SUPERVALU INC
Form 10-Q
October 21, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period (12 weeks) ended September 6, 2003.

¨ **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 1-5418

SUPERVALU INC.

(Exact name of registrant as specified in its Charter)

DELAWARE	**41-0617000**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer identification No.)**

11840 VALLEY VIEW ROAD,

EDEN PRAIRIE, MINNESOTA	**55344**
(Address of principal executive offices)	**(Zip Code)**

(952) 828-4000

(Registrant s telephone number, including area code)

N/A

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No ¨

The number of shares outstanding of each of the issuer s classes of common stock as of October 17, 2003 is as follows:

Title of Each Class	Shares Outstanding
Common Shares	**134,088,172**

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUPERVALU INC. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except percent and per share data)

	Second Quarter (12 weeks) ended			
	September 6, 2003	% of sales	September 7, 2002	% of sales
Net sales	$ 4,590,650	100.0%	$ 4,339,579	100.0%
Costs and expenses				
Cost of sales	3,953,402	86.1	3,747,910	86.4
Selling and administrative expenses	502,855	11.0	460,345	10.6
Restructure and other charges	2,276			
Operating earnings	132,117	2.9	131,324	3.0
Interest				
Interest expense	37,553	0.8	42,606	0.9
Interest income	4,610	0.1	4,625	0.1
Interest expense, net	32,943	0.7	37,981	0.8
Earnings before income taxes	99,174	2.2	93,343	2.2
Provision for income taxes				
Current	22,048	0.5	25,719	0.6
Deferred	14,894	0.3	8,817	0.2
Income tax expense	36,942	0.8	34,536	0.8
Net earnings	$ 62,232	1.4%	$ 58,807	1.4%
Weighted average number of common shares outstanding				
Diluted	135,546		134,927	
Basic	133,885		133,752	
Net earnings per common share diluted	$ 0.46		$ 0.44	
Net earnings per common share basic	$ 0.46		$ 0.44	
Dividends per common share	$ 0.1450		$ 0.1425	

All data subject to year-end audit.

See notes to consolidated financial statements.

SUPERVALU INC. and Subsidiaries

CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except percent and per share data)

	Year-to-date (28 weeks) ended			
	September 6, 2003	**% of sales**	**September 7, 2002**	**% of sales**
Net sales	$ 10,426,937	100.0%	$ 9,994,003	100.0%
Costs and expenses				
Cost of sales	8,988,943	86.2	8,645,378	86.5
Selling and administrative expenses	1,140,600	10.9	1,043,027	10.4
Restructure and other charges	3,447	0.1		
Operating earnings	293,947	2.8	305,598	3.1
Interest				
Interest expense	87,128	0.8	100,658	1.0
Interest income	9,757	0.1	10,842	0.1
Interest expense, net	77,371	0.7	89,816	0.9
Earnings before income taxes	216,576	2.1	215,782	2.2
Provision for income taxes				
Current	56,207	0.6	65,437	0.7
Deferred	24,467	0.2	14,383	0.1
Income tax expense	80,674	0.8	79,820	0.8
Net earnings	$ 135,902	1.3%	$ 135,962	1.4%
Weighted average number of common shares outstanding				
Diluted	134,730		135,619	
Basic	133,790		133,786	
Net earnings per common share diluted	$ 1.01		$ 1.00	
Net earnings per common share basic	$ 1.02		$ 1.02	
Dividends per common share	$ 0.2875		$ 0.2825	

All data subject to year-end audit.

See notes to consolidated financial statements.

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SUPERVALU INC. and Subsidiaries

CONSOLIDATED COMPOSITION OF NET SALES AND OPERATING EARNINGS

(In thousands, except percent data)

	Second Quarter (12 weeks ended)		Year-to-date (28 weeks) ended	
	September 6, 2003	September 7, 2002	September 6, 2003	September 7, 2002
Retail food	$ 2,385,531	$ 2,247,153	$ 5,342,042	$ 5,059,374
% of total	52.0%	51.8%	51.2%	50.6%
Food distribution	2,205,119	2,092,426	5,084,895	4,934,629
% of total	48.0%	48.2%	48.8%	49.4%
Total net sales	$ 4,590,650	$ 4,339,579	$ 10,426,937	$ 9,994,003
	100.0%	100.0%	100.0%	100.0%
Operating earnings				
Retail food operating earnings	$ 98,912	$ 98,752	$ 222,536	$ 227,897
% of sales	4.1%	4.4%	4.2%	4.5%
Food distribution operating earnings	47,433	39,775	105,607	96,948
% of sales	2.2%	1.9%	2.1%	2.0%
Subtotal	146,345	138,527	328,143	324,845
% of sales	3.2%	3.2%	3.1%	3.3%
General corporate expenses	(11,952)	(7,203)	(30,749)	(19,247)
Restructure and other charges	(2,276)		(3,447)	
Total operating earnings	132,117	131,324	293,947	305,598
% of sales	2.9%	3.0%	2.8%	3.1%
Interest expense	(37,553)	(42,606)	(87,128)	(100,658)
Interest income	4,610	4,625	9,757	10,842
Earnings before income taxes	99,174	93,343	216,576	215,782
Provision for income taxes	(36,942)	(34,536)	(80,674)	(79,820)
Net earnings	$ 62,232	$ 58,807	$ 135,902	$ 135,962

The company s business is classified by management into two reportable segments: Retail food and food distribution. Retail food operations include three retail formats: extreme value stores, regional price superstores and regional supermarkets. The retail formats include results of food stores owned and results of sales to extreme value stores licensed by the company. Food distribution operations include results of sales to affiliated food stores, mass merchants and other customers, and other logistics arrangements. Management utilizes more than one measurement and multiple views of data to assess segment performance and to allocate resources to the segments. However, the dominant measurements are consistent with the consolidated financial statements. Reportable segment operating earnings were computed as total revenue less associated operating expenses.

All data subject to year-end audit.

See notes to consolidated financial statements.

SUPERVALU INC. and Subsidiaries

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	Second Quarter September 6, 2003	Fiscal Year End February 22, 2003
Assets		
Current Assets		
Cash and cash equivalents	$ 205,327	$ 29,188
Receivables, net ($0 as of September 6, 2003 and $264,392 as of February 22, 2003 pledged as collateral)	503,301	477,429
Inventories, net	1,117,029	1,049,283
Other current assets	126,635	91,466
Total current assets	1,952,292	1,647,366
Long-term receivables, net	120,226	126,435
Property, plant and equipment, net	2,183,635	2,220,850
Goodwill	1,581,764	1,576,584
Other assets	307,820	325,010
Total assets	$ 6,145,737	$ 5,896,245
Liabilities and Stockholders Equity		
Current Liabilities		
Notes payable	$	$ 80,000
Accounts payable	1,268,687	1,081,734
Current debt and obligations under capital leases	62,076	61,580
Other current liabilities	366,522	301,993
Total current liabilities	1,697,285	1,525,307
Long-term debt and obligations under capital leases	1,978,592	2,019,658
Other liabilities and deferred income taxes	358,329	342,040
Commitments and contingencies		
Total stockholders equity	2,111,531	2,009,240
Total liabilities and stockholders equity	$ 6,145,737	$ 5,896,245

All data subject to year-end audit.

See notes to consolidated financial statements.

SUPERVALU INC. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except per share data)

	Common Stock			Treasury Stock		Accumulated		
			Capital in			Other		
			Excess of			Comprehensive	Retained	
	Shares	Amount	Par Value	Shares	Amount	Losses	Earnings	Total
BALANCES AT FEBRUARY 23, 2002	150,670	$ 150,670	$ 121,444	(17,781)	$ (335,885)	$ (7,075)	$ 1,969,984	$ 1,899,138
Comprehensive income:								
Net earnings							257,042	257,042
Amortization of loss on derivative financial instrument, net of deferred taxes of $0.2 million						340		340
Minimum pension liability, net of deferred taxes of $47.1 million						(72,328)		(72,328)
Total comprehensive income								185,054
Sales of common stock under option plans			(9,196)	2,155	47,618			38,422
Cash dividends declared on common stock $.5675 per share							(76,094)	(76,094)
Compensation under employee incentive plans			1,780	152	3,099			4,879
Purchase of shares for treasury				(1,508)	(42,159)			(42,159)
BALANCES AT FEBRUARY 22, 2003	150,670	150,670	114,028	(16,982)	(327,327)	(79,063)	2,150,932	2,009,240
Comprehensive income:								
Net earnings							135,902	135,902
Amortization of loss on derivative financial instrument, net of deferred taxes of $0.1 million						184		184

Total comprehensive income								136,086
Sales of common stock under option plans			(5,761)	311	10,487			4,726
Cash dividends declared on common stock $0.2875 per share							(38,524)	(38,524)
Compensation under employee incentive plans			(681)	94	2,266			1,585
Purchase of shares for treasury				(93)	(1,582)			(1,582)
BALANCES AT SEPTEMBER 6, 2003	150,670	$ 150,670	$ 107,586	(16,670)	$ (316,156)	$(78,879)	$ 2,248,310	$ 2,111,531

All data subject to year-end audit.

See notes to consolidated financial statements.

SUPERVALU INC. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year-to-date (28 weeks ended)	
	September 6, 2003	**September 7, 2002**
Net cash provided by operating activities	$ 453,883	$ 432,730
Cash flows from investing activities		
Additions to long-term notes receivable	(11,816)	(11,820)
Proceeds received on long-term notes receivable	16,831	16,568
Proceeds from sale of assets	18,899	25,467
Purchases of property, plant and equipment	(151,007)	(203,656)
Net cash used in investing activities	(127,093)	(173,441)
Cash flows from financing activities		
Net reduction of notes payable	(80,000)	(24,000)
Proceeds from issuance of long-term debt		296,535
Repayment of long-term debt	(15,556)	(182,909)
Reduction of obligations under capital leases	(18,604)	(16,591)
Net proceeds from the sale of common stock under option plans	3,279	29,593
Dividends paid	(38,188)	(37,517)
Payment for purchase of treasury shares	(1,582)	(42,159)
Net cash (used in) provided by financing activities	(150,651)	22,952
Net increase in cash and cash equivalents	176,139	282,241
Cash and cash equivalents at beginning of period	29,188	12,171
Cash and cash equivalents at the end of period	$ 205,327	$ 294,412
Supplemental Information:		
Pretax LIFO expense	$ 2,522	$ 1,342
Pretax depreciation and amortization	$ 159,289	$ 153,572

All data subject to year-end audit.

See notes to consolidated financial statements.

SUPERVALU INC. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

GENERAL

Accounting Policies:

The summary of significant accounting policies is included in the Notes to Consolidated Financial Statements set forth in the company s Annual Report on Form 10-K for its fiscal year ended February 22, 2003 (fiscal 2003). References to the company refer to SUPERVALU INC. and Subsidiaries.

Fiscal Year:

The company s fiscal year ends on the last Saturday in February. The company s first quarter consists of 16 weeks, the second and third quarters each consist of 12 weeks and the fourth quarter consists of 13 weeks for a total of 53 weeks for fiscal 2004. Fiscal 2003 comprised 52 weeks with the first quarter consisting of 16 weeks, while the second, third and fourth quarters each consisted of 12 weeks.

Statement of Registrant:

The data presented herein is unaudited but, in the opinion of management, includes all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the condensed consolidated financial position of the company and its subsidiaries at September 6, 2003 and September 7, 2002, and the results of the company s operations and condensed consolidated cash flows for the periods then ended. These interim results are not necessarily indicative of the results that may be expected for the full fiscal year.

Use of Estimates:

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Facilitative Services:

The company provides certain facilitative services between its independent retailers and vendors related to products typically known as direct store delivery products. These services include sourcing, invoicing and payment services. The net gross margin associated with such facilitative services is reflected as a component of net sales.

	Second Quarter (12 weeks) ended		Year-to-date (28 weeks) ended	
	September 6, 2003	September 7, 2002	September 6, 2003	September 7, 2002
Amounts invoiced to independent retailers	$ 176,645	$ 158,961	$ 383,445	$ 358,201
Amounts due and paid to vendors	172,676	155,429	375,175	350,236
Net gross margin	$ 3,969	$ 3,532	$ 8,270	$ 7,965

Comprehensive Income:

The components of comprehensive income, net of related tax, are as follows:

	Second Quarter (12 weeks) ended		Year-to-date (28 weeks) ended	
	September 6, 2003	**September 7, 2002**	**September 6, 2003**	**September 7, 2002**
Net earnings	$ 62,232	$ 58,807	$ 135,902	$ 135,962
Amortization of loss on derivative financial instrument	79	79	184	184
Total comprehensive income	$ 62,311	$ 58,886	$ 136,086	$ 136,146

Net Earnings Per Share (EPS):

Basic EPS is calculated using earnings available to common shareholders divided by the weighted average of common shares outstanding during the period. Diluted EPS is similar to basic EPS except that the weighted average of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares, such as options, had been exercised.

The following table reflects the calculation of basic and diluted earnings per share:

	Second Quarter (12 weeks) ended		Year-to-date (28 weeks) ended	
	September 6, 2003	**September 7, 2002**	**September 6, 2003**	**September 7, 2002**
	(In thousands, except per share amounts)			
Earnings per share basic				
Income available to common shareholders	$ 62,232	$ 58,807	$ 135,902	$ 135,962
Weighted average shares outstanding	133,885	133,752	133,790	133,786
Earnings per share basic	$ 0.46	$ 0.44	$ 1.02	$ 1.02
Earnings per share diluted				
Income available to common shareholders	$ 62,232	$ 58,807	$ 135,902	$ 135,962
Weighted average shares outstanding	133,885	133,752	133,790	133,786
Dilutive impact of options outstanding	1,661	1,175	940	1,833
Weighted average shares and potential dilutive shares outstanding	135,546	134,927	134,730	135,619

Earnings per share diluted	$ 0.46	$ 0.44	$ 1.01	$ 1.00

Stock-based Compensation:

The company has stock based employee compensation plans, which are described more fully in the Stock Option Plans note in the Notes to Consolidated Financial Statements set forth in the company s Annual Report on Form 10-K for fiscal 2003. The company utilizes the intrinsic value-based method, per Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, for measuring the cost of compensation paid in company common stock. This method defines the company s cost as the excess of the stock s market value at the time of the grant over the amount that the employee is required to pay. In accordance with APB Opinion No. 25, no compensation expense was recognized for options issued under the stock option plans in fiscal 2004 and 2003 as the exercise price of all options granted was not less than 100 percent of fair market value of the common stock on the date of grant.

The following table illustrates the effect on net earnings and net earnings per share if the company had applied the fair value recognition provisions of Statement of Financial Accounting Standard (SFAS) No. 123, Accounting for Stock-Based Compensation to stock-based employee compensation:

	Second Quarter (12 weeks) ended		Year-to-date (28 weeks) ended	
	September 6, 2003	September 7, 2002	September 6, 2003	September 7, 2002
	(In thousands, except per share amounts)			
Net earnings, as reported	$ 62,232	$ 58,807	$ 135,902	$ 135,962
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(2,058)	(1,782)	(5,419)	(5,947)
Pro forma net earnings	$ 60,174	$ 57,025	$ 130,483	$ 130,015
Earnings per share basic:				
As reported	$ 0.46	$ 0.44	$ 1.02	$ 1.02
Pro forma	$ 0.45	$ 0.43	$ 0.97	$ 0.97
Earnings per share diluted:				
As reported	$ 0.46	$ 0.44	$ 1.01	$ 1.00
Pro forma	$ 0.44	$ 0.42	$ 0.97	$ 0.96

Reclassifications:

Certain reclassifications have been made to conform prior year s data to the current presentation. These reclassifications had no effect on reported earnings.

Prior to the fourth quarter of fiscal 2003, the amounts invoiced to independent retailers by the company for facilitative services were recorded as net sales and the related amounts due and paid by the company to its vendors were recorded as cost of sales. Commencing with the fourth quarter of fiscal 2003, the company has revised amounts previously reported by reclassifying cost of sales against net sales for all prior periods. The effect is to present the net gross margin associated with such facilitative services as a component of net sales. This reclassification had no impact on gross profit, earnings before income taxes, net earnings, cash flows, or financial position for any period or their respective trends.

New Accounting Standards

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, Accounting for Asset Retirement Obligations , which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The company adopted the provisions of SFAS No. 143 in the first quarter of fiscal 2004. SFAS No. 143 did not have a material impact on the company s consolidated financial statements.

In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections . SFAS No. 145 allows only those gains and losses on the extinguishment of debt that meet the criteria of extraordinary items to be treated as such in the financial statements. SFAS No. 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sales-leaseback transactions. Certain provisions of SFAS No. 145 were effective for transactions occurring after May 15, 2002, while the remaining provisions were effective for the company in the second quarter of fiscal 2004. SFAS No. 145 did not have a material impact on the company s consolidated financial statements.

In January 2003, the FASB issued Interpretation (FIN) No. 46, Consolidation of Variable Interest Entities . FIN No. 46 states that companies that have exposure to the economic risks and potential rewards from another entity s assets and activities have a controlling financial interest in a variable interest entity and should consolidate the entity, despite the absence of clear control through a voting equity interest. The consolidation requirements apply to all variable interest entities created after January 31, 2003. For variable interest entities that existed prior to February 1, 2003, FASB Staff Position No. 46-6 delayed the consolidation requirements until annual or interim periods beginning after December 15, 2003. Disclosure of significant variable interest entities is required in all financial statements issued after January 31, 2003, regardless of when the variable interest was created. FIN No. 46 did not have an impact on the company s consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities . SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments imbedded in other contracts and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities . SFAS No. 149 was effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. SFAS No. 149 did not have an impact on the company s consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity . SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 was effective for financial instruments entered into or modified after May 31, 2003, and otherwise was effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 did not have an impact on the company s consolidated financial statements.

Emerging Issues Task Force (EITF) Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables , addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. EITF Issue No. 00-21 establishes three principles: revenue arrangements with multiple deliverables should be divided into separate units of accounting, arrangement consideration should be allocated among the separate units of accounting based on their relative fair values, and revenue recognition criteria should be considered separately for separate units of accounting. EITF Issue No. 00-21 was effective for all revenue arrangements entered into in fiscal periods beginning after June 15, 2003. EITF Issue No. 00-21 did not have a material impact on the company s consolidated financial statements.

EITF Issue No. 01-8, Determining Whether an Arrangement Contains a Lease , determines whether an arrangement conveying the right to use property, plant and equipment meets the definition of a lease within the scope of SFAS 13, Accounting for Leases . EITF Issue No. 01-8 was effective the first interim period beginning after May 28, 2003. EITF Issue No. 01-8 did not have a material impact on the company s consolidated financial statements.

RESTRUCTURE AND OTHER CHARGES

In the second quarter of fiscal 2004, the company recognized pre-tax restructure and other charges of $2.3 million reflected in the Restructure and other charges line in the Consolidated Statements of Earnings. The charges represent net adjustments of $0.6 million, $1.5 million and $0.2 million to restructure 2002, 2001 and 2000 reserves, respectively. For year-to-date fiscal 2004, the company recognized pre-tax restructure and other charges of $3.4 million, representing net adjustments of $0.6 million, $2.5 million and $0.3 million to restructure 2002, 2001 and 2000 reserves, respectively. The increases are due to continued softening of real estate in certain markets and higher than anticipated employee related costs.

Restructure 2002

In the fourth quarter of fiscal 2002, the company identified additional efforts that would allow it to extend its distribution efficiency program that began early in fiscal 2001. The additional distribution efficiency initiatives identified resulted in pre-tax restructure charges of $16.3 million, primarily related to personnel reductions in administrative and transportation functions. Management began the initiatives in fiscal 2003 and the majority of these actions were completed by the end of fiscal 2003.

In the fourth quarter of fiscal 2003, the fiscal 2002 restructure charges were decreased by $3.6 million, including a decrease of $1.4 million due to lower than anticipated lease related costs in transportation efficiency initiatives and a decrease of $2.2 million in employee related costs due to lower than anticipated severance costs.

In the second quarter of fiscal 2004, the fiscal 2002 restructure charges were increased by $0.6 million due to higher than anticipated severance costs for certain employees.

Remaining reserves for the fiscal 2002 restructure plan represent future lease payments as well as unpaid severance and employee related costs. Details of the fiscal 2002 restructure activity for fiscal 2004 are as follows:

	Balance February 22, 2003	Fiscal 2004 Usage	Fiscal 2004 Adjustment	Balance September 6, 2003
		(In thousands)		
Lease related costs:				
Transportation efficiency initiatives	$ 1,054	$ (464)	$ (43)	$ 547
	1,054	(464)	(43)	547
Employee related costs:				
Administrative realignment	2,390	(2,442)	629	577
	2,390	(2,442)	629	577
Total restructure charges	$ 3,444	$ (2,906)	$ 586	$ 1,124

Details of the fiscal 2002 restructure activity as it relates to the number of terminated employees are as follows:

	Original Estimate	Employees Terminated in Fiscal 2003	Balance February 22, 2003	Employees Terminated in Fiscal 2004	Balance September 6, 2003
Employees	800	(650)	150	(115)	35

Restructure 2001

In the fourth quarter of fiscal 2001, the company completed a strategic review that identified certain assets that did not meet return objectives, provide long-term strategic opportunities or justify additional capital investments. This review process culminated in the company recording pre-tax restructure and other charges of $181.6 million, including $89.7 million for asset impairment charges, $52.1 million for lease subsidies, lease cancellation fees, future payments on exited real estate and guarantee obligations and $39.8 million for severance and employee related costs.

In the fourth quarter of fiscal 2002, the fiscal 2001 restructure and other charges were increased by $17.8 million as a result of changes in estimates primarily due to the softening real estate market, including $19.1 million for increased lease liabilities in exiting the non-core retail markets and the disposal of non-core assets, offset by a net decrease of $1.3 million in restructure reserves for the consolidation of distribution centers.

In the fourth quarter of fiscal 2003, the fiscal 2001 restructure and other charges were increased by $8.1 million, including an $11.7 million increase to the restructure reserves offset by a decrease in asset impairment charges of $3.6 million. The reserve increase of $11.7 million was a result of changes in estimates on exited real estate primarily due to the continued softening of real estate marketed for sale, sublease or assignment in certain markets, including approximately $5 million relating to the consolidation of distribution centers and approximately $6 million relating to the exit of non-core retail markets and $1.2 million in higher than anticipated employee related costs primarily in the exit of non-core retail markets.

In the second quarter of fiscal 2004 and for year-to-date fiscal 2004, the fiscal 2001 restructure and other charges were increased by $1.5 million and $2.5 million, respectively, primarily as a result of changes in estimates on exited real estate due to the continued softening of real estate marketed for sale, sublease or assignment in certain markets.

Included in the asset impairment charges in fiscal 2001 of $89.7 million were $57.4 million of charges related to retail food properties and $32.3 million of charges related to food distribution properties. Writedowns for property, plant and equipment, goodwill and other intangibles, and other assets were $58.4 million, $21.8 million and $9.5 million, respectively, and were reflected in the Restructure and other charges line in the Consolidated Statements of Earnings for fiscal 2001. In the fourth quarter of fiscal 2003, the fiscal 2001 asset impairment charges for property, plant and equipment were decreased by $3.6 million primarily due to changes in estimates on exited real estate in certain markets and includes a decrease of $8.2 million in estimates related to certain food distribution properties offset by an increase of $4.6 million in estimates related to certain retail food properties. The impairment charges reflect the difference between the carrying value of the assets and the estimated fair values, which were based on the estimated market values for similar assets.

All activity for the fiscal 2001 restructure plan has been completed. Remaining reserves represent future payments on exited real estate and unpaid employee benefits. Details of the fiscal 2001 restructure activity for fiscal 2004 are as follows:

	Balance February 22, 2003	Fiscal 2004 Usage	Fiscal 2004 Adjustment	Balance September 6, 2003
		(In thousands)		
Lease related costs:				
Consolidation of distribution centers	$ 6,473	$ (545)	$ 133	$ 6,061
Exit of non-core retail markets	8,844	(2,577)	1,324	7,591
Disposal of non-core assets and other administrative reductions	4,299	(822)	543	4,020
	19,616	(3,944)	2,000	17,672
Employee related costs:				
Consolidation of distribution centers	9,604	(3,714)	243	6,133
Exit of non-core retail markets	2,980	(1,919)	334	1,395
	12,584	(5,633)	577	7,528
Total restructure and other charges	$ 32,200	$ (9,577)	$ 2,577	$ 25,200

	Previously Recorded	Fiscal 2004 Adjustment	Balance September 6, 2003
Impairment charges	$ 86,169	$	$ 86,169

The number of actual employees terminated under the fiscal 2001 restructure plan was adjusted to a lower number than originally expected primarily due to higher than anticipated voluntary attrition. There was no activity in fiscal 2004. Details of the fiscal 2001 restructure activity as it relates to the number of terminated employees are as follows:

	Original Estimate	Employees Terminated in Prior Years	Adjustments in Prior Years	Balance February 22, 2003
Employees	4,500	(3,767)	(733)	

Restructure 2000

In fiscal 2000, the company recorded pre-tax restructure and other charges of $103.6 million as a result of an extensive review to reduce costs and enhance efficiencies. Included in this total was $17.4 million for asset impairment costs. The restructure and other charges include costs for facility consolidation, non-core store disposal, and rationalization of redundant and certain decentralized administrative functions. The original reserve amount was reduced by $10.3 million in fiscal 2001, primarily as a result of a change in estimate for the closure of a remaining facility. The reserve amount was subsequently increased $12.2 million in fiscal 2002, due to a change in estimate on a remaining facility primarily due to the softening real estate market.

In the fourth quarter of fiscal 2003, the fiscal 2000 restructure and other charges were decreased by $1.6 million, including a $2.9 million increase to the restructure reserves offset by a decrease in asset impairment charges of $4.5 million. The reserve increase of $2.9 million was a result of changes in estimates on exited real estate primarily due to the continued softening of real estate marketed for sale, sublease or assignment in certain markets and higher than anticipated employee related costs.

In the second quarter of fiscal 2004 and for year-to-date fiscal 2004, the fiscal 2000 restructure and other charges were increased by $0.2 million and $0.3 million, respectively, as a result of changes in estimates on exited real estate due to the continued softening of real estate marketed for sale, sublease or assignment in certain markets.

Included in the asset impairment charges in fiscal 2000 of $17.4 million were writedowns on food distribution assets of $10.6 million for property, plant and equipment, $5.6 million of goodwill and other intangibles, and $1.2 million for other assets that were reflected in the Restructure and other charges line in the Consolidated Statements of Earnings for fiscal 2000. In the fourth quarter of fiscal 2003, the fiscal 2000 asset impairment charges for property, plant and equipment on food distribution properties were decreased by $4.5 million primarily due to changes in estimates on exited real estate in certain markets. The impairment charges reflect the difference between the carrying value of the assets and the estimated fair values, which were based on the estimated market values for similar assets.

All activity for the fiscal 2000 restructure plan has been completed. Remaining reserves represent future payments on exited real estate. Details of the fiscal 2000 restructure activity for fiscal 2004 are as follows:

	Balance February 22, 2003	Fiscal 2004 Usage	Fiscal 2004 Adjustment	Balance September 6, 2003
		(In thousands)		
Lease related costs:				
Facility consolidation	$ 8,083	$ (1,480)	$ 48	$ 6,651
Non-core store disposal	3,042	(802)	293	2,533
Total restructure and other charges	$ 11,125	$ (2,282)	$ 341	$ 9,184

	Previously Recorded	Fiscal 2004 Adjustment	September 6, 2003
Impairment charges	12,964	$	$ 12,964

The number of actual employees terminated under the fiscal 2000 restructure plan was adjusted to a lower number than originally expected primarily due to higher than anticipated voluntary attrition. There was no activity in fiscal 2003 or fiscal 2004. Details of the fiscal 2000 restructure activity as it relates to employees are as follows:

	Original Estimate	Employees Terminated in Prior Years	Adjustments in Prior Years	Balance February 23, 2002
Employees	2,517	(1,693)	(824)	

RESERVES FOR CLOSED PROPERTIES AND ASSET IMPAIRMENT

Reserves for Closed Properties

The company maintains reserves for estimated losses on retail stores, distribution warehouses and other properties that are no longer being utilized in current operations. The reserves for closed properties include management s estimates for lease subsidies, lease terminations, future payments on exited real estate and severance. Details of the activity in the closed property reserves for fiscal 2004 are as follows:

	Balance February 22, 2003	Additions	Usage	Balance September 6, 2003
Reserves for Closed Properties	$ 49,873	5,619	(6,973)	$ 48,519

Asset Impairment

In the second quarter of fiscal 2004 and for year-to-date fiscal 2004, the company recognized impairment charges of $0.3 million and $1.4 million, respectively, on the write-down of property, plant and equipment for closed properties, all of which related to food distribution. Impairment charges, a component of selling and administrative expenses in the Consolidated Statements of Earnings, reflect the difference between the carrying value of the assets and the estimated fair values, which were based on the estimated market values for similar assets.

GOODWILL AND OTHER INTANGIBLE ASSETS

At September 6, 2003, the company had approximately $1.6 billion of goodwill on its Condensed Consolidated Balance Sheets of which $0.9 billion was related to retail food and $0.7 billion was related to food distribution.

The carrying amount of other intangible assets as of September 6, 2003 are as follows:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
		(in thousands)	
Non-compete agreements	$ 8,276	$ (4,637)	$ 3,639
Customer lists and other	8,443	(4,581)	3,862
Total	$ 16,719	$ (9,218)	$ 7,501

Other intangible assets are presented in the Other assets line in the Condensed Consolidated Balance Sheets. In the second quarter of fiscal 2004 and for year-to-date fiscal 2004, the company recorded amortization expense of approximately $0.3 million and $0.7 million, respectively. Future amortization expense will approximate $1.0 million per year for each of the next five years. Intangible assets with a definite life are amortized on a straight-line basis with estimated useful lives ranging from five to ten years.

FINANCIAL INSTRUMENTS

Interest Rate Swap Agreements

On February 25, 2001, the effective date of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , the company s existing interest rate swap agreements were recorded at fair value in the company s Condensed Consolidated Balance Sheets. On July 6, 2001, the swaps were terminated and the remaining fair market value adjustments, which are offsetting, are being amortized over the original term of the hedge. Approximately $0.3 million of after-tax loss is expected to be amortized into the Consolidated Statements of Earnings from Accumulated Other Comprehensive Losses within the next 12 months.

In the first quarter of fiscal 2003, the company entered into swap agreements in the notional amount of $225.0 million that exchange a fixed interest rate payment obligation for a floating interest rate payment obligation. The swaps have been designated as a fair value hedge on long-term fixed rate debt of the company and are reflected in the Other assets line in the Condensed Consolidated Balance Sheets. At September 6, 2003, the hedge was highly effective. Changes in the fair value of the swaps and debt are reflected as a component of selling and administrative expense in the Consolidated Statements of Earnings, and through September 6, 2003, the net earnings impact was zero.

The company has limited involvement with derivative financial instruments and uses them only to manage well-defined interest rate risks. The company does not use financial instruments or derivatives for any trading or other speculative purposes.

COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

The company has guaranteed certain leases, fixture financing loans and other debt obligations of various retailers at September 6, 2003. These guarantees were made to support the business growth of affiliated retailers. The guarantees are generally for the entire term of the lease or other debt obligation with remaining terms that range from less than one year to twenty-two years, with a weighted average remaining term of approximately five years. For each guarantee issued, if the affiliated retailer defaults on a payment, the company would be required to make payments under its guarantee. Generally, the guarantees are secured by indemnification agreements or personal guarantees of the affiliated retailer. At September 6, 2003, the maximum amount of undiscounted payments the company would be required to make in the event of default of all guarantees is $293.0 million and represents $192.4 million on a discounted basis. In addition, the company has guaranteed construction loans on warehouses of $7.1 million at September 6, 2003 that the company will purchase upon completion. In April 2003, the company refinanced a synthetic lease including a residual value guarantee with a fair value of approximately $3.5 million reflected in the Other liabilities line in the Condensed Consolidated Balance Sheets as of September 6, 2003.

In July and August 2002, several class action lawsuits were filed against the company and certain of its officers and directors in the United States District Court for the District of Minnesota on behalf of purchasers of the company s securities between July 11, 1999 and June 26, 2002. The lawsuits have been consolidated into a single action, in which it is alleged that the company and certain of its officers and directors violated Federal securities laws by issuing materially false and misleading statements relating to its financial performance. The company believes that the lawsuit is without merit, intends to vigorously defend the action and presently has moved for dismissal. No damages have been specified. The company is unable to evaluate the likelihood of prevailing in the case at this stage of the proceedings.

The company is a party to various other legal proceedings arising from the normal course of business activities, none of which, in management s opinion, is expected to have a material adverse impact on the company s consolidated statement of earnings or consolidated financial position.

On October 7, 2003, the St. Louis United Food and Commercial Workers union Local 655, which covers 21 of the company s 35 Shop n Save stores, voted to strike. The company is unable to evaluate the potential financial impact of the strike at this time.

SEGMENT INFORMATION

Refer to page 4 for the company s segment information.

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

RESULTS OF OPERATIONS

In the second quarter of fiscal 2004, the company achieved net sales of $4.6 billion compared with $4.3 billion last year. Net earnings for the second quarter of fiscal 2004 were $62.2 million and diluted earnings per share were $0.46 compared with net earnings of $58.8 million and diluted earnings per share of $0.44 last year.

Net Sales

Net sales for the second quarter of fiscal 2004 were $4.6 billion, an increase of 5.8 percent from last year. Retail food sales were 52.0 percent of net sales for the second quarter of fiscal 2004 compared with 51.8 percent last year. Food distribution sales were 48.0 percent of net sales for the second quarter of fiscal 2004 compared with 48.2 percent last year.

Retail food sales for the second quarter of fiscal 2004 increased 6.2 percent compared with last year, primarily reflecting new store openings and same-store sales, defined as stores operating for four full quarters including store expansions. Same-store retail sales for the second quarter of fiscal 2004 were positive 2.0 percent, impacted by approximately 0.6 percent of planned in-market expansion.

Store activity since last year s second quarter, including licensed stores, resulted in 130 new stores opened and 37 stores closed for a total of 1,451 stores at the end of second quarter fiscal 2004. Total retail square footage, including licensed stores, increased approximately 4.0 percent from last year s second quarter.

Food distribution sales for the second quarter of fiscal 2004 increased 5.4 percent compared with last year, primarily reflecting new customer affiliations, which more than offset customer attrition.

Gross Profit

Gross profit (calculated as net sales less cost of sales), as a percent of net sales, was 13.9 percent for the second quarter of fiscal 2004 compared with 13.6 percent last year. The increase in gross profit as a percent of net sales primarily reflects improved merchandising execution for retail and benefits of efficiency initiatives implemented during the course of the prior year for distribution, which more than offset the impact of a changing customer mix and increases in employee benefit related costs for distribution.

Selling and Administrative Expenses

Selling and administrative expenses, as a percent of net sales, were 11.0 percent for the second quarter of fiscal 2004 compared with 10.6 percent last year. The increase in selling and administrative expenses, as a percent of net sales, primarily reflects higher employee benefit related costs and additional reserves for non-operating properties, that were partially offset by distribution efficiency initiatives implemented during the course of the prior year.

Operating Earnings

Operating earnings for the second quarter of fiscal 2004 increased 0.6 percent to $132.1 million compared with $131.3 million last year. Second quarter of fiscal 2004 operating earnings include $2.3 million in pre-tax restructure and other charges. Retail food second quarter of fiscal 2004 operating earnings increased 0.2 percent to $98.9 million, or 4.1 percent of net sales, from last year s operating earnings of $98.8 million, or 4.4 percent of net sales. The decrease in retail food operating earnings, as a percent of net sales, was primarily due to improved merchandising execution that was more than offset by increases in employee related costs, which continue to increase at a rate faster than sales growth. Food distribution second quarter of fiscal 2004 operating earnings increased 19.3 percent to $47.4 million, or 2.2 percent of net sales, from last year s operating earnings of $39.8 million, or 1.9 percent of net sales. The increase in food distribution operating earnings, as a percent of net sales, primarily reflects benefits of efficiency initiatives implemented during the course of the prior year, which more than offset the changing customer mix and increases in employee benefit related costs.

Net Interest Expense

Interest expense decreased to $37.6 million in the second quarter of fiscal 2004 compared with $42.6 million last year, primarily reflecting last year s prefunding of $300 million of notes which were due November 2002. Interest income remained flat at $4.6 million for the second quarter of fiscal 2004 and 2003.

Income Taxes

The effective tax rate was 37.25 and 37.0 percent in the second quarter of fiscal 2004 and fiscal 2003, respectively.

Net Earnings

Net earnings were $62.2 million, or $0.46 per diluted share, in the second quarter of fiscal 2004 compared with net earnings of $58.8 million, or $0.44 per diluted share last year.

Weighted average diluted shares increased to 135.5 million in the second quarter of fiscal 2004 compared with 134.9 million shares last year, reflecting the net impact of stock option activity and shares repurchased under the treasury stock program.

YEAR-TO-DATE RESULTS:

Year-to-date for fiscal 2004, the company achieved net sales of $10.4 billion compared with $10.0 billion last year. Net earnings for fiscal 2004 year-to-date were $135.9 million and diluted earnings per share were $1.01 compared with net earnings of $136.0 million and diluted earnings per share of $1.00 last year.

Net Sales

Net sales for fiscal 2004 year-to-date were $10.4 billion, an increase of 4.3 percent from last year. Retail food sales were 51.2 percent of net sales for fiscal 2004 year-to-date compared with 50.6 percent last year. Food distribution sales were 48.8 percent of net sales for fiscal 2004 year-to-date compared with 49.4 percent last year.

Retail food sales for fiscal 2004 year-to-date increased 5.6 percent compared with last year, primarily reflecting new store openings, same-store sales and the year-to-date inclusion of Deals stores, which was acquired late in last year s first quarter. Same-store retail sales for fiscal 2004 year-to-date were positive 1.1 percent, impacted by approximately 0.7 percent of planned in-market expansion.

Food distribution sales for fiscal 2004 year-to-date increased 3.0 percent compared with last year, primarily reflecting new customer affiliations, which more than offset customer attrition.

Gross Profit

Gross profit, as a percent of net sales, was 13.8 percent for fiscal 2004 year-to-date compared with 13.5 percent last year. The increase in gross profit, as a percent of net sales, reflects the growing proportion of the company s retail food business, including the higher gross profit margin of Deals acquired late in last year s first quarter, which operates at a higher gross profit margin as a percent of net sales than does the food distribution business and improved merchandising execution for retail.

Selling and Administrative Expenses

Selling and administrative expenses, as a percentage of net sales, were 10.9 percent for fiscal 2004 year-to-date compared with 10.4 percent last year. The increase in selling and administrative expenses, as a percent of net sales, reflects the growing proportion of the company s retail food business, including the higher selling and administrative expense ratio of Deals acquired late in last year s first quarter, which operates at a higher selling and administrative expense as a percent of net sales than does the food distribution business. In addition, the increase reflects increases in employee benefit related costs, additional reserves for non-operating properties and approximately $5 million, net, in litigation settlements.

Operating Earnings

Operating earnings for fiscal 2004 year-to-date decreased 3.8 percent to $293.9 million compared with $305.6 million last year. Fiscal 2004 year-to-date operating earnings include $3.4 million in pre-tax restructure and other charges. Retail food fiscal 2004 year-to-date operating earnings decreased 2.4 percent to $222.5 million, or 4.2 percent of net sales, from last year s operating earnings of $227.9 million, or 4.5 percent of net sales. The decrease in retail food operating earnings, as a percent of net sales, was primarily due to increases in employee benefit related costs, which continue to increase at a rate faster than sales growth, and the higher mix of new stores, primarily Deals stores, both new and acquired, which more than offset improved merchandising execution. Food distribution fiscal 2004 year-to-date operating earnings increased 8.9 percent to $105.6 million, or 2.1 percent of net sales, from last year s operating earnings of $96.9 million, or 2.0 percent of net sales. The increase in food distribution operating earnings, as a percent of net sales, primarily reflects the impact of benefits of efficiency initiatives implemented during the course of the prior year, which more than offset the changing customer mix and increases in employee benefit related costs.

Net Interest Expense

Interest expense decreased to $87.1 million in fiscal 2004 year-to-date compared with $100.7 million last year, reflecting last year s prefunding of $300 million of notes which were due November 2002 and lower average interest rates, largely due to the interest rate swap agreements entered into in the first quarter of fiscal 2003. Interest income decreased to $9.8 million in fiscal 2004 year-to-date compared with $10.8 million last year, reflecting lower average invested cash balances and lower average interest rates.

Income Taxes

The effective tax rate was 37.25 and 37.0 percent in fiscal 2004 year-to-date and fiscal 2003 year-to-date, respectively.

Net Earnings

Net earnings were $135.9 million, or $1.01 per diluted share, in fiscal 2004 year-to-date compared with net earnings of $136.0 million, or $1.00 per diluted share last year.

Weighted average diluted shares decreased to 134.7 million fiscal 2004 year-to-date compared with 135.6 million shares last year, reflecting the net impact of stock option activity and shares repurchased under the treasury stock program.

RESTRUCTURE AND OTHER CHARGES

In the second quarter of fiscal 2004, the company recognized pre-tax restructure and other charges of $2.3 million reflected in the Restructure and other charges line in the Consolidated Statements of Earnings. The charges represent net adjustments of $0.6 million, $1.5 million and $0.2 million to restructure 2002, 2001 and 2000 reserves, respectively. For year-to-date fiscal 2004, the company recognized pre-tax restructure and other charges of $3.4 million, representing net adjustments of $0.6 million, $2.5 million and $0.3 million to restructure 2002, 2001 and 2000 reserves, respectively. The increases are due to continued softening of real estate in certain markets and higher than anticipated employee related costs.

Restructure 2002

In the fourth quarter of fiscal 2002, the company identified additional efforts that would allow it to extend its distribution efficiency program that began early in fiscal 2001. The additional distribution efficiency initiatives identified resulted in pre-tax restructure charges of $16.3 million, primarily related to personnel reductions in administrative and transportation functions. Management began the initiatives in fiscal 2003 and the majority of these actions were completed by the end of fiscal 2003.

In the fourth quarter of fiscal 2003, the fiscal 2002 restructure charges were decreased by $3.6 million, including a decrease of $1.4 million due to lower than anticipated lease related costs in transportation efficiency initiatives and a decrease of $2.2 million in employee related costs due to lower than anticipated severance costs.

In the second quarter of fiscal 2004, the fiscal 2002 restructure charges were increased by $0.6 million due to higher than anticipated severance costs for certain employees.

Remaining reserves for the fiscal 2002 restructure plan represent future lease payments as well as unpaid severance and employee related costs. Details of the fiscal 2002 restructure activity for fiscal 2004 are as follows:

	Balance February 22, 2003	Fiscal 2004 Usage	Fiscal 2004 Adjustment	Balance September 6, 2003
		(In thousands)		
Lease related costs:				
Transportation efficiency initiatives	$ 1,054	$ (464)	$ (43)	$ 547
	1,054	(464)	(43)	547
Employee related costs:				
Administrative realignment	2,390	(2,442)	629	577
	2,390	(2,442)	629	577
Total restructure charges	$ 3,444	$ (2,906)	$ 586	$ 1,124

Details of the fiscal 2002 restructure activity as it relates to the number of terminated employees are as follows:

	Original Estimate	Employees Terminated in Fiscal 2003	Balance February 22, 2003	Employees Terminated in Fiscal 2004	Balance September 6, 2003

Employees	800	(650)	150	(115)	35

Restructure 2001

In the fourth quarter of fiscal 2001, the company completed a strategic review that identified certain assets that did not meet return objectives, provide long-term strategic opportunities or justify additional capital investments. This review process culminated in the company recording pre-tax restructure and other charges of $181.6 million, including $89.7 million for asset impairment charges, $52.1 million for lease subsidies, lease cancellation fees, future payments on exited real estate and guarantee obligations and $39.8 million for severance and employee related costs.

In the fourth quarter of fiscal 2002, the fiscal 2001 restructure and other charges were increased by $17.8 million as a result of changes in estimates primarily due to the softening real estate market, including $19.1 million for increased lease liabilities in exiting the non-core retail markets and the disposal of non-core assets, offset by a net decrease of $1.3 million in restructure reserves for the consolidation of distribution centers.

In the fourth quarter of fiscal 2003, the fiscal 2001 restructure and other charges were increased by $8.1 million, including an $11.7 million increase to the restructure reserves offset by a decrease in asset impairment charges of $3.6 million. The reserve increase of $11.7 million was a result of changes in estimates on exited real estate primarily due to the continued softening of real estate marketed for sale, sublease or assignment in certain markets, including approximately $5 million relating to the consolidation of distribution centers and approximately $6 million relating to the exit of non-core retail markets and $1.2 million in higher than anticipated employee related costs primarily in the exit of non-core retail markets.

In the second quarter of fiscal 2004 and for year-to-date fiscal 2004, the fiscal 2001 restructure and other charges were increased by $1.5 million and $2.5 million, respectively, primarily as a result of changes in estimates on exited real estate due to the continued softening of real estate marketed for sale, sublease or assignment in certain markets.

Included in the asset impairment charges in fiscal 2001 of $89.7 million were $57.4 million of charges related to retail food properties and $32.3 million of charges related to food distribution properties. Writedowns for property, plant and equipment, goodwill and other intangibles, and other assets were $58.4 million, $21.8 million and $9.5 million, respectively, and were reflected in the Restructure and other charges line in the Consolidated Statements of Earnings for fiscal 2001. In the fourth quarter of fiscal 2003, the fiscal 2001 asset impairment charges for property, plant and equipment were decreased by $3.6 million primarily due to changes in estimates on exited real estate in certain markets and includes a decrease of $8.2 million in estimates related to certain food distribution properties offset by an increase of $4.6 million in estimates related to certain retail food properties. The impairment charges reflect the difference between the carrying value of the assets and the estimated fair values, which were based on the estimated market values for similar assets.

All activity for the fiscal 2001 restructure plan has been completed. Remaining reserves represent future payments on exited real estate and unpaid employee benefits. Details of the fiscal 2001 restructure activity for fiscal 2004 are as follows:

	Balance February 22, 2003	Fiscal 2004 Usage	Fiscal 2004 Adjustment	Balance September 6, 2003
		(In thousands)		
Lease related costs:				
Consolidation of distribution centers	$ 6,473	$ (545)	$ 133	$ 6,061
Exit of non-core retail markets	8,844	(2,577)	1,324	7,591
Disposal of non-core assets and other administrative reductions	4,299	(822)	543	4,020
	19,616	(3,944)	2,000	17,672
Employee related costs:				
Consolidation of distribution centers	9,604	(3,714)	243	6,133
Exit of non-core retail markets	2,980	(1,919)	334	1,395
	12,584	(5,633)	577	7,528
Total restructure and other charges	$ 32,200	$ (9,577)	$ 2,577	$ 25,200

	Previously Recorded	Fiscal 2004 Adjustment	Balance September 6, 2003
Impairment charges	$ 86,169	$	$ 86,169

The number of actual employees terminated under the fiscal 2001 restructure plan was adjusted to a lower number than originally expected primarily due to higher than anticipated voluntary attrition. There was no activity in fiscal 2004. Details of the fiscal 2001 restructure activity as it relates to the number of terminated employees are as follows:

	Original Estimate	Employees Terminated in Prior Years	Adjustments in Prior Years	Balance February 22, 2003
Employees	4,500	(3,767)	(733)	

Restructure 2000

In fiscal 2000, the company recorded pre-tax restructure and other charges of $103.6 million as a result of an extensive review to reduce costs and enhance efficiencies. Included in this total was $17.4 million for asset impairment costs. The restructure and other charges include costs for facility consolidation, non-core store disposal, and rationalization of redundant and certain decentralized administrative functions. The original reserve amount was reduced by $10.3 million in fiscal 2001, primarily as a result of a change in estimate for the closure of a remaining facility. The reserve amount was subsequently increased $12.2 million in fiscal 2002, due to a change in estimate on a remaining facility primarily due to the softening real estate market.

In the fourth quarter of fiscal 2003, the fiscal 2000 restructure and other charges were decreased by $1.6 million, including a $2.9 million increase to the restructure reserves offset by a decrease in asset impairment charges of $4.5 million. The reserve increase of $2.9 million was a result of changes in estimates on exited real estate primarily due to the continued softening of real estate marketed for sale, sublease or assignment in certain markets and higher than anticipated employee related costs.

In the second quarter of fiscal 2004 and for year-to-date fiscal 2004, the fiscal 2000 restructure and other charges were increased by $0.2 million and $0.3 million, respectively, as a result of changes in estimates on exited real estate due to the continued softening of real estate marketed for sale, sublease or assignment in certain markets.

Included in the asset impairment charges in fiscal 2000 of $17.4 million were writedowns on food distribution assets of $10.6 million for property, plant and equipment, $5.6 million of goodwill and other intangibles, and $1.2 million for other assets that were reflected in the Restructure and other charges line in the Consolidated Statements of Earnings for fiscal 2000. In the fourth quarter of fiscal 2003, the fiscal 2000 asset impairment charges for property, plant and equipment on food distribution properties were decreased by $4.5 million primarily due to changes in estimates on exited real estate in certain markets. The impairment charges reflect the difference between the carrying value of the assets and the estimated fair values, which were based on the estimated market values for similar assets.

All activity for the fiscal 2000 restructure plan has been completed. Remaining reserves represent future payments on exited real estate. Details of the fiscal 2000 restructure activity for fiscal 2004 are as follows:

	Balance February 22, 2003	**Fiscal 2004 Usage**	**Fiscal 2004 Adjustment**	**Balance September 6, 2003**
		(In thousands)		
Lease related costs:				
Facility consolidation	$ 8,083	$ (1,480)	$ 48	$ 6,651
Non-core store disposal	3,042	(802)	293	2,533
Total restructure and other charges	$ 11,125	$ (2,282)	$ 341	$ 9,184

	Previously Recorded	**Fiscal 2004 Adjustment**	**September 6, 2003**
Impairment charges	12,964	$	$ 12,964

The number of actual employees terminated under the fiscal 2000 restructure plan was adjusted to a lower number than originally expected primarily due to higher than anticipated voluntary attrition. There was no activity in fiscal 2003 or fiscal 2004. Details of the fiscal 2000 restructure activity as it relates to employees are as follows:

	Original Estimate	**Employees Terminated in Prior Years**	**Adjustments in Prior Years**	**Balance February 23, 2002**
Employees	2,517	(1,693)	(824)	

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $453.9 million for fiscal 2004 year-to-date compared with $432.7 million last year.

Net cash used in investing activities was $127.1 million for fiscal 2004 year-to-date compared with $173.4 million last year. Fiscal 2004 year-to-date investing activities primarily reflect capital spending to fund retail store expansion, store remodeling, Save-A-Lot distribution facilities and technology enhancements. Fiscal 2003 year-to-date investing activities primarily reflect capital spending to fund retail store expansion, including the acquisition of Deals, store remodeling and technology enhancements.

Net cash used in financing activities was $150.7 million for fiscal 2004 year-to-date compared with cash provided by financing activities of $23.0 million last year. Fiscal 2004 year-to-date financing activities primarily reflect a net reduction of $114.2 million for debt related items and the payment of dividends of $38.2 million. Fiscal 2003 year-to-date financing activities primarily reflect the issuance of $300.0 million 10-year 7.50% Senior Notes, completed in May 2002 and the redemption of $173.0 million of the company s 9.75% Senior Notes due fiscal 2005 at the redemption price of 102.4375% of the principal amount of the Senior Notes, plus accrued and unpaid interest, the payment for the purchase of treasury shares of $42.2 million and the payment of dividends of $37.5 million.

Management expects that the company will continue to replenish operating assets with internally generated funds. There can be no assurance, however, that the company s business will continue to generate cash flow at current levels. The company will continue to obtain short-term financing from its revolving credit agreement with various financial institutions, as well as through its accounts receivable securitization program. Long-term financing will be maintained through existing and new debt issuances. The company s short-term and long-term financing abilities are believed to be adequate as a supplement to internally generated cash flows to fund its capital expenditures and acquisitions as opportunities arise. Maturities of debt issued will depend on management s views with respect to the relative attractiveness of interest rates at the time of issuance and other debt maturities.

As of September 6, 2003, the company had no outstanding borrowings under its unsecured $650.0 million revolving credit facility. As of September 6, 2003, letters of credit outstanding under the credit facility were $133.7 million and the unused available credit under the facility was $516.3 million.

In August 2003, the company renewed its annual accounts receivable securitization program, under which the company can borrow up to $200.0 million on a revolving basis, with borrowings secured by eligible accounts receivable. There were no outstanding borrowings under this program as of September 6, 2003.

In November 2001, the company sold zero-coupon convertible debentures due 2031. Holders of the debentures may require the company to purchase all or a portion of their debentures on the first day of October 2003, 2006 and 2011 at a purchase price equal to the accreted value of the debentures, which includes accrued and unpaid interest. On October 1, 2003, none of the holders exercised this option. In the event SUPERVALU s stock price reaches the convertible debentures conversion trigger price of $35.74 in the third quarter of fiscal 2004, the company would be required to include an additional 7.8 million shares in its diluted shares outstanding calculation for the fourth quarter of fiscal 2004.

The company is party to synthetic leasing programs for two of its major warehouses. The leases expire in September 2004 and April 2008. The lease that expires in September 2004 may be renewed with the lessor s consent through September 2006, and has a purchase option of approximately $25 million. In April 2003, the company refinanced the lease that now expires in April 2008. This lease may be renewed with the lessor s consent through April 2013, and has a purchase option of approximately $60 million.

On September 13, 2003, the company acquired certain former Fleming distribution operations in the Midwest in exchange for its New England operations as part of an asset exchange agreement with C&S Wholesale Grocers. This transaction will have no material impact on liquidity or capital resources in fiscal 2004. This transaction is expected to contribute to fiscal 2005 earnings per share in the range of $0.07 to $0.10 on an approximately $100 million to $200 million lower revenue stream.

On October 8, 2003, the company notified the holders of its $100.0 million 8.875% Notes due 2022 that it would voluntarily redeem the Notes at the redemption price of 103.956% of the principal amount of the Notes, plus accrued and unpaid interest. The redemption of the Notes will occur on November 17, 2003, utilizing available cash balances. This redemption will cost approximately $0.03 per share in the third quarter of fiscal 2004.

On October 15, 2003, the company announced the sale of its Denver-based operations that is expected to be complete by late November 2003. This transaction will have no material impact on liquidity or capital resources.

Capital spending during the second quarter of fiscal 2004 was $90.1 million, including $1.8 million in capital leases. Capital spending for year-to-date fiscal 2004 was $162.4 million, including $11.4 million of capital leases. Capital spending primarily includes retail store expansion, store remodeling, new Save-A-Lot distribution facilities and technology enhancements. The company s capital budget for fiscal 2004 is projected to be approximately $425.0, including approximately $50 million in capital leases.

COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

The company has guaranteed certain leases, fixture financing loans and other debt obligations of various retailers at September 6, 2003. These guarantees were made to support the business growth of affiliated retailers. The guarantees are generally for the entire term of the lease or other debt obligation with remaining terms that range from less than one year to twenty-two years, with a weighted average remaining term of approximately five years. For each guarantee issued, if the affiliated retailer defaults on a payment, the company would be required to make payments under its guarantee. Generally, the guarantees are secured by indemnification agreements or personal guarantees of the affiliated retailer. At September 6, 2003, the maximum amount of undiscounted payments the company would be required to make in the event of default of all guarantees is $293.0 million and represents $192.4 million on a discounted basis. In addition, the company has guaranteed construction loans on warehouses of $7.1 million at September 6, 2003 that the company will purchase upon completion. In April 2003, the company refinanced a synthetic lease including a residual value guarantee with a fair value of approximately $3.5 million reflected in the Other liabilities line in the Condensed Consolidated Balance Sheets as of September 6, 2003.

The following table represents the company s total commitments and total off-balance sheet arrangements at September 6, 2003:

	Amount of Commitment Expiration Per Period				
	Total Amount Committed	**Remaining in Fiscal 2004**	**Fiscal 2005-2006**	**Fiscal 2007-2008**	**Thereafter**
			(in thousands)		
Commitments:					
Debt	$ 1,490,293	$ 17,036	$ 335,588	$ 79,123	$ 1,058,546
Capital and Direct Financing Leases	550,375	32,060	84,325	81,403	352,587
Total Commitments	$ 2,040,668	$ 49,096	$ 419,913	$ 160,526	$ 1,411,133
Off-Balance Sheet Arrangements:					
Retailer Loan and Lease Guarantees	$ 293,004	$ 26,122	$ 77,052	$ 52,481	$ 137,349
Construction Loan Commitments	7,106	7,106			
Purchase Options on Synthetic Leases	85,000		25,000		60,000
Operating Leases	997,816	69,724	259,293	201,187	467,612
Total Off-Balance Sheet Arrangements	$ 1,382,926	$ 102,952	$ 361,345	$ 253,668	$ 664,961

In July and August 2002, several class action lawsuits were filed against the company and certain of its officers and directors in the United States District Court for the District of Minnesota on behalf of purchasers of the company s securities between July 11, 1999 and June 26, 2002. The lawsuits have been consolidated into a single action, in which it is alleged that the company and certain of its officers and directors violated Federal securities laws by issuing materially false and misleading statements relating to its financial performance. The company believes that the lawsuit is without merit, intends to vigorously defend the action and presently has moved for dismissal. No damages have been specified. The company is unable to evaluate the likelihood of prevailing in the case at this stage of the proceedings.

The company is a party to various other legal proceedings arising from the normal course of business activities, none of which, in management s opinion, is expected to have a material adverse impact on the company s consolidated statement of earnings or consolidated financial position.

On October 7, 2003, the St. Louis United Food and Commercial Workers union Local 655, which covers 21 of the company s 35 Shop n Save stores, voted to strike. The company is unable to evaluate the potential financial impact of the strike at this time.

NEW ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, Accounting for Asset Retirement Obligations , which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The company adopted the provisions of SFAS No. 143 in the first quarter of fiscal 2004. SFAS No. 143 did not have a material impact on the company s consolidated financial statements.

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In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections . SFAS No. 145 allows only those gains and losses on the extinguishment of debt that meet the criteria of extraordinary items to be treated as such in the financial statements. SFAS No. 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sales-leaseback transactions. Certain provisions of SFAS No. 145 were effective for transactions occurring after May 15, 2002, while the remaining provisions were effective for the company in the second quarter of fiscal 2004. SFAS No. 145 did not have a material impact on the company s consolidated financial statements.

In January 2003, the FASB issued Interpretation (FIN) No. 46, Consolidation of Variable Interest Entities . FIN No. 46 states that companies that have exposure to the economic risks and potential rewards from another entity s assets and activities have a controlling financial interest in a variable interest entity and should consolidate the entity, despite the absence of clear control through a voting equity interest. The consolidation requirements apply to all variable interest entities created after January 31, 2003. For variable interest entities that existed prior to February 1, 2003, FASB Staff Position No. 46-6 delayed the consolidation requirements until annual or interim periods beginning after December 15, 2003. Disclosure of significant variable interest entities is required in all financial statements issued after January 31, 2003, regardless of when the variable interest was created. FIN No. 46 did not have an impact on the company s consolidated financial statements.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities . SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments imbedded in other contracts and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities . SFAS No. 149 was effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. SFAS No. 149 did not have an impact on the company s consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity . SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 was effective for financial instruments entered into or modified after May 31, 2003, and otherwise was effective at the beginning of the first interim period beginning after June 15, 2003. SFAS No. 150 did not have an impact on the company s consolidated financial statements.

Emerging Issues Task Force (EITF) Issue No. 00-21, Accounting for Revenue Arrangements with Multiple Deliverables , addresses certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. EITF Issue No. 00-21 establishes three principles: revenue arrangements with multiple deliverables should be divided into separate units of accounting, arrangement consideration should be allocated among the separate units of accounting based on their relative fair values, and revenue recognition criteria should be considered separately for separate units of accounting. EITF Issue No. 00-21 was effective for all revenue arrangements entered into in fiscal periods beginning after June 15, 2003. EITF Issue No. 00-21 did not have a material impact on the company s consolidated financial statements.

EITF Issue No. 01-8, Determining Whether an Arrangement Contains a Lease , determines whether an arrangement conveying the right to use property, plant and equipment meets the definition of a lease within the scope of SFAS 13, Accounting for Leases . EITF Issue No. 01-8 was effective the first interim period beginning after May 28, 2003. EITF Issue No. 01-8 did not have a material impact on the company s consolidated financial statements.

Cautionary Statements for Purposes of the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995

Any statements in this report regarding SUPERVALU s outlook for its businesses and their respective markets, such as projections of future performance, statements of management s plans and objectives, forecasts of market trends and other matters, are forward-looking statements based on management s assumptions and beliefs. Such statements may be identified by such words or phrases as will likely result, are expected to, will continue, outlook, is anticipated, estimate, project, management believes or similar expressions. Such forward-looking statemen subject to certain risks and uncertainties that could cause actual results to differ materially from those discussed in such forward-looking statements and no assurance can be given that the results in any forward-looking statement will be achieved. For these statements, SUPERVALU claims the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

The following is a summary of certain factors, the results of which could cause SUPERVALU s future results to differ materially from those expressed or implied in any forward-looking statements contained in this report:

competitive practices in the retail food and food distribution industries,

the nature and extent of the consolidation of the retail food and food distribution industries, our ability to attract and retain customers for our food distribution business and to control food distribution costs,

our ability to grow through acquisitions and successfully integrate acquired entities,

economic conditions that affect the food industry, such as food price deflation and softness in local and national economies, as well as general economic or political conditions that affect consumer buying habits generally,

wartime activities, threats, and acts of terror directed at the food industry that affect consumer behavior, as well as related security costs,

potential work disruptions from labor disputes or national emergencies,

the timing and implementation of certain restructure activities we have announced, including our consolidation of certain distribution facilities and our disposition of under-performing stores and non-operating properties,

our ability to manage increases in health care and pension costs,

the availability of favorable credit and trade terms, and

other risk factors inherent in the retail food and food distribution industries.

These risks and uncertainties are set forth in further detail in Exhibit 99.1 to this report. Any forward-looking statement speaks only as of the date on which such statement is made, and except as required by federal securities laws, SUPERVALU undertakes no obligation to update such statement to reflect events or circumstances arising after such date.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There were no material changes in market risk for the company in the period covered by this report. See our Annual Report on Form 10-K for a discussion of market risk for the company.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

The company carried out an evaluation, under the supervision and with the participation of the company s management, including the company s chief executive officer and its chief financial officer, of the effectiveness of the design and operation of the company s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934 (the Exchange Act)) as of September 6, 2003, the end of the period covered by this report. Based upon that evaluation, the chief executive officer and chief financial officer concluded that as of the Evaluation Date, the company s disclosure controls and procedures are effective to ensure that information required to be disclosed by the company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal controls.

During the fiscal quarter ended September 6, 2003, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that has materially affected or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In July and August 2002, several class action lawsuits were filed against the company and certain of its officers and directors in the United States District Court for the District of Minnesota on behalf of purchasers of the company s securities between July 11, 1999 and June 26, 2002. The lawsuits have been consolidated into a single action, in which it is alleged that the company and certain of its officers and directors violated Federal securities laws by issuing materially false and misleading statements relating to its financial performance. The company believes that the lawsuit is without merit, intends to vigorously defend the action and presently has moved for dismissal. No damages have been specified. The company is unable to evaluate the likelihood of prevailing in the case at this stage of the proceedings.

The company is a party to various other legal proceedings arising from the normal course of business activities, none of which, in management s opinion, is expected to have a material adverse impact on the company s consolidated statement of earnings or consolidated financial position.

Item 2. Changes in Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits filed with this Form 10-Q:

(12)	Ratio of Earnings to Fixed Charges.
(31.1)	Chief Executive Officer Certification of Periodic Financial Report pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(31.2)	Chief Financial Officer Certification of Periodic Financial Report pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32.1)	Chief Executive Officer Certification of Periodic Financial Report pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)	Chief Financial Officer Certification of Periodic Financial Report pursuant to 18 U.S.C. Section 1350, adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(99.1)	Cautionary Statements Pursuant to the Securities Litigation Reform Act.

Reports on Form 8-K:

(i) On July 14, 2003, the Registrant furnished a report on Form 8-K reporting under Item 9 Regulation FD Disclosure , the results for its quarterly fiscal period ended June 14, 2003.

(ii) On July 16, 2003, the Registrant furnished a report on Form 8-K reporting under Item 9 Regulation FD Disclosure , a transcript of the remarks of Jeffrey Noddle, Chairman of the Board and Chief Executive Officer, and Pamela K. Knous, Executive Vice President and Chief Financial Officer, delivered to analysts, investors and other parties during a publicly announced conference call to report earnings and performance for the company s quarterly fiscal period ended June 14, 2003.

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.

Supervalu Inc. (Registrant)

Dated: October 21, 2003 By: /s/ PAMELA K. KNOUS

Pamela K. Knous

Executive Vice President, Chief Financial Officer

(principal financial and accounting officer)

EXHIBIT INDEX

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