SECURITIES AND EXCHANGE COMMISSION

FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **1996-08-26** | Period of Report: **1996-02-03**
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FILER

DAIRY MART CONVENIENCE STORES INC

CIK:**721675**| IRS No.: **042497894** | State of Incorp.:**DE** | Fiscal Year End: **0131**
Type: **10-K/A** | Act: **34** | File No.: **001-11627** | Film No.: **96620537**
SIC: **5412** Convenience stores

Business Address
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2037414444

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FORM 10-K/A
Amendment No. 2

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended February 3, 1996

[ ] 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 0-12497

Dairy Mart Convenience Stores, Inc.
(Exact name of registrant as specified in its charter)

Delaware	04-2497894
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Vision Drive, Enfield, CT 06082
(Address of principal executive offices)

Registrant's telephone number, including area code (860) 741-4444

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

Title of each class	Name of each exchange on which registered
None	None

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

Class A Common Stock (Par Value $.01)
Class B Common Stock (Par Value $.01)
(Titles of class)

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

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

As of April 1, 1996, 2,804,671 shares of Class A Common Stock and 2,783,060 shares of Class B Common Stock were outstanding, and the aggregate market value of both classes of Common Stock outstanding of DAIRY MART CONVENIENCE STORES, INC., held by nonaffiliates was approximately $22,027,309.00.

This Form 10-K/A Amendment No.2 amends the Form 10-K of Dairy Mart Convenience Stores, Inc. (the "Company") filed for the fiscal year ended February 3, 1996 to amend and restate in their entirety the information required by items 6, 7, 8 of Part II and item 14 of Part IV in accordance with comments from the Securities and Exchange Commission received by the Company on May 21, and July 9, 1996.

DOCUMENTS INCORPORATED BY REFERENCE

NONE

PART II

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ITEM 5. MARKET INFORMATION FOR REGISTRANTS COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company has not paid any cash dividends during the last two fiscal years, and pursuant to loan covenants contained in the Company's new senior revolving credit facility, is currently restricted from paying any dividends and from repurchasing its capital stock. The Company's Class A Common Stock and Class B Common Stock are traded on The NASDAQ Stock Market under the symbols DMCVA and DMCVB. The following table sets forth the high and low sales prices per share of both classes of the Company's Common Stock, as quoted on The NASDAQ Stock Market, for the last two fiscal years.

<TABLE>
<CAPTION>

	Class A Common Stock		Class B Common Stock	
<S>	High <C>	Low <C>	High <C>	Low <C>
Fiscal Year Ended February 3,1996:				
First Quarter	4 5/8	3 5/8	4 7/8	3 3/4
Second Quarter	5	4 3/4	5 1/2	4 3/4
Third Quarter	6 3/8	5 5/8	7 1/4	6 2/15
Fourth Quarter	6 1/4	5 1/2	6 3/4	5 1/2
Fiscal Year Ended January 28, 1995:				
First Quarter	7 1/4	5 3/4	8	6 3/4
Second Quarter	6 1/2	3 3/4	6 3/4	4 1/4
Third Quarter	4 1/4	2 1/2	4 3/4	2 1/4
Fourth Quarter	4	2 5/8	4 1/4	2 7/8

</TABLE>

There were approximately 3,000 stockholders as of April 1, 1996. Included in this number are shares held in nominee or street names.

ITEM 6. SELECTED FINANCIAL DATA

<TABLE>
<CAPTION>

Five Years Ended February 3, 1996	1996	1995	1994	1993	1992
	(in thousands, except per share amounts)				
<S>	<C>	<C>	<C>	<C>	<C>
Operating Results:					
Revenues..	$571,311	$596,782	$ 591,500	$580,014	$572,761
Interest Expense...	9,661	10,435	7,644	7,456	8,260
Income (Loss) Before Income Taxes, Extraordinary Item and Cumulative Effect of Accounting Changes..................	(9,220)	(17,319)	3,102	(4,797)	7,021
Net Income (Loss)..	(6,000)	(11,150)	866	(6,850)	4,092
Earnings (Loss) Per Share:					
Before Extraordinary Item and Cumulative Effect of Accounting Changes	(1.12)	(1.94)	.33	(.53)	.75

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Net Earnings (Loss) Per Share..............................	(1.12)	(2.01)	.16	(1.26)	.75
Balance Sheet Data:					
Net Property and Equipment....................................	$ 80,387	$ 70,578	$ 93,774	$ 93,076	$ 86,437
Total Assets..	164,938	172,228	169,442	175,178	165,555
Long-Term Obligations (a).....................................	100,881	90,268	77,343	81,035	79,119
Stockholders' Equity..	9,208	22,817	33,870	32,732	39,100
Earnings Before Interest Expense, Income Taxes, Depreciation and Amortization (EBITDA)(b).....................	12,831	5,593	23,646	16,323	28,852

</TABLE>

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(a) Long-term obligations include the current portion of long-term obligations.

(b) EBITDA is significant to the Company's calculations of its financial covenants and is defined as earnings before interest expense, income taxes and depreciation and amortization expenses.EBITDA should not be viewed as a substitute for Generally Accepted Accounting Principles (GAAP) measurements such as net income (loss) or cash flow from operations.

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

Summary Results of Operations

The Company's net loss for fiscal 1996 was $6.0 million as compared to a net loss of $11.2 million for fiscal 1995 and net income of $0.9 million for fiscal 1994. Each years' results included special and/or unusual items as follows:

<TABLE>
<CAPTION>

(in millions)	Fiscal Years 1996	1995	1994
Special and/or unusual pre-tax charges:			
Costs and expenses associated with corporate governance issues	$ 9.0	$ 2.1	$ --
Corporate restructuring initiatives and other operating costs	3.2	10.7	--
Interest charges	--	1.2	--
Other Unusual charges, net of related income tax effect:			
Extraordinary loss on extinguishment of debt	--	--	0.9
Cumulative effect of accounting change	--	0.4	--

</TABLE>

For a discussion of the above special and/or unusual charges see Note 14 to the Consolidated Financial Statements.

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Results of Operations

Revenues

Revenues for fiscal 1996 decreased $25.5 million from fiscal 1995 despite the favorable effect on convenience store and gasoline revenues due to the inclusion of 53 weeks in fiscal 1996 as compared to 52 weeks in fiscal 1995. Revenues for fiscal 1995 increased $5.3 million from fiscal 1994. A summary of revenues by functional area for the three fiscal years is shown below:

(in millions)	Fiscal Years 1996	1995	1994
Convenience stores	$341.5	$355.4	$355.8
Gasoline	226.5	210.5	206.2
Manufacturing and distribution	-	28.6	27.1
Other	3.3	2.3	2.4
Total	$571.3	$596.8	$591.5

Convenience store revenues decreased $13.9 million, or 3.9%, in fiscal 1996 as compared to fiscal 1995 due to a reduction of 92 underperforming stores, offset by a 1.3% increase in comparable store sales. Although the reduction in stores had a negative impact on revenues, they did not have a material adverse effect on the results of operations, since the majority of stores closed or sold had been operating at a loss. Convenience store revenues decreased $0.4 million or 0.1%, in fiscal 1995 as compared to fiscal 1994 due to a reduction of 72 underperforming stores, offset by a 2.8% increase in comparable store sales.

Gasoline revenues increased in fiscal 1996 as compared to fiscal 1995 due to an increase in total gasoline gallons sold of 6,391,000, combined

with an increase in the average selling price of gasoline of 4.4 cents per gallon. The increase in gasoline gallons sold was achieved despite the decrease in gasoline retailing facilities from 406 sites at the end of fiscal 1995 to 376 sites at the end of fiscal 1996. On a per location basis, average gallonage increased by approximately 11% in the current fiscal year as compared to the prior fiscal year. These gallonage increases were due primarily to further development of new stores having a major gasoline presence and the remodeling and expansion of gasoline facilities at certain existing locations. Gasoline revenues increased in fiscal 1995 as compared to fiscal 1994 due to an increase in the average selling price of gasoline of 2.1 cents per gallon. Gasoline gallons sold increased marginally in fiscal 1995 as compared to fiscal 1994 despite the decrease in gasoline facilities from 419 sites at the end of fiscal 1994 to 406 sites at the end of fiscal 1995. On a per location basis, average gallonage increased by approximately 3% in fiscal 1995 as compared to fiscal 1994.

Manufacturing and distribution revenues are not reflected in the current fiscal year due to the closing and divestiture of the dairy manufacturing and distribution operations.

Gross Profits

Gross profits for fiscal 1996 increased $0.8 million from fiscal 1995 and gross profits for fiscal 1995 decreased $4.2 million from fiscal 1994. A summary of the gross profits by functional area for the three fiscal years is shown below:

(in millions)	Fiscal Years 1996	1995	1994
Convenience stores	$130.0	$130.0	$130.8
Gasoline	24.5	24.1	25.3
Manufacturing and distribution	-	0.6	2.7
Other	3.3	2.3	2.4

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Total	$157.8	$157.0	$161.2

</TABLE>

Convenience store gross profit remained constant in fiscal 1996 as compared to fiscal 1995. Improved product gross margins and higher lottery commissions were offset by the overall reduction in the number of stores, as described above. Convenience store gross profits decreased by $0.8 million in fiscal 1995 as compared to fiscal 1994 due to an increase in costs associated with the Company's last in, first out (LIFO) inventory valuation method. The fiscal 1995 LIFO provision reflected a normal inflationary increase, while the fiscal 1994 LIFO provision was reduced due to a substantial decrease in cigarette prices, which constitute one of the Company's major product categories.

Gasoline gross profits increased by $0.4 million in fiscal 1996 as compared to fiscal 1995 due to an increase in gasoline gallons sold, as described above, partially offset by a decrease of 0.14 cents in gross profit per gallon. Gasoline profits decreased by $1.2 million in fiscal 1995 as compared to fiscal 1994 primarily due to a decrease of 0.61 cents in gross profit per gallon.

Manufacturing and distribution gross profits are not reflected in fiscal 1996 due to the closing and divestiture of the dairy manufacturing and distribution operations. Manufacturing and distribution gross

profits declined in fiscal 1995 as compared to fiscal 1994 due to the underutilization of plant capacity and the impact of competitive product pricing.

Operating and Administrative Expenses

Operating and administrative expenses for fiscal 1996 decreased $6.0 million from fiscal 1995 and operating and administrative expenses for fiscal 1995 increased $0.6 million from fiscal 1994, as adjusted to exclude the special and/or unusual costs and expenses associated with corporate governance issues and corporate restructuring initiatives and other operating costs (see Summary Results of Operations). A summary of expenses by functional area for the three fiscal years is shown below:

<TABLE>
<CAPTION>

	Fiscal Years		
(in millions)	1996	1995	1994
<S>	<C>	<C>	<C>
Convenience stores	$100.2	$104.3	$104.3
Gasoline	13.3	11.9	11.2
Administrative and Other(*)	31.6	34.9	35.0
Total(*)	$145.1	$151.1	$150.5

</TABLE>

(*) adjusted to exclude the special and/or unusual costs and expenses associated with corporate governance issues and corporate restructuring initiatives and other operating costs (see Note 14 to the Consolidated Financial Statements).

Convenience store operating expenses decreased $4.1 million in fiscal 1996 as compared to fiscal 1995 primarily due to the closure or sale of underperforming stores as described above, partially offset by higher labor, rent and maintenance costs on a per store basis. The increase in maintenance costs was primarily attributable to snow removal expenses caused by severe weather conditions in certain geographic areas in which the Company operates. Convenience store operating expenses remained constant in fiscal 1995 as compared to fiscal 1994. Higher store labor and rent costs were offset by the reduction in the overall number of stores.

Gasoline operating expenses increased $1.4 million in fiscal 1996 as compared to fiscal 1995 primarily due to the operation of higher-volume new or remodeled expanded facilities, as described above, partially offset by a decrease in environmental expenses associated with the remediation of gasoline locations after considering probable reimbursements from various state environmental trust funds. Gasoline operating expenses increased $0.7 million in fiscal 1995 as compared to fiscal 1994 primarily due to increased environmental remediation costs.

Administrative and other expenses as adjusted, decreased $3.3 million in fiscal 1996 as compared to fiscal 1995 primarily due to the full year impact

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of operating with a reduced level of administrative support staff. Administrative and other expenses as adjusted, decreased slightly in fiscal 1995 as compared to fiscal 1994 due to a reduction of administrative staff in the fourth quarter of fiscal 1995.

Interest Expenses, Inflation and Taxes

Interest expense, as adjusted to exclude special and/or unusual interest charges (see Summary Results of Operations), increased in fiscal 1996 as compared to fiscal 1995 and fiscal 1994, due to an increased level of borrowing associated with the issuance of the Series A Notes in March 1994 and Series B Notes in December 1995 (see Notes 6 and 14 to the Consolidated Financial Statements).

Inflation did not have a material effect on the Company's revenues, gross profits, operating and administrative expenses in fiscal 1996, fiscal 1995 and fiscal 1994, respectively, other than the effect of cigarette price reductions discussed above.

The effective tax rate for the Company was a benefit of 35% and 38% for fiscal year 1996 and fiscal year 1995, respectively, and a provision of 42% for fiscal year 1994.

Liquidity and Capital Resources

The Company generates substantial operating cash flow since most of its revenues are received in cash. The amount of cash generated from operations significantly exceeded the current debt service requirements of the Company's long-term obligations. The fiscal 1996 capital expenditures of the Company were funded by excess operating cash flow and by the cash flow generated from the sale of certain assets. In addition, the Company has a revolving line of credit available, although not utilized during fiscal 1996, to address the timing of certain working capital and capital expenditure disbursements. Management believes that the cash flow from operations and the proceeds from the sale of certain assets, supplemented by the availability of a revolving line of credit, will provide the Company with adequate liquidity and the capital necessary to achieve its expansion initiatives in its retail operations (see "Capital Expenditures").

Cash Provided by Operating Activities

During fiscal 1996, net cash generated by operations was $3.2 million higher than the prior fiscal year. This increase was primarily due to the improved results of operations in fiscal 1996 as compared to fiscal 1995 (see "Results of Operations") and to cash provided from working capital through the liquidation of certain inventories associated with asset divestitures and the collection of certain accounts receivable, primarily marketing allowances and receivables associated with its manufacturing and distribution operations. These increases were partially offset by the cash outflows in the current fiscal year related to certain costs and expenses associated with corporate governance issues and corporate restructuring initiatives and other operating costs recorded in fiscal 1995 (see Note 14 to the Consolidated Financial Statements).

During fiscal 1996, the Company paid its trade payables in an average of 27 days, which compares to 24 days for fiscal 1995 and fiscal 1994. The cash flow of the Company is also favorably impacted by the Company's use of funds from the sale of money orders, pending remittance of such funds to the issuer of the money orders. As of February 3, 1996 and

January 28, 1995, the amounts due the issuer were $7.6 million and $5.3 million, respectively. The Company's remittance obligation to the issuer of the money orders is primarily secured by an outstanding letter of credit in the amount of $7.5 million.

Cash Provided by Financing Activities

Net cash provided by financing activities decreased by $9.0 million from the prior fiscal year. In fiscal 1995, the Company generated net cash of approximately $10.4 million as a result of the recapitalization of the Company's debt structure through the issuance of $75.0 million of 10.25% Senior Subordinated Notes (the "Series A Notes"). The proceeds from the issuance of the Series A Notes, net of offering costs of $2.3 million, were used to retire substantially all of the Company's then existing bank term loan and bank revolving loan and redeem in full the Company's 14.25% subordinated debentures (see Note 6 to the Consolidated Financial

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Statements).

The recapitalization of the Company's debt structure in fiscal 1995 was integral toward accomplishing management's overall objective of redirecting the Company's capital for purpose of expanding its retail operations. As a result of the recapitalization, the Company significantly reduced its near-term debt service requirements thus improving the Company's financial and operating flexibility.

In December 1995, the Company issued $13.5 million of 10.25% Senior Subordinated Notes (the "Series B Notes") with substantially the same terms and conditions as the Series A Notes (see Note 6 to the Consolidated Financial Statements). The proceeds from the issuance of the Series B Notes were used to purchase the interests of a former majority stockholder of the company and certain of his affiliates in DM Associates Limited Partnership (DM Associates) for $10.0 million (see Note 14 to the Consolidated Financial Statements).

Subsequent to fiscal 1996, the Company entered into a new senior revolving credit facility. Under the terms of the new $30.0 million senior revolving credit facility, the Company has initially available up to $20.0 million in aggregate extensions of credit with $15.0 million available for the issuance of letters of credit. The Company may utilize the new revolving credit facility as needed for working capital and general corporate purposes (see Note 6 to the Consolidated Financial Statements).

Cash Used by Investing Activities

Net cash used by investing activities decreased by $16.0 million from the prior fiscal year, primarily due to increased cash flows generated from the sale of certain assets, including the sale of manufacturing and distribution equipment and the sale and leaseback of 17 existing store properties. In addition, the Company's investing activities were decreased due to the maturation in fiscal 1996 of a U.S. Treasury Bill that was purchased in the prior fiscal year. The above described increases in cash flow were partially offset by an increased level of capital expenditures associated with new store construction and the upgrading of existing store and gasoline facilities.

Capital Expenditures

The Company anticipates spending approximately $25 million for capital expenditures in fiscal 1997 by purchasing store and gasoline equipment for new stores, remodeling approximately 40 to 50 existing stores, installing fast food concepts, such as Taco Bell(R), Subway(R) and Pizza Hut(R) in the new and remodeled stores, installing store automation in a number of locations, significantly upgrading certain gasoline locations to provide credit card readers at the pump, improve outdoor lighting and to meet current environmental standards (see "Environmental Responsibility"). These capital expenditures will be funded primarily by cash generated from operations and from cash generated by the disposition of assets held for sale as of February 3, 1996, supplemented by the availability of a senior revolving line of credit. The Company intends to lease the real estate for the majority of new store locations.

Other Liquidity Item

During fiscal 1996, the Company acquired a $10,000,000 note receivable (Note) from DM Associates collateralized by 1,220,000 shares of the Company's Class B Common Stock (Pledged Shares). This Note is due and payable in September 1997 and if collected, would favorably impact the liquidity of the Company. The Company does not, however, currently anticipate collection of this Note and may therefore take direct ownership and control of the Pledged Shares in full satisfaction of the Note. If the Pledged Shares are acquired from DM Associates, it is the current intention of the Company to retire such shares (see Note 14 to the Consolidated Financial Statements).

Environmental Responsibility

The Company accrues its estimate of all costs to be incurred for assessment and remediation with respect to releases of regulated substances from existing and previously operated retail gasoline facilities. As of February 3, 1996, the Company had recorded an accrual of $1,890,000 for such costs, the majority of which are anticipated to be spent over the next 3 to 5 years.

The Company is entitled to reimbursement of a portion of the above costs from various state environmental trust funds based upon compliance with the terms and conditions of such trust funds. As of February 3, 1996, the Company had recorded a net state trust fund reimbursement receivable of $1,137,000 (representing a gross receivable of $1,696,000 less an allowance

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of $559,000). Although there are no assurances as to the timing, the Company believes that it is probable that reimbursements from the state environmental trust funds will be received within one to four years from the payment of the reimbursable assessment and remediation expenses.

In addition, the Company estimates that future capital expenditure requirements to comply with federal and state underground gasoline storage tank regulations will be approximately $10.0 to $12.0 million in the aggregate through December 1998. These costs could be reduced for low volume retail gasoline locations closed in lieu of the capital cost of compliance.

The Company's estimate of costs to be incurred for environmental assessment and remediation and for required underground storage tank upgrading and other regulatory compliance is based on factors and assumptions that could change due to modifications of regulatory requirements or detection of unanticipated environmental conditions.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements of the Company and its subsidiaries and notes thereto, appear on Pages F-1 through F-20 of this Form 10-K/A Amendment No. 2.

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

None.

PART IV

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

(a) The following are filed as part of this Form 10-K:

(1) Financial Statements:

For a listing of financial statements which are filed as part of this Form 10-K/A Amendment No. 2, see Page F-1.

(2) Financial Statement Schedules:

Report of Independent Public Accountants

Schedule II - Valuation Accounts

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

(3) Exhibits:

Exhibit Number:

(3) Articles of Incorporation and Bylaws.

(3.1) The Company's Restated Certificate of Incorporation, as amended, was filed as Exhibit 3.1 to the Company's Form 10-K for the fiscal year ended February 1, 1992 and is incorporated herein by reference.

(3.2) A Certificate of Designation was filed as Exhibit 1 of the Company's Form 8-K for the January 19, 1996 event and is incorporated herein by reference.

(3.3) The Company's Amended and Restated Bylaws were filed as Exhibit 3.2 to the Company's Form 10-Q for the fiscal quarter ended July 29, 1995 and are incorporated herein by reference.

(4) Instruments defining the rights of security holders, including indentures.

(4.1) The instruments defining the rights of the holders of the Company's Common Stock include the Company's Restated Certificate of Incorporation, Certificate of Designation, Amended and Restated Bylaws and Rights Agreement, filed as Exhibits 3.1, 3.2, 3.3 and 10.23 hereto, and those instruments filed as Exhibit 4.1 of the Company's Registration Statement on Form S-1 (Registration

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No. 33-639) dated November 5, 1985, which are incorporated herein by reference.

(4.2) Amended and Restated Indenture, dated as of December 1, 1995, by and among the Company, Certain Subsidiaries of the Company, as Guarantors, and First Bank National Association, as Trustee, was filed as Exhibit 4.1 of the Company's Form 10-Q for the fiscal quarter ended October 28, 1995 and is incorporated herein by reference.

(4.3) The instruments defining the rights of the holder's of the Company's Warrants include the Form of Stock Purchase Warrants filed as Exhibits 10.13 and 10.14 hereto.

(10) Material Contracts.

(10.1) Credit Agreement dated as of April 24, 1996, among the Company, Bank of Boston Connecticut as agent, and the banks from time to time parties thereto was filed as Exhibit 10.1 of the Company's Form 10-K for the fiscal year ended February 3, 1996 and is incorporated herein by reference.

(10.2) 1985 Incentive Stock Option Plan, as amended, and form of Incentive Stock Option Agreement, were filed as Exhibit 10.4 to the Company's annual report on Form 10-K for the fiscal year ended January 30, 1988, and are incorporated herein by reference.

(10.3) 1983 Incentive Stock Option Plan and form of Incentive Stock Option Agreement thereunder were filed as Exhibit 4.1 and 4.2, respectively, to the Company's Registration Statement on Form S-8 (File No. 33-8209) filed on August 26, 1986, and are incorporated herein by reference.

(10.4) 1990 Stock Option Plan and forms of qualified and non-qualified stock option agreements thereunder were filed as Exhibit 10.4 to the Company's Form 10-K for the fiscal year ended February 2, 1991, and are incorporated herein by reference.

(10.5) 1995 Stock Option and Incentive Award Plan was filed as Exhibit 10.1 of the Company's Form 10-Q for the fiscal quarter ended July 29,1995 and is incorporated herein by reference.

(10.6) 1995 Stock Option Plan for Outside Directors was filed as Exhibit 10.6 of the Company's Form 10-K for the fiscal year ended January 28, 1995 and is incorporated herein by reference.

(10.7) Employment agreement between the Company and Robert B. Stein, Jr. dated June 8, 1995 was filed as Exhibit 10.2 of the Company's Form 10-Q for the fiscal quarter ended July 29, 1995 and is incorporated herein by reference.

(10.8) Employment agreement between the Company and Gregory G. Landry dated June 8, 1995 was filed as Exhibit 10.3 of the Company's Form 10-Q for the fiscal quarter ended July 29, 1995 and is incorporated herein by reference.

(10.9) Employment agreement between the Company and Gary A. Payne dated June 8, 1995 was filed as Exhibit 10.4 of the Company's Form 10-Q for the fiscal quarter ended July 29, 1995 and is incorporated herein by reference.

(10.10) Employment agreement between the Company and Gregg O. Guy dated June 8, 1995 was filed as Exhibit 10.5 of the Company's Form 10-Q for the fiscal quarter ended July 29, 1995 and is incorporated herein by reference.

(10.11) Settlement agreement dated January 27, 1995 between the Company and Frank Colaccino was filed as Exhibit 10.10 of the Company's January 28, 1995 Form 10-K and is incorporated herein by reference.

(10.12) Note Purchase Agreement, dated as of December 1, 1995, between the Company and the Purchasers Listed in the Schedule of Purchasers therein, relating to 10-1/4% Senior Subordinated Notes (Series B) due March 15, 2004, was filed as Exhibit 10.1 of the Company's Form 10-Q for the fiscal quarter ended October 28, 1995 and is incorporated herein by reference.

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(10.13) Form of Stock Purchase Warrant to Subscribe for and Purchase Shares of Class A Common Stock of the Company (Initially Exercisable for an Aggregate of 1,215,000 Shares of Class A Common Stock) was filed as Exhibit 10.2 of the Company's Form 10-Q for the fiscal quarter ended October 28, 1995 and is incorporated herein by reference.

(10.14) Form of Stock Purchase Warrant to Subscribe for and Purchase Shares of Class A Common Stock of the Company (Initially Exercisable for an Aggregate of 500,000 Shares of Class A Common Stock) was filed as Exhibit 10.3 of the Company's Form 10-Q for the fiscal quarter ended October 28, 1995 and is incorporated herein by reference.

(10.15) Registration Rights Agreement, dated December 1, 1995, by and among the Company and the Holders of (i) 10-1/4% Senior Subordinated Notes (Series B) of the Company, due March 15, 2004, and (ii) Warrants to Purchase 1,715,000 shares of Class A Common Stock, par value $.01 per share, of the Company was filed as Exhibit 10.4 of the Company's Form 10-Q for the fiscal quarter ended October 28, 1995 and is incorporated herein by reference.

(10.16) Agreement dated as of October 30, 1995 among the Company, Charles Nirenberg, FCN Properties Corporation and The Nirenberg Family Charitable Foundation, Inc. was filed as Exhibit 10.1 of the Company's Form 8-K/A Amendment No.1 for the October 30, 1995 event and is incorporated herein by reference.

(10.17) Modification Agreement, dated as of December 1, 1995, by and among the Company, Charles Nirenberg, FCN Properties Corporation, The Nirenberg Foundation, Inc., formerly known as the Nirenberg Family Charitable Foundation, Inc., Robert B. Stein, Jr., and Gregory G. Landry was filed as Exhibit 10.6 of the Company's Form 10-Q for the fiscal quarter ended October 28, 1995 and is incorporated herein by reference.

(10.18) Amended and Restated Letter Agreement, dated December 1, 1995, to Mitchell J. Kupperman from the Company, Robert B. Stein, Jr., and Gregory G. Landry was filed as Exhibit 10.7 of the Company's Form 10-Q for the fiscal quarter ended October 28, 1995 and is incorporated herein by reference.

(10.19) DM Associates Limited Partnership Agreement, dated March 12, 1992. Incorporated herein by reference to Exhibit E of the Schedule 13D, dated March 12, 1992, filed by DM Associates Limited Partnership, DM Management Associates and Frank Colaccino.

(10.20) First Amendment to Partnership Agreement of DM Associates Limited Partnership, dated as of September 8, 1994. Incorporated herein by reference to Exhibit F of the Schedule 13D, Amendment No. 4, dated January 27, 1995, filed by DM Associates Limited Partnership, New DM Management Associates I, New DM Management Associates II, Charles Nirenberg, Robert B. Stein, Jr., Gregory G. Landry, Mitchell J. Kupperman and Frank Colaccino.

(10.21) Partnership Agreement of New DM Management Associates I, dated as of September 8, 1994. Incorporated herein by reference to Exhibit G of the Schedule 13D, Amendment No. 4, dated January 27, 1995, filed by DM Associates Limited Partnership, New DM Management Associates I, New DM Management Associates II, Charles Nirenberg, Robert B. Stein, Jr., Gregory G. Landry, Mitchell J. Kupperman and Frank Colaccino.

(10.22) First Amendment to Partnership Agreement of New DM Management Associates I, dated as of December 1, 1995, between Robert B. Stein, Jr., Gregory G. Landry and Mitchell J. Kupperman was filed as Exhibit 10.10 of the Company's Form 10-Q for the fiscal quarter ended October 28, 1995 and is incorporated herein by reference.

(10.23) Rights Agreement dated as of January 19, 1996 between the Company and the First National Bank of Boston, as Rights Agent, including form of Rights Certificate, was filed as Exhibit 1 of the Company's Form 8-K for the January 19, 1996 event and is incorporated herein by reference.

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(11) Calculation of earnings (loss) per share.

(18) Preferability letter of Arthur Andersen LLP regarding change in accounting policy relating to the calculation of self insurance reserves.

(21) Subsidiaries of the Company was filed as Exhibit 21 of the Company's Form 10-K for the fiscal year ended February 3, 1996 and is incorporated herein by reference.

(23) Consent of Arthur Andersen LLP to the incorporation of their reports included in this Form 10-K/A Amendment No. 2, into the Company's previously filed Registration Statements on Forms S-8.

(27) Financial Data Schedule.

(99) Additional Exhibits.

(99.1) 9% secured promissory note dated March 12, 1992 issued by DM Associates Limited Partnership in favor of the Connecticut Development Authority (subsequently assigned to FCN Properties Corporation and then to the Company.)

(99.2) The Section entitled "Information regarding DM Associates and the Nirenberg Transaction" on pages 19 through 21 of the Company's Proxy Statement dated December 26, 1995 was filed as Exhibit 99 of the Company's Form 10-K for the fiscal year ended February 3, 1996 and is incorporated herein by reference.

(b) Reports on Form 8-K

On October 31, 1995, the Company filed a Current Report on Form 8-K, as amended, with the Securities and Exchange Commission in which the Company reported that the Company, Charles Nirenberg, the former Chairman of the Board of Directors and a Director of the Company, and certain other parties executed agreements settling certain disputes and litigation between the parties .

On January 31, 1996, the Company filed a Current Report on Form 8-K in which the Company reported that the Company had adopted a Rights Plan.

No Financial Statements were filed with any of the Current Reports.

(c) See (3) above.

(d) See (2) above.

SIGNATURES

Pursuant to the requirement 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.

Dated: August 23, 1996

DAIRY MART CONVENIENCE STORES, INC.

By /s/ Robert B. Stein, Jr.

Robert B. Stein, Jr.
President, Chief Executive Officer
and Chairman of the Board of Directors

By /s/ Gregory G. Landry

Gregory G. Landry
Executive Vice President and
Chief Financial Officer

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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To the Stockholders and the Board of Directors of
Dairy Mart Convenience Stores, Inc.:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements of Dairy Mart Convenience Stores, Inc. and subsidiaries (the Company) included in this Form 10-K/A Amendment No. 2, and have issued our report thereon dated April 11, 1996 (except with respect to the matter discussed in Note 6, as to which the date is April 24, 1996, and with respect to the matter discussed in Note 15, as to which the date is June 28, 1996). Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in the accompanying index is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Hartford, Connecticut
April 11, 1996

Schedule II

Dairy Mart Convenience Stores, Inc. and Subsidiaries
Valuation Accounts

<TABLE>
<CAPTION>

Column A	Column B	Column C		Column D	Column E
		Additions			
Description	Balance at Beginning of period	Charge to Costs and Expenses	Other and Recoveries	Deductions Accounts Written off	Balance at End of Period
<S>	<C>	<C>	<C>	<C>	<C>
Reserve for Doubtful Accounts:					
Fiscal Year Ended January 29,1994	$1,653,124	$ 958,336	$ --	$ (787,283)	$1,824,177
Fiscal Year Ended January 28,1995	1,824,177	1,053,818	14,057	(1,163,810)	1,728,242
Fiscal Year Ended February 3,1996	1,728,242	1,220,153	--	(1,101,173)	1,847,222

</TABLE>

DAIRY MART CONVENIENCE STORES, INC.
INDEX TO FINANCIAL STATEMENTS

<TABLE>
<CAPTION>

	Form 10-K Page
<S>	<C>
Report of Independent Public Accountants	F-2
Consolidated Statements of Operations and Stockholders' Equity for the Fiscal Years Ended February 3, 1996, January 28, 1995 and January 29, 1994	F-3
Consolidated Balance Sheets as of February 3, 1996 and January 28, 1995	F-4
Consolidated Statements of Cash Flows for the Fiscal Years Ended February 3, 1996, January 28, 1995 and January 29, 1994	F-5
Notes to Consolidated Financial Statements for the Fiscal Years Ended February 3, 1996, January 28, 1995 and January 29, 1994	F-6 to F-20

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</TABLE>

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and the Board of Directors of
Dairy Mart Convenience Stores, Inc.:

We have audited the accompanying consolidated balance sheets of Dairy Mart Convenience Stores, Inc. (a Delaware corporation) and subsidiaries as of February 3, 1996 and January 28, 1995, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended February 3, 1996. 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 financial position of Dairy Mart Convenience Stores, Inc. and subsidiaries as of February 3, 1996 and January 28, 1995, and the results of their operations and their cash flows for each of the three years in the period ended February 3, 1996, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Hartford, Connecticut
April 11, 1996 (except with respect
to the matter discussed in Note 6,
as to which the date is April 24, 1996,
and with respect to the matter discussed
in Note 15, as to which the date is
June 28, 1996)

<TABLE>
<CAPTION>

Consolidated Statements of Operations — Dairy Mart Convenience Stores, Inc. and Subsidiaries

For the Years Ended February 3, 1996, January 28, 1995 and January 29, 1994	1996	1995	1994
	(in thousands, except per share amounts)		
<S>	<C>	<C>	<C>
Revenues (including excise taxes of $36,331, $36,332 and $29,209)	$ 571,311	$ 596,782	$ 591,500
Cost of goods sold and expenses:			
Cost of goods sold	413,548	439,757	430,254
Operating and administrative expenses	157,322	163,909	150,500
Interest expense	9,661	10,435	7,644
	580,531	614,101	588,398
Income (loss) before income taxes, extraordinary item and cumulative effect of accounting change	(9,220)	(17,319)	3,102
Benefit from (provision for) income taxes	3,220	6,558	(1,308)
Income (loss) before extraordinary item and cumulative effect of accounting change	(6,000)	(10,761)	1,794

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Extraordinary loss on extinguishment of debt (net of income tax benefit of $677)	-	-	(928)
Income (loss) before cumulative effect of accounting change	(6,000)	(10,761)	866
Cumulative effect of accounting change	-	(389)	-
Net income (loss)	$ (6,000)	$ (11,150)	$ 866
Earnings (loss) per share:			
Before extraordinary item and cumulative effect of accounting change	$ (1.12)	$ (1.94)	$ .33
Extraordinary loss on extinguishment of debt	-	-	(.17)
Cumulative effect of accounting change	-	(.07)	-
Earnings (loss) per share	$ (1.12)	$ (2.01)	$ .16

</TABLE>
<TABLE>
<CAPTION>
Consolidated Statements of Stockholders' Equity

For the Years Ended February 3, 1996, January 26, 1995 and January 29, 1994

(in thousands)

	Common Stock				Retained	Treasury Stock		Note Receivable
	Class A Shares	Class B Shares	Amount	Paid-In Capital	Earnings (Deficit)	Shares	Amount	from DM Associates
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance January 30, 1993	3,174	2,971	$ 62	$27,212	$ 10,463	698	$ (5,005)	$ -
Issuance of common stock	30	50	1	271	-	-	-	-
Exchange of Class B shares for Class A shares	65	(65)	-	-	-	-	-	-
Net income (loss)	-	-	-	-	866	-	-	-
Balance January 29, 1994	3,269	2,956	63	27,483	11,329	698	(5,005)	-
Issuance of common stock	21	6	-	97	-	-	-	-
Exchange of Class B shares for Class A shares	-	-	-	-	-	-	-	-
Net income (loss)	-	-	-	-	(11,150)	-	-	-
Balance January 28, 1995	3,290	2,962	63	27,580	179	698	(5,005)	-
Issuance of common stock	33	-	-	110	-	-	-	-
Exchange of Class B shares for Class A Shares	3	(3)	-	-	-	-	-	-
Issuance of warrants	-	-	-	2,281	-	-	-	-
Note receivable from DM Associates	-	-	-	-	-	-	-	(10,000)
Net income (loss)	-	-	-	-	(6,000)	-	-	-
Balance February 3, 1996	3,326	2,959	$ 63	$29,971	$(5,821)	698	$(5,005)	$(10,000)

</TABLE>
The accompanying notes are an integral part of these financial statements.

<TABLE>
<CAPTION>

Consolidated Balance Sheets	Dairy Mart Convenience Stores, Inc. and Subsidiaries	
February 3, 1995 and January 28, 1995	1996	1995
	(In thousands, except per share amount)	

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<S> <C> <C>

Assets		
Current Assets		
Cash	$ 12,654	$ 4,512
Short-term Investment	-	2,053
Accounts and notes receivable	9,752	12,398
Inventory	20,928	26,044
Prepaid expenses and other current assets	3,454	1,945
Deferred income taxes	2,669	3,537
Total current assets	49,457	50,489
Assets Held for Sale	8,685	23,378
Property and Equipment, net	80,387	70,578
Intangible Assets, net	17,277	17,961
Other Assets, net	9,132	9,822
Total Assets	$ 164,938	$ 172,228
Liabilites and Stockholders' Equity		
Current Liabilities		
Current maturities of long-term obligations	$ 1,430	$ 1,570
Accounts payable	30,803	28,942
Accrued expenses	14,437	17,214
Accrued Interest	3,355	3,052
Total current liabilities	50,025	50,778
Long-Term Obligations, less current portion above	99,451	88,698
Other Liabilites	6,254	9,935
Commitments and Contingencies (Note 6, 7, and 13)		
Stockholders' Equity:		
Preferred Stock (serial), par value $.01, 1,000,000 shares authorized, no shares issued	-	-
Class A Common Stock, par value $.01, 20,000,000 shares authorized, 3,326,296 and 3,290,460 issued	33	33
Class B Common Stock, par value $.01, 10,000,000 shares authorized, 2,959,017 and 2,961,953 issued	30	30
Paid-in capital	29,971	27,580
Retained earnings (deficit)	(5,821)	179
Treasury stock, at cost	(5,005)	(5,005)
Note receivable from DM Associates	(10,000)	-
Total stockholders' equity	9,208	22,817
Total liabilities and stockholders' equity	$ 164,938	$ 172,228

</TABLE>
The accompanying notes are an integral part of these financial statements.

<TABLE>
<CAPTION>

Consolidated Statements of Cash Flows — Dairy Mart Convenience Stores Inc. and Subsidiaries

For the Years Ended February 3, 1996, January 28, 1995 and January 29, 1994

<S> <C> <C> <C>

	1996	1995	1994
		(in thousands)	
Cash flows from operating activities:			
Net income (loss)	$ (6,000)	$ (11,150)	$ 866
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Cumulative effect of accounting change........	--	389	--
Extraordinary loss on extinguishment of debt........	--	--	928
Cash flow effect of corporate governance issues and restructuring initiatives and other operating costs........	550	9,953	(4,833)
Depreciation and amortization........	12,390	12,477	12,900
Change in deferred income taxes........	(2,873)	(5,160)	(95)
(Gain) loss in other disposition of properties, net........	(376)	880	494
Net change in assets and liabilities:			
Accounts and notes receivable........	2,646	(628)	(152)
Inventory........	5,116	225	588

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Accounts payable	1,861	242	932
Accrued interest	303	1,961	45
Other assets and liabilities	(3,722)	(2,497)	2,612
Net cash provided by operating activities	9,895	6,692	14,285
Cash flows from investing activities:			
Purchase of short-term investments	--	(3,953)	--
Proceeds from sale of short-term investments	2,053	1,900	--
Purchase of property and equipment	(20,232)	(17,772)	(13,749)
Proceeds from sale of property, equipment and assets held for sale	14,741	1,120	1,925
Increase in long-term notes receivable	(1,579)	(1,621)	(291)
Proceeds from collection of long-term notes receivable	1,706	1,394	1,631
Decrease (increase) in intangibles and other assets	79	(334)	15
Net cash used by investing activities	(3,232)	(19,266)	(10,469)
Cash flows from financing activities:			
Issuance of long-term obligations and related warrants	13,500	74,064	4,915
Repayment of long-term obligations	(2,131)	(63,707)	(8,854)
Note receivable from DM Associates	(10,000)	--	--
Issuance of common stock	110	97	272
Net cash provided by (used in) financing activities	1,479	10,454	(3,667)
Increase (decrease) in cash	8,142	(2,120)	149
Cash at beginning of year	4,512	6,632	6,483
Cash at end of year	$ 12,654	$ 4,512	$ 6,632
Supplemental disclosures:			
Cash paid during the year -			
Interest	$ 9,359	$ 9,509	$ 7,700
Income taxes (refundable) paid	(1,172)	879	1,199
Noncash investing and financing activities -			
Issuance of warrants	665	--	--
Capital lease obligations	828	--	330

</TABLE>

The accompanying notes are an integral part of these financial statement.

Notes To Consolidated Financial Statements
Dairy Mart Convenience Stores, Inc. and Subsidiaries

February 3, 1996, January 28, 1995 and January 29, 1994

1. Significant Accounting Policies:
Corporate organization and consolidation - The accompanying financial statements include the accounts of Dairy Mart Convenience Stores, Inc. and its subsidiaries (the Company). All intercompany transactions have been eliminated.

Nature of the business - The Company owns, operates and franchises convenience retail stores, a number of which also sell gasoline. The convenience stores are primarily located in eleven states with approximately 60% in the Midwest, and the remainder in the Northeast and Southeast. The stores offer a wide range of products including groceries, tobacco products, beverages, general merchandise, health and beauty aids and deli products. The Company also manufactured and distributed certain dairy and other products for sale at the majority of these locations, which operations were discontinued in fiscal 1996 (see Note 14).

Fiscal year - The Company's fiscal year ends on the Saturday closest to January 31. There were 53 weeks included in the fiscal year ended February 3, 1996 and 52 weeks included in the fiscal years ended January 28, 1995 and January 29, 1994.

Use of estimates in the preparation of financial statements - 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 as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Short-term investment - As of January 28, 1995, the Company's short-term investment consisted of a U.S. Treasury Bill with a maturity of less than one year. The Company accounted for this investment as being available for sale in

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accordance with Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities". As of January 28, 1995, the fair market value of the U.S. Treasury Bill approximated its cost.

Inventory- Store inventory is stated primarily at the lower of last-in, first-out (LIFO) cost or market. Gasoline inventory is stated at the lower of first-in, first-out (FIFO) cost or market.

Assets held for sale - Assets held for sale represent operating and non-operating assets which the Company intends to sell in the near term and are carried at the lower of cost or estimated net realizable value. The Company reduced the carrying value of certain of these assets to their estimated net realizable value by taking a special charge to earnings in fiscal years 1996 and 1995 (see Note 14). The amounts the Company will realize could differ materially from the amounts assumed in arriving at the carrying value.

Property, equipment and depreciation - Property is stated at cost and is depreciated on the straight-line basis for financial reporting purposes over the following estimated useful lives:

Buildings	30-40 years
Equipment	5-20 years

Leasehold improvements are amortized primarily over the lesser of 10 years or the term of the lease.

Income taxes - The Company calculates income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes", which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements and tax returns.

Self insurance reserves - The Company is self-insured for certain property and liability, and accident and health insurance risks and establishes reserves for estimated outstanding claims based on its historical claims experience and reviews by third-party loss reserve specialists. The Company has purchased insurance coverage for losses that may occur above certain levels. As of February 3, 1996 and January 28, 1995, the Company had established reserves for these risks of $7,305,000 and $8,702,000, respectively, which are recorded on a present value basis. The Company historically has recorded its self insurance reserves using a discount rate based upon the Company's incremental borrowing rate which was 8% as of January 29, 1994. As of January 30, 1994, the Company changed its method of accounting to discount its self insurance reserves at a risk free rate of return. The cumulative effect of this change in accounting method was a charge to income of $389,000, net of the applicable income tax benefit of $271,000. As of February 3, 1996 and January 28, 1995 the risk free rate of return was 5.53% and 7.62%, respectively. While management believes these reserves are adequate, the ultimate amount of these liabilities could differ from these estimates.

Fair value of financial instruments - In accordance with SFAS No. 107, "Disclosures about Fair Value of Financial Instruments", the Company has disclosed the fair value, related carrying value and method for determining fair value for the following financial instruments in the accompanying notes as referenced: short-term investments (see Note 1), accounts and notes receivable (see Note 2) and long-term obligations (see Note 6).

Revenue recognition - The Company recognizes revenues as earned, including franchise revenues and interest income. Franchise revenues represent a percentage of franchise store sales remitted to the Company on a weekly or monthly basis, for providing merchandising, advertising, store audits, and other operating and administrative support services, as well as revenues derived from initial fees and the gain on sale of store assets to franchisees. Franchise revenues were $18,805,000, $19,426,000 and $19,612,000 for the fiscal years ended February 3, 1996, January 28, 1995 and January 29, 1994, respectively.

Store preopening and closing costs - Expenditures of a non-capital nature associated with opening a new store are expensed as incurred. At the time the decision is made to close a store, estimated unrecoverable costs are charged to expense. Such costs include the net book value of abandoned fixtures, equipment, leasehold improvements and a provision for the present value of future lease obligations, less the present value of estimated future sub-rental income. The Company utilizes a risk free rate of return to discount its future lease obligations and sub-rental income. As of February 3, 1996 and January 28, 1995, the risk free rate of return was 5.53% and 7.62%, respectively. Previously, the Company used a discount rate based on its incremental borrowing rate which was 8% as of January 29, 1994.

Earnings (loss) per share - Earnings (loss) per share have been calculated based on the weighted average number of shares of common stock outstanding and the effect of stock options, if dilutive, during each year. Additionally during fiscal 1996, the Company acquired a $10,000,000 note receivable (Note) from DM

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Associates Limited Partnership (DM Associates) collateralized by 1,220,000 shares of the Company's Class B Common Stock (Pledged Shares). The Company does not, however, currently anticipate collection of this Note (see Note 14) and therefore has reflected the Pledged Shares as treasury stock for earnings (loss) per share purposes. The Company does recognize, however, that DM Associates has the right to pay this Note at or before maturity and retain direct ownership and control of the Pledged Shares. If such payment were to occur, Pledged Shares would no longer be reflected as treasury stock for earnings (loss) per share purposes. Additionally, in the interim, to the extent that the market value of the Pledged Shares exceeds the face value of the Note and related accrued interest, the dilutive effect of the Pledged Shares measured using the treasury stock method, will be considered in calculating earnings per share. The number of shares used in the calculation for earnings (loss) per share was 5,373,784, 5,540,874 and 5,532,201 for the fiscal years ended February 3, 1996, January 28, 1995 and January 29, 1994, respectively.

Reclassifications - Certain prior year amounts in the Consolidated Financial Statements have been reclassified to conform to the presentation used for the current year.

2. Accounts and Notes Receivable:
A summary of accounts and notes receivable as of February 3, 1996 and January 28, 1995 is as follows:

<TABLE>
<CAPTION>

	1996	1995
	(in thousands)	
<S>	<C>	<C>
Franchise accounts receivable	$ 4,349	$ 5,067
Franchise notes receivable	3,134	3,010
Marketing allowances and other	6,483	8,543
	13,966	16,620
Less allowance for doubtful accounts and notes receivable	1,847	1,728
Net accounts and notes receivable	12,119	14,892
Less noncurrent notes receivable (included in other assets)	2,367	2,494
Current accounts and notes receivable	$ 9,752	$ 12,398

</TABLE>

The carrying amount of current accounts and notes receivable approximates fair value because of the short maturity of those receivables. The fair value of the Company's noncurrent notes receivable is estimated by discounting the future cash flows using the rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. As of February 3, 1996, the fair value of the noncurrent notes receivable exceeded the carrying value of $2,367,000 by approximately $87,000. As of January 28, 1995, the fair value of the noncurrent notes receivable exceeded the carrying value of $2,494,000 by approximately $140,000.

---

3. Inventory:
A summary of inventory as of February 3, 1996, January 28, 1995 and January 29, 1994 is as follows:

<TABLE>
<CAPTION>

	1996	1995	1994
		(in thousands)	
<S>	<C>	<C>	<C>
Inventory valued at FIFO cost	$ 25,435	$ 30,800	$ 30,852
LIFO reserve	(4,507)	(4,756)	(4,583)
Inventory primarily valued at LIFO cost	$ 20,928	$26,044	$ 26,269

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</TABLE>

The LIFO reserve reflects the difference between stating the inventory at historical LIFO cost and the more current FIFO cost. Had the FIFO method been used, cost of goods sold would have been increased by $249,000 in 1996, decreased by $173,000 in 1995 and increased by $825,000 in 1994. Loss per share would have been increased by $.03 in 1996, reduced by $.02 in 1995 and earnings per share would have have been decreased by $.09 in 1994, had the FIFO method been used.

During 1996 and 1995, the Company liquidated certain LIFO inventory that was carried at lower costs prevailing in prior years. The effect of the liquidation was to decrease net loss by approximately $488,000 ($.09 per share) and $56,000 ($.01 per share) in 1996 and 1995, respectively. During 1994, the Company liquidated certain LIFO inventory that was carried at higher costs prevailing in prior years. The effect of the liquidation was to decrease net income by approximately $45,000 ($.01 per share).

4. Property and Equipment:
A summary of property and equipment as of February 3, 1996 and January 28, 1995 is as follows:

<TABLE>
<CAPTION>

<S>	1996 <C>	1995 <C>
	(in thousands)	
Land and improvements	$ 9,529	$ 9,180
Building and leasehold improvements	32,970	31,370
Equipment	73,686	59,358
Assets under capital leases	3,432	2,632
	119,617	102,540
Less accumulated depreciation and amortization	(39,230)	(31,962)
Property and equipment, net	$ 80,387	$ 70,578

<CAPTION>

Accumulated depreciation and amortization, as presented above, includes accumulated amortization of assets under capital leases of $1,937,000 and $1,617,000 as of February 3, 1996 and January 28, 1995, respectively.

5. Intangible Assets:
A summary of intangibles as of February 3, 1996 and January 28, 1995 is as follows:

<S>	1996 <C>	1995 <C>
	(in thousands)	
Goodwill	$ 13,874	$ 13,865
Franchise and operating rights	10,144	10,144
	24,018	24,009
Less accumulated amortization	(6,741)	(6,048)
Intangible assets, net	$ 17,277	$ 17,961

</TABLE>

Goodwill represents the excess of cost over fair value of net assets purchased and is being amortized on a straight-line basis over a period of 40 years. Franchise and operating rights represent the value of franchise relationships purchased in connection with past acquisitions and are being amortized on a straight-line basis over 30 years. The Company assesses the recoverability of these intangibles by determining whether the amortization of the goodwill and franchise and operating rights over the remaining lives can be recovered through projected future operating results on an undiscounted basis. The Company's

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management anticipates a return to profitability in fiscal year 1997 and therefore no provision for impairment was recorded in any period.

During 1995, the Financial Accounting Standards Board issued SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets". The statement establishes accounting standards for the impairment of long-lived assets to be held and used and for long-lived assets to be disposed of. The Company is continuing to assess the impact of adopting SFAS No. 121 which is required in fiscal 1997, however, management believes adoption of this statement will not have a material adverse effect on the Company's financial position or results of operations.

<TABLE>
<CAPTION>

6. Long-Term Obligations:

The Company had the following long-term obligations as of February 3, 1996:

	Interest Rate	Maturity (Fiscal Year)	February 3, 1996 Current	Long-Term	Total
				(in thousands)	
<S>	<C>	<C>	<C>	<C>	<C>
Senior subordinated notes (Series A Notes)......................	10.25%	2005	$ -	$ 75,000	$ 75,000
Senior subordinated notes (Series B Notes), net of original issue discount of $1,584......................................	10.25%	2005	-	11,916	11,916
Revolving credit facility......................................	Various	2000	-	-	-
Real estate mortgage notes payable.............................	6.25%-12.0%	1998-2012	293	5,174	5,467
Small Business Administration debentures........................	6.9%-9.6%	1998-2006	-	4,230	4,230
Equipment financing..	Various	1998-2000	720	1,505	2,225
Capital leases, net of interest and executory costs of $643......	Various	1998-2009	417	1,626	2,043
			$ 1,430	$ 99,451	$100,881

</TABLE>

In March 1994, the Company issued $75,000,000 principal amount of 10.25% senior subordinated notes (the "Series A Notes") due March 15, 2004. The proceeds received from the sale of the Series A Notes, net of offering costs of $2,298,000, were used to repay the entire outstanding indebtedness under the then existing bank term loan and bank revolving loan and to redeem in full the Company's 14.25% subordinated debentures due November, 2000. In connection with this transaction, the Company paid a premium of 2.8%, or $761,000, related to the redemption of the 14.25% subordinated debentures and recorded a charge of $844,000 representing the write-off of the remaining deferred financing costs related to the indebtedness repaid. The Company accounted for the total of the premium paid and the charge for deferred financing costs as an extraordinary loss of $928,000, net of related income tax benefit of $677,000, in the fiscal year ended January 29, 1994.

In December 1995, the Company issued an additional $13,500,000 principal amount of 10.25% senior subordinated notes (the "Series B Notes") due March 15, 2004. The proceeds received from the sale of the Series B Notes were used primarily to purchase the interests of a former majority stockholder of the Company and certain of his affiliates in DM Associates (see Note 14). The Indenture pursuant to which the Company issued the Series A Notes was amended and restated to apply to the Series B Notes.

In conjunction with the issuance of the Series B Notes, the Company issued to the purchasers of the Series B Notes warrants to purchase 1,215,000 shares of Class A Common Stock of the Company. In addition, the Company issued to the holders of the Series A Notes warrants to purchase 500,000 shares of the Class A Common Stock of the Company. The warrants may be exercised any time during the next six years. The initial exercise price of the warrants is $6.95 per share, but the exercise price may be adjusted to 110% of the market price of the Company's Class A Common Stock one year after the issuance of the warrants, if such adjustment results in a decrease of the exercise price. The exercise price will also be adjusted upon the occurrence of various events, including stock dividends and issuances of Common Stock by the Company for a per share price less than the exercise price of the warrants or less than the current market value of the Company's Class A Common Stock.

The Series A and Series B Notes,(collectively, the "Notes") are redeemable, at the option of the Company, after March 15, 1999 at rates starting at 104.75% of principal amount reduced annually through March 15, 2002 at which time they become redeemable at 100% of principal amount. The terms of the Notes may restrict, among other things, the payment of dividends and other distributions,

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investments, the repurchase of capital stock and the making of certain other restricted payments by the Company and its subsidiaries, the incurrence of additional indebtedness and new operating lease obligations by the Company or any of its subsidiaries, and certain mergers, consolidations and dispositions of assets. Additionally, according to the terms of the Notes, if a change of control occurs, as defined, each holder of Notes will have the right to require the Company to repurchase such holder's Notes at 101% of the principal amount thereof.

In April 1996, the Company entered into a new $30,000,000 senior revolving credit facility which provides for the availability initially of up to $20,000,000 of aggregate extensions of credit, of which up to $15,000,000 will be available for the issuance of letters of credit. The outstanding balance is due and payable on April 30, 1999; however, the Company may extend such due date for up to two additional one-year periods, with the consent of the lenders. Revolving credit loans under the credit agreement bear interest, at the Company's option, at an applicable margin over the agent bank's base rate or the LIBOR rate. The applicable margin, if any, is based upon the ratio of consolidated indebtedness to consolidated EBITDA, as defined below. The credit agreement also provides for a commitment fee of 1/2% on any unused portion of the revolving credit facility. Among other restrictions, the credit agreement contains financial covenants relating to specified levels of: indebtedness to earnings before interest expense, taxes, depreciation and amortization (EBITDA); EBITDA to interest expense; earnings before interest expense, taxes, depreciation, amortization and rent, less taxes paid in cash to interest expense, rent expense and principal payments required to be made on indebtedness; and the maintenance of a minimum net worth. In connection with the credit agreement, the Company granted a security interest in substantially all of its non-real estate assets and pledged as collateral the shares of capital stock of certain subsidiary corporations of the Company.

The Company is limited in the amount of cash dividends that it may pay and the amount of capital stock and subordinated indebtedness that it may repurchase by applicable covenants contained in the senior revolving credit facility and Notes. As of February 3, 1996, taking into account such limitations, the Company would not have been able to pay cash dividends.

As of February 3, 1996 and January 28, 1995, the fair value of the real estate mortgage notes payable and Small Business Administration debentures approximated the carrying amount. As of February 3, 1996, the fair value of the Series B Notes, net of original issue discount, approximated the carrying amount. As of February 3, 1996 and January 28, 1995, the fair value of the Series A Notes was $65,500,000 and $56,250,000, respectively.

<TABLE>
<CAPTION>

As of February 3, 1996 maturities on long-term obligations for the next five years, were as follows:

Fiscal Year	February 3, 1996
	(in thousands)
<S>	<C>
1997	$1,430
1998	1,412
1999	2,226
2000	4,262
2001	333

</TABLE>

7. Operating Leases:
The Company leases operating properties, including store locations and office space, under various lease agreements expiring through 2020. Certain of these locations are sublet to the Company's franchisees. The future minimum lease payments related to these properties are included in the following summary.

<TABLE>
<CAPTION>
A summary of future minimum lease payments and sublease receipts as of February 3, 1996 is as follows:

Payable/Receivable in Fiscal Year Ending	Operating Leases	Operating Subleases	Net Operating Leases
		(in thousands)	

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1997	$14,704	$2,980	$11,724
1998	11,761	2,375	9,386
1999	9,086	1,642	7,444
2000	6,876	966	5,910
2001	4,597	550	4,047
Thereafter	19,627	452	19,175
Total	$66,651	$8,965	$57,686

Rental expense for all operating leases was as follows:

	1996	1995	1994
	(in thousands)		
Leases	$15,297	$15,321	$14,803
Less subleases	4,169	4,631	4,396
Net	$11,128	$10,690	$10,407

Dairy Mart Convenience Stores, Inc. and Subsidiaries

8. Federal and State Income Taxes:

The benefit from (provision for) income taxes for the fiscal years ended February 3, 1996, January 28, 1995 and January 29, 1994 was as follows:

	1996	1995	1994
	(in thousands)		
Current benefit (provision)			
Federal	$ 495	$2,015	$ (188)
State and local	(148)	(346)	(447)
Total current benefit (provision)	347	1,669	(635)
Deferred benefit (provision)			
Federal	2,101	3,423	115
State and local	772	1,737	(111)
Total deferred benefit (provision)	2,873	5,160	4
Total benefit (provision)	$3,220	$6,829	$ (631)

The Company is subject to minimum state taxes in excess of statutory state income taxes in many of the states in which it operates. These minimum taxes are included in the current provision for state and local income taxes. In addition, the Company records a reduction in the provision (increase in the benefit) for income taxes for the benefit to be realized from targeted jobs credits in the year in which they arise. A reconciliation of the difference between the statutory federal income tax rate and the effective income tax rate follows:

	Percent of Pretax Income		
	1996	1995	1994
Statutory federal income tax rate	34 %	34 %	(34) %

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(Increase) decrease from:			
State income tax benefit (provision), net of federal tax effect	5	5	(24)
Nondeductible expenses and amortization of acquired assets	(5)	(1)	(8)
Targeted jobs credit	1	2	27
Regulatory audit settlement	-	(2)	-
Other	-	-	(3)
Effective income tax rate	35 %	38 %	(42) %

</TABLE>

In November 1994, the Company reached an agreement with the Internal Revenue Service to settle certain disputed items, primarily related to the deductibility of certain intangible assets associated with prior acquisitions. The impact of the settlement required the Company to pay approximately $1,587,000, of which $681,000 represents pretax interest charges (see Note 14), and to reduce the deductibility of the remaining basis of certain intangible assets by $3,300,000. Due to the immateriality of the amounts involved, the Company reflected the impact of this settlement through the fiscal 1995 tax benefit and adjusted deferred tax assets and liabilities accordingly rather than adjusting the amounts allocated to goodwill arising from the acquisition.

Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Significant deferred tax assets (liabilities) as of February 3, 1996 and January 28, 1995 were as follows:

<TABLE>
<CAPTION>

	1996	1995
	(in thousands)	
<S>	<C>	<C>
Capitalized leases	$ 182	$ 182
Depreciation and amortization	(13,307)	(13,337)
Vacation accrual	324	310
Inventory (LIFO)	(1,337)	(1,582)
Reserve for asset valuations	803	744
Insurance reserves not deductible for tax purposes	1,989	2,091
Income deferred for financial statement purposes	365	127
Reserve for closed stores and renovations	937	1,649
Accrued restructuring and severance reserves	875	607
Financial statement expenses deferred for tax purposes	379	477
Writedown of non-operating properties	1,591	1,455
Divestiture of dairy manufacturing and distribution operations	124	997
Tax credits and net operating loss carryforwards	9,927	6,272
Other	460	447
Net deferred tax asset (liability)	$ 3,312	$ 439

</TABLE>

As of February 3, 1996, the Company had alternative minimum tax credits aggregating $330,000 which carryforward indefinitely for federal income tax purposes. These credits can be used in the future to the extent that the Company's regular tax liability exceeds its liability calculated under the alternative minimum tax method. In addition, the Company had $1,979,000 of targeted jobs credit carryforwards that expire, if unused, from fiscal 2007 to 2011 and $518,000 of foreign tax credit carry-forwards that expire, if unused, in fiscal 1997 to 2001. The Company and its subsidiaries file a consolidated federal income tax return but generally file separate state income tax returns. As of February 3, 1996, the Company had regular federal income tax net operating loss carryforwards of $15,903,000 which expire, if unused, from fiscal 2009 to 2011 and net operating loss carry-forwards for state income tax purposes of $25,641,000 which expire, if unused from fiscal 1997 to 2011. Realization of the net operating loss carryforwards is dependent on generating sufficient taxable income prior to the expiration of the operating loss carryforwards. Although realization is not assured, management believes it is more likely than not that the deferred tax asset will be realized. The amount of the deferred tax asset considered realizable, however, would be reduced in the near term if

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management's estimate of future taxable income during the carryforward period are reduced. No valuation allowance for deferred tax assets was provided as of February 3, 1996 and January 28, 1995.

9. Capital Stock:
In January 1996, a Stock Rights Plan ("SRP") was adopted by the Company. Under the SRP, each holder of Class A and Class B Common Stock was declared a dividend of one Preferred Stock Purchase Right (the "Rights"). The Rights are to purchase one one-hundredth (1/100) of a share of Series A Junior Preferred Stock at a price of $30 subject to certain adjustments. The Rights are exercisable under certain circumstances, and expire on January 19, 2006.

Dividends may be declared and paid on Class A Common Stock without being paid on Class B Common Stock. No dividend may be paid on Class B Common Stock without equal amounts paid concurrently on Class A Common Stock (see Note 6). Holders of Class A Common Stock have one-tenth vote per share and are entitled to elect 25% of the Board of Directors so long as the number of outstanding shares of Class A Common Stock is at least 10% of the total of all shares of Common Stock outstanding. Holders of Class B Common Stock have one vote per share. Holders of Class B Common Stock have the right to convert their shares at any time for an equivalent number of shares of Class A Common Stock.

In June 1986, the stockholders approved an Employee Stock Purchase Plan. The plan, as amended in June, 1992, provides that employees may purchase quarterly, through payroll deductions, up to 250 shares of Class A Common Stock at 85% of the market value. Of the original 1,250,000 shares provided for under this plan, 1,052,611 shares remained available for issuance as of February 3, 1996.

As of February 3, 1996, January 28, 1995 and January 29, 1994, the Company held 521,625 shares of Class A Common Stock and 175,957 shares of Class B Common Stock as treasury shares.

----

10. Stock Option Plans, Grants and Warrants:
The Company adopted Stock Option Plans in 1983, 1985 and 1990 providing for the granting of options to employees up to an aggregate of 226,875 shares of Class B Common Stock and 750,000 shares of Class A Common Stock. The Company granted incentive stock options pursuant to these Plans totalling 177,887, 158,363 and 100,500 in fiscal 1996, 1995 and 1994, respectively. As of February 3, 1996, the Company had available for grant under the 1990 Plan options to purchase 41,893 shares of Class A Common Stock, after considering the lapse of options previously granted. In addition to the incentive stock options granted under the above Plans, the Company has granted non-qualified stock options, including options for 97,500 and 160,500 in fiscal 1996 and 1995, respectively, which are not part of a specific plan.

In January 1996, the Company adopted a Stock Option and Incentive Award Plan (the "Award Plan") and a non-qualified Stock Option Plan for Outside Directors ("Outside Directors Plan"). The Award Plan provides for the granting of options to employees up to a total of 650,000 shares of either Class A or Class B Common Stock. As of February 3, 1996 the Company had granted options for 82,500 shares of the Company's Class A Stock under the Award Plan. The Outside Directors Plan provides for an option to purchase 3,500 shares of the Company's Class A Common Stock to all non-employee directors and an option of 3,500 shares annually thereafter for a period of ten years. The maximum number of shares reserved for issuance under this plan is 50,000. The Company granted 17,500 non-qualified stock options to Outside Directors in fiscal year 1996.

In October 1995, the Financial Accounting Standards Board issued SFAS No. 123, "Accounting for Stock-Based Compensation". This statement defines a fair value based method of accounting for an employee stock option or similar equity instrument. However, it also allows an entity to continue to measure compensation cost for those plans using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock issued to Employees". The Company has elected to remain with the accounting in Opinion No. 25 and is required to make pro forma disclosures of net income, as if the fair value based method of accounting defined in the statement, had been applied. The Company is required to adopt this new accounting standard on February 4, 1996.

A summary of activity for all stock options during the fiscal year ended February 3, 1996 is as follows:

<TABLE>
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	Options Outstanding	Net Options		Options Outstanding	Options Exercisable

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Plan or Fiscal Year	Stock Type	Option Price	January 28, 1995	Granted (Lapsed)	Options Exercised	February 3, 1996	February 3, 1996
Incentive Stock Options:							
1983 Plan	Class B	$5.50	5,250	(5,250)	-	-	-
1985 Plan	Class A	$2.75 to $2.88	384,125	28,080	(7,875)	404,330	178,606
1990 Plan	Class A	$2.75 to $2.88	134,063	40,607	(8,750)	165,920	75,860
1995 Plan	Class A	$5.50	-	82,500	-	82,500	-
Total Incentive Stock Options			523,438	145,937	(16,625)	652,750	254,466
Non-qualified Stock Options:							
1986	Class B	$4.00	6,750	(6,750)	-	-	-
1987	Class A	$8.80	10,000	-	-	10,000	10,000
1991	Class A	$4.60	5,000	-	-	5,000	5,000
1995	Class B	$5.50	10,000	-	-	10,000	10,000
1995	Class A	$4.60 to $7.25	140,000	-	-	140,000	140,000
1996	Class A	$2.75 to $2.88	-	97,500	-	97,500	97,500
1996	Class A	$4.00 to $5.75	10,500	17,500	-	28,000	10,500
Total Non-qualified Stock Options			182,250	108,250	-	290,500	273,000
Total Stock Options			705,688	254,187	(16,625)	943,250	527,466

</TABLE>

In January 1996, the Company awarded, pursuant to the Award Plan, restricted stock grants consisting of an aggregate of 100,000 shares of the Company's Class A Common Stock. The restricted shares will vest equally over a three year period if the closing price of the Company's Class A Common Stock, as reported on the NASDAQ National Market System for a consecutive ten day period, is equal to at least $9.00 in the first year, $11.00 in the second year and $13.00 in the third year from the date of the grant.

In December 1995, the Company issued warrants to purchase 1,715,000 shares of Class A Common Stock which may be exercised at any time during the next six years (see Notes 6 and 14) at an exercise price of $6.95 per share at February 3, 1996. The issuance of the warrants were recorded as an increase in paid-in-capital totalling approximately $2,281,000.

<TABLE>
<CAPTION>

11. Gasoline Operations:

A summary of gasoline operations for the years ended February 3, 1996, January 28, 1995 and January 29, 1994 is as follows:

	1996	1995	1994
	(in thousands)		
Gasoline gallons sold..........................	212,832	206,441	206,365
Gasoline revenues..............................	$226,505	$210,541	$206,155
Cost of gasoline sold..........................	201,980	186,462	180,835
Depreciation...................................	2,461	2,080	2,025
Capital expenditures...........................	7,585	3,702	952
Net book value of gasoline equipment...........	19,054	13,068	11,300

</TABLE>

12. Employee Benefit Plans:

The Company provides benefits to qualified employees through a defined contribution profit sharing plan. Contributions under this plan are made annually in amounts determined by the Company's Board of Directors. No discretionary contributions to this plan were made in fiscal 1996 or 1995 and the Company recorded a provision of $100,000 for contributions under this plan in fiscal 1994.

Effective January 1, 1993, the profit sharing plan was amended pursuant to section 401(k) of the Internal Revenue Code enabling eligible employees to contribute up to 15% of their annual compensation to the plan, with the Company

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matching 25% of such contributions up to 6% of the employees' annual compensation. Matching contributions from the Company for fiscal years 1996, 1995 and 1994 were $128,000, $163,000 and $181,000, respectively. The Company does not offer any additional postretirement and postemployment benefits to its employees.

---

13. Commitments and Contingencies:
As of February 3, 1996, the Company was contingently liable for outstanding letters of credit amounting to $13,475,000. The Company was also contingently liable as guarantor on certain loans obtained by convenience store operators to finance the purchase of equipment and initial inventory in the approximate amount of $97,000 as of February 3, 1996. In consideration of these guarantees, the Company participates with the lending institutions in the interest paid on these obligations which are secured by inventory and equipment owned by the convenience store operators.

The Company has certain environmental contingencies related to the ongoing costs to comply with federal, state and local environmental laws and regulations, including costs for assessment, compliance, remediation and certain capital expenditures related to its gasoline operations. In the ordinary course of business, the Company is involved in environmental assessment and remediation activities with respect to releases of regulated substances from existing and previously operated retail gasoline facilities. The Company accrues its estimate of all costs to be incurred for assessment and remediation for known releases. These accruals are adjusted if and when new information becomes known. Due to the nature of such releases, the actual costs of assessment and remediation may vary significantly from year to year. As of February 3, 1996 and January 28, 1995, the Company had recorded an accrual of $1,890,000 and $2,300,000, respectively, for such costs. The Company is entitled to reimbursement of a portion of the above costs from various state environmental trust funds based upon compliance with the terms and conditions of such funds. As of February 3, 1996 and January 28, 1995, the Company had recorded a reimbursement receivable of $1,137,000 and $1,031,000, respectively. For the fiscal years ended February 3, 1996, January 28, 1995 and January 29, 1994, the Company recorded a provision for environmental expenses of $1,048,000, $1,160,000 and $343,000, respectively. Additionally, under current federal and state regulatory programs, the Company will be obligated by December 1998 to upgrade or replace most of its existing underground storage tanks ("USTs"). The Company presently estimates that it will be required to make capital expenditures related to the upgrading or replacing of USTs ranging from approximately $10.0 to $12.0 million in the aggregate through December 1998, which capital expenditures could be reduced for locations which may be closed in lieu of the capital costs of compliance. The Company's estimate of costs to be incurred for environmental assessment and remediation and for UST upgrading and other regulatory compliance are based on factors and assumptions that could change due to modifications of regulatory requirements, detection of unanticipated environmental conditions or other unexpected circumstances. Due to the nature of such information, the actual costs incurred may vary from their estimates, and the ongoing costs of assessment and remediation activities may vary significantly from year to year.

In fiscal 1989, the Company entered into agreements for the wholesale supply of various grocery items to its Northeast and Midwest region stores. Under the supply agreement, the Company is obligated to annually purchase a minimum amount of merchandise for a period of ten years. The level of purchases was achieved during the first eight years of the agreement and management believes it is readily achievable for the balance of the agreement. Prices to be charged by the supplier must be competitive.

The Company has been named as a nominal defendant, along with those persons who were directors of the Company in fiscal 1996, in two shareholder derivative actions. The plaintiffs allege, among other things, that in connection with the settlement of the dispute between a former majority stockholder of the Company and certain of his affiliates and the Company's board of directors and management with respect to control of the Company, the directors violated their fiduciary duty to the Company and its stockholders, violated provisions of Delaware corporate law and wasted corporate assets. The plaintiffs seek, among other things, a declaration that the current structure of the general partner of DM Associates is invalid and that certain voting rights, with respect to the Class B Common Stock held by DM Associates should be vested in the Company. DM Associates owns approximately 60% of the total voting power of both classes of the Company's Common Stock. The Company is contesting these claims and at this time is not able to determine what the outcome of this litigation will be.

The Company is party to a number of other lawsuits which have arisen in the ordinary course of business. Management does not believe the outcome of this litigation will have a material impact on the Company's future results of operations or financial position.

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14. Corporate Governance Issues, Restructuring Initiatives and Interest Charges:

In fiscal years 1996 and 1995, the Company incurred special and/or unusual costs and expenses associated with corporate governance issues and restructuring initiatives and other operating costs which have been included in operating and administrative expenses on the Consolidated Statement of Operations. Additionally, special and/or unusual interest charges have been included in interest expense on the Consolidated Statement of Operations. A summary of these charges for fiscal years ended February 3, 1996 and January 28, 1995 is as follows:

	1996	1995
	(in thousands)	
Costs and expenses associated with corporate governance issues	$ 8,985	$ 2,050
Corporate restructuring initiatives and other operating costs	3,215	10,734
Interest charges	-	1,216

During fiscal 1996, the company entered into an agreement with a former majority stockholder of the Company and certain of his affiliates (Former Holder) for purposes of settling a dispute between the Former Holder and the Company's board of directors and management with respect to control of the Company. The dispute arose due to philosophical differences with regards to the strategic direction and management of the Company. The agreement provided for a cash payment of $13,150,000 to the Former Holder comprised of $10,000,000 for the purchase of certain interests of the Former Holder in DM Associates, which owns 1,858,743 shares of the Company's Class B Common Stock, and $3,150,000 for additional costs and expenses. The acquired interests comprise a limited partnership interest in DM Associates and a promissory note receivable from DM Associates. The promissory note has a principal amount of $7,100,000, and has accrued interest at an annual rate of 9% since its inception in 1992, for a total accreted value as of February 3, 1996 of approximately $10,000,000. The note is collateralized by the Pledged Shares and matures on September 12, 1997. The additional costs and expenses of $3,150,000 included $850,000, $800,000 and $1,500,000 for the reimbursement of legal and other costs, for the execution of a non-compete agreement, and for a release of claims against the Company, by or with the Former Holder, respectively.

The Company did not attribute value to its acquired limited partnership interest in DM Associates because at the current market price of the Company's Class B Common Stock, the Company would not receive any distribution upon a dissolution of DM Associates in respect of the interest since the other limited partner of DM Associates is entitled to a preferential return according to the terms and conditions of the partnership agreements. The Company attributed a fair value of $10,000,000 to the acquired promissory note and recorded the note as a reduction of stockholders' equity on the Consolidated Balance Sheets. Although DM Associates retained its right to pay the full accreted value of the note at or before maturity, the Company anticipates based upon the current market price of the Company's Class B Common Stock and since DM Associates primary asset is the Pledged Shares, that DM Associates will choose to relinquish its right to the Pledged Shares in full satisfaction of the note. Assuming that the Company receives the Pledged Shares in satisfaction of the note and receives no value for its limited partnership interest, the Company effectively paid $8.20 per share for the Pledged Shares at the time of the agreement when the quoted market price of the Company's Class B Common Stock was $6.38 per share. The Company's Board of Directors obtained a fairness opinion from a nationally recognized valuation firm prior to consummating the agreement to the effect that the price paid by the Company in the transaction was fair from a financial point of view to the Company and its public stockholders. The aforementioned opinion was based on, among other items: the market multiple approach in which the Company was compared with other publicly traded companies on the basis of operational and economic similarities; the comparable transaction approach in which transactions involving the acquisition of a control position in other convenience and grocery store operators were reviewed; and the discounted cash flow approach in which management's financial projections which reflected improved profitability and cash flows for fiscal years 1997 through 2001 were reviewed to develop a value indication for the Company. These analyses resulted in a valuation range for the Company's Common Stock of $6.85 to $9.45 per share. In addition, the Company elected to expense the costs associated with the non-compete agreement rather than deferring such costs over the term of the agreement as the future value was deemed to have minimal economic impact on future years.

Also during fiscal 1996, the Company incurred $5,835,000 of additional costs and expenses in connection with the aforementioned transactions. These costs and expenses included $2,672,000 for legal and other professional fees, $1,211,000

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for the termination of an Officer of the Company who was a party to the Former Holder's claims against the Company, $1,287,000 for financing fees primarily incurred to amend the Company's senior revolving credit facility with respect to the purchase of the Former Holder's interest and issuance of Series B Notes (see Note 5) and $665,000 for the issuance of warrants to purchase 500,000 shares of the Company's Class A Common Stock to holders of the Company's Series A Notes as fee for the consent of such holders for the Company to purchase the interests of the Former Holder and for the waiver of certain alleged defaults under the terms of the Series A Notes.

During fiscal 1995, the Company recorded costs and expenses of $2,050,000 in connection with the removal of the Company's former President and Chief Executive Officer, and the settlement of legal disputes arising therefrom. These costs and expenses included $650,000 for legal and professional fees incurred by the Company, and $1,400,000 for the reimbursement of legal fees incurred by the former President, severance and other related costs.

In the fourth quarter of fiscal 1995, the Company's senior management approved a plan and implemented a series of initiatives to restructure the operations of the organization. As a result, the Company recorded costs and expenses of $10,734,000 related to these initiatives, including $2,500,000 of exit costs for the disposal of equipment, severance and other personnel related costs associated with the divestiture of the dairy manufacturing and distribution operations, $3,584,000 for the writedown of certain dairy and manufacturing and other properties to their estimated net realizable value based upon marketing efforts to dispose of these assets in the fourth quarter of fiscal 1995, $3,900,000 of exit costs associated with the sale or closing of 143 retail convenience stores and the closing of 81 retail gasoline facilities and $750,000 of severance and termination costs for 112 administrative personnel associated with the downsizing of the Company's operations.

During fiscal 1996, the Company recorded additional operating and exit costs totalling $3,215,000 related to the aforementioned restructuring initiatives including $1,313,000 incurred during the wind-down of dairy and manufacturing distribution operations since the eventual sales of such operations occurred at later dates than initially anticipated by management and $1,000,000 for the further writedown of the properties held for sale to their estimated net realizable value based upon marketing efforts to dispose of these assets in the fourth quarter of fiscal 1996. In addition, the Company incurred an additional $902,000 of costs related to the sale or closing of the 143 retail convenience stores and 81 retail gasoline facilities again since such sales/closings occurred at later dates than had been originally planned by management.

During fiscal 1995, the Company incurred $535,000 in duplicative interest expense, net of interest income, and fees due to the issuance of the Company's 10.25% senior subordinated notes on March 3, 1994, the retirement of the Company's 14.25% subordinated debentures on April 4, 1994 and a subsequent amendment of the Company's senior revolving credit facility (see Note 6). In addition, the Company reached agreement with the Internal Revenue Service to settle certain disputed items. The terms of the settlement required the Company to pay $681,000 of interest charges (see Note 8).

15. Supplemental Consolidating Financial Information:

The Company's payment obligations under the Series A and Series B Senior Subordinated Notes are guaranteed by certain of the Company's subsidiaries ("Guarantor Subsidiaries"). The Notes are fully and unconditionally guaranteed on an unsecured, senior subordinated, joint and several basis by each of the Guarantor Subsidiaries. The following supplemental financial information sets forth, on a consolidating basis, statement of operations, balance sheets and cash flows information for the Company ("Parent Company Only"), for the Guarantor Subsidiaries and for Financial Opportunities Inc. ("FINOP"), the Company's non-guarantor subsidiary. Separate complete financial statements of the respective Guarantor Subsidiaries would not provide additional information which would be useful in assessing the financial condition of the Guarantor Subsidiaries, and are accordingly omitted.

Investment in subsidiaries is accounted for by the Parent Company on the equity method for purpose of the supplemental consolidating presentation. Earnings of the subsidiaries are, therefore, reflected in the Parent Company's investment accounts and earnings. The principal elimination entries eliminate the Parent Company's investment in subsidiaries and intercompany balances and transactions.

Supplemental Consolidating Statement of Operations

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For the Year Ended February 3, 1996

<TABLE>
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<S>	Parent Company <C>	Guarantor Subsidiaries <C>	FINOP <C>	Eliminations <C>	Consolidated <C>
			(in thousands)		
Revenues (including excise taxes of $36,331)................	$ 681	$ 570,099	$ 531	$ -	$ 571,311
Cost of goods sold and expenses:					
Cost of goods sold..................................	-	413,548	-	-	413,548
Operating and administrative expenses...............	9,288	148,016	18	-	157,322
Interest expense....................................	8,723	594	344	-	9,661
	18,011	562,158	362	-	580,531
Income (loss) before income taxes and equity in income (loss) of consolidated subsidiaries.....	(17,330)	7,941	169	-	(9,220)
Benefit from (provision for) income taxes...................	6,052	(2,768)	(64)	-	3,220
Income (loss) before equity in income (loss) of consolidated subsidiaries.......................	(11,278)	5,173	105	-	(6,000)
Equity in income (loss) of consolidated subsidiaries.........	5,278	105	-	(5,383)	-
Net income (loss)..............................	$ (6,000)	$ 5,278	$ 105	$ (5,383)	$ (6,000)

</TABLE>

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Dairy Mart Convenience Stores, Inc. and Subsidiaries

Supplemental Consolidating Balance Sheet
as of February 3, 1996

<S>	Parent Company <C>	Guarantor Subsidiaries <C>	FINOP <C>	Eliminations <C>	Consolidated <C>
			(in thousands)		
Assets					
Current Assets:					
Cash..	$ 1,739	$ 7,871	$ 3,044	$ -	$ 12,654
Accounts and notes receivable...........................	-	9,081	671	-	9,752
Inventory...	-	20,928	-	-	20,928
Prepaid expenses and other current assets...............	60	3,394	-	-	3,454
Deferred income taxes...................................	859	1,810	-	-	2,669
Total current assets...............................	2,658	43,084	3,715	-	49,457
Assets Held for Sale.......................................	-	8,685	-	-	8,685
Property and Equipment, net................................	-	80,387	-	-	80,387

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	Parent Company	Guarantor Subsidaries	FINOP	Eliminations	Consolidated
Intangible Assets, net	-	17,277	-	-	17,277
Other Assets, net	2,442	4,352	2,338	-	9,132
Investment in and Advances to Subsidiaries	119,309	1,650	275	(121,234)	-
Total assets	$ 124,409	$ 155,435	$ 6,328	$ (121,234)	$ 164,938
Liabilities and Stockholders' Equity					
Current Liabilities:					
Current maturities of long-term obligations	$ 932	$ 490	$ 8	$ -	$ 1,430
Accounts payable	15,919	14,875	9	-	30,803
Accrued expenses	2,211	12,221	5	-	14,437
Accrued interest	3,236	-	119	-	3,355
Total current liabilities	22,298	27,586	141	-	50,025
Long-term Obligations, less current portion above	92,573	2,648	4,230	-	99,451
Other Liabilities	330	5,892	32	-	6,254
Stockholders' Equity	9,208	119,309	1,925	(121,234)	9,208
Total liabilities and stockholders' equity	$ 124,409	$ 155,435	$ 6,328	$ (121,234)	$ 164,938

</TABLE>

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Supplemental Consolidating Statement of Cash Flows
for the Year Ended February 3, 1996

(in thousands)

	Parent Company	Guarantor Subsidaries	FINOP	Eliminations	Consolidated
<S>	<C>	<C>	<C>	<C>	<C>
Net cash provided by (used in) operating activities	$ (9,824)	$ 19,624	$ 95	$ -	$ 9,895
Cash flows from investing activities					
Proceeds from sale of short-term investments	-	-	2,053	-	2,053
Purchase of property and equipment	-	(20,232)	-	-	(20,232)
Proceeds from sale of property, equipment and assets held for sale	-	14,741	-	-	14,741
Investment in and advances to subsidiaries	8,096	(7,831)	(265)	-	-
Increase in long-term notes receivable	-	-	(1,579)	-	(1,579)
Proceeds from collection of long-term notes receivable	-	69	1,637	-	1,706
Decrease (increase) in intangibles and other assets	183	(113)	9	-	79
Net cash provided by (used in) investing activities	8,279	(13,366)	1,855	-	(3,232)
Cash flows from financing activities:					
Issuance of long-term obligations and related warrants	13,500	-	-	-	13,500
Repayment of long-term obligations	(326)	(1,805)	-	-	(2,131)
Note receivable from DM Associates	(10,000)	-	-	-	(10,000)
Issuance of common stock	110	-	-	-	110
Net cash provided by (used in) financing activities	3,284	(1,805)	-	-	1,479
Increase in cash	1,739	4,453	1,950	-	8,142
Cash at beginning of year	-	3,418	1,094	-	4,512
Cash at end of year	$ 1,739	$ 7,871	$ 3,044	$ -	$ 12,654
Supplemental disclosures:					
Cash paid during the year -					
Interest	$ 8,512	$ 535	$ 312	$ -	$ 9,359
Income taxes refunded	(1,172)	-	-	-	(1,172)
Noncash investing and financing activities -					
Issuance of warrants	665	-	-	-	665
Capital lease obligations	768	60	-	-	828

</TABLE>

Dairy Mart Convenience Stores, Inc. and Subsidiaries

Supplemental Consolidating Statement of Operations
for the Year ended January 28, 1995

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	Parent Company	Guarantor Subsidiaries	FINOP	Eliminations	Consolidated
	(in thousands)				
<S>	<C>	<C>	<C>	<C>	<C>
Revenues (including excise taxes of $36,332)	$ 500	$ 595,821	$ 461	$ -	$ 596,782
Cost of goods sold and expenses:					
Cost of goods sold	-	439,757	-	-	439,757
Operating and administrative expenses	3,140	160,744	25	-	163,909
Interest expense	9,414	645	376	-	10,435
	12,554	601,146	401	-	614,101
Income (loss) before income taxes, equity in income (loss) of consolidated subsidiaries and cumulative effect of accounting change	(12,054)	(5,325)	60	-	(17,319)
Benefit from (provision for) income taxes	4,564	2,018	(24)	-	6,558
Income (loss) before equity in income (loss) of consolidated subsidiaries and cumulative effect of accounting change	(7,490)	(3,307)	36	-	(10,761)
Equity in income (loss) of consolidated subsidiaries	(3,271)	36		3,235	-
Income (loss) before cumulative effect of accounting change	(10,761)	(3,271)	36	3,235	(10,761)
Cumulative effect of accounting change	(389)	-	-	-	(389)
Net income (loss)	$ (11,150)	$ (3,271)	$ 36	$ 3,235	$ (11,150)

</TABLE>

Supplemental Consolidating Balance Sheet
as of January 28, 1995

<TABLE>
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	Parent Company	Guarantor Subsidiaries	FINOP	Eliminations	Consolidated
	(in thousands)				
Assets					
<S>	<C>	<C>	<C>	<C>	<C>
Current Assets:					
Cash	$ -	$ 3,418	$ 1,094	$ -	$ 4,512
Short-term investment	-	-	2,053	-	2,053
Accounts and notes receivable	-	11,742	656	-	12,398
Inventory	-	26,044	-	-	26,044
Prepaid expenses and other current assets	135	1,810	-	-	1,945
Deferred income taxes	1,558	1,979	-	-	3,537
Total current assets	1,693	44,993	3,803	-	50,489
Assets Held for Sale	-	23,378	-	-	23,378
Property and Equipment, net	-	70,578	-	-	70,578
Intangible Assets, net	-	17,961	-	-	17,961
Other Assets, net	2,577	4,833	2,412	-	9,822
Investment in and Advances to Subsidaries	122,022	1,810	210	(124,042)	-
Total assets	$126,292	$ 163,553	$ 6,425	$ (124,042)	$ 172,228
Liabilities and Stockholders' Equity					
Current Liabilities:					
Current maturities of long-term obligations	$ 999	$ 571	$ -	$ -	$ 1,570
Accounts payable	15,210	13,726	6	-	28,942
Accrued expenses	2,859	14,350	5	-	17,214
Accrued interest	2,901	-	151	-	3,052
Total current liabilities	21,969	28,647	162	-	50,778
Long-term Obligations, less current portion above	80,916	3,562	4,220	-	88,698
Other Liabilities	590	9,322	23	-	9,935
Stockholders' Equity	22,817	122,022	2,020	(124,042)	22,817

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Total liabilities and stockholders' equity................	$126,292	$ 163,553	$ 6,425	$ (124,042)	$ 172,228

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Dairy Mart Convenience Stores, Inc. and Subsidiaries

Supplemental Consolidating Statement of Cash Flows
for the Year Ended January 28, 1995

<S>	Parent Company <C>	Guarantor Subsidiaries <C>	FINOP <C>	Eliminations <C>	Consolidated <C>
			(in thousands)		
Net cash provided by (used in) operating activities.........	$ (2,158)	$ 8,931	$ (81)	$ -	$ 6,692
Cash flows from investing activities					
Purchase of short-term investments......................	-	-	(3,953)	-	(3,953)
Proceeds from sale of short-term investments............	-	-	1,900	-	1,900
Purchase of property and equipment......................	-	(17,772)	-	-	(17,772)
Proceeds from sale of property, equipment and assets held for sale.............................	-	1,120	-	-	1,120
Investment in and advances to subsidiaries..............	(8,653)	8,955	(302)	-	-
Increase in long-term notes receivable..................	-	-	(1,621)	-	(1,621)
Proceeds from collection of long-term notes receivable..	-	332	1,062	-	1,394
Decrease (increase) in intangibles and other assets.....	(2,793)	2,413	46	-	(334)
Net cash used by investing activities......................	(11,446)	(4,952)	(2,868)	-	(19,266)
Cash flows from financing activities:					
Issuance of long-term obligations and related warrants..	74,064	-	-	-	74,064
Repayment of long-term obligations......................	(60,557)	(3,150)	-	-	(63,707)
Issuance of common stock................................	97	-	-	-	97
Net cash provided by (used in) financing activities.........	13,604	(3,150)	-	-	10,454
Increase (decrease) in cash................................	-	829	(2,949)	-	(2,120)
Cash at beginning of year..................................	-	2,589	$ 4,043	-	6,632
Cash at end of year..	$ -	$ 3,418	$ 1,094	$ -	$ 4,512
Supplemental disclosures:					
Cash paid during the year--					
Interest..	$ 8,600	$ 581	$ 328	$ -	$ 9,509
Income taxes paid.......................................	879	-	-	-	879

</TABLE>

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Supplemental Consolidating Statement of Operations
for the Year Ended January 29, 1994

<S>	Parent Company <C>	Guarantor Subsidiaries <C>	FINOP <C>	Eliminations <C>	Consolidated <C>
			(in thousands)		
Revenues (including excise taxes of $29,209)...............	$ 119	$ 590,933	$ 448	$ -	$ 591,500
Cost of goods sold and expenses:					
Cost of goods sold......................................	-	430,254	-	-	430,254
Operating and administrative expenses...................	271	150,196	33	-	150,500
Interest expense..	6,742	526	376	-	7,644
	7,013	580,976	409	-	588,398

Income (loss) before income taxes, equity in income

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	Parent Company	Guarantor Subsidiaries	FINOP	Eliminations	Consolidated
(loss) of consolidated subsidiaries and extraordinary item.............................	(6,894)	9,957	39	-	3,102
Provision for (benefit from)income taxes..................	2,907	(4,199)	(16)	-	(1,308)
Income (loss) before equity in income (loss) of consolidated subsidiaries and extraordinary item...	(3,987)	5,758	23	-	1,794
Equity in income (loss) of consolidated subsidaries.........	5,781	23	-	(5,804)	-
Income (loss) before extraodinary item.............	1,794	5,781	23	(5,804)	1,794
Extraordinary loss on extinguishment of debt (net of of income tax benefit of $677)..........................	(928)	-	-	-	(928)
Net income (loss).................................	$ 866	$ 5,781	$ 23	$ (5,804)	$ 866

</TABLE>

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Supplemental Consolidating Statement of Cash Flows
January 29, 1994

(in thousands)

<S>	<C> Parent Company	<C> Guarantor Subsidiaries	<C> FINOP	<C> Eliminations	<C> Consolidated
Net cash provided by (used in) operating activities.......	$ (3,307)	$ 17,427	$ 165	$ -	$ 14,285
Cash flows from investing activities					
Purchase of property and equipment.................	-	(13,749)	-	-	(13,749)
Proceeds from sale of property, equipment and assets held for sale.........................	-	1,925	-	-	1,925
Investment in and advances to subsidiaries..........	6,955	(6,680)	(275)	-	-
Increase in long-term notes receivable.............	-	-	(291)	-	(291)
Proceeds from collection of long-term notes receivable.......................................	-	461	1,170	-	1,631
Decrease (increase) in intangibles and other assets.	27	(12)	-	-	15
Net cash provided by (used in) investing activities.......	6,982	(18,055)	604	-	(10,469)
Cash flows from financing activities:					
Issuance of long-term obligations and related warrants..	4,077	838	-	-	4,915
Repayment of long-term obligations.................	(8,024)	(830)	-	-	(8,854)
Issuance of common stock...........................	272	-	-	-	272
Net cash provided by (used in) financing activities.......	(3,675)	8	-	-	(3,667)
Increase (decrease) in cash..............................	-	(620)	769	-	149
Cash at beginning of year................................	-	3,209	3,274	-	6,483
Cash at end of year......................................	$ -	$ 2,589	$ 4,043	$ -	$ 6,632
Supplemental disclosures:					
Cash paid during the year--					
Interest...	$ 6,790	$ 531	$ 379	$ --	$ 7,700
Income taxes paid..................................	1,199	--	--	--	1,199
Noncash investing and financing activities--					
Capital lease obligations...........................	247	83	--	--	330

</TABLE>

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Exhibit 11

Dairy Mart Convenience Stores, Inc. and Subsidiaries
STATEMENT RE COMPUTATIONS OF PER-SHARE EARNINGS
(in thousands, except per share amounts)

CALCULATION OF EARNINGS (LOSS) PER SHARE

For the three fiscal years ended February 3, 1996, January 28, 1995, and January 29, 1994

	1996	1995	1994
Net income (loss)...........................	$(6,000)	$(11,150)	$ 866
Weighted average shares.....................	5,577	5,541	5,493
Dilutive options............................	-	-	39
Effect of pledged DM Associates shares (1)..	(203)	-	-
Total shares for EPS purposes...............	5,374	5,541	5,532
Net earnings (loss) per share...............	$ (1.12)	$ (2.01)	$ 0.16

(1) On December 1, 1995 the Company purchased the interests of a former majority stockholder of the Company in DM Associates Limited Partnership (DM Associates), including a note receivable collateralized by 1,220,000 shares of the Company's Class B Common Stock. The purchase of the note receivable has been reflected in the financial statements as a reduction of stockholders' equity (see Note 14 to the Consolidated Financial Statements). These shares are being treated similar to treasury stock for earnings (loss) per share purposes. The effect of DM Associates pledged stock on total shares for EPS purposes is calculated as follows:

1,220,000 X 2/12 (months held) = 203,333

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Exhibit 18

[LOGO OF ARTHUR ANDERSEN APPEARS HERE]

May 29, 1996

Arthur Andersen LLP

One Financial Plaza
Hartford CT 06103-2699
860 280 0500

Dairy Mart Convenience Stores, Inc.
One Vision Drive
Enfield, CT 06082

Gentlemen:

This letter is written to meet the requirements of Regulation S-K calling for a letter from a registrant's independent accountants whenever there has been a change in accounting principle or practice.

We have been informed that, as of January 30, 1994, the Company changed the rate used to discount its self insurance reserves. Prior to this date, the Company has used its incremental borrowing rate for purposes of discounting the insurance reserves. Effective January 30, 1994, the Company began using a "risk free rate of return" to discount these liabilities.

This change of method was deemed appropriate by the Company as the risk free rate of return is a better indicator of the rate which would be used by a third party to settle the liabilities being discounted and, therefore, represents a better estimate of the fair value of these Liabilities. In addition, in a speech given by Jeffery A. Swormstedt, Professional Accounting Fellow, at the Twenty-First Annual National Conference on Current SEC Developments dated January 11, 1994, this method of discounting liabilities was recommended.

Based upon the reasons stated for the change and our discussions with you, we are of the opinion that the Company's change in accounting is to a preferable method of accounting under the circumstances. In arriving at this opinion, we have relied on the business judgment and business planning of your management.

Very truly yours,

Arthur Andersen LLP

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Exhibit 23

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K/A Amendment No. 2, into the Company's previously filed Registration Statements on Forms S-8, File No. 33-8209 and File No. 33-47893.

ARTHUR ANDERSEN LLP

Hartford, Connecticut
August 23, 1996

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Exhibit 99-1

DM ASSOCIATES LIMITED PARTNERSHIP

9% Secured Promissory Note
Due July 31, 1997
(Negative Amortization)

$7,100,000 March 12, 1992
Hartford, Connecticut

For value received, the undersigned, DM ASSOCIATES LIMITED PARTNERSHIP (the "Borrower"), hereby promises to pay to CONNECTICUT DEVELOPMENT AUTHORITY (the "Authority"), or order, in such coin or currency of the United States of America as shall be legal tender for the payment of public and private debts, the principal sum of SEVEN MILLION ONE HUNDRED THOUSAND AND NO/100 DOLLARS ($7,100,000) together with interest, in like money, from the date hereof until maturity at the rate of nine percent (9%) per annum, subject to recalculation and adjustment as set forth in the Loan Agreement (defined below). Pursuant to the Loan Agreement, interest on the principal balance of this Note is to be compounded April 1, 1992 and quarterly thereafter, and on each such quarterly compounding date accrued but unpaid interest shall be added to the principal balance of this Note on which interest shall be charged and collected. This Note shall evidence, and the Borrower hereby promises to pay, the additional indebtedness resulting from such compounding of

interest. The Borrower further acknowledges and agrees that such additional indebtedness will result in the negative amortization of the principal balance of this Note, and, accordingly, that the principal balance of this Note may at any time exceed the stated principal amount hereof.

All amounts payable hereunder which are not paid on the maturity or due date thereof shall be payable as provided in the Loan Agreement (defined below) and, in any event, if not sooner paid, the entire outstanding principal balance of this Note and all accrued but unpaid interest thereon shall be due and payable on July 31, 1997. Payments shall be made to the Authority at 217 Washington Street, Hartford, Connecticut, 06106, or at such other place as may be designated by the Authority. All payments on account of this Note shall be applied in accordance with the terms of the Loan Agreement (defined below).

The principal amount and accrued interest from time to time outstanding hereunder, and each payment of interest and/or principal with respect hereto, shall be recorded on the books and records of the Authority. The amounts reflected on such books and records as outstanding with respect to principal and interest under this Note at any time shall be prima facie evidence of the aggregate amount owing and unpaid hereunder as of such time.

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This Note is issued by the Borrower under, and secured as provided by, a Loan Agreement (the "Loan Agreement") dated , 1992 and a Stock Pledge Agreement (the "Pledge Agreement") dated , 1992, in each case between the Borrower and the Authority. This Note is secured by the Pledge Agreement. Reference is hereby made to the Loan Agreement and the Pledge Agreement for a more particular description of the property of the Borrower subject to the Pledge Agreement and the nature and extent of the security and the rights of the Authority with respect thereto.

Recourse on this Note is limited as set forth in Section 2.12 of the Loan Agreement, which provides, among other things, that no individual partner of the general partner of the Borrower and no limited partner of the Borrower shall be personally liable for the payment of any amounts due under this Note.

This Note may be prepaid in whole or in part, the maturity hereof accelerated, and all amounts owing on or pursuant hereto may be, or be declared, due and payable in the manner and with the effect provided in the Loan Agreement, and

all of the terms, covenants and conditions thereof are hereby deemed

incorporated in this Note with the same effect as if fully set forth herein.

IN WITNESS WHEREOF, the Borrower has caused this Note to be duly executed.

DM ASSOCIATED LIMITED PARTNERSHIP

By DM MANAGEMENT ASSOCIATES, its general partner

By /s/ Frank Colaccino

Name:
Title:

7210R

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