

UNI MARTS INC
Form 10-Q
August 16, 2002
Page 1

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended July 4, 2002

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 1-11556

UNI-MARTS, INC.

(Exact name of registrant as specified in its charter)

Delaware	25-1311379
(State or other jurisdiction of Incorporation or organization)	(I.R.S. Employer Identification No.)

477 East Beaver Avenue	
State College, PA	16801-5690
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (814) 234-6000

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing

requirements for the past 90 days. Yes S No £

7,119,079 Common Shares were outstanding at August 9, 2002.

This Document Contains 22 Pages.

PAGE 2

UNI-MARTS, INC. AND SUBSIDIARIES
INDEX

PART I - FINANCIAL INFORMATION

	PAGE(S)
Item 1.	
Financial Statements (Unaudited)	
Condensed Consolidated Balance Sheets - July 4, 2002 and September 30, 2001	3-4
Condensed Consolidated Statements of Operations - Quarter Ended and Three Quarters Ended July 4, 2002 and July 5, 2001	5
Condensed Consolidated Statements of Cash Flows - Three Quarters Ended July 4, 2002 and July 5, 2001	6-7
Notes to Condensed Consolidated Financial Statements	8-13
Item 2.	
Management's Discussion and Analysis of Financial Condition and Results of Operations	14-18

Item 3.	Quantitative and Qualitative Disclosures about Market Risk	19
---------	---	----

PART II - OTHER INFORMATION

Item 6.	Exhibits and Reports on Form 8-K	20
Exhibit Index		22

PAGE 3

PART I - FINANCIAL INFORMATION

ITEM 1 - *Financial Statements*

UNI-MARTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	July 4, <u>2002</u>	September 30, <u>2001</u>
ASSETS		
CURRENT ASSETS:		
Cash	\$ 5,982	\$ 5,075
Accounts receivable - less allowances of \$169 and \$225	6,782	7,156
Inventories	19,585	18,471
Prepaid and current deferred taxes	1,668	1,672
Property held for sale	1,442	3,137
Prepaid expenses and other	<u>863</u>	<u>1,448</u>
 TOTAL CURRENT ASSETS	 36,322	 36,959

PROPERTY, EQUIPMENT AND
IMPROVEMENTS -

at cost, less accumulated depreciation and

amortization of \$62,882 and \$59,166	99,767	103,488
LOAN DUE FROM OFFICER	360	420
NET INTANGIBLE AND OTHER ASSETS	<u>7,445</u>	<u>7,763</u>
TOTAL ASSETS	\$143,894 =====	\$148,630 =====

(Continued)

PAGE 4

UNI-MARTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)
(CONTINUED)
(Unaudited)

	July 4, <u>2002</u>	September 30, <u>2001</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 14,177	\$ 16,239
Gas taxes payable	3,981	3,360
Accrued expenses	6,401	6,820
Current maturities of long-term debt	2,968	2,920
Current obligations under capital leases	<u>166</u>	<u>391</u>
TOTAL CURRENT LIABILITIES	27,693	29,730
LONG-TERM DEBT, less current maturities	79,685	80,912
OBLIGATIONS UNDER CAPITAL LEASES,		
less current maturities	253	361

DEFERRED TAXES	2,312	2,917
DEFERRED INCOME AND OTHER LIABILITIES	5,506	5,217
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred Stock, par value \$1.00 per share:		
Authorized 100,000 shares		
Issued none	0	0
Common Stock, par value \$.10 per share:		
Authorized 16,000,000 shares		
Issued 7,419,928 and 7,388,083 shares, respectively	742	739
Additional paid-in capital	23,837	23,833
Retained earnings	<u>5,805</u>	<u>6,978</u>
	30,384	31,550
Less treasury stock, at cost - 300,849 and 323,275 shares of Common Stock, respectively	<u>(1,939)</u>	<u>(2,057)</u>
	<u>28,445</u>	<u>29,493</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$143,894 =====	\$148,630 =====

See notes to consolidated financial statements

PAGE 5

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	QUARTER ENDED		THREE QUARTERS ENDED	
	July 4, <u>2002</u>	July 5, <u>2001</u>	July 4, <u>2002</u>	July 5, <u>2001</u>
REVENUES:				
Merchandise sales	\$ 58,075	\$ 53,734	\$166,904	\$151,335

Edgar Filing: UNI MARTS INC - Form 10-Q

Gasoline sales	50,240	58,088	131,685	165,789
Other income	<u>465</u>	<u>442</u>	<u>1,375</u>	<u>1,510</u>
	<u>108,780</u>	<u>112,264</u>	<u>299,964</u>	<u>318,634</u>
COSTS AND EXPENSES:				
Cost of sales	86,036	88,434	233,358	251,204
Selling	17,068	16,827	50,926	49,898
General and administrative	2,122	2,021	6,165	5,628
Depreciation and amortization	2,070	2,056	6,199	6,064
Interest	1,684	1,952	5,094	5,937
Provision for asset impairment	<u>0</u>	<u>24</u>	<u>0</u>	<u>24</u>
	<u>108,980</u>	<u>111,314</u>	<u>301,742</u>	<u>318,755</u>
EARNINGS (LOSS) BEFORE				
INCOME TAXES	(200)	950	(1,778)	(121)
INCOME TAX PROVISION (BENEFIT)	<u>(56)</u>	<u>323</u>	<u>(605)</u>	<u>(41)</u>
NET EARNINGS (LOSS)	\$ (144)	\$ 627	(\$ 1,173)	(\$ 80)
	=====	=====	=====	=====)
BASIC EARNINGS (LOSS) PER SHARE	\$ (0.02)	\$ 0.09	(\$ 0.17)	(\$ 0.01)
	=====	=====	=====	=====
DILUTED EARNINGS (LOSS) PER SHARE	\$ (0.02)	\$ 0.09	(\$ 0.17)	(\$ 0.01)
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF				
COMMON SHARES OUTSTANDING	7,112	7,062	7,092	7,049
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF				
COMMON SHARES OUTSTANDING ASSUMING	7,112	7,097	7,092	7,049

DILUTION

=====

See notes to consolidated financial statements

PAGE 6

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	THREE QUARTERS ENDED	
	July 4, <u>2002</u>	July 5, <u>2001</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers and others	\$302,550	\$318,010
Cash paid to suppliers and employees	(292,263)	(311,307)
Dividends and interest received	35	62
Interest paid (net of capitalized interest of \$0 and \$287)	(5,411)	(6,256)
Income taxes received (paid)	<u>4</u>	<u>(78)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,915	431
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts from sale of capital assets	130	389
Purchase of property, equipment and improvements	(2,447)	(9,940)

Edgar Filing: UNI MARTS INC - Form 10-Q

Note receivable from officer	60	60
Cash advanced for intangible and other assets	(158)	(177)
Cash received for intangible and other assets	<u>59</u>	<u>56</u>
NET CASH USED IN INVESTING ACTIVITIES	(2,356)	(9,612)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on revolving credit agreement	1,252	4,769
Additional long-term borrowings	0	4,900
Principal payments on debt	(2,933)	(2,420)
Proceeds from issuance of common stock	<u>29</u>	<u>9</u>
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(<u>1,652</u>)	<u>7,258</u>
NET INCREASE (DECREASE) IN CASH	907	(1,923)
CASH:		
Beginning of period	<u>5,075</u>	<u>7,882</u>
End of period	\$ 5,982 =====	\$ 5,959 =====

PAGE 7

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)
(CONTINUED)
(Unaudited)

THREE QUARTERS ENDED

July 4,	July 5,
<u>2002</u>	<u>2001</u>

RECONCILIATION OF NET LOSS TO NET CASH

PROVIDED BY OPERATING ACTIVITIES:

NET LOSS	(\$1,173)	(\$ 80)
ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation and amortization	6,199	6,064
Loss on sale of capital assets and other	389	309
Provision for asset impairment	0	24
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	373	(90)
Inventories	(1,114)	(1,384)
Prepaid expenses and other	2,413	288
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,861)	(4,113)
Deferred income taxes and other liabilities	(<u>311</u>)	(<u>587</u>)
 TOTAL ADJUSTMENTS TO NET LOSS	 <u>6,088</u>	 <u>511</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$4,915	 \$ 431
	=====	=====

See notes to consolidated financial statements

PAGE 8

UNI-MARTS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

A. FINANCIAL STATEMENTS:

The consolidated balance sheet as of July 4, 2002, the consolidated statements of operations and the consolidated statements of cash flows for the quarter ended and three quarters ended July 4, 2002 and July 5, 2001, respectively, have been prepared by Uni-Marts, Inc. (the "Company") without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position of the Company at July 4, 2002 and the results of operations and cash flows for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001. Certain reclassifications have been made to the September 30, 2001 financial statements to conform to classifications used in fiscal year 2002. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for the full year.

B. INTANGIBLE AND OTHER ASSETS:

Intangible and other assets consist of the following (in thousands):

	July 4, <u>2002</u>	July 5, <u>2001</u>
Goodwill	\$8,874	\$8,874
Lease acquisition costs	315	378
Noncompete agreements	250	250
Other intangible assets	<u>215</u>	<u>218</u>
	9,654	9,720
Less accumulated amortization	<u>3,282</u>	<u>2,888</u>
	6,372	6,832
Other assets	<u>1,073</u>	<u>1,054</u>
	\$7,445	\$7,886
	=====	=====

PAGE 9

B. INTANGIBLE AND OTHER ASSETS (CONTINUED):

Goodwill represents the excess of costs over the fair value of net assets acquired in business combinations and is amortized on a straight-line basis over periods of 13 to 40 years. Lease acquisition costs are the bargain element of acquired leases and are being amortized on a straight-line basis over the related lease terms. It is the Company's policy to periodically review and evaluate the recoverability of the intangible assets by assessing current and future profitability and cash flows and to determine whether the amortization of the balances over their remaining lives can be recovered through expected future results and cash flows.

C. REVOLVING CREDIT AGREEMENT:

On April 20, 2000, the Company executed a 3-year, secured \$10.0 million revolving loan agreement (the "Agreement") with \$3.5 million available for letters of credit. Provisions of the Agreement require the maintenance of certain covenants relating to minimum tangible net worth, interest and fixed-charge coverage ratios, as measured on a quarterly basis. In addition, the Agreement places limitations on capital expenditures, additional debt and payment of dividends. In the second quarter of fiscal year 2001, the Agreement was amended to increase the total credit line to \$13.0 million, with \$3.5 million available for letters of credit, and to amend certain financial covenants. During the first quarter of fiscal year 2002, the Agreement was amended to extend the maturity date to April 20, 2004, to amend certain covenants and to provide an additional \$2.0 million for borrowing on a seasonal basis. The Company was in compliance with these covenants as of July 4, 2002. Borrowings of \$7.0 million and letters of credit of \$3.0 million were outstanding at July 4, 2002. This facility bears interest at the Company's option based on a rate of either prime plus 1.0% or LIBOR plus 3.0%. The blended interest rate at July 4, 2002 was 5.49%. The Agreement is collateralized by substantially all of the Company's inventories, receivables, other personal property and selected real properties. The net book value of these selected real properties at July 4, 2002 was \$2.5 million.

PAGE 10

D. LONG-TERM DEBT:

	July 4, <u>2002</u>	September 30, <u>2001</u>
	(In thousands)	
Mortgage Loan. Principal and interest will be paid in 194 remaining monthly installments. At July 4, 2002, the coupon rate was 9.08% and the effective interest rate was 9.78%, net of unamortized fees of \$1,235,529 (\$1,329,757 in 2001).	\$31,690	\$32,331
Mortgage Loan. Principal and interest will be paid in 215 remaining monthly installments. The loan bears interest at LIBOR plus 3.75%. At July 4,		

Edgar Filing: UNI MARTS INC - Form 10-Q

2002, the coupon rate was 5.59% and the effective interest rate was 6.04%, net of unamortized fees of \$374,658 (\$403,779 in 2001).	20,586	21,249
Mortgage Loan. Principal and interest will be paid in 215 remaining monthly installments. At July 4, 2002, the coupon rate was 10.39% and the effective interest rate was 10.70%, net of unamortized fees of \$117,237 (\$124,901 in 2001).	6,532	6,628
Mortgage Loans. Principal and interest are paid in monthly installments. The loans expire in 2009, 2010, 2020 and 2021. Interest ranges from the prime rate to LIBOR plus 3.75%. At July 4, 2002, the blended coupon rate was 6.42% and the effective interest rate was 6.84%, net of unamortized fees of \$146,391 (\$151,688 in 2001).	7,256	7,496
Revolving Credit Agreement. Interest is paid monthly. The blended interest rate at July 4, 2002 was 5.49%. (See Note C)	7,010	5,758
Equipment Loans. Principal and interest will be paid in monthly installments. The loans expire in 2010 and 2011 and bear interest at LIBOR plus 3.75%. At July 4, 2002, the blended coupon rate was 5.59% and the effective interest rate was 6.00%, net of unamortized fees of \$145,159 (\$174,996 in 2001).	8,643	9,375
Equipment Loan. Principal and interest will be paid in 96 remaining monthly installments. The loan expires in 2010. At July 4, 2002, the coupon rate was 10.73% and the effective interest rate was 11.19%, net of unamortized fees of \$14,613 (\$17,124 in 2001).	<u>936</u>	<u>995</u>
	82,653	83,832
Less current maturities	<u>2,968</u>	<u>2,920</u>
	\$79,685	\$80,912
	=====	=====

PAGE 11

D. LONG-TERM DEBT (CONTINUED):

Edgar Filing: UNI MARTS INC - Form 10-Q

The mortgage loans are collateralized by \$69,087,100 of property, at net book value, and the equipment loans are collateralized by \$5,199,200 of equipment, at net book value.

Aggregate maturities of long-term debt (net of loan fee amortization) during the next five years are as follows (in thousands):

September 30,	
2002	\$ 588
2003	2,923
2004	10,107
2005	3,357
2006	3,640
Thereafter	<u>62,038</u>
	\$82,653
	=====

E. RELATED PARTY TRANSACTIONS:

Certain directors and officers of the Company are also directors, officers or controlling shareholders of other entities from which the Company leases its corporate headquarters and various store and other locations under agreements classified as operating leases. Aggregate rentals in connection with all such leases for the three quarters ended July 4, 2002 and July 5, 2001 were \$906,200 and \$507,000. In addition, two new store locations are under construction and are to be leased from entities controlled by, or from persons related to, certain directors and officers of the Company. The aggregate amount of rentals associated with these properties will not be determined until completion of the construction.

The Company charges an affiliate for general and administrative services provided. Such charges amounted to \$8,400 and \$8,400 in the three quarters ended July 4, 2002 and July 5, 2001, respectively.

During the first three quarters of fiscal years 2002 and 2001, the Company made payments of \$59,600 and \$59,300, respectively, to a director of the Company for consulting fees and reimbursement of expenses.

PAGE 12

F. NEW ACCOUNTING PRONOUNCEMENTS:

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142 and, in August 2001, issued SFAS No. 144. SFAS No. 142, "Goodwill and Other Intangible Assets," requires that such assets with indefinite lives not be amortized but be tested annually for

impairment and provides specific guidance for such testing. This statement also requires disclosure of information regarding goodwill and other assets that was previously not required. SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," provides additional guidance for impairment testing and determination of when an asset is considered to be for sale. The Company is not required to adopt these accounting standards until fiscal year 2003. At this time, the Company has not determined the impact these standards will have on the Company's financial statements.

G. COMMITMENTS AND CONTINGENCIES:

- (1) Leases -- The Company leases its corporate headquarters, 131 of its store locations and certain equipment. Future minimum lease payments under capital leases and noncancellable operating leases with initial or remaining terms in excess of one year at July 4, 2002 are shown below. Some of the leases provide for additional rentals when sales exceed a specified amount and contain variable renewal options and escalation clauses.

	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Rental Income</u>
		(In thousands)	
Three months ending			
September 30, 2002	\$ 73	\$ 1,669	\$ 210
Fiscal Year 2003	180	6,279	700
Fiscal Year 2004	140	5,439	525
Fiscal Year 2005	31	4,227	304
Fiscal Year 2006	31	2,921	217
Thereafter	<u>52</u>	<u>9,915</u>	<u>430</u>
Total future minimum			
lease payments	507	\$30,450	\$2,386
		=====	=====
Less amount representing			
interest	<u>88</u>		
Present value of future			
payments	419		
Less current maturities	<u>166</u>		
	\$253		
	=====		

PAGE 13

G. COMMITMENTS AND CONTINGENCIES (CONTINUED):

- (2) Litigation -- The Company is involved in litigation and other legal matters which have arisen in the normal course of business. Although the ultimate results of these matters are not currently determinable, management does not expect that they will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

H. CHANGES IN SECURITIES:

On February 6, 2002, the Company adopted a shareholder rights plan and declared a dividend distribution of one Common Stock Purchase Right on each outstanding share of its common stock. Pursuant to the rights plan, the Company distributed to all shareholders of record on February 19, 2002, as a dividend on each outstanding share of common stock, a right to purchase two-thirds of a share of common stock for a purchase price of \$10.67. The rights, however, are exercisable (subject to limited grandfathering provisions for certain shareholders who currently beneficially own more than 15% of the Company's stock) only if: (1) a person or group acquires 15% or more of the Company's common stock, other than through an offer for all shares of the common stock at a price and on terms determined by the Board of Directors to be fair to all shareholders, or (2) a person or group commences a tender or exchange offer for 15% or more of the Company's common stock. If the rights become exercisable, the rights will be modified automatically to entitle the rightholders (other than the acquiring person or group) to purchase shares of the Company's common stock at a 50% discount from the then market value. In addition, if the Company is acquired in a merger or other transaction after such person or group has acquired a 15% common stock interest, the rightholders (other than such person or group) will be entitled to purchase shares of common stock of the surviving company at the same discount from market value. Initially, the rights will be represented by existing Uni-Marts stock certificates. Should the rights become exercisable, the Company will issue separate rights certificates to all holders. Uni-Marts can redeem the rights at any time before (but not after) a person or group has acquired 15% or more of the Company's common stock as described above. If not redeemed prior to January 31, 2012, the rights will expire on that date. Terms of the Shareholder Rights Plan are set forth in a Rights Agreement dated as of February 6, 2002 between the Company and Mellon Investor Services LLC, as Rights Agent, which was filed as an exhibit to an amendment to the Registration Statement on Form 8-A pursuant to which the Company's common stock, par value \$0.10, is registered under the Securities Exchange Act of 1934.

PAGE 14

ITEM 2

UNI-MARTS, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Set forth below are selected unaudited consolidated financial data of the Company for the periods indicated:

Edgar Filing: UNI MARTS INC - Form 10-Q

	QUARTER ENDED		THREE QUARTERS ENDED	
	July 4, <u>2002</u>	July 5, <u>2001</u>	July 4, <u>2002</u>	July 5, <u>2001</u>
Revenues:				
Merchandise sales	53.4 %	47.9 %	55.6 %	47.5 %
Gasoline sales	46.2	51.7	43.9	52.0
Other income	<u>0.4</u>	<u>0.4</u>	<u>0.5</u>	<u>0.5</u>
Total revenues	100.0	100.0	100.0	100.0
Cost of sales	<u>79.1</u>	<u>78.8</u>	<u>77.8</u>	<u>78.8</u>
Gross profit:				
Merchandise (as a percentage of merchandise sales)	30.5	32.1	30.9	32.5
Gasoline (as a percentage of gasoline sales)	9.1	10.6	10.4	10.1
Total gross profit	20.9	21.2	22.2	21.2
Costs and expenses:				
Selling	15.7	15.0	17.0	15.6
General and administrative	2.0	1.8	2.0	1.8
Depreciation and amortization	1.9	1.8	2.1	1.9
Interest	1.5	1.7	1.7	1.9
Provision for asset impairment	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total expenses	21.1	20.3	22.8	21.2
Earnings (loss) before income taxes	(0.2)	0.9	(0.6)	0.0
Income tax provision (benefit)	(<u>0.1</u>)	<u>0.3</u>	(<u>0.2</u>)	<u>0.0</u>
Net earnings (loss)	(0.1)%	0.6 %	(0.4)%	0.0 %
	====	====	====	====

OPERATING DATA (RETAIL LOCATIONS ONLY):

(In thousands, except per gallon data)

Average, per store, for stores open two

Edgar Filing: UNI MARTS INC - Form 10-Q

full comparable periods:				
Merchandise sales	\$ 191	\$ 182	\$ 550	\$ 518
Gasoline sales	\$ 199	\$ 235	\$ 509	\$ 665
Gallons of gasoline sold	178	176	504	520
Total gallons of gasoline sold	45,194	43,858	131,321	130,532
Gross profit per gallon of gasoline	\$ 0.101	\$ 0.140	\$ 0.105	\$ 0.128
STORE INFORMATION:				
Company-operated stores	296	294	296	294
Franchisee-operated stores	5	7	5	7
Locations with self-service gasoline	239	237	239	237

PAGE 15

RESULTS OF OPERATIONS:

Matters discussed below should be read in conjunction with "Operating Data (Retail Locations Only)" on the preceding page. Certain statements contained in this report are forward looking, such as statements regarding the Company's plans and strategies or future financial performance. Although the Company believes that its expectations are based on reasonable assumptions within the bounds of its knowledge, investors and prospective investors are cautioned that such statements are only projections and that actual events or results may differ materially from those expressed in any such forward-looking statements. In addition to the factors discussed elsewhere in this report, the Company's actual consolidated quarterly or annual operating results have been affected in the past, or could be affected in the future, by additional factors, including, without limitation, general economic, business and market conditions; environmental, tax and tobacco legislation or regulation; volatility of gasoline prices, margins and supplies; merchandising margins; customer traffic; weather conditions; labor costs and the level of capital expenditures.

In the last twelve months, the Company continued its store evaluation and strategic initiative program by converting convenience store locations to Choice Cigarette Discount Outlets ("Choice") or closing locations. During that period, 11 convenience stores were converted to Choice stores and three convenience stores were closed. The Company also expanded its store base during this period by constructing two convenience stores and one Choice location. The Company intends to aggressively pursue the conversion of convenience stores to Choice outlets to achieve additional improvement to store profitability. As previously announced, in April 2002 the Company hired financial advisors to assist the Company in the exploration and evaluation of all of its strategic alternatives to enhance stockholder value. If this evaluation leads to the disposition of assets in excess of certain amounts, Messrs. Sahakian, Kervandjian and Petrick will be eligible to receive bonuses pursuant to a Transaction Success Bonus Plan adopted by the Company. The aggregate amount of such bonuses will be based upon the total consideration received for such assets.

Quarters Ended July 4, 2002 and July 5, 2001

For the third quarter of fiscal 2002, ended July 4, 2002, total revenues were \$108.8 million, a decline

of \$3.5 million, or 3.1%, compared to total revenues of \$112.3 million for the third quarter of fiscal 2001, ended July 5, 2001. Revenues declined due to a \$7.9 million, or 13.5%, decline in gasoline sales to \$50.2 million for the current fiscal quarter compared to gasoline sales of \$58.1 million in the third quarter of fiscal 2001. This decline is the result of a 21.3 cent per gallon decline in the average retail price per gallon of petroleum sold at the Company's locations in the third quarter of fiscal 2002 compared to the same quarter of fiscal 2001. Merchandise sales for the current fiscal quarter increased by \$4.3 million, or 8.1%, to \$58.1 million, while other income increased by \$23,000, or 5.2%, to \$465,000 compared to the third quarter of fiscal 2001. Merchandise sales at comparable stores increased by 4.6% and gasoline gallons sold at comparable stores increased by 1.2% for the third quarter of fiscal 2002 compared to the same quarter of fiscal 2001. Seasonably warm weather conditions, combined with increased consumer travel in the current fiscal quarter, contributed to the growth in comparable store sales.

PAGE 16

Gross profits on merchandise sales increased by \$485,000, or 2.8%, to \$17.7 million compared to \$17.2 million in the third quarter of fiscal 2001, despite a 1.6% decline in the gross margin rate for the current fiscal quarter. Gasoline gross profits declined by \$1.6 million, or 25.9%, to \$4.6 million, while gasoline gallons sold in the current fiscal quarter increased by 1.3 million gallons, or 3.1%, to 45.2 million gallons sold. Gasoline gross profit per gallon declined by 3.9 cents per gallon for the current fiscal quarter when compared to the third quarter of fiscal 2001. In the third quarter of fiscal 2002, the Company improved merchandise gross profit and gasoline gallon sales levels; however, the gasoline gross margin per gallon sold declined due to competitive gasoline market conditions in the Company's operating area.

In the third quarter of fiscal 2002, selling, general and administrative, and depreciation and amortization expenses increased marginally, while interest expense declined when compared to the third quarter of fiscal 2001. Selling expenses increased by \$241,000, or 1.4%, to \$17.1 million due to additional operating leases for store improvements and higher insurance reserves. General and administrative expense increased by \$101,000, or 5.0%, to \$2.1 million due to increased legal and professional fees, in part associated to the Company's hiring of its financial advisors. Depreciation and amortization expense increased by \$14,000, or 0.7%, to \$2.1 million as the result of depreciation of new equipment for store improvements. Interest expense declined by \$268,000, or 13.7%, to \$1.7 million for the third quarter of fiscal 2002 due to lower borrowing levels and lower interest rates.

Losses before income taxes were \$200,000 in the third quarter of fiscal 2002 compared to a pre-tax profit of \$950,000 in the third quarter of fiscal 2001. Lower gasoline margins, which were partially offset by increases in merchandise margins, were the leading factors in the Company's financial performance for the third quarter of fiscal 2002. The provision for income taxes remained the same as a percentage of earnings before income taxes for the comparable quarters. Net losses were \$144 thousand, or \$0.02 per share, for the quarter ended July 4, 2002, compared to a net profit of \$627,000, or \$0.09 per share, for the quarter ended July 5, 2001.

Three Quarters Ended July 4, 2002 and July 5, 2001

Total revenues for the first three quarters of fiscal 2002 were \$300.0 million, a decline of \$18.6 million, or 5.9%, compared to total revenues of \$318.6 million for the first three quarters ended July 5, 2001. The decline in revenues was due to a \$34.1 million, or 20.6%, decline in gasoline sales to \$131.7 million compared to gasoline sales of \$165.8 million reported in the first nine months of fiscal

2001. A 26.7 cent per gallon decline in the Company's average retail price per gallon of petroleum sold in its markets for the first three quarters of fiscal 2002 when compared to the same period of fiscal 2001 resulted in lower gasoline dollar sales. Merchandise sales increased by \$15.6 million, or 10.3%, to \$166.9 million from \$151.3 million in the first nine-month period of fiscal 2001. Other income was \$1.4 million, a decline of \$135,000, or 8.9%, when compared to the first three quarters of fiscal 2001. At comparable stores, merchandise sales increased by 6.2%, while gasoline gallons sold declined by 3.0%, for the first three quarters of fiscal 2002 compared to the same period of fiscal 2001.

Gross profits on merchandise sales for the first three quarters of fiscal 2002 increased by \$2.3 million, or 4.6%, to \$51.5 million compared to merchandise gross profits of \$49.2 million for the first three quarters of the prior fiscal year. The merchandise gross margin rate declined by 1.7% for the current nine-month period. The Company achieved increases in gasoline gallon sales during the first three

PAGE 17

quarters of fiscal 2002, however realized lower gross margins per gallon sold during this period as a result of a competitive gasoline market environment. Gasoline gallon sales increased by 789,000 gallons, or 0.6%, to 131.3 million gallons sold, while gross profit per gallon declined by 2.3 cents per gallon in the first three quarters ended July 4, 2002 compared to the same period ended July 5, 2001. Gasoline gross profit margins declined by \$3.0 million, or 17.8%, to \$13.7 million for the first three quarters of fiscal 2002.

Selling expenses increased by \$1.0 million, or 2.1%, to \$50.9 million due primarily to additional store operating leases and increased insurance reserves. General and administrative expense increased by \$537,000, or 9.5%, to \$6.2 million primarily as the result of increased legal and professional fees and additional salaried positions. Depreciation and amortization expense for the first nine months of fiscal 2002 increased by \$135,000, or 2.2%, to \$6.2 million due to depreciation of new equipment and improvements at existing stores and stores converted to Choice Cigarette Discount Outlets. Lower borrowing levels and lower interest rates levels resulted in a \$843,000, or 14.2%, decline in interest expense to \$5.1 million for the first three quarters ended July 4, 2002.

Losses before income taxes were \$1.8 million for the first three quarters of fiscal 2002, compared to a pre-tax loss of \$121,000 for the first three quarters of fiscal 2001. Improved merchandise sales at comparable stores were offset by lower gasoline gross margins due to a competitive petroleum market in the Company's operating area during the current nine-month reporting period. The provision for income taxes remained relatively the same as a percentage of earnings before income taxes for the comparable reporting periods. Net losses for the first three quarters of fiscal 2002 were \$1.2 million, or \$0.17 per share, compared to net losses of \$80,000, or \$0.01 per share, for the first three quarters of fiscal 2001.

LIQUIDITY AND CAPITAL RESOURCES:

Most of the Company's sales are for cash and its inventory turns over rapidly. As a result, the Company's daily operations do not generally require large amounts of working capital. From time to time, the Company utilizes a portion of its cash to acquire and construct new stores and renovate existing locations.

Capital requirements for debt service and capital leases for the remainder of fiscal year 2002 are approximately \$700,000. Anticipated capital expenditures in the balance of the fiscal year are approximately \$200,000 for the replacement of store equipment and upgrading the Company's data

processing systems.

Operating lease commitments for the balance of fiscal year 2002 are approximately \$1.7 million. These commitments for fiscal years 2003, 2004, 2005 and 2006 are approximately \$6.3 million, \$5.4 million, \$4.2 million, and \$2.9 million, respectively.

Management believes that cash from operations and its available credit facility will be sufficient to meet the Company's obligations for the foreseeable future.

PAGE 18

NEW ACCOUNTING PRONOUNCEMENTS:

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142 and, in August 2001, issued SFAS No. 144. SFAS No. 142, "Goodwill and Other Intangible Assets," requires that such assets with indefinite lives not be amortized but be tested annually for impairment and provides specific guidance for such testing. This statement also requires disclosure of information regarding goodwill and other assets that was previously not required. SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," provides additional guidance for impairment testing and determination of when an asset is considered to be for sale. The Company is not required to adopt these accounting standards until fiscal year 2003. At this time, the Company has not determined the impact these standards will have on the Company's financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES:

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to self insured liabilities, impairment and income taxes. We base our estimates on historical experience, current and anticipated business conditions, the condition of the financial markets, and various other assumptions that are believed to be reasonable under existing conditions. Actual results may differ from these estimates.

We believe that the following critical accounting policies affect our more significant judgements and estimates used in the preparation of our consolidated financial statements:

Self insurance liabilities -- We record estimates for self insured worker's compensation and general liability insurance coverage. Should a greater amount of claims occur compared to what was estimated, or costs increase beyond what was anticipated, reserves recorded may not be sufficient, and additional expense may be recorded.

Impairment -- We evaluate long-lived assets, including stores, for impairment annually, or whenever events or changes in circumstances indicate that the assets may not be recoverable. The impairment is measured by calculating the estimated future cash flows expected to be generated by the store, and comparing this amount to the carrying value of the store's assets. Cash flows are calculated utilizing individual store forecasts and total company projections for the remaining estimated lease lives of the stores being analyzed. Should actual results differ from those forecasted and projected, we may be subject to future impairment charges related to these facilities.

Income taxes -- We currently have net operating loss ("NOL") carryforwards that can be utilized to offset future income for federal and state tax purposes. These NOLs generate a significant deferred tax asset. However, we have recorded a valuation allowance against this deferred tax asset as we have determined that it is more likely than not that we will not be able to fully utilize the NOLs. Should our assumptions regarding the utilization of these NOLs change, we may reduce some or all of this valuation allowance, which would result in the recording of an income tax benefit.

PAGE 19

ITEM 3 - Quantitative and Qualitative Disclosures About Market Risk

The Company uses its revolving credit facility and its mortgage and equipment loans to finance a significant portion of its operations. These on-balance sheet financial instruments, to the extent they provide for variable rates of interest, expose the Company to interest rate risk resulting from changes in the LIBOR or prime rate.

To the extent that the Company's financial instruments expose the Company to interest rate risk, they are presented in the table below. The table presents principal cash flows and related interest rates by year of maturity for the Company's revolving credit facility, mortgage loans and equipment loans at July 4, 2002.

The carrying amounts of cash and short-term debt approximate fair value. The Company estimates the fair value of its long-term, fixed-rate debt generally using discounted cash flow analysis based on the Company's current borrowing rates for debt with similar maturities. The Company estimates the fair value of its long-term, variable-rate debt based on carrying amounts plus unamortized loan fees associated with the debt.

	Fiscal Year of Maturity						Total Due At Maturity	Fair Value at 7/4/02
	(dollar amounts in thousands)							
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Thereafter</u>		
<u>Interest-rate sensitive assets</u>								
:								
Noninterest-bearing								
checking accounts	\$2,820	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,820	\$ 2,820
Interest-bearing								
checking accounts	\$3,162	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,162	\$ 3,162
Average interest rate	1.55%						1.55%	---

Edgar Filing: UNI MARTS INC - Form 10-Q

\$5,982	\$	0	\$	0	\$	0	\$	0	\$	5,982	\$	5,982
0.82%										0.82%		---

Interest-rate sensitive liabilities

:									
Variable-rate borrowings	\$	294	\$1,803	\$8,862	\$1,975	\$2,108	\$26,802	\$41,844	\$41,844
Average interest rate		5.57%	5.57%	5.57%	5.59%	5.59%	5.59%	5.59%	---
Fixed-rate borrowings	\$	294	\$1,120	\$1,245	\$1,382	\$1,532	\$35,236	\$40,809	\$45,283
Average interest rate		9.34%	9.34%	9.34%	9.34%	9.34%	9.34%	9.34%	---
	\$	588	\$2,923	\$10,107	\$3,357	\$3,640	\$62,038	\$82,653	\$87,127
		7.43%	7.43%	7.45%	7.66%	7.69%	7.72%	7.44%	---

PAGE 20

PART II - OTHER INFORMATION

ITEM 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

- 3.1 Amended and Restated Certificate of Incorporation of the Company (Filed as exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended April 4, 2002 and incorporated herein by reference thereto).
- 3.2 Amended and Restated By-Laws of the Company (Filed as exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended April 4, 2002 and incorporated herein by reference thereto).
- 10.1 Composite copy of Change of Control Agreement between the Company and its Senior Vice President, Facilities Development and its Senior Vice President, Budgeting and Planning dated May 28, 2002.
- 11 Statement regarding computation of per share earnings (loss).
- 99.1 Certification of the Chairman and Chief Executive Officer pursuant to

Section 906 of the Sarbanes-Oxley Act of 2002.

99.2

Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

The Company did not file any reports on Form 8-K during the quarter ended July 4, 2002.

PAGE 21

SIGNATURES

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

Uni-Marts, Inc.
(Registrant)

Date August 16, 2002

/S/ HENRY D. SAHAKIAN
Henry D. Sahakian
Chairman of the Board
(Principal Executive Officer)

Date August 16, 2002

/S/ N. GREGORY PETRICK
N. Gregory Petrick
Executive Vice President and
Chief Financial Officer
(Principal Accounting Officer)
(Principal Financial Officer)

PAGE 22

UNI-MARTS, INC. AND SUBSIDIARIES
EXHIBIT INDEX

<u>Number</u>	<u>Description</u>
10.1	Composite copy of Change of Control Agreement between the Company and its Senior Vice President, Facilities Development and its Senior Vice President, Budgeting and Planning dated May 28, 2002.
11	Statement regarding computation of per share earnings (loss).
99.1	Certification of the Chairman and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.