foreign tax rate difference	263	2,095	1,077
Settlement of IRS examination	-	-	(7,261)
Other	2,191	2,350	574
	$ 31,889	$ 45,253	$ 41,348

</TABLE>

Significant components of the Company's deferred tax assets and liabilities are as follows:

<TABLE>
<CAPTION>

	December 31	
	1998	1997
	(Dollars in Thousands)	
Deferred tax assets:		
SFAS No. 15 Interest	$ 43,983	$ 65,559
Compensation and benefits	38,823	40,729
Accrued liabilities	25,842	25,980
Accrued insurance	25,483	33,838
Tax credit carryforwards	11,515	13,981
Debt issuance costs	6,518	6,777
Other	6,075	6,312
Subtotal	158,239	193,176
Deferred tax liabilities:		
Property and equipment	(70,943)	(61,687)
Area license agreements	(63,106)	(70,459)
Other	(15,498)	(10,791)
Subtotal	(149,547)	(142,937)
Net deferred taxes	$ 8,692	$ 50,239

</TABLE>

At both December 31, 1998 and 1997, the Company's net deferred tax asset is recorded in other current assets (see Note 5) and deferred credits and other liabilities. At December 31, 1998, the Company had approximately $11,500 of alternative minimum tax credit carryforwards, which have no expiration date.

16. EARNINGS PER COMMON SHARE

The Company adopted SFAS No. 128, "Earnings per Share," in December 1997. This statement, which replaces APB Opinion No. 15, "Earnings per Share," establishes simplified accounting standards for computing earnings per share ("EPS") and makes them comparable to international EPS standards.

Basic EPS is computed by dividing net earnings by the weighted-average number of common shares outstanding during each year. Diluted EPS is computed by dividing net earnings, plus interest on Convertible Debt (see Note 10) net of tax benefits, by the sum of the weighted-average number of common shares outstanding, the weighted-average number of common shares associated with the Convertible Debt and the dilutive effects of the stock options outstanding (see Note 12) during each year. All prior-period EPS amounts presented have been restated to conform to the provisions of

SFAS No. 128.

A reconciliation of the numerators and the denominators of the basic and diluted per-share computations for net earnings, as required by SFAS No. 128, is presented below:

<TABLE>
<CAPTION>

	Years Ended December 31 1998	1997	1996
	(Dollars in Thousands, Except Per-Share Data)		
<S>	<C>	<C>	<C>
BASIC EPS COMPUTATION:			
Earnings (Numerator):			
Earnings before extraordinary gain available to common shareholders	$ 50,724	$ 70,042	$ 89,476
Earnings on extraordinary gain available to common shareholders	23,324	-	-
Net earnings available to common shareholders	$ 74,048	$ 70,042	$ 89,476
Shares (Denominator):			
Weighted-average number of common shares outstanding	409,923	409,923	409,923
BASIC EPS:			
Earnings per common share before extraordinary gain	$ .12	$ .17	$ .22
Earnings per common share on extraordinary gain	.06	-	-
Net earnings per common share	$ .18	$ .17	$ .22
DILUTED EPS COMPUTATION:			
Earnings (Numerator):			
Earnings before extraordinary gain available to common shareholders	$ 50,724	$ 70,042	$ 89,476
Add interest on convertible quarterly income debt securities, net of tax	10,316	8,343	8,297
Earnings before extraordinary gain available to common shareholders plus assumed conversions	61,040	78,385	97,773
Earnings on extraordinary gain available to common shareholders	23,324	-	-
Net earnings available to common shareholders plus assumed conversions	$ 84,364	$ 78,385	$ 97,773
Shares (Denominator):			
Weighted-average number of common shares outstanding	409,923	409,923	409,923
Add effects of assumed conversions:			
Exercise of stock options	119	170	167
Conversion of convertible quarterly income debt securities	99,589	72,112	72,112
Weighted-average number of common shares outstanding plus shares from assumed conversions	509,631	482,205	482,202
DILUTED EPS:			
Earnings per common share before extraordinary gain	$ .12	$ .16	$ .20
Earnings per common share on extraordinary gain	.05	-	-
Net earnings per common share	$ .17	$ .16	$ .20

</TABLE>

17. PREFERRED STOCK

The Company has 5 million shares of preferred stock authorized for issuance. Any preferred stock issued will have such rights, powers and preferences as determined by the Company's Board of Directors.

18. QUARTERLY FINANCIAL DATA (UNAUDITED)

Summarized quarterly financial data for 1998 and 1997 is as follows:

YEAR ENDED DECEMBER 31, 1998:

(Dollars in Millions, Except Per-Share Data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Merchandise sales	$1,204	$1,421	$1,556	$1,393	$5,574
Gasoline sales	391	424	444	425	1,684
Net sales	1,595	1,845	2,000	1,818	7,258
Merchandise gross profit	411	502	546	469	1,928
Gasoline gross profit	43	44	59	62	208
Gross profit	454	546	605	531	2,136
Income taxes (benefit)	(7)	16	22	1	32
Earnings (loss) before extraordinary gain	(12)	26	36	1	51
Net earnings	6	26	36	6	74
Earnings (loss) per common share before extraordinary gain:					
Basic	(.03)	.06	.09	.01	.12
Diluted	(.03)	.06	.07	.01	.12

The first and fourth quarters include extraordinary gains of $17,871 and $5,453, respectively, resulting from the redemption of the 12% Debentures and the partial purchases of the 5% Debentures, the 4-1/2% Debentures and the 4% Debentures (see Note 9). The first quarter includes an expense of $11,839 resulting from the cumulative effects of a computer equipment lease termination and an accrual of $7,104 for severance benefits and related costs.

YEAR ENDED DECEMBER 31, 1997:

(Dollars in Millions, Except Per-Share Data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Merchandise sales	$1,169	$1,335	$1,409	$1,269	$5,182
Gasoline sales	435	447	465	442	1,789
Net sales	1,604	1,782	1,874	1,711	6,971

Merchandise gross profit	411	476	506	435	1,828
Gasoline gross profit	39	46	46	53	184
Gross profit	450	522	552	488	2,012
Income taxes	4	17	22	2	45
Net earnings	6	26	33	5	70
Earnings per common share:					
Basic	.01	.06	.08	.01	.17
Diluted	.01	.06	.07	.01	.16

</TABLE>

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of
The Southland Corporation

We have audited the accompanying consolidated balance sheets of The Southland Corporation and Subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of earnings, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Southland Corporation and Subsidiaries as of December 31, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

PRICEWATERHOUSECOOPERS LLP

Dallas, Texas
February 4, 1999

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Certain of the information required in response to this Item is incorporated by reference from the Registrant's Definitive Proxy Statement for the April 28, 1999 Annual Meeting of Shareholders.

See also "Executive Officers of the Registrant" beginning on page 13, herein.

ITEM 11. EXECUTIVE COMPENSATION.

The information required in response to this Item is incorporated herein by reference from the Registrant's Definitive Proxy Statement for the April 28, 1999 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required in response to this Item is incorporated herein by reference from the Registrant's Definitive Proxy Statement for the April 28, 1999 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required in response to this Item is incorporated herein by reference to the Registrant's Definitive Proxy Statement for the April 28, 1999 Annual Meeting of Shareholders.

PART IV

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

(a) The following documents are filed as a part of this report:

1. The Southland Corporation and Subsidiaries' Financial Statements for the three years in the period ended December 31, 1998 are included herein:

<TABLE>
<CAPTION>

</TABLE>

2. The Southland Corporation and Subsidiaries' Financial Statement Schedule, included herein.

<TABLE>
<CAPTION>

</TABLE>

All other schedules have been omitted because they are not applicable, are not required, or the required information is shown in the financial statements or notes thereto.

3. The following is a list of the Exhibits required to be filed by Item 601 of Regulation S-K.

EXHIBIT NO.

2. PLAN OF ACQUISITION, REORGANIZATION, ARRANGEMENT, LIQUIDATION OR SUCCESSION.

2.(1) Debtor's Plan of Reorganization, dated October 24, 1990, as filed in the United States Bankruptcy Court, Northern District of Texas, Dallas Division, and Addendum to Debtor's Plan of Reorganization dated January 23, 1991, incorporated by reference to The Southland Corporation's Current Report on Form 8-K dated January 23, 1991, File Numbers 0-676 and 0-16626, Exhibits 2.1 and 2.2.

2.(2) Stock Purchase Agreement, dated as of January 25, 1991, by and among The Southland Corporation, Ito-Yokado Co., Ltd. and Seven-Eleven Japan Co., Ltd., incorporated by reference to The Southland Corporation's Current Report on Form 8-K dated January 23, 1991, File Numbers 0-676 and 0-16626, Exhibit 2.3.

2.(3) Confirmation Order issued on February 21, 1991 by the United States Bankruptcy Court for the Northern District of Texas, Dallas Division, incorporated by reference to The Southland Corporation's Current Report on Form 8-K dated March 4, 1991, File Numbers 0-676 and 0-16626, Exhibit 2.1.

3. ARTICLES OF INCORPORATION AND BYLAWS.

3.(1) Second Restated Articles of Incorporation of The Southland Corporation, as amended through March 5, 1991, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1990, Exhibit 3.(1).

3.(2) Bylaws of The Southland Corporation, restated as amended through April 24, 1996, incorporated by reference to File Nos. 0-676 and 0-16626, The Southland Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996, Exhibit 3.

4. INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES (SEE EXHIBITS (3).(1) AND (3).(2), ABOVE).

4.(i)(1) Specimen Certificate for Common Stock, $.0001 par value, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1996, Exhibit 4.(i)(1).

4.(i)(2) Shareholders Agreement dated as of March 5, 1991, among The Southland Corporation, Ito-Yokado Co., Ltd., IYG Holding Company, Thompson Brothers, L.P., Thompson Capital Partners, L.P., The Hayden Company, The Williamsburg Corporation, Four J Investment, L.P., The Philp Co., participants in the Company's Grant Stock Plan who are signatories thereto and certain limited partners of Thompson Capital Partners, L.P. who are signatories thereto, incorporated by reference to Schedule 13D filed by Ito-Yokado Co., Ltd., Seven-Eleven Japan Co., Ltd. and IYG Holding Company, Exhibit A.

4.(i)(3) First Amendment, dated December 30, 1992, to Shareholders Agreement, dated as of March 5, 1991, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1992, Exhibit 4.(i)(5).

4.(i)(4) Second Amendment, dated February 28, 1996, to Shareholders Agreement, dated as of March 5, 1991, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1995, Exhibit 4.(i)(6), Tab 1.

4.(ii)(1) Indenture, including Debenture, with Chase Manhattan Trust, N.A., as successor trustee, providing for 5% First Priority Senior Subordinated Debentures due December 15, 2003, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1990, Exhibit 4.(ii)(2).

4.(ii)(2) Indenture, including Debentures, with Bank of New York as successor trustee, providing for 4 1/2% Second Priority Senior Subordinated Debentures (Series A) due June 15, 2004 and 4% Second Priority Senior Subordinated Debentures (Series B) due June 15, 2004, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1990, Exhibit 4.(ii)(3).

4.(ii)(3) Form of 4.5% Convertible Quarterly Income Debt Securities due 2010, incorporated by reference to The Southland Corporation's Form 8-K, dated November 21, 1995, Exhibit 4(v)-1.

4.(ii)(4) Form of 4.5% Convertible Quarterly Income Debt Securities due 2013, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1997, Exhibit 4.(ii)(3).

9.   VOTING TRUST AGREEMENT. NONE.(EXCEPT SEE EXHIBITS 4.(i)(2),ABOVE.)

10.   MATERIAL CONTRACTS.

10.(i)(1) Stock Purchase Agreement among The Southland Corporation, Ito-Yokado Co., Ltd. and Seven-Eleven Japan Co., Ltd., dated as of January 25, 1991. See Exhibit 2.(2), above.

10.(i)(2) Credit Agreement, dated as of February 27, 1997, among The Southland Corporation, the financial institutions party thereto as Senior Lenders, the financial institutions party thereto as Issuing Banks, Citibank, N.A., as Administrative Agent, and The Sakura Bank, Limited, New York Branch, as Co-Agent, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1996, Exhibit 10.(i)(2).

10.(i)(3) First Amendment dated as of February 9, 1998 to Credit Agreement dated as of February 27, 1997, among The Southland Corporation, the financial institutions party thereto as Senior Lenders, the financial institutions party thereto as Issuing Banks, Citibank, N.A., as Administrative Agent, and The Sakura Bank, Limited, New York Branch, as Co-Agent, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1997, Exhibit 10.(i)(3).

10.(i)(4) Second Amendment, dated as of April 29, 1998, to Credit Agreement dated as of February 27, 1997, among The Southland Corporation, the financial institutions party thereto as Senior Lenders, the financial institutions party thereto as Issuing Banks, Citibank, N.A., as Administrative Agent, and The Sakura Bank, Limited, New York Branch, as Co-Agent, incorporated by reference to The Southland Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998, Exhibit 10.(i)(1).

10.(i)(5) Third Amendment, dated as of February 23, 1999, to Credit Agreement dated as of February 27, 1997, among The Southland Corporation, the financial institutions party thereto as Senior Lenders, the financial institutions party thereto as Issuing Banks, Citibank, N.A., as Administrative Agent, and The Sakura Bank, Limited, New York Branch, as Co-Agent.*

Tab 1

10.(i)(6) Credit and Reimbursement Agreement by and between Cityplace Center East Corporation, an indirect wholly owned subsidiary of Southland, and The Sanwa Bank Limited, Dallas Agency, dated February 15, 1987, relating to $290 million of 7 7/8% Notes due February 15, 1995, issued by Cityplace Center East Corporation (to which Southland is not a party and which is non-recourse to Southland), incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1986, Exhibit 10.(i)(6).

10.(i)(7) Third Amendment to Credit and Reimbursement Agreement, dated as of February 10, 1995, by and between The Sanwa Bank, Limited, Dallas Agency and Cityplace Center East Corporation, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1994, Exhibit 10.(i)(4).

10.(i)(8) Amended and Restated Lease Agreement between Cityplace Center East Corporation and The Southland Corporation relating to The Southland Tower, Cityplace Center, Dallas, Texas, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1990, Exhibit 10.(i)(7).

10.(i)(9) Limited Recourse Financing for The Southland Corporation relating to royalties from Seven-Eleven (Japan) Company, Ltd. in the amount of Japanese Yen 41,000,000,000, dated March 21, 1988, incorporated by reference to The Southland Corporation's Form 10-K for year ended December 31, 1988, Exhibit 10.(i)(6).

10.(i)(10)   Secured Yen Loan Agreement for The Southland Corporation relating to royalties from Seven-Eleven (Japan) Company, Ltd. in the amount of Japanese Yen 12,500,000,000, dated as of April 21, 1998, incorporated by reference to The Southland Corporation's Form 10-Q for the quarter ended June 30, 1998, Exhibit 10.(i)(2).

10.(i)(11) Issuing and Paying Agency Agreement, dated as of August 17, 1992, relating to commercial paper facility, Form of Note, Indemnity and Reimbursement Agreement and amendment thereto and Guarantee, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1995, Exhibit 10.(i)(8).

10.(i)(12) Amendment, dated as of January 15, 1999, to Issuing and Paying Agency Agreement, dated as of August 17, 1992, relating to commercial paper facility.*

Tab 2

10.(ii)(B)(1) Standard Form of 7-Eleven Store Franchise Agreement, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1995, Exhibit 10(ii)(B)(1).

10.(ii)(D)(1) Master Leasing Agreement dated as of April 15, 1997, among the financial institutions party thereto as Lessor Parties, CBL Capital Corporation, as Agent for the Lessor Parties and The Southland Corporation, as Lessee, incorporated by reference to The Southland Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, Exhibit 10.(ii)(D)(1).

10.(iii)(A)(1) The Southland Corporation Executive Protection Plan Summary, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1993, Exhibit 10.(iii)(A)(3).

10.(iii)(A)(2) The Southland Corporation Officers' Deferred Compensation Plan, sample agreement, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1993, Exhibit 10.(iii)(A)(4).

10.(iii)(A)(3) Form of Bonus Deferral Agreement relating to deferral of Annual Performance Incentive Payment, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1997, Exhibit 10.(iii)(A)(3).

10.(iii)(A)(4) 1997 Performance Plan, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1996, Exhibit 10.(iii)(A)(4).

10.(iii)(A)(5) 1995 Stock Incentive Plan, incorporated by reference to Registration Statement on Form S-8, Reg. No. 333-63617, Exhibit 4.10.

10.(iii)(A)(6) The Southland Corporation Supplemental Executive Retirement Plan for Eligible Employees incorporated by reference to Registration Statement on Form S-8, Reg. No. 333-42731, Exhibit 4.(i)(3).

10.(iii)(A)(7) Form of Deferral Election Form for The Southland Corporation Supplemental Executive Retirement Plan for Eligible Employees, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1997, Exhibit 10.(iii)(A)(7).

10.(iii)(A)(8) Form of Award Agreement granting options to purchase Common Stock, dated October 23, 1995, under the 1995 Stock Incentive Plan incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1995, Exhibit 10.(iii)(A)(10), Tab 4.

10.(iii)(A)(9) Form of Award Agreement granting options to purchase Common Stock, dated October 1, 1996, under the 1995 Stock Incentive Plan incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1996, Exhibit 10.(iii)(A)(6).

10.(iii)(A)(10) Form of Award Agreement granting options to purchase Common Stock, dated November 12, 1997, under the 1995 Stock Incentive Plan incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1997, Exhibit 10.(iii)(A)(10).

10.(iii)(A)(11) Form of Award Agreement granting options to purchase Common Stock, dated October 14, 1998, under the 1995 Stock Incentive Plan.*

Tab 3

10.(iii)(A)(12) The Southland Corporation Stock Compensation Plan for Non-Employee Directors and Election Form, effective October 1, 1998, incorporated by reference to The Southland Corporation's Form S-8 Registration Statement, Reg. No. 333-68491, Exhibit 4.(i)(4).

10.(iii)(A)(13) Consultant's Agreement between The Southland Corporation and Timothy N. Ashida, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1991, Exhibit 10.(iii)(A)(10).

10.(iii)(A)(14) First Amendment to Consultant's Agreement between The Southland Corporation and Timothy N. Ashida, effective as of May 1, 1995, incorporated by reference to The Southland Corporation's Annual Report on Form 10-K for the year ended December 31, 1996, Exhibit 10.(iii)(A)(9).

11. STATEMENT RE COMPUTATION OF PER-SHARE EARNINGS.
Not Required

21. SUBSIDIARIES OF THE REGISTRANT AS OF MARCH 1999.*
Tab 4

23. CONSENTS OF EXPERTS AND COUNSEL.
Consent of PricewaterhouseCoopers LLP, Independent Auditors.*
Tab 5

27. FINANCIAL DATA SCHEDULE.
FILED ELECTRONICALLY ONLY, NOT ATTACHED TO PRINTED REPORTS.

----
*Filed or furnished herewith

(b) Reports on Form 8-K.

During the fourth quarter of 1998, the Company filed no reports on Form 8-K.

(c) The exhibits required by Item 601 of Regulation S-K are attached hereto or incorporated by reference herein.

(d)(3) The financial statement schedule for The Southland Corporation and Subsidiaries is included herein, as follows:

Schedule II - The Southland Corporation and Subsidiaries Valuation and Qualifying Accounts (for the Years Ended December 31, 1998, 1997 and 1996). Page 83

REPORT OF INDEPENDENT ACCOUNTANTS

To The Board of Directors and Shareholders of
The Southland Corporation

Our report on the consolidated financial statements of The Southland Corporation and Subsidiaries is included on page 75 of this Form 10-K. In connection with our audits of such financial statements, we have also audited the related financial statement schedule listed in the index on page 77 of this Form 10-K.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included herein.

PRICEWATERHOUSECOOPERS LLP

Dallas, Texas
February 4, 1999

<TABLE>
<CAPTION>

SCHEDULE II

THE SOUTHLAND CORPORATION AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS

YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(DOLLARS IN THOUSANDS)

<S>	<C> Balance at beginning of period	<C> Additions: Charged to costs and expenses	<C> Additions: Charged to other accounts	<C> Deductions	<C> Balance at end of period
Allowance for doubtful accounts:					
Year ended December 31, 1998....................	$ 6,796	$ 3,148	$ -	$ (1,177)(1)	$ 8,767
Year ended December 31, 1997....................	5,009	2,459	-	(672)(1)	6,796
Year ended December 31, 1996....................	4,858	2,153	-	(2,002)(1)	5,009
Allowance for environmental cost reimbursements:					
Year ended December 31, 1998....................	9,704	288	-	-	9,992
Year ended December 31, 1997....................	9,459	245	-	-	9,704
Year ended December 31, 1996....................	13,705	-	-	(4,246)	9,459

(1) Uncollectible accounts written off, net of recoveries.

</TABLE>

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

THE SOUTHLAND CORPORATION
(Registrant)

/s/ Clark Matthews
March 23, 1999 -------------------------------------
Clark J. Matthews, II
(President and Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<TABLE>
<CAPTION>

<S>	<C> TITLE	<C> DATE
/s/ Masatoshi Ito ---------------------		

Masatoshi Ito	Chairman of the Board and Director	March 23, 1999
/s/ Toshifumi Suzuki --------------------- Toshifumi Suzuki	Vice Chairman of the Board and Director	March 23, 1999
/s/ Clark Matthews --------------------- Clark J. Matthews, II	President and Chief Executive Officer and Director (Principal Executive Officer) and Acting Chief Financial Officer (Principal Financial Officer)	March 23, 1999
/s/ James W. Keyes --------------------- James W. Keyes	Executive Vice President and Chief Operating Officer and Director	March 23, 1999
/s/ Donald E. Thomas --------------------- Donald E. Thomas	Vice President and Controller (Principal Accounting Officer)	March 23, 1999
/s/ Yoshitami Arai -------------------- Yoshitami Arai	Director	March 23, 1999
/s/ Masaaki Asakura -------------------- Masaaki Asakura	Senior Vice President and Director	March 23, 1999
/s/ Timothy N. Ashida --------------------- Timothy N. Ashida	Director	March 23, 1999
------------------- Jay W. Chai	Director	March 23, 1999
/s/ Gary J. Fernandes ---------------------- Gary J. Fernandes	Director	March 23, 1999
/s/ Masaaki Kamata --------------------- Masaaki Kamata	Director	March 23, 1999
/s/ Kazuo Otsuka -------------------- Kazuo Otsuka	Director	March 23, 1999
/s/ Asher O. Pacholder ---------------------- Asher O. Pacholder	Director	March 23, 1999
/s/ Nobutake Sato --------------------- Nobutake Sato	Director	March 23, 1999

</TABLE>

Exhibit 10.(i)(5)

THIRD AMENDMENT
TO
CREDIT AGREEMENT

THIS THIRD AMENDMENT TO CREDIT AGREEMENT (the "Third Amendment") dated as of February 23, 1999 relates to that certain Credit Agreement dated as of February 27, 1997, as amended by the First Amendment dated as of February 9, 1998, as further amended by the Second Amendment to Credit Agreement dated as of April 29, 1998 (as so amended, the "Credit Agreement"), among The Southland Corporation, a Texas corporation ("Southland"), the financial institutions party thereto as "Senior Lenders" or "Issuing Banks", Citibank, N.A., as administrative agent for the Senior Lenders and Issuing Banks (in such capacity, together with any successor administrative agent appointed pursuant to SECTION 11.07 of the Credit Agreement, the "Administrative Agent") and The Sakura Bank, Limited, New York Branch, as Co-Agent (in such capacity, the "Co-Agent").

1. DEFINITIONS. Capitalized terms defined in the Credit Agreement and not otherwise defined or redefined herein have the meanings assigned to them in the Credit Agreement.

2. AMENDMENTS TO CREDIT AGREEMENT. Upon the "Third Amendment Effective Date" (as defined in Section 5 below), the Credit Agreement is hereby amended as follows:

2.1 AMENDMENT TO SECTION 1.01. Section 1.01 of the Credit Agreement is hereby amended by adding the definition of "CQUIDS Subordinated Notes" in its entirety to read as follows:

"CQUIDS SUBORDINATED NOTES" shall mean one or more Quarterly Income Debt Securities issued by Southland to Ito-Yokado or Seven-Eleven Japan, Co., Ltd. subsequent to the Third Amendment Effective Date in the aggregate principal amount of up to $500,000,000 the terms and provisions of which shall be no less favorable to the Senior Lenders than the terms and provisions of the QUIDS Subordinated Notes, PROVIDED that prior to the issuance thereof, the Administrative Agent shall have received such legal opinions as the Administrative Agent shall reasonably request, each of which shall be in form and substance satisfactory to the

Administrative Agent, PROVIDED, FURTHER, that the net proceeds thereof shall be applied in accordance with SECTION 2.07(b)."

2.2 AMENDMENT TO SECTION 1.01. Section 1.01 of the Credit Agreement is hereby amended by amending and restating the definition of "Subordinated Indebtedness" in its entirety to read as follows:

"SUBORDINATED INDEBTEDNESS" shall mean the Indebtedness evidenced by, or in respect of, (i) the Senior Subordinated Debentures, (ii) the QUIDS Subordinated Notes, (iii) CQUIDS Subordinated Notes and (iv) any additional Indebtedness (A) subordinated in right of payment on terms not less favorable to the Senior Lenders, and subject to terms and conditions (including, but not limited to, covenants, events of default and payment terms) not more burdensome to Southland, than the subordination provisions, covenants and events of default applicable to the Senior Subordinated Debentures or (B) incurred on other terms approved in writing by the Requisite Senior Lenders.

2.3 AMENDMENT TO SECTION 2.05(a)(ii). Section 2.05(a)(ii) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

(ii) If a Eurodollar Rate Loan, then at a rate per annum equal to the sum of (A) 0.475% per annum PLUS (B) the Eurodollar Rate determined for the applicable Eurodollar Interest Period; or

2.4 AMENDMENT TO SECTION 2.07(b). Section 2.07(b) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

(b) MANDATORY PREPAYMENT. (i) Southland shall make prepayments of Revolving Loans to the extent necessary to assure that the Revolving Credit Obligations at any time do not exceed the Revolving Credit Commitments at such time. If, after giving effect to any prepayment of the Revolving Loans made pursuant to the preceding sentence, the Revolving Credit Obligations at such time continue to exceed the Revolving Credit Commitments at such time, Southland shall, notwithstanding any provision to the contrary herein or in any Competitive Bid Note, make prepayments of Competitive Bid Loans to the extent necessary to assure that the Revolving Credit Obligations at such time do not exceed the Revolving Credit Commitments at such time.

(ii) Upon each issuance of CQUIDS Subordinated Notes, Southland shall apply no less than fifty percent (50%) of the net proceeds thereof (other than the first $100,000,000 of aggregate net proceeds), (A) first, to the repayment of the then outstanding principal amount of Term Loans to be applied pro rata to reduce the then remaining quarterly installments payable on the Term Loans pursuant to SECTION 2.01(d), (B) second, to the permanent reduction of Revolving Credit Commitments, and (C) thereafter, to the repayment of all other Obligations.

2.5 AMENDMENT TO SECTION 2.09(b)(v). Section 2.09(b)(v) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

(v) There shall be no more than fifteen (15) Eurodollar Interest Periods in effect at any one time.

2.6 AMENDMENT TO SECTION 8.01. Section 8.01 of the Credit Agreement is hereby amended by (I) amending and restating CLAUSE (iii) thereof in its entirety to read as follows:

(iii) Subordinated Indebtedness (other than QUIDS Subordinated Notes and CQUIDS Subordinated Notes) and extensions, renewals, replacements and refinancings thereof which satisfy the criteria set forth in the definition of "Subordinated Indebtedness", the aggregate principal amount of which shall not exceed $370,000,000 (together with, in the case of a refinancing, interest accrued thereon and reasonable costs incurred in connection with the refinancing);

(ii) amending and restating CLAUSE (v) thereof in its entirety to read as follows:

(v)(A) Capital Lease obligations (other than such obligations included in Permitted Existing Indebtedness and the Master Lease Facility) and Indebtedness incurred in connection with Capital Expenditures (and within a reasonable period of time thereafter), if (1) such Capital Lease obligations and Indebtedness are incurred in connection with the acquisition of assets at fair value after the Effective Date, (2) such Capital Lease obligations and Indebtedness are either unsecured or secured only by the assets subject to such Capital Lease or which are the subject of such Capital Expenditure, and (3) any Liens securing such Capital Lease obligations or Indebtedness do not exceed the purchase price of the assets and the costs incurred in connection with the acquisition of such assets; (B) sale and leaseback transactions (other than the Master Lease Facility) and Accommodation Obligations with respect to financing incurred by lessors solely for the purpose of acquiring and constructing stores, store sites and related fixtures and equipment which are or are to be leased by Southland, if the obligations and Indebtedness incurred in connection with such transaction are either unsecured or secured only by the assets subject to such transactions; and (C) extensions, renewals, replacements or refinancings thereof, not exceeding the principal amount outstanding before giving effect to the extension, renewal, replacement or refinancing (together with, in the case of a refinancing, interest accrued thereon and

reasonable costs incurred in connection with the refinancing); PROVIDED, that the aggregate principal amount outstanding at any time pursuant to SECTION 8.01(v)(B) (other than such obligations or Indebtedness included in Permitted Existing Indebtedness) and extensions, renewals, replacements and refinancings thereof pursuant to SECTION 8.01(v)(C) do not exceed $300,000,000 (of which no more than $233,000,000 shall consist of Accommodation Obligations with respect to financing incurred by lessors solely for the purpose of acquiring and constructing stores, store sites and related fixtures and equipment which are or are to be leased by Southland);

(iii) amending and restating CLAUSE (xiv) thereof in its entirety to read as follows:

(xiv) unsecured Indebtedness which is either (A) Commercial Paper or (B) owing to Ito-Yokado in connection with payments by Ito-Yokado of the principal of or interest on (or other amounts owing with respect to) Commercial Paper; PROVIDED, that the aggregate principal amount outstanding pursuant to SUBCLAUSES (A) and (B) shall not exceed $700,000,000, and PROVIDED, FURTHER, that a written commitment by Ito-Yokado to the Administrative Agent or Senior Lenders satisfactory in form and substance to the Administrative Agent with respect to the Indebtedness permitted by SECTION 8.01(xiv)(B) shall provide that no payment (whether in respect of principal, interest or otherwise) of such Indebtedness shall be permitted or required other than (1) payments after the date which is one year after payment in full in cash of the Obligations and termination of the Commitments and (2) so long as there does not exist an Event of Default or Potential Event of Default and the Commercial Paper shall then have a rating of at least A-1 from S&P or Prime-1 from Moody's (or, if at any time neither Standard and Poors nor Moody's shall be rating the Commercial Paper, the Commercial Paper shall then have a rating at least equal to the highest rating from such other nationally recognized rating service as is acceptable to the Administrative Agent), payments of the principal amount of such Indebtedness made solely with proceeds of subsequent issuances of Commercial Paper by Southland. Notwithstanding the foregoing and so long as (x) there exists an Event of Default or Potential Event of Default, or (y) commercial paper issued pursuant to this SECTION 8.01(xiv) shall cease to qualify as Commercial Paper, Southland shall not permit any further issuances of commercial paper, and any payments of principal of or interest on (or other amounts owing with respect to) Commercial Paper then outstanding shall be paid directly by Ito-Yokado pursuant to its unconditional guarantee thereof and shall not be paid by Southland;

(ii) amending and restating CLAUSE (xv) thereof in its entirety to read as follows:

(xv) Indebtedness with respect to QUIDS Subordinated Notes in an aggregate principal amount not exceeding $380,000,000 and Indebtedness with respect to CQUIDS Subordinated Notes in an aggregate principal amount not exceeding $500,000,000;

2.7 AMENDMENT TO SECTION 8.10. Section 8.10 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

8.10. COMMERCIAL PAPER FACILITY. Southland shall not amend the terms of the documents governing or relating to the Commercial Paper other than (i) increases in the maximum amount of Commercial Paper which may at any time be outstanding, PROVIDED, HOWEVER, that the maximum principal amount of Commercial Paper outstanding at any time shall not exceed the limitation set forth in SECTION 8.01(xiv), and (ii) extensions of the date beyond which Southland may not issue Commercial Paper pursuant to such documents (including an extension of the guaranty of Ito-Yokado with respect to the Commercial Paper).

2.8 AMENDMENT TO SECTION 9.01. Section 9.01 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

9.01. SENIOR INDEBTEDNESS TO EBITDA. Southland shall not on any Quarterly Determination Date occurring during any period set out below permit the ratio of (i) Senior Indebtedness (other than Indebtedness not exceeding $41,400,000 arising under the Master Lease Documents) as of such Quarterly Determination Date to (ii) EBITDA as determined as of such Quarterly Determination Date for the four (4) calendar quarters ending on such date, to be greater than the ratio set out below opposite such period:

PERIOD	MAXIMUM RATIO
Effective Date through March 31, 1998	3.40x
April 1, 1998 through March 31, 1999	4.10x

April 1, 1999 through June 30, 1999	4.00x
July 1, 1999 through March 31, 2000	3.95x
April 1, 2000 through June 30, 2000	3.65x
July 1, 2000 through September 30, 2000	3.50x
October 1, 2000 and thereafter	3.25x

2.6 AMENDMENT TO SECTION 9.02. Section 9.02 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

9.02. MINIMUM INTEREST AND RENT COVERAGE RATIO. Southland shall not on any Quarterly Determination Date occurring during any period set out below permit the ratio of (i) the sum of (A) EBITDA, PLUS (B) Rent Expense on Operating Leases to (ii) the sum of (A) Consolidated Cash Interest Expense, PLUS (B) Rent Expense on Operating Leases, in each case as determined as of such Quarterly Determination Date for the four (4) calendar quarters ending on such date, to be less than the ratio set out below opposite such period:

PERIOD	MINIMUM RATIO
Effective Date through March 31, 1998	2.00x
April 1, 1998 through December 31, 1998	1.80x
January 1, 1999 through December 31, 1999	1.90x
January 1, 2000 through March 31, 2000	1.95x

April 1, 2000 through September 30, 2000	2.00x
October 1, 2000 and thereafter	2.10x

2.7 AMENDMENT TO SECTION 9.03(b). Section 9.03(b) of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

(b) Southland shall not on any Quarterly Determination Date occurring during any period set out below permit the ratio of (i) EBITDA to (ii) Consolidated Fixed Charges, in each case as determined as of such Quarterly Determination Date for the four (4) calendar quarters ending on such date, to be less than the ratio set out below opposite such period:

PERIOD	MINIMUM RATIO
April 1, 1998 through December 31, 1999	1.50x
January 1, 2000 through March 31, 2000	1.65x
April 1, 2000 through June 30, 2000	1.70x
July 1, 2000 and thereafter	1.75x

2.9 AMENDMENT TO SECTION 9.04. Section 9.04 of the Credit Agreement is hereby amended and restated in its entirety to read as follows:

9.04. TOTAL EXPENDITURES. Southland shall not, and shall not permit its Subsidiaries to, make or incur (i) Capital Expenditures, and (ii) Accommodation Obligations with respect to financing incurred by lessors solely for the purpose of acquiring and constructing stores, store sites and related fixtures and equipment which are or are to be leased by Southland (the sum of the aggregate principal amounts under SUBCLAUSES (i) and (ii) in any Fiscal Year being, the "Total Expenditures") which in the aggregate exceed $475,000,000 in any Fiscal Year; PROVIDED, HOWEVER, that Southland and its Subsidiaries may exceed the $475,000,000 limitation for any Fiscal Year in an amount (the "Total Expenditure Carryover") equal to fifty percent (50%) of the difference of $475,000,000 MINUS the Total Expenditures for the preceding Fiscal Year, PROVIDED, FURTHER, that the Total Expenditure Carryover in any Fiscal Year shall not exceed $15,000,000.

3. AMENDMENT FEE. In addition to any other fees, expenses, or costs payable by Southland, Southland shall pay to the Administrative Agent on the Third Amendment Effective Date (as defined in Section 5) for the account of such Senior Lenders as become signatories to this Third Amendment on or before March 10, 1999, a fee equal to 0.125% of the aggregate amount of the Commitments of such Senior Lenders in effect on March 10, 1999 payable in lawful money of the United States in immediately available funds.

4. REPRESENTATIONS AND WARRANTIES. Southland hereby represents and warrants to each Senior Lender, each Issuing Bank, the Administrative Agent and the Co-Agent that (a) each of the statements set forth in Section 5.01 of the Credit Agreement (as amended hereby) are true, correct and complete on and as of the Third Amendment Effective Date as though made to each Senior Lender, each Issuing Bank, the Administrative Agent and the Co-Agent on and as of such date and (b) as of the Third Amendment Effective Date, no Event of Default or Potential Event of Default has occurred and is continuing.

5. THIRD AMENDMENT EFFECTIVE DATE. This Third Amendment shall become effective as of MARCH 10, 1999 (the "Third Amendment Effective Date") upon receipt by the Administrative Agent of (i) a reaffirmation of commitments made by Ito-Yokado pursuant to SECTION 8.01(xiv) of the Credit Agreement (as amended by this Third Amendment) in form and substance satisfactory to the Administrative Agent and (ii) counterparts of this Third Amendment, executed by Southland, the Administrative Agent and the Requisite Senior Lenders (with sufficient copies for each Senior Lender).

6. MISCELLANEOUS. This Third Amendment is a Loan Document. The headings herein are for convenience of reference only and shall not alter or otherwise affect the meaning hereof. Except to the extent specifically amended or modified hereby, the provisions of the Credit Agreement shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Senior Lender or Issuing Bank under any of the Loan Documents, nor constitute a waiver of any provision of any of the Loan Documents.

7. COUNTERPARTS. This Third Amendment may be executed in any number of counterparts which together shall constitute one instrument.

8. GOVERNING LAW. THIS THIRD AMENDMENT, AND ALL ISSUES RELATING TO THIS THIRD AMENDMENT, INCLUDING THE VALIDITY, ENFORCEABILITY, INTERPRETATION OR CONSTRUCTION OF THIS THIRD AMENDMENT OR ANY PROVISION HEREOF, SHALL BE GOVERNED BY, AND SHALL BE DETERMINED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the Administrative Agent, the Requisite Senior Lenders and Southland have caused this Third Amendment to be executed by their respective officers thereunto duly authorized as of the date first above written.

BORROWER: THE SOUTHLAND CORPORATION

By:

Name:
Title:

ADMINISTRATIVE AGENT: CITIBANK, N.A., as the Administrative Agent

By:

Name:
Title:

SENIOR LENDERS: CITIBANK, N.A.

By:

Name:
Title:

THE SAKURA BANK, LIMITED, NEW YORK BRANCH

By:

Name:
Title:

THE ASAHI BANK, LTD., NEW YORK BRANCH

By: ----------------------------

Name:

Title:

BANK OF TOKYO, MITSUBISHI TRUST COMPANY

By: ------------------------------

Name:

Title:

THE FUJI BANK, LIMITED, NEW YORK BRANCH

By: ------------------------------

Name:

Title:

THE MITSUI TRUST AND BANKING COMPANY, LIMITED, NEW YORK BRANCH

By: ------------------------------

Name:

Title:

THE INDUSTRIAL BANK OF JAPAN TRUST COMPANY

By: THE INDUSTRIAL BANK OF JAPAN,LIMITED,HOUSTON OFFICE, Authorized Representative

By: ----------------------------

Name:

Title:

NATIONSBANK, N.A.

By:

Name:
Title:

BANKERS TRUST COMPANY

By:

Name:
Title:

CIBC INC.

By:

Name:
Title:

Exhibit 10(i)(12)

. AMENDMENT TO THE ISSUING AND PAYING AGENCY AGREEMENT

This Amendment dated as of January 15, 1999 (the "IPA Amendment") to the Issuing and Paying Agency Agreement, described below, is among The Southland Corporation (the "Company"), Ito-Yokado Co., Ltd., as guarantor (the "Guarantor") and Sakura Trust Company, as issuing and paying agent (the "Issuing and Paying Agent").

RECITALS

WHEREAS, there has heretofore been executed and delivered to the Company an Issuing and Paying Agency Agreement (the "Agreement") dated August 17, 1992 among the Company, the Guarantor and the Issuing and Paying Agent;

WHEREAS, the Agreement may be supplemented, modified or amended if such supplement, modification or amendment is in writing and is signed by each of the parties hereto so long as such supplement, modification or amendment does not adversely affect the rights of holders of the theretofore issued Notes which are unpaid at the time; and,

WHEREAS, the Company, the Issuing and Paying Agent, and the Guarantor desire to amend the Agreement to increase the maximum aggregate principal amount of Notes from U.S. $400,000,000 to U.S. $650,000,000, and to make certain other amendments to the Agreement as more fully described below.

NOW THEREFORE, the Company, the Guarantor and the Issuing and Paying Agent covenant and agree with each other to amend the Agreement as follows:

(1) the Incumbency Certificate of the Company dated as of August 17, 1992 will be replaced by an Incumbency Certificate on the date hereof with respect to each officer of the Company whose signature appears on the Notes, together with specimen signatures of such officers (each such officer being herein referred to as an "Authorized Company Signatory");

(2) the Incumbency Certificate of the Guarantor dated as of August 17, 1992 will be replaced by an Incumbency Certificate on the date hereof with respect to each officer of the Guarantor whose signature appears on the Guarantees, together with specimen signatures of such officers (each such officer being herein referred to as an "Authorized Guarantor Signatory");

(3) the Certificate of Designation dated as of August 17, 1992 will be replaced by a Certificate of Designation on the date hereof with respect to each individual authorized, empowered and employed by the Company to give instructions to any commercial paper issuing and paying agent or dealer pursuant to the Agreement or a commercial paper dealer agreement;

(4) the maximum aggregate principal amount of Notes which are authenticated (and not cancelled) by the Issuing and Paying Agent at any one time pursuant to this Agreement shall be increased from U.S. $400,000,000 to, but in no event shall exceed, U.S. $650,000,000;

(5) in no event shall Guarantees be affixed to Notes (or shall Notes be authenticated) if greater than U.S. $650,000,000 aggregate principal amount (or such lesser aggregate principal amount as is notified by the Guarantor to the Issuing and Paying Agent) of authenticated Notes (which are not cancelled) would be outstanding at any one time or if the Guarantor instructs the Issuing and Paying Agent to no longer affix Guarantees to Notes; and,

(6) notwithstanding any contrary instructions received from the Company or an Authorized Company Officer or Designated Company Individual, the Issuing and Paying Agent shall not complete, authenticate, issue or deliver any Notes, if the issuance of such Notes would cause the aggregate principal amount of outstanding Notes at any one time to exceed the authorized maximum aggregate principal amount of U.S. $650,000,000 (or such lesser maximum aggregate principal amount as is notified by the Guarantor to the Issuing and Paying Agent) or if the Guarantor instructs the Issuing and Paying Agent to cease affixing Guarantees to Notes.

Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Agreement.

This IPA Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, that no party hereto may assign any of its rights or obligations hereunder except with the prior written consent of the other parties hereto.

This IPA Amendment may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute one and the same IPA Amendment.

This IPA Amendment shall be governed by, and construed in accordance with, the laws of the State of New York. Each of the Company and the Guarantor agrees that all actions and proceedings relating directly or indirectly to this Agreement shall, at your option, be litigated in any of the New York State Supreme Court, New York County, the New York State Supreme Court Appellate Division, First Department, and the Federal District Court of the Southern District of New York, and that each such court is a convenient forum, and each of the Company and Guarantor submits to personal jurisdiction thereof and consents that service of process upon the Company may be made by certified or registered mail, return receipt requested, directed to the Company at the Company's address appearing on your records, and service so made shall be deemed completed on the date of certified receipt. Service of process upon the company may also be sent by Federal Express or any other public or private form of address delivery service that can certify actual delivery, and in such event shall be deemed to have been given on the date of certified receipt. Each of you, the Company and the Guarantor waives any right to trial by jury in any action or proceeding relating directly or indirectly to this IPA Amendment. Each of the Issuing and Paying Agent, the Company and the Guarantor waives the right to assert in any action or proceeding relating directly or indirectly to this IPA Amendment any offsets or counterclaims (other than counterclaims directly relating to this Agreement) which you, the Company or the Guarantor, as the case may be, may have.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to us a counterpart hereof, whereupon this instrument along with all counterparts will become a binding agreement between you and us in accordance with its terms.

Very truly yours,

THE SOUTHLAND CORPORATION

By:

Name:
Title:

ITO-YOKADO CO., LTD.

By:

Name: Toshifumi Suzuki
Title: President and Chief

Executive Officer

CONFIRMED AND ACCEPTED,
as of the date first above written

SAKURA TRUST COMPANY

By:

Name: Hajime Tada
Title: President

Exhibit 10.(iii)(A)(11)

THE SOUTHLAND CORPORATION
1995 Stock Incentive Plan
1998 Award Agreement

GRANT OF NONQUALIFIED STOCK OPTION (NQSO)

The Southland Corporation (the "Company") hereby grants to ------------, SSN ------------- (the "Participant") on October 14, 1998 (the "Date of Grant"), pursuant to the 1995 Stock Incentive Plan (the "Plan"), a stock option subject to the Plan and upon the terms and conditions set forth below. Capitalized terms used and not otherwise defined herein have the meanings given to them in the Plan.

1. GRANT OF OPTION

Subject to the terms and conditions hereinafter set forth, the Company, with the approval and direction of the Committee and the Board of Directors, grants to the Participant, as of the Date of Grant, an option to purchase up to ------------ shares of Common Stock at a price of $1.90625 per share, the Fair Market Value of the Common Stock on the Date of Grant. Such option is hereinafter referred to as the "Option" and the shares of stock purchasable upon exercise of the Option are hereinafter referred to as the "Option Shares." This Option is a Nonqualified Stock Option, and as such is not intended by the parties hereto to be an Incentive Stock Option (as such term is defined under the Code).

2. EXERCISABILITY OF OPTIONS

Subject to such further limitations as are provided herein, the Option shall become exercisable in five (5) installments, the Participant having the right hereunder to purchase from the Company the following number of Option Shares upon exercise of the Option, on and after the following dates, in cumulative fashion:

(a) on and after the first anniversary of the Date of Grant, up to one-fifth (ignoring fractional shares) of the total number of Option Shares;

(b) on and after the second anniversary of the Date of Grant, up to an additional one-fifth (ignoring fractional shares) of the total number of Option Shares;

(c) on and after the third anniversary of the Date of Grant, up to an additional one-fifth (ignoring fractional shares) of the total number of Option Shares;

(d) on and after the fourth anniversary of the Date of Grant, up to an additional one-fifth (ignoring fractional shares) of the total number of Option Shares; and

(e) on and after the fifth anniversary of the Date of Grant, the remaining Option Shares.

Tab 3

3. PERFORMANCE ACCELERATED VESTING

After the first anniversary of the Date of Grant, an additional one-fifth (ignoring fractional shares) of the total number of Option Shares shall become exercisable on and after each of the following events:

(a) on and after the twentieth consecutive trading day that the Closing Price is equal to or greater than $4.00;

(b) on and after the twentieth consecutive trading day that the Closing Price is equal to or greater than $5.00;

(c) on and after the twentieth consecutive trading day that the Closing Price is equal to or greater than $6.50; and

(d) on and after the twentieth consecutive trading day that the Closing Price is equal to or greater than $8.00.

4. TERMINATION OF OPTION

(a) The Option and all rights hereunder with respect thereto, to the extent such rights shall not have been exercised, shall terminate and become null and void after the expiration of ten (10) years from the Date of Grant (the "Option Term") unless sooner terminated pursuant to paragraphs (b) through (h) below.

(b) If the Participant has an exercisable Option (in whole or in part) as of the date of the Participant's termination of employment with the Company, whether voluntary or involuntary, and such termination is for any reason other than those described in the following paragraphs (c) through (h) of this Section 4, then the exercisable portion of such Option shall remain exercisable for a period equal to the lesser of (1) the remainder of the Option Term or (2) the date which is 60 days after the date of Participant's termination of employment.

(c) Upon termination of the Participant's employment with the Company by reason of Normal Retirement, the Option shall become immediately one hundred percent (100%) vested, and the Participant shall have until the expiration of the Option Term to exercise the Option.

(d) Upon termination of the Participant's employment with the Company by reason of Early Retirement or Disability, any portion of the Option that is not yet vested shall continue to vest and to be exercisable in accordance with the provisions of Sections 2 and 3 of this Award Agreement and, once vested, the Option shall remain exercisable until the expiration of the Option Term unless, prior thereto, the Participant reaches age 65, at which time all remaining Options shall vest.

(e) Upon termination of the Participant's employment with the Company by reason of Divestiture, any portion of the Option that as of the date of termination is not yet exercisable shall become null and void as of the date of termination and the portion, if any, of the Option that is exercisable as of the date of termination shall remain exercisable for a period equal to the lesser of (1) the remainder of the Option Term or (2) the date which is one year after the date of termination.

(f) In the event of death of the Participant, regardless whether the Participant had previously retired (either Early Retirement or Normal Retirement) or was Disabled at the time of death, the Option shall become immediately one hundred percent (100%) vested and the Participant's Designated Beneficiary shall have twelve (12) months following the Participant's death during which to exercise the Option.

(g) A transfer of the Participant's employment between the Company and any Subsidiary of the Company, shall not be deemed to be a termination of the Participant's employment.

(h) Notwithstanding any other provisions set forth herein or in the Plan, if the Participant shall (i) commit any act of malfeasance or wrongdoing affecting the Company or any Subsidiary of the Company, (ii) breach any covenant not to compete, or employment contract with the Company or any Subsidiary of the Company, or (iii) engage in conduct that would warrant the Participant's discharge for cause (excluding general dissatisfaction with the performance of the Participant's duties, but including any act of disloyalty or any conduct clearly discrediting the Company or any Subsidiary or Affiliate of the Company), any unexercised portion of the Option shall immediately terminate and be void.

5. EXERCISE OF OPTIONS

(a) The Participant may exercise the Option from time to time with respect to all or any part of the number of Option Shares then exercisable hereunder by giving the Company's Manager of Compensation and Benefits written notice of the intent to exercise. The notice of exercise shall specify the number of Option Shares as to which the Option is to be exercised, the Award Number (as indicated on the first page of the applicable Award Agreement), and the date of the exercise thereof (the "Exercise Date"), which date shall be within five days after the giving of such notice.

(b) On or before the Exercise Date, the Participant shall pay the full amount of the purchase price for the Option Shares in cash (U.S. dollars) or through the surrender of previously acquired shares of Stock valued at their Fair Market Value on the Exercise Date. In addition, to the extent permitted by applicable law, the Participant may arrange with a brokerage firm for that brokerage firm, on behalf of the Participant, to pay the Company the Exercise Price of the Option being exercised (either as a loan to the Participant or from the proceeds of the sale of Stock issued pursuant to that exercise of the Option), and the Company shall promptly cause the exercised shares to be delivered to the brokerage firm. Such transactions shall be effected in accordance with such further procedures as the Committee may establish from time to time.

On the Exercise Date or as soon thereafter as is practicable, the Company shall cause to be delivered to the Participant, a certificate or certificates for the Option Shares then being purchased (out of theretofore unissued Stock or reacquired Stock, as the Company may elect) upon full payment for such Option Shares. The obligation of the Company to deliver

Option Shares shall, however, be subject to the condition that if at any time the Committee shall determine in its discretion that the listing, registration or qualification of the Option or the Option Shares upon any securities exchange or such other securities trading system or market or under any state or federal law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the Option or the issuance or purchase of the Option Shares thereunder, the Option may not be exercised in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

(c) If the Participant fails to pay for any of the Option Shares specified in such notice or to pay any applicable withholding tax relating thereto or fails to accept delivery of the Option Shares, the Participant's right to purchase such Option Shares may be terminated by the Committee.

6. FAIR MARKET VALUE

As used herein, the "fair market value" of a share of Stock shall be the Closing Price per share of Stock on The Nasdaq Stock Market, or such other securities trading system or exchange which is the primary market on which the Stock may then be listed or traded on the date in question, or if the Stock has not been traded on such date, the Closing Price on the first day prior thereto on which the Stock was so traded.

7. NO RIGHTS OF SHAREHOLDERS

Neither the Participant nor any personal representative shall be, or shall have any of the rights and privileges of, a shareholder of the Company with respect to any shares of Stock purchasable or issuable upon the exercise of the Option, in whole or in part, prior to the date of exercise of the Option.

8. NON-TRANSFERABILITY OF OPTION

During the Participant's lifetime, the Option shall be exercisable only by the Participant or any guardian or legal representative of the Participant, and the Option shall not be transferable except, in case of the death of the Participant, by will or the laws of descent and distribution, nor shall the Option be subject to attachment, execution or other similar process. In the event of (a) any attempt by the Participant to alienate, assign, pledge, hypothecate or otherwise dispose of the Option, except as provided for herein, or (b) the levy of any attachment, execution or similar process upon the rights or interest hereby conferred, the Company may terminate the Option by notice to the Participant and it shall thereupon become null and void. Notwithstanding the above, in the discretion of the Committee, Options may be transferable pursuant to a QDRO.

9. RESTRICTIONS ON TRANSFER FOLLOWING EXERCISE

(a) Thirty percent (30%) of the Option Shares (the "Restricted Option Shares") acquired upon exercise of the Option shall be delivered to Participant via a stock certificate bearing a legend restricting the transfer or sale of such Option Shares for a period of 24 months following the Exercise Date. Seventy percent (70%) of the Option Shares acquired upon exercise of the Option shall not be subject to any restriction against the transfer or sale of such Option Shares by the Participant.

(b) If the Participant's employment with the Company is voluntarily terminated within the 24-month period following the Exercise Date (other than due to Early Retirement or Normal Retirement) or is terminated due to cause, the Company may repurchase the Restricted Option Shares at the Exercise Price paid by the Participant. If the Company elects not to purchase such Restricted Option Shares, the Participant shall continue to hold such Shares subject to the restrictions thereon.

(c) Upon a termination of employment as a result of death, Disability, Divestiture, Early Retirement or Normal Retirement, any Restricted Option Shares then held by a Participant or a Participant's Designated Beneficiary shall be released from, and no Option Shares acquired after the date of termination shall be subject to, the restrictions on transfer or sale set forth in paragraph 9(a) above. Promptly after the date of any such termination, upon receipt of certificates representing any Restricted Option Shares, the Company shall exchange any such certificates for certificates representing such Shares free of any restrictive legend relating to the lapsed restrictions.

10. WITHHOLDING TAX REQUIREMENTS

Following receipt of each notice of exercise of the Option, the Company shall deliver to Participant a notice specifying the amount that Participant is required to pay to satisfy applicable tax withholding requirements. Participant hereby agrees to either (i) deliver to the Company by the due date specified in such notice from the Company a check payable to the Company and equal to the amount set forth in such notice or (ii) make other appropriate arrangements acceptable to the Company to satisfy such tax withholding requirements.

11. NO RIGHT TO EMPLOYMENT

Neither the granting of the Option nor its exercise shall be construed as granting to the Participant any right with respect to continued employment with the Company.

12. CHANGE IN CONTROL

The Committee shall, in its sole discretion, have the right to accelerate the vesting of any Option and to release any restrictions on the Restricted Option Shares, in the event of a Change in Control.

13. ADJUSTMENT OF AWARDS

The terms of this Option and the number of Option Shares purchasable hereunder shall be subject to adjustment pursuant to Sections 5(c) through (h) of the Plan.

14. AMENDMENT OF OPTION

The Option may be amended by the Committee at any time (i) if the Committee determines, in its sole discretion, that amendment is necessary or advisable in the light of any additions to or changes in the Code or in the regulations issued thereunder, or any federal or state securities law or other law or regulation, which change occurs after the Date of Grant and by its terms applies to the Option; or (ii) other than in the circumstances described in clause (i), with the consent of the Participant.

15. NOTICE

Any notice to the Company provided for in this Award Agreement shall be in writing and addressed to the Company in care of the Manager of the Company's Compensation and Benefits Department, and any notice to the Participant shall be in writing and addressed to the Participant at the Participant's current address shown on the records of the Company or such other address as the Participant may submit to the Company in writing. Any notice shall be deemed to be duly given if and when properly addressed with postage prepaid, or if personally delivered to the addressee or, in the case of notice to the Company, if sent via telecopy to the Compensation and Benefits Department's facsimile machine at such telephone number as may be published in the Company's published telephone directory.

16. INCORPORATION OF PLAN BY REFERENCE

The Option is granted pursuant to the terms of the Plan, which terms are incorporated herein by reference, and the Option shall in all respects be interpreted in accordance with the Plan. The Committee shall interpret and construe the Plan and this Award Agreement, and its interpretations and determinations shall be conclusive and binding on the parties hereto and any other person claiming an interest hereunder, with respect to any issue arising hereunder or thereunder. In the event of a conflict between the terms of this Award Agreement and the Plan, the terms of the Plan shall control.

17. GOVERNING LAW

The validity, construction, interpretation and effect of this Award Agreement shall exclusively be governed by and determined in accordance with the law of the State of Texas, except to the extent preempted by federal law, which shall to that extent govern.

IN WITNESS WHEREOF, The Southland Corporation has caused its duly authorized officer to execute this Grant of Nonqualified Stock Option, and the Participant has placed his or her signature hereon, effective as of the Date of Grant.

THE SOUTHLAND CORPORATION

By:

President and Chief Executive Officer

ACCEPTED AND AGREED TO:

By:

Participant

Participant's Social Security Number:

EXHIBIT 21

SUBSIDIARIES OF THE SOUTHLAND CORPORATION

<TABLE>
<CAPTION>

<S>	JURISDICTION OF INCORPORATION <C>
Bawco Corporation	Ohio
Bev of Vermont, Inc.	Vermont
Brazos Comercial E Empreendimentos Ltda. (a)	Brazil
Christy's Market, Inc.	Massachusetts
Cityplace Center East Corporation	Texas
Lavicio's, Inc. (Inactive)	California
Melin Enterprises, Inc. (b)	Colorado
MTA CAL, Inc. (Inactive)	California
Philippine Seven Properties Corporation (c)	Philippines
Puerto Rico - 7, Inc. (d)	Puerto Rico
Sao Paulo-Seven Comercial, S.A. (e)	Brazil
7-Eleven Beverage Company, Inc.	Texas
7-Eleven Comercial Ltda. (f)	Brazil
7-Eleven, Inc. (Inactive)	Texas
7-Eleven Limited (Inactive)	United Kingdom
7-Eleven of Idaho, Inc. (g)	Idaho
7-Eleven of Massachusetts, Inc. (g)	Massachusetts
7-Eleven of Nevada, Inc.	Delaware
7-Eleven of Virginia, Inc.	Virginia
7-Eleven Pty. Ltd. (Inactive) (h)	Australia
7-Eleven Sales Corporation (g)	Texas
7-Eleven Stores (NZ) Limited (Inactive) (i)	New Zealand
SLC Financial Services, Inc. (Inactive)	Texas
Southland Canada, Inc. (j)	Canada
Southland International, Inc.	Nevada
Southland International Investment Corporation N.V. (j)	Netherlands Antilles
Southland Investment Canada Limited	Canada
Southland Sales Corporation	Texas
TSC Lending Group, Inc.	Texas
The Seven Eleven Limited (Inactive) (k)	Hong Kong
The Southland Corporation	Texas
Valso, S.A. (l)	Mexico
7-Eleven Mexico, S.A. de C.V. (Active Subsidiary of Valso) (m)	Mexico

</TABLE>

Tab 4

FOOTNOTES:

(a) 2,248,800 quotas (almost 100%) owned by Southland International Investment Corporation N.V. (a wholly owned subsidiary of Southland International, Inc., a wholly owned subsidiary of The Southland Corporation), and remaining 10 quotas owned by The Southland Corporation.

(b) 100% owned by Bawco Corporation (a wholly owned subsidiary of The

Southland Corporation).

(c)   13,970 warrants are issued to The Southland Corporation, but held in escrow due to the restrictions in the Philippine Retail Trade Nationalization Law.

(d)   All Class A shares (equalling 59.07% of all shares outstanding) owned by The Southland Corporation, and remaining 40.93% owned by group of investors in Puerto Rico.

(e)   1.109% owned by The Southland Corporation, 98.825% owned by Super Trade, Ltd., and remaining .04% owned by other investors.

(f)   15,999 quotas (almost 100%) owned by The Southland Corporation, and remaining 1 quota owned by 7-Eleven of Nevada, Inc. (a wholly owned subsidiary of The Southland Corporation).

(g)   100% owned by Southland Sales Corporation (a wholly owned subsidiary of The Southland Corporation).

(h)   50% owned by David Anthony Walsh, and remaining 50% owned by Anthony Peter John Kelly, for the benefit of Southland.

(i)   99% owned by The Southland Corporation, and remaining 1% owned jointly by Southland's local counsel, Bruce Nelson Davidson and Anthony Francis Segedin.

(j)   100% owned by Southland International, Inc. (a wholly owned subsidiary of The Southland Corporation).

(k)   99.9% owned by The Southland Corporation, and remaining .1% owned by Wilgrist Nominees Limited, Southland's agent in Hong Kong.

(l)   49% owned by The Southland Corporation, and remaining 51% owned by Grupo Chapa, S.A.. de C.V.

(m)   99.965% of Series A shares owned by Valso, S.A., and remaining .035% owned by Casa Chapa, S.A.; 100% of Series B shares owned by Valso, S.A..

EXHIBIT 23

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in the registration statements listed below of our reports dated February 4, 1999, on our audits of the consolidated financial statements and financial statement schedule of The Southland Corporation and Subsidiaries as of December 31 , 1998 and 1997, and for each of the three years in the period ended December 31, 1998, which reports are included in this Annual Report on Form 10-K.

	REGISTRATION NO.
On Form S-8 for:	
Post-Effective Amendment No. 1 to the Southland Corporation Grant Stock Plan	33-25327
The Southland Corporation 1995 Stock Incentive Plan	33-63617
The Southland Corporation Supplemental Executive Retirement Plan for Eligible Employees	333-42731
The Southland Corporation Stock Compensation Plan for Non-Employee Directors	333-68491

PricewaterhouseCoopers LLP

Dallas, Texas
March 25, 1999

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<ARTICLE> 5
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<EPS-DILUTED>                                                 0.17 <F2>
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<F1> BASIC EPS FROM CONTINUING OPERATIONS (BEFORE EXTRAORDINARY ITEM) IS .12
<F2> DILUTED EPS FROM CONTINUING OPERATIONS (BEFORE EXTRAORDINARY ITEM) IS .12
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