

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1999-09-10** | Period of Report: **1999-07-31**  
SEC Accession No. **0000950144-99-011069**

([HTML Version](#) on [secdatabase.com](http://secdatabase.com))

### FILER

#### BRUNOS INC

CIK: **14920** | IRS No.: **630411801** | State of Incorporation: **AL** | Fiscal Year End: **0130**  
Type: **10-Q** | Act: **34** | File No.: **000-06544** | Film No.: **99709295**  
SIC: **5411** Grocery stores

Mailing Address  
PO BOX 2486  
BIRMINGHAM AL 35201

Business Address  
800 LAKESHORE PKWY  
BIRMINGHAM AL 35211  
2059409400

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

-----  
FORM 10-Q  
-----

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JULY 31, 1999

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

COMMISSION FILE NUMBER 0-6544

-----  
BRUNO'S, INC.  
(DEBTOR-IN-POSSESSION AS OF FEBRUARY 2, 1998)  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

ALABAMA 63-0411801  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

800 LAKESHORE PARKWAY, BIRMINGHAM, ALABAMA 35211  
(Address of principal executive office) (zip code)

205-940-9400  
(Registrant's telephone number including area code)

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS  
REQUIRED TO BE FILED BY SECTION 13 OR 15 (D) OF THE SECURITIES EXCHANGE ACT OF  
1934 DURING THE PRECEDING 12 MONTHS, AND (2) HAS BEEN SUBJECT TO SUCH FILING  
REQUIREMENTS FOR THE PAST 90 DAYS.

YES  NO

THE NUMBER OF SHARES OF COMMON STOCK OUTSTANDING AS OF SEPTEMBER 10, 1999  
WAS 25,507,982.

2

Commission File No. 0-6544

BRUNO'S, INC.  
(DEBTOR-IN-POSSESSION)

INDEX

PART I. FINANCIAL INFORMATION

<TABLE>

<CAPTION>

Item 1. Financial Statements:

PAGE NO.

-----

<S>

<C>

Condensed Consolidated Balance Sheets at July 31, 1999  
and January 30, 1999 2

Condensed Consolidated Statements of Operations for the  
Twenty-Six (26) and Thirteen (13) Week Periods Ended  
July 31, 1999 and August 1, 1998 3

Condensed Consolidated Statements of Cash Flows for the  
Twenty-Six (26) Week Periods Ended July 31, 1999 and  
August 1, 1998 4

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Item 3. Quantitative and Qualitative Disclosures about Market Risks	21
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	21
Item 2. Changes in Securities	21
Item 3. Defaults Upon Senior Securities	21
Item 4. Submission of Matters to a Vote of Security Holders	21
Item 5. Other Information	21
Item 6. Exhibits and Reports on Form 8-K	22
Signature Page	23

1

3

Commission File No. 0-6544

PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

BRUNO'S, INC.  
(DEBTOR-IN-POSSESSION)

CONDENSED CONSOLIDATED BALANCE SHEETS  
AS OF JULY 31, 1999 AND JANUARY 30, 1999  
(In Thousands Except Share and Per Share Amounts)

<TABLE>  
<CAPTION>

	JULY 31, 1999 (unaudited)	JANUARY 30, 1999
<S>	<C>	<C>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 110,231	\$ 65,953
Receivables	14,498	25,463
Inventories, net of LIFO reserve of \$3,989 at July 31, 1999, and January 30, 1999	160,147	178,140
Vendor deposits	9,868	15,168
Prepaid expenses and other	8,946	10,242
Total current assets	303,690	294,966
Property and equipment, net of accumulated depreciation of \$322,339 and \$329,717, respectively	255,000	270,186
Intangibles and other assets, net	12,717	41,530
Total	\$ 571,407	\$ 606,682

LIABILITIES AND SHAREHOLDERS' DEFICIENCY IN  
NET ASSETS:

Liabilities not subject to compromise

Current liabilities:

Current maturities of capitalized lease obligations	\$ 3,870	\$ 4,130
Accounts payable	58,514	65,472
Accrued payroll and related expenses	16,514	15,042
Other accrued expenses	40,322	31,247
Total current liabilities	119,220	115,891

Noncurrent liabilities:		
Capitalized lease obligations	4,530	6,276
Other noncurrent liabilities	19,304	25,494
Total noncurrent liabilities	23,834	31,770
Liabilities subject to compromise	984,972	996,363
Shareholders' deficiency in net assets:		
Common Stock, \$.01 par value, 60,000,000 shares authorized; 25,507,982 issued and outstanding at July 31, 1999, and January 30, 1999	255	255
Paid-in capital (deficiency)	(586,944)	(586,944)
Retained earnings	31,583	50,972
Shareholders' notes receivable	(1,513)	(1,625)
Total deficiency in net assets	(556,619)	(537,342)
Total	\$ 571,407	\$ 606,682

</TABLE>

See notes to condensed consolidated financial statements.

2

4

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Commission File No. 0-6544

BRUNO'S, INC.  
(DEBTOR-IN-POSSESSION)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE TWENTY-SIX AND THIRTEEN WEEK PERIODS ENDED  
JULY 31, 1999 AND AUGUST 1, 1998  
(In Thousands Except Share and Per Share Amounts)

<TABLE>  
<CAPTION>

	JULY 31, 1999 (26 WEEKS) (unaudited)	AUGUST 1, 1998 (26 WEEKS) (unaudited)	JULY 31, 1999 (13 WEEKS) (unaudited)	AUGUST 1, 1998 (13 WEEKS) (unaudited)
<S>	<C>	<C>	<C>	<C>
NET SALES	\$ 814,812	\$ 994,022	\$ 408,146	\$ 492,293
COST AND EXPENSES:				
Cost of products sold	624,345	776,010	312,765	386,771
Store operating, selling and administrative expenses	166,314	214,203	83,911	107,218
Depreciation and amortization	22,827	26,843	11,496	13,363
Interest expense, net (contractual interest for 1999 and 1998 estimated at \$41,719 and \$42,374, respectively for the 26 week period and \$21,065 and \$21,332, respectively for the 13 week period)	1,484	1,544	726	946
Reorganization items, net	29,299	21,551	29,311	18,771
Total cost and expenses	844,269	1,040,151	438,209	527,069
Loss before income taxes	(29,457)	(46,129)	(30,063)	(34,776)
INCOME TAX BENEFIT - REFUND	10,068	--	10,068	--
Net loss	\$ (19,389)	\$ (46,129)	\$ (19,995)	\$ (34,776)

NET LOSS PER BASIC AND DILUTED

COMMON SHARE

\$ (0.76) \$ (1.81) \$ (0.78) \$ (1.36)

WEIGHTED AVERAGE BASIC AND DILUTED  
COMMON SHARES OUTSTANDING

25,507,982 25,507,982 25,507,982 25,507,982

&lt;/TABLE&gt;

See notes to condensed consolidated financial statements.

3

5

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Commission File No. 0-6544

BRUNO'S, INC.  
(DEBTOR-IN-POSSESSION)CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE TWENTY-SIX WEEK PERIODS ENDED JULY 31, 1999 AND  
AUGUST 1, 1998

(Amounts In Thousands)

&lt;TABLE&gt;

&lt;CAPTION&gt;

	JULY 31, 1999 (26 WEEKS) (unaudited)	AUGUST 1, 1998 (26 WEEKS) (unaudited)
	-----	-----
<S>	<C>	<C>
OPERATING ACTIVITIES:		
Net loss	\$ (19,389)	\$ (46,129)
	-----	-----
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization (including amortization of debt issuance costs)	23,327	27,089
Change in assets and liabilities	5,017	13,732
Income tax refund	16,623	--
Write-off of debt issuance costs - reorganization	27,760	--
	-----	-----
Total adjustments	72,727	40,821
	-----	-----
Payments for professional fees and other expenses related to the Chapter 11 Cases, net of interest income	(3,872)	(5,644)
	-----	-----
Net cash provided by (used in) operating activities	49,466	(10,952)
	-----	-----
INVESTING ACTIVITIES:		
Proceeds from sale of property - reorganization	5,704	19,436
Capital expenditures	(8,886)	(10,416)
	-----	-----
Net cash provided by (used in) investing activities	(3,182)	9,020
	-----	-----
FINANCING ACTIVITIES:		
Net borrowings under debtor-in-possession financing	--	4,000
Reduction of prepetition capitalized lease obligations, net	(2,006)	(2,205)
	-----	-----
Net cash provided by (used in) financing activities	(2,006)	1,795
	-----	-----
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	44,278	(137)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	65,953	2,888
	-----	-----
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 110,231	\$ 2,751
	=====	=====

&lt;/TABLE&gt;

BRUNO'S, INC.  
(DEBTOR-IN-POSSESSION)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE TWENTY-SIX AND THIRTEEN WEEK PERIODS ENDED  
JULY 31, 1999 AND AUGUST 1, 1998  
(IN THOUSANDS EXCEPT SHARE AND PER SHARE AMOUNTS)

#### 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Bruno's, Inc. (the "Company") and its wholly owned subsidiaries. Significant intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation. Operating results for the twenty-six weeks ended July 31, 1999, are not necessarily indicative of the results that may be expected for the entire fiscal year. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 30, 1999. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments necessary for a fair statement of the consolidated financial position and results of operations of the Company for the interim periods.

On February 2, 1998, the Company and each of its 11 subsidiaries filed a petition for reorganization under chapter 11 of title 11 of the United States Bankruptcy Code (the "Bankruptcy Code"). The petitions were filed in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") under case numbers 98-212(SLR) through 98-223(SLR) (the "Chapter 11 Cases"). The Chapter 11 Cases have been procedurally consolidated for administrative purposes. The Company and its subsidiaries will continue to manage their affairs and operate their business as debtors-in-possession while the Chapter 11 Cases are pending. As debtors-in-possession, the Company may not engage in transactions outside the ordinary course of business without approval, after notice and hearing, of the Bankruptcy Court.

On May 27, 1999, the Company filed its proposed plan of reorganization (the "Proposed Plan of Reorganization") with the Bankruptcy Court. The Proposed Plan of Reorganization is subject to approval by the Bankruptcy Court and the Company's creditors, and if such approval is not obtained, any party in interest could file its own plan of reorganization for the Company. For purposes of the Company's Proposed Plan of Reorganization, the reorganization value of the Company is calculated to be \$275 million plus the amount of any cash retained by the Company after the distributions of cash projected to be made under the Proposed Plan of Reorganization. Among other things, the Proposed Plan of Reorganization provides that (i) all prepetition debt, other than capitalized lease obligations, would be eliminated, (ii) general unsecured creditors would receive cash payments in an amount equal to 26% of the agreed value of their claims, (iii) holders of the Company's prepetition bank debt would receive substantially all of the shares of common stock of the reorganized company, and (iv) no payments would be made to holders of

the Company's Senior Subordinated Notes or to holders of shares of the Company's existing common stock.

On June 23, 1999, the Bankruptcy Court granted a motion filed by the Trustee for the holders of the Company's Senior Subordinated Notes seeking the appointment of an independent examiner to investigate the 1995 leveraged recapitalization under which affiliates of Kohlberg Kravis Roberts & Co. acquired control of the Company. The independent examiner appointed by the Bankruptcy Court is seeking to determine if there are any claims arising out of the leveraged recapitalization that can be asserted on behalf of the Company for the benefit of the Company's creditors. The Bankruptcy Court has established a deadline of October 5, 1999 for the examiner to complete his investigation and issue a report on the investigation to the Bankruptcy Court.

The Proposed Plan of Reorganization, if ultimately approved by the Company's creditors and confirmed by the Bankruptcy Court, will materially change the

amounts reported in the consolidated financial statements, which currently do not give effect to any adjustments to the carrying value of assets or the amounts of liabilities that might be necessary as a result of confirmation of the plan. After the effective date of the Proposed Plan of Reorganization, the Company's consolidated financial statements will not be comparable with those prepared before the effective date, including the historical financial statements included in this quarterly report.

## 2. INCOME TAXES

In connection with the preparation of the Company's federal income tax return in June 1999, an Application for Tentative Carryback Adjustment was filed with the Internal Revenue Service (IRS) resulting in the Company's receipt of a tax refund, of which \$10.1 million was recognized in the quarter ended July 31, 1999. The net operating loss, on which the carryback is based, is subject to certain limitations, and thus the refund is subject to adjustment by the IRS.

In assessing the realization of the Company's deferred income tax assets, management considers the likelihood that the deferred income tax assets will be realized through future taxable income. Based upon management's projections, the Company has fully reserved its net deferred income tax assets.

## 3. CONTINGENCIES

On June 6, 1997, a lawsuit was filed against the Company in the Circuit Court for Jefferson County, Alabama (the "Alabama State Court") by SNA, Inc. ("SNA") and A.B. Real Estate, Inc. ("A.B. Real Estate"). The lawsuit was styled A.B. Real Estate, Inc. et. al. v. Bruno's, Inc., et al., Civil Action No. CV-97-3538. The complaint alleges that SNA and A.B. Real Estate are engaged in the business of developing and managing commercial real estate, that the Company had a contractual obligation to offer for sale and to sell grocery store sites to SNA and A.B. Real Estate and to lease such sites back from such entities, and that the Company's failure to perform its obligations constitutes a breach of contract and fraud within the meaning of Alabama law. The complaint seeks to recover compensatory and punitive damages from the Company in an unspecified amount. Following the commencement of the Chapter 11 Cases, the Company

6

8

removed the lawsuit to the United States District Court for the Northern District of Alabama (the "Alabama District Court"). Pursuant to a standing order of the Alabama District Court, the lawsuit was referred to the United States Bankruptcy Court for the Northern District of Alabama (the "Alabama Bankruptcy Court"). SNA and A.B. Real Estate filed a motion to remand the lawsuit to the Alabama State Court. After extensive negotiations, the parties to the lawsuit agreed that the lawsuit will be tried by a jury before the Alabama Bankruptcy Court. Accordingly, the lawsuit is now pending in the Alabama Bankruptcy Court under the style A.B. Real Estate, Inc. et. al. v. Bruno's, Inc., et. al., Adversary Proceeding No. 98 - 00064. Pursuant to the agreement among the parties, a stipulation and agreement was filed in the Bankruptcy Court in which the Chapter 11 Cases are pending to modify the automatic stay resulting from the commencement of the Chapter 11 Cases to the extent necessary to allow the prosecution of the lawsuit by a jury trial before the Alabama Bankruptcy Court. The parties to the lawsuit are currently involved in discovery proceedings. The Company believes that it has meritorious defenses to the allegations contained in the complaint and intends to defend this lawsuit vigorously. If the plaintiffs in this lawsuit ultimately are successful in obtaining a judgment against the Company, they will have a general unsecured claim against the Company that will be paid in accordance with the terms of the plan of reorganization ultimately confirmed by the Bankruptcy Court in which the Chapter 11 Cases are pending.

In addition, the Company is a party to various legal and taxing authority proceedings incidental to its business. In the opinion of management, the ultimate liability with respect to these proceedings will not have a material adverse effect on the Company's financial position, results of operations or cash flows. The Company's liability, if any, with respect to proceedings occurring prior to the commencement of the Chapter 11 Cases will be paid in accordance with the terms of the plan of reorganization ultimately confirmed by the Bankruptcy Court.

## 4. DEBTOR-IN-POSSESSION FINANCING

Subsequent to the filing of the Chapter 11 Cases, the Company entered into a Revolving Credit and Guaranty Agreement (the "Loan Agreement") with The Chase Manhattan Bank ("Chase") to provide secured debtor-in-possession financing. The Loan Agreement, as amended, provides for borrowings dependent upon the Company's level of inventory, real estate and claims from certain vendors. The

Company has voluntarily reduced its maximum borrowings under the Loan Agreement from \$200 million to \$50 million because the Company does not believe it will need the additional borrowing capacity and because the reduction will result in a decrease in the fees paid by the Company under the Loan Agreement. The maximum borrowings under the Loan Agreement include a subfacility of \$32 million for the issuance of letters of credit. The Loan Agreement grants a security interest in substantially all of the Company's assets. Under the Loan Agreement, certain vendors who have agreed to provide the Company, among other things, with a line of credit and acceptable credit terms (the "Participating Vendors") are secured on a pari passu basis with the security interest granted to Chase and the other lenders. All obligations under the Loan Agreement will be afforded "super-priority" administrative expense status in the Chapter 11 Cases. Advances under the Loan Agreement bear interest at Chase's Alternative Base Rate (as defined in the Loan Agreement) plus 3/4 of 1%.

The Loan Agreement, as amended, contains certain restrictive covenants which, among other things, require the Company to maintain a minimum cumulative EBITDA as measured at the end

7

9

of each of the Company's fiscal periods. The restrictive covenants also limit the Company's capital expenditures and dividends and the ability of the Company to grant liens and incur additional indebtedness. As of July 31, 1999, the Company was in compliance with the covenants contained in the Loan Agreement as amended.

The Loan Agreement will terminate upon the earlier of consummation of a plan of reorganization in the Chapter 11 Cases, February 1, 2000 or a Prepayment Date (as such term is defined in the Loan Agreement). All borrowings under the Loan Agreement will become due 30 days after termination.

As of July 31, 1999, the Company had no direct borrowings outstanding under the Loan Agreement but had utilized \$3.9 million of its availability under the Loan Agreement to issue letters of credit. Trade payables owed to Participating Vendors (as defined in the Loan Agreement) did not reduce the Company's availability under the Loan Agreement because the Company's borrowing base, as defined in the Loan Agreement, exceeded the \$50 million limitation on borrowings under the Loan Agreement.

#### 5. LIABILITIES SUBJECT TO COMPROMISE

As described in Note 1, since February 2, 1998, the Company has been operating as a debtor-in-possession under Chapter 11 of the Bankruptcy Code and has been subject to the jurisdiction and supervision of the Bankruptcy Court. Liabilities subject to compromise refer to liabilities outstanding prior to the commencement of the Chapter 11 Cases. In the Chapter 11 Cases, substantially all liabilities of the Company as of the date of the filing of the petitions for reorganization will be subject to settlement under a plan of reorganization. Certain creditors have filed claims substantially in excess of the amounts reflected in the Company's records. Differences between amounts shown by the Company and claims filed by the creditors are currently being investigated and reconciled. After completion of these reconciliations, any remaining differences may be resolved by negotiated agreement between the Company and the claimant or by the Bankruptcy Court as part of the Chapter 11 Cases. Consequently, the amount of liabilities subject to compromise as shown in the Company's Consolidated Balance Sheet at July 31, 1999, will likely be subject to adjustment.

In the consolidated balance sheet of the Company, liabilities subject to compromise consist of:

	July 31, 1999 -----	January 30, 1999 -----
<S>	<C>	<C>
Long-term debt	\$858,718	\$858,722
Trade accounts	86,501	87,081
Prepetition accrued interest	24,727	24,727
Allowed claims for lease rejection	12,731	11,548
Other prepetition items	2,295	14,285
	-----	-----
	\$984,972	\$996,363
	=====	=====

</TABLE>



These amounts represent management's best estimate of known or potential claims to be resolved in connection with the Chapter 11 Cases. Such claims remain subject to future

adjustments based on negotiations, actions of the Bankruptcy Court, further developments with respect to disputed claims, or other events. Payment terms for these amounts will be established as the Chapter 11 Cases proceed.

The Company received approval from the Bankruptcy Court to pay or otherwise honor certain of its prepetition obligations, including prepetition wages, vacation pay, employee benefits and reimbursement of employee business expenses. The Bankruptcy Court also has authorized the Company to pay up to \$23.0 million of prepetition obligations to critical vendors to aid the Company in maintaining the normal flow of merchandise to its stores. As of July 31, 1999, the Company had made \$19.3 million of such critical vendor payments.

6. REORGANIZATION ITEMS

Expenses and income directly incurred or realized as a result of the Chapter 11 Cases have been segregated from the normal operations and are disclosed separately. The major components are as follows:

<TABLE>  
<CAPTION>

	26 Weeks Ended July 31, 1999 -----	26 Weeks Ended August 1, 1998 -----	13 Weeks Ended July 31, 1999 -----	13 Weeks Ended August 1, 1998 -----
<S>	<C>	<C>	<C>	<C>
Restructuring charges	\$ --	\$ 17,621	\$ --	\$ 17,621
Prepetition debt issuance costs	27,760	--	27,760	--
Professional fees and administrative items	6,000	6,000	3,000	3,000
Sale of excess properties	(2,333)	(1,714)	(276)	(1,714)
Interest income	(2,128)	(356)	(1,173)	(136)
	-----	-----	-----	-----
	\$ 29,299	\$ 21,551	\$ 29,311	\$ 18,771
	=====	=====	=====	=====

</TABLE>

RESTRUCTURING CHARGES:

In the quarter ended August 1, 1998, the Company recorded restructuring charges associated with the scheduled sale or closure of 20 stores. These charges primarily related to reserves recorded to cover the reduction of fixed assets to net realizable value in the closed stores and the anticipated liability for ongoing store operations such as rent and employee costs, among other things.

PREPETITION DEBT ISSUANCE COSTS:

In accordance with the guidance provided by Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code," the Company during the quarter ended July 31, 1999 wrote off its unamortized debt issuance costs relating to the Company's prepetition debt in order to adjust the recorded balance of such prepetition debt to the amount of the claims proposed to be allowed by the Company pursuant to the Proposed Plan of Reorganization.

PROFESSIONAL FEES AND ADMINISTRATIVE ITEMS:

Professional fees and administrative items relate to legal, accounting, other professional and employee costs directly attributable to the Chapter 11 Cases.

SALE OF EXCESS PROPERTIES:

This amount represents the Company's gain on the sale of excess real estate during each of the periods shown above.

INTEREST INCOME:

This amount represents interest income associated with the accumulation of cash

and short-term investments subsequent to filing the Chapter 11 Cases.

#### 7. ACCOUNTING STANDARD NOT YET ADOPTED

In June 1998, SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," was issued. This Statement requires that all derivatives be recognized in the statement of financial position as either assets or liabilities and be measured at fair value. In addition, all hedging relationships must be designated, reassessed and documented pursuant to the provisions of SFAS No. 133. This Statement, as amended, will be effective for the Company in its fiscal year ending February 3, 2002. The Company had an interest rate collar arrangement on \$150 million in outstanding debt which expired on May 18, 1999. The Company's management has not yet determined the effect, if any, of SFAS No. 133 on its financial statements.

#### 8. SUBSEQUENT EVENTS

On September 10, 1999, the Company entered into an agreement with Gregerson's Foods, Inc. ("Gregerson's") under which the Company will purchase from Gregerson's (i) substantially all of the assets relating to three stores owned and operated by Gregerson's in Alabama and (ii) the inventory in a fourth store that Gregerson's plans to close in conjunction with its sale of the other three stores to the Company. The transactions contemplated by the agreement with Gregerson's are subject to a number of conditions, including the approval of the Bankruptcy Court.

The Company is currently a party to a number of separate collective bargaining agreements with affiliates of either the United Food and Commercial Workers Union (the "UFCW") or the Retail, Wholesale and Department Store International Union. These agreements are generally negotiated in three- or four-year cycles. Two of these agreements expired on February 28, 1998 but were extended by a letter agreement between the Company and the UFCW under which either party could terminate the extension by giving the other party at least 48 hours' written notice. On August 25, 1999, the Company provided written notice to the UFCW that it was terminating the extension to these two agreements effective as of 5:00 P.M. on August 27, 1999. The Company made this decision because of the lack of progress in the Company's efforts to negotiate new agreements with the UFCW. In response to the Company's decision to terminate

10

12

the extensions to these two agreements, the UFCW has threatened a strike or other form of work stoppage by the employees who are covered by the two agreements that have been terminated. In addition, another collective bargaining agreement between the Company and the UFCW expires on September 25, 1999. The UFCW has notified the Company that it will not agree to extend this agreement upon its expiration.

As of July 31, 1999, the Company employed approximately 12,400 persons, of whom approximately 53% were full-time employees and approximately 47% were part-time employees. Approximately 20% of the Company's employees were represented by the UFCW under the two collective bargaining agreements that expired on February 28, 1998 and that were extended thereafter by mutual agreement between the Company and the UFCW until the Company terminated the extension effective as of August 27, 1999. Approximately 38% of the Company's employees are represented by the UFCW under the collective bargaining agreement that expires on September 25, 1999.

The Company is currently negotiating with the UFCW in an effort to enter into new collective bargaining agreements to replace the two agreements that have expired and to replace the agreement that will expire on September 25, 1999. There can be no assurance that these negotiations will be successful. A strike or work stoppage, which has been threatened by the UFCW, could materially and adversely affect the Company's sales and results of operations in future periods.

11

13

Commission File No. 0-6544

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of significant factors

affecting the Company's operating results during the periods included in the accompanying condensed consolidated statements of operations.

A table showing the percentage of net sales represented by certain items in the Company's condensed consolidated statements of operations is as follows:

	JULY 31, 1999 (26 WEEKS)	AUGUST 1, 1998 (26 WEEKS)	JULY 31, 1999 (13 WEEKS)	AUGUST 1, 1998 (13 WEEKS)
<S>	<C>	<C>	<C>	<C>
Net sales	100.00%	100.00%	100.00%	100.00%
Cost of products sold	76.63%	78.07%	76.63%	78.57%
Store operating, selling, and administrative expenses	20.41%	21.55%	20.56%	21.78%
EBITDA(1)	2.96%	0.38%	2.81%	-0.34%
Depreciation and amortization	2.80%	2.70%	2.82%	2.71%
Interest expense, net	0.18%	0.16%	0.18%	0.19%
Reorganization items, net	3.60%	2.17%	7.18%	3.81%
Loss before income taxes	-3.62%	-4.64%	-7.37%	-7.06%
Income tax benefit - refund	1.24%	0.00%	2.47%	0.00%
Net loss	-2.38%	-4.64%	-4.90%	-7.06%

A summary of the changes in certain items included in the condensed statements of operations for the twenty-six and thirteen week periods ended July 31, 1999 as compared to the twenty-six and thirteen week periods ended August 1, 1998 is as follows (dollars in thousands):

	Twenty-six Weeks Ended July 31, 1999		Thirteen Weeks Ended July 31, 1999	
	Amounts	% Change	Amounts	% Change
<S>	<C>	<C>	<C>	<C>
Net sales	\$ (179,210)	-18.03%	\$ (84,147)	-17.09%
Cost of products sold	(151,665)	-19.54%	(74,006)	-19.13%
Store operating, selling, and administrative expenses	(47,889)	-22.36%	(23,307)	-21.74%
EBITDA(1)	20,344	534.10%	13,166	776.30%
Depreciation and amortization	(4,016)	-14.96%	(1,867)	-13.97%
Interest expense, net	(60)	-3.89%	(220)	-23.26%
Reorganization items, net	7,748	35.95%	10,540	56.15%
Loss before income taxes	16,672	36.14%	4,713	13.55%
Income tax benefit - refund	10,068	N/A	10,068	N/A
Net loss	\$ 26,740	57.97%	\$ 14,781	42.50%

(1) EBITDA -- For purposes of this document, EBITDA is defined as net sales reduced by cost of products sold and store operating, selling and administrative expenses. EBITDA is presented because it is a widely accepted financial indicator of a company's ability to service and/or incur indebtedness. EBITDA, however, should not be construed as an alternative to net income as a measure of a company's operating results or to cash flow as a measure of liquidity. This methodology may not be consistent with a similarly captioned item presented by other companies.

GENERAL

As of July 31, 1999, the Company operated a chain of 149 supermarkets and combination food and drug stores. The Company also operated eight retail liquor stores located in the Florida panhandle. As of August 1, 1998, the Company operated 197 supermarkets and combination food and drug stores as well as nine retail liquor stores.

On February 2, 1998, the Company and its 11 subsidiaries each filed a petition for reorganization under chapter 11 of title 11 of the Bankruptcy Code. The Chapter 11 Cases have been procedurally consolidated for administrative purposes. The Company and its subsidiaries are currently operating their businesses and managing their properties as debtors-in-possession pursuant to the Bankruptcy Code. Since the commencement of the Chapter 11 Cases, the Company has taken steps to restructure its operations and to improve profitability. These steps include but are not limited to implementing price reduction strategies, improving inventory levels in the Company's stores, selling excess properties and continuing to analyze and review the Company's market strategy, geographic positioning, and store level return on assets. As a result of this review, the Company sold or closed 48 stores during the third and fourth quarters of the prior fiscal year.

The Company is currently a party to a number of separate collective bargaining agreements with affiliates of either the United Food and Commercial Workers Union (the "UFCW") or the Retail, Wholesale and Department Store International Union. These agreements are generally negotiated in three- or four-year cycles. Two of these agreements expired on February 28, 1998 but were extended by a letter agreement between the Company and the UFCW under which either party could terminate the extension by giving the other party at least 48 hours' written notice. On August 25, 1999, the Company provided written notice to the UFCW that it was terminating the extension to these two agreements effective as of 5:00 P.M. on August 27, 1999. The Company made this decision because of the lack of progress in the Company's efforts to negotiate new agreements with the UFCW. In response to the Company's decision to terminate the extensions to these two agreements, the UFCW has threatened a strike or other form of work stoppage by the employees who are covered by the two agreements that have been terminated. In addition, another collective bargaining agreement between the Company and the UFCW expires on September 25, 1999. The UFCW has notified the Company that it will not agree to extend this agreement upon its expiration.

As of July 31, 1999, the Company employed approximately 12,400 persons, of whom approximately 53% were full-time employees and approximately 47% were part-time employees. Approximately 20% of the Company's employees were represented by the UFCW under the two collective bargaining agreements that expired on February 28, 1998 and that were extended thereafter by mutual agreement between the Company and the UFCW until the Company terminated the extension effective as of August 27, 1999. Approximately 38% of the Company's employees are represented by the UFCW under the collective bargaining agreement that expires on September 25, 1999.

13

15

The Company is currently negotiating with the UFCW in an effort to enter into new collective bargaining agreements to replace the two agreements that have expired and to replace the agreement that will expire on September 25, 1999. There can be no assurance that these negotiations will be successful. A strike or work stoppage, which has been threatened by the UFCW, could materially and adversely affect the Company's sales and results of operations in future periods.

ACQUISITIONS AND DIVESTITURES

On September 10, 1999, the Company entered into an agreement with Gregerson's Foods, Inc. ("Gregerson's") under which the Company will purchase from Gregerson's (i) substantially all of the assets relating to three stores owned and operated by Gregerson's in Alabama and (ii) the inventory in a fourth store that Gregerson's plans to close in conjunction with its sale of the other three stores to the Company. The transactions contemplated by the agreement with Gregerson's are subject to a number of conditions, including the approval of the Bankruptcy Court.

During the first two quarters of the current fiscal year, the Company sold one store that had been closed during the previous fiscal year as well as miscellaneous excess real estate resulting in proceeds of \$5.7 million.

On July 30, 1998, the Company entered into an agreement to sell 15 stores,

including one new store that had not commenced business, to Albertson's, Inc. Eleven of the stores were located in the Nashville, Tennessee market area, and four were located in the Chattanooga, Tennessee market. The sale of the 15 stores to Albertson's was consummated on August 24, 1998. Between August and December of 1998, the Company closed 20 stores consisting of 10 stores in Alabama, five in Florida, three in Mississippi and two in Georgia. In January 1999, the Company closed an additional 14 stores consisting of six stores in Alabama, five in Georgia and three in Florida.

## RESULTS OF OPERATIONS

### NET SALES

Net sales decreased \$84.1 and \$179.2 million in the quarter and year-to-date periods ended July 31, 1999, as compared to the comparable periods of the prior year. The decrease in net sales for both periods was primarily attributable to the reduction in the number of stores operated by the Company as a result of the divestitures that occurred during the fiscal year ended January 30, 1999 as described above under the heading "ACQUISITIONS AND DIVESTITURES". Comparable store sales increased 1.1% and 0.1% in the quarter and year-to-date periods ended July 31, 1999 from the prior year due primarily to the success of several strategies adopted by the Company to improve its sales performance. These strategies include lower prices, improved store conditions, and new advertising and promotional programs. The Company's sales in the quarter and year-to-date periods ended August 1, 1998 were adversely affected by the commencement of the Chapter 11 Cases and the accident that occurred in the Company's distribution center on April 21, 1998. As a result of the distribution center accident, the Company was not able to supply its stores with perishable merchandise from the Company's distribution center from April 21, 1998 through May 24, 1998. Although the Company made temporary arrangements for perishable

14

16

merchandise with third party suppliers and distributors, the Company was not able to maintain adequate levels of perishable inventories at all times in its stores. The reduction in store-level perishable inventories resulted in a loss of customers and sales.

Although the Company believes that its current strategies to improve sales performance have been successful in reducing the loss of customers and sales, there can be no assurances that these strategies will increase sales or will not otherwise have an adverse effect on the Company's business in the future.

### GROSS PROFIT

Gross profit (net sales less cost of products sold) as a percentage of net sales for the second quarter was 23.4% compared to 21.4% in the second quarter of the prior year. Gross profit for the year-to-date period was 23.4% compared to 21.9% in the prior year. This improvement in both periods can be largely attributed to better inventory control and improved purchasing practices, the benefits of which were partially offset by more competitive pricing by the Company. In addition, gross profit for the second quarter and year-to-date periods of the prior fiscal year were adversely affected by a \$3.8 million charge to cost of goods sold for anticipated losses on the liquidation of inventory due to the closing of 20 stores during the third and fourth quarters of the prior fiscal year as described above under the heading "ACQUISITION AND DIVESTITURES".

### STORE OPERATING, SELLING AND ADMINISTRATIVE EXPENSES

Store operating, selling, and administrative expenses as a percent of net sales were 20.6% for the quarter and 20.4% for the year-to-date period ended July 31, 1999 compared to 21.8% and 21.6% for the comparable periods of the prior year. The percentage decreases were primarily due to reductions in labor and associated costs, utility expense and advertising.

### EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION (EBITDA)

EBITDA (as defined on page 12) increased by \$13.2 million to \$11.5 million in the quarter ended July 31, 1999 from a negative \$1.7 million in the comparable quarter of the prior year. On a year-to-date basis, EBITDA increased by \$20.3 million to \$24.2 million in the first two quarters of the current fiscal year from \$3.8 million in the comparable period of the prior year due to increases in comparable store sales, improved gross profit margins and lower store operating expenses as discussed above.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization for the quarter and year-to-date periods ended July 31, 1999 was \$11.5 and \$22.8 million, respectively, compared to \$13.4 and \$26.8 million in the comparable periods of the prior year. This decrease in

depreciation and amortization is almost entirely the result of the sale or closure of 48 stores during the last two quarters of the prior fiscal year.

15

17

#### INTEREST EXPENSE

As a result of the commencement of the Chapter 11 Cases, the Company ceased accruing interest on its short-term borrowings and long-term debt outstanding at January 31, 1998. Interest expense in the first two quarters of the current and prior fiscal years relates primarily to equipment owned under capital leases.

#### REORGANIZATION ITEMS, NET

Reorganization expenses incurred during the second quarter and year-to-date periods of the current fiscal year increased by \$10.5 and \$7.7 million, respectively, from the prior fiscal year. The primary reason for this increase was the write-off of deferred debt issuance costs associated with the Company's prepetition debt as provided in Statement of Position 90-7. For an analysis of the components and balances included in this item, see NOTE 6 OF THE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

#### INCOME TAXES

In connection with the preparation of the Company's federal income tax return in June 1999, an Application for Tentative Carryback Adjustment was filed with the Internal Revenue Service (IRS) resulting in the Company's receipt of a tax refund, of which \$10.1 million was recognized in the quarter ended July 31, 1999. The net operating loss, on which the carryback is based, is subject to certain limitations, and thus the refund is subject to adjustment by the IRS.

In assessing the realization of the Company's deferred income tax assets, management considers the likelihood that the deferred income tax assets will be realized through future taxable income. Based upon management's projections, the Company has fully reserved its net deferred income tax assets.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company and its subsidiaries are parties to a Revolving Credit and Guaranty Agreement dated as of February 2, 1998, as amended by the First Amendment thereto dated as of March 5, 1998, the Second Amendment thereto dated as of March 25, 1998, the Third Amendment thereto dated as of April 17, 1998, the Fourth Amendment thereto dated as of July 31, 1998, and the Fifth Amendment thereto dated as of October 31, 1998 (as so amended, the "Loan Agreement"). The lenders who are parties to the Loan Agreement include The Chase Manhattan Bank ("Chase"), as agent for itself and any other lenders party thereto. The Loan Agreement was entered into subsequent to the commencement of the Chapter 11 Cases and will terminate upon the earlier of consummation of a plan of reorganization in the Chapter 11 Cases, February 1, 2000, or the Prepayment Date (as such term is defined in the Loan Agreement). The Loan Agreement provides the Company with a revolving line of credit for loans and with letters of credit. The amount the Company is permitted to borrow under the Loan Agreement is dependent upon the level of the Company's inventory, real estate and claims from certain vendors. The Company has voluntarily reduced its maximum allowable borrowings under the Loan Agreement from \$200 million to \$50 million because the Company does not anticipate that it will need the

16

18

additional borrowing capacity and because the reduction will decrease the fees paid by the Company under the Loan Agreement. The maximum permitted borrowings under the Loan Agreement include a subfacility of \$32 million for the issuance of letters of credit. The Company will use all amounts borrowed under the Loan Agreement for its ongoing working capital needs and for other general corporate purposes of the Company and its subsidiaries. The Company's subsidiaries are also guarantors of the Company's obligations under the Loan Agreement.

The Loan Agreement contains certain restrictive covenants which, among other things, require the Company to maintain a minimum cumulative EBITDA as measured at the end of each of the Company's fiscal periods. The restrictive covenants also limit the Company's capital expenditures and dividends and the ability of the Company to grant liens and incur additional indebtedness. The Fifth Amendment to the Loan Agreement, among other things, amended the minimum cumulative EBITDA and capital expenditure covenants contained in the Loan Agreement and established minimum cumulative EBITDA and capital expenditure covenants for the fiscal year ended January 29, 2000. As of July 31, 1999, the Company was in compliance with the covenants contained in the Loan Agreement as

amended.

As of July 31, 1999, the Company had no direct borrowings outstanding under the Loan Agreement but had utilized \$3.9 million of its availability under the Loan Agreement to issue letters of credit. Total availability under the Loan Agreement at July 31, 1999 was \$46.1 million. Trade payables owed to Participating Vendors (as defined in the Loan Agreement) did not reduce the Company's availability under the Loan Agreement because the Company's borrowing base, as defined in the Loan Agreement, exceeded the \$50 million limitation on borrowings under the Loan Agreement. The Company expects that its cash flow from operations and borrowings under the Loan Agreement will provide it with sufficient liquidity to conduct its operations while the Chapter 11 Cases are pending. The Company's long-term liquidity and the adequacy of the Company's capital resources cannot be determined until a plan of reorganization has been accepted and confirmed in connection with the Chapter 11 Cases.

Operating activities provided \$49.5 million of cash for the twenty-six week period ended July 31, 1999, and used cash of \$11.0 million for the comparable period of the prior year. The source of cash in the current fiscal year is primarily attributable to the increase in EBITDA discussed above and to a decrease in the Company's inventory levels, receivables and vendor deposits partially offset by a corresponding decrease in accounts payable. The use of cash in the prior fiscal year is attributable to an increase in inventory levels as well as to advances paid to vendors in order to expedite delivery of inventory to the Company.

Cash flows used in investing activities totaled \$3.2 million in the twenty-six week period ended July 31, 1999. Capital expenditures of \$8.9 million were only partially offset by proceeds from the sale of real estate of \$5.7 million. Proceeds from the sale of real estate of \$19.4 million offset by capital expenditures of \$10.4 million provided \$9.0 million of cash flow during the comparable period of the prior fiscal year. The Company's capital expenditures are primarily related to the remodeling of existing stores and investments in systems technology.

Financing activities used cash of \$2.0 million in the twenty-six week period ended July 31, 1999 and provided cash of \$1.8 million in the comparable period of the prior fiscal year. Current and prior year financing activities reflect payments on capitalized lease obligations of \$2.0 million

17

19

and \$2.2 million, respectively, offset by borrowings under the Company's debtor-in-possession financing of \$4.0 million for the prior fiscal year only.

The Company's present plans call for additional capital expenditures of \$26.0 million for the remainder of the current fiscal year ending January 29, 2000. In addition, the Company has entered into an agreement with Gregerson's under which the Company will purchase from Gregerson's (i) substantially all of the assets relating to three stores owned and operated by Gregerson's in Alabama and (ii) the inventory in a fourth store that Gregerson's plans to close in conjunction with its sale of the other three stores to the Company. See "ACQUISITIONS AND DIVESTITURES". The transactions contemplated by the agreement with Gregerson's, if consummated, will result in additional capital expenditures of approximately \$8.0 million during the current fiscal year, including the purchase price for the stores to be acquired and expenses to be incurred in renovating such stores. The Company's capital expenditure plans are subject to change from time to time and the actual amounts spent may vary materially from the estimates set forth above. The Company expects that its capital expenditures for the remainder of the current fiscal year will be financed through cash flows from operations, existing cash balances and, if necessary, borrowings under the Loan Agreement. The Company had approximately \$0.3 million of commitments in connection with these planned capital expenditures at July 31, 1999.

As noted above, on February 2, 1998, the Company filed the Chapter 11 Cases. The Company and its subsidiaries are currently operating their business and managing their properties as debtors-in-possession pursuant to the Bankruptcy Code. The Company filed its Proposed Plan of Reorganization with the Bankruptcy Court on May 27, 1999. The Proposed Plan of Reorganization is subject to approval by the Bankruptcy Court and the Company's creditors. The Company's long-term liquidity and the adequacy of the Company's capital resources cannot be determined until the Company's Proposed Plan of Reorganization, or an alternative plan of reorganization, has been accepted and confirmed by the Bankruptcy Court.

YEAR 2000

The Year 2000 issue refers to computer programs and microcontrollers which could fail to execute properly at the turn of the century due to flaws in design. Computer programs written using two digits (rather than four) to define

the applicable year are typical examples of such design flaws. Any programs written in this manner recognize a date using "00" as the year 1900 rather than the year 2000. Such design flaws could cause the computer systems and equipment used by the Company to malfunction with the result that the Company could not conduct its operations in a normal manner. Some of the computer programs and microcontrollers owned or leased by the Company will need to be modified or replaced in order to address the Year 2000 issue.

The Company has retained a third party contractor to identify and correct Year 2000 problems involving the Company's internal computer systems. Systems which require modification or replacement have been identified and a plan for addressing issues has been established. Following identification and planning, the major project phases are correction, testing and implementation. Four general categories of internal computer systems are being addressed: Store Systems, Networks and Servers, Mainframe Applications, and Mainframe Systems and Hardware. Generally, all corporate systems had been modified or replaced as of July 31, 1999.

18

20

Changes in the Company's store systems needed to address the Year 2000 problem are scheduled to be completed by the end of October 1999.

In addition to addressing the Year 2000 problem with respect to the Company's internal computer systems, the Company has identified other non-information technology systems which could be affected by the Year 2000 issue. Examples of such other systems are time clocks, refrigeration systems, and heating and air conditioning systems. The Company is currently modifying or replacing the software or microcontrollers containing the Year 2000 design flaws. The Company currently estimates that modifications or replacements of its critical non-information technology systems will be completed by the end of October 1999.

The Company also could be adversely affected if Year 2000 design flaws are contained in the computer systems or microcontrollers used by the Company's vendors and suppliers, including merchandise vendors, utilities, and service providers. The Company has developed a list of critical vendors and suppliers who might be unable to continue to supply necessary goods and services to the Company if such vendors and suppliers do not take appropriate action to address the Year 2000 issue. The Company is seeking assurance from each such critical vendor and supplier that all necessary steps are being taken by them to address the Year 2000 issue.

Based on current estimates, the Company anticipates that it will incur costs of approximately \$12 million relating to Year 2000 issues for its internal computer systems. Approximately \$8.3 million of these costs had been incurred as of July 31, 1999. The Company has deferred several systems development projects to minimize the impact of Year 2000 compliance costs, but the Company does not expect that such deferral will have a significant effect on the Company's financial condition and results of operations. Management estimates that the cost of correcting the Year 2000 problem in other non-information technology systems, such as time clocks, refrigeration systems and heating and air conditioning systems, will not be material. The Company believes that the costs of addressing the Year 2000 issue will be financed through cash flows from operations, existing cash balances and, if necessary, borrowings under the Loan Agreement.

If the Company fails adequately to address the Year 2000 issue, the Company, under the most reasonably likely worst case scenario, would be unable to process transactions such as sales, purchasing, transfers and payments in an efficient, automated manner. In addition, other systems such as refrigeration systems and heating and air conditioning systems could fail. The failure of these systems could seriously disrupt the Company's business. Finally, the Company could experience product shortages and an interruption of necessary services if certain outside providers of goods and services fail to address the Year 2000 issue.

The Company is currently developing a contingency plan dealing with the most reasonably likely worst case scenario involving the Year 2000 issue. The Company plans to complete the development of its contingency plan by October 1999. The contingency plan will consider alternate sourcing, systems and procedures.

#### CAUTIONARY STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about their

19



companies without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the statement. When used in this Form 10-Q Report, the words "believe", "expect", "anticipate", "estimate" and similar expressions are intended to identify forward-looking statements. The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 in connection with the forward-looking statements contained in this Form 10-Q Report. Accordingly, the Company hereby identifies the following important factors which could cause the Company's financial results to differ materially from any such results which might be projected, forecast, estimated or budgeted by the Company in forward-looking statements:

- (a) Heightened competition, including specifically the intensification of price competition; the entry of new competitors; and the expansion, renovation and opening of new stores by new and existing competitors.
- (b) Failure to obtain new customers or retain existing customers.
- (c) Inability to carry out marketing, sales and capital plans.
- (d) Insufficiency of financial resources to renovate and expand the Company's store base.
- (e) Prolonged dispute with labor.
- (f) Economic downturn in the Southeast region.
- (g) Loss or retirement of key executives.
- (h) Higher selling, general and administrative expenses occasioned by the need for additional advertising, marketing, administrative, or management information systems expenditures.
- (i) Adverse publicity and news coverage.
- (j) Adverse effects resulting from the commencement and prosecution of the Chapter 11 Cases.
- (k) Adverse effects resulting from Year 2000 compliance problems experienced by the Company or its significant vendors.

The foregoing review of factors pursuant to the Private Litigation Securities Reform Act of 1995 should not be construed as exhaustive or as any admission regarding the adequacy of disclosures made by the Company prior to this filing.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

The Company's primary "market risk" relates to changing interest rates. The Company has a combination of fixed and variable rate debt. As a result of the filing of the Chapter 11 Cases, interest is no longer accruing on the debt incurred by the Company prior to the commencement of the Chapter 11 Cases. In addition, the Company does not currently have any direct borrowings outstanding under its debtor-in-possession financing facility. Accordingly, the Company will have little, if any, interest rate risk while the Chapter 11 Cases are pending. As a result, quantification of the Company's interest rate risk as of July 31, 1999 is not presented because it would not be meaningful to do so.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

The Company is party to the Chapter 11 Cases, which commenced on February 2, 1998. In addition, the Company is a party to a lawsuit filed against the Company by SNA and A.B. Real Estate as described in NOTE 3 OF THE NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS. The Company also is a party to various other legal and taxing authority proceedings incidental to its business. In the opinion of management, the ultimate liability with respect to these proceedings will not have a material adverse effect on the financial position or results of operations of the Company.

### ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company commenced the Chapter 11 Cases on February 2, 1998. As a result of filing the Chapter 11 Cases, no principal or interest payments will be made on indebtedness incurred by the Company prior to February 2, 1998 until a plan of reorganization defining the repayment terms has been approved by the Bankruptcy Court. Accordingly, the Company did not make the semi-annual \$21.0 million interest payments due on February 2, 1998, August 1, 1998, February 1, 1999 and August 2, 1999 under the Company's 10 1/2% Senior Subordinated Notes. In addition, the Company has not paid \$3.7 million in accrued interest on the Company's other debt outstanding at January 31, 1998.

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

None

ITEM 5. OTHER INFORMATION

None

21

23

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

<TABLE>

<CAPTION>

Exhibit Number -----	Description -----
<S> 27	<C> Financial Data Schedule

</TABLE>

(B) REPORTS ON FORM 8-K

On June 4, 1999, the Company filed a Current Report on Form 8-K dated May 27, 1999 under Item 5 "OTHER EVENTS" to disclose the Company's filing with the Bankruptcy Court of the Proposed Plan of Reorganization.

22

24

SIGNATURES

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

BRUNO'S, INC.

/s/ Arthur B. McCarter  
-----  
Arthur B. McCarter  
Senior Vice President and  
Chief Financial Officer

Dated: September 10, 1999

23

25

BRUNO'S, INC.

FORM 10-Q REPORT  
(FOR QUARTER ENDED JULY 31, 1999)

INDEX OF EXHIBITS

<TABLE> <CAPTION> EXHIBIT NUMBER -----	DESCRIPTION -----
<S> 27	<C> Financial Data Schedule

<TABLE> <S> <C>

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS OF BRUNO'S, INC. FOR THE SIX MONTHS ENDED JULY 31, 1999, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	6-MOS
<FISCAL-YEAR-END>	JAN-29-2000
<PERIOD-START>	JAN-31-1999
<PERIOD-END>	JUL-31-1999
<CASH>	110,231
<SECURITIES>	0
<RECEIVABLES>	15,015
<ALLOWANCES>	517
<INVENTORY>	160,147
<CURRENT-ASSETS>	303,690
<PP&E>	577,339
<DEPRECIATION>	322,339
<TOTAL-ASSETS>	571,407
<CURRENT-LIABILITIES>	119,220
<BONDS>	400,000
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	255
<OTHER-SE>	(556,874)
<TOTAL-LIABILITY-AND-EQUITY>	571,407
<SALES>	814,812
<TOTAL-REVENUES>	814,812
<CGS>	624,345
<TOTAL-COSTS>	624,345
<OTHER-EXPENSES>	218,440
<LOSS-PROVISION>	0
<INTEREST-EXPENSE>	1,484
<INCOME-PRETAX>	(29,457)
<INCOME-TAX>	(10,068)
<INCOME-CONTINUING>	(19,389)
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	(19,389)
<EPS-BASIC>	(0.76)
<EPS-DILUTED>	(0.76)

</TABLE>