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SMART & FINAL INC/DE
Form 10-Q
May 04, 2001

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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 March 25, 2001

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____ to ____

Commission File Number 001-10811

SMART & FINAL INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

No. 95-4079584
(IRS Employer Identification No.)

600 Citadel Drive
City of Commerce, California 90040
(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code: (323) 869-7500

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 _____ No .

The registrant had 29,286,764 shares of common stock outstanding as of May 2, 2001.

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SMART & FINAL INC. Index

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SMART & FINAL INC. CONSOLIDATED BALANCE SHEETS (dollars in thousands)

	March 25, 2001	December 31, 2000
ASSETS		

Current assets:	(Unaudited)	
Cash & cash equivalents	\$ 26,924	\$ 23,328
Trade notes and accounts receivable, less allowance for doubtful accounts of \$3,315 in 2001 and \$3,182 in 2000	71,455	68,776
Inventories	169,212	170,276
Prepaid expenses	7,327	6,426
Deferred tax asset	11,410	10,890
	-----	-----
Total current assets	286,328	279,696
Property, plant and equipment:		
Land	37,078	36,338
Buildings and improvements	29,559	29,559
Leasehold improvements	105,254	104,646
Fixtures and equipment	187,414	182,678
	-----	-----
	359,305	353,221
Less - Accumulated depreciation and amortization	151,525	146,904

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Net property, plant and equipment	207,780	206,317
Assets under capital leases, net of accumulated amortization of \$8,435 in 2001 and \$8,098 in 2000	6,540	6,877
Goodwill, net of accumulated amortization of \$5,563 in 2001 and \$5,203 in 2000	53,164	53,524
Deferred tax asset	6,051	6,051
Other assets	28,727	29,876
	-----	-----
Total assets	\$ 588,590	\$ 582,341
	=====	=====
 LIABILITIES AND STOCKHOLDERS' EQUITY		

Current liabilities:		
Current maturities of long-term debt	\$ 108,687	\$ 91,209
Accounts payable	98,670	102,858
Accrued salaries and wages	10,623	15,538
Other accrued liabilities	36,148	39,688
	-----	-----
Total current liabilities	254,128	249,293
Long-term liabilities:		
Notes payable, net of current maturities	10,095	10,117
Notes payable to Parent	15,965	15,965
Obligations under capital leases	9,049	9,390
Other long-term liabilities	13,630	12,632
Workers' compensation reserve, postretirement and postemployment benefits	20,537	20,079
	-----	-----
Total long-term liabilities	69,276	68,183
Stockholders' equity:		
Preferred stock, \$1 par value (authorized- 10,000,000 shares; no shares issued)	--	--
Common stock, \$0.01 par value (authorized- 100,000,000 shares; 29,284,964 shares issued and outstanding in 2001 and 29,203,114 in 2000)	293	292
Additional paid-in capital	205,366	204,898
Notes receivable for stock	(100)	(100)
Accumulated other comprehensive loss	(1,933)	(915)
Retained earnings	61,560	60,690
	-----	-----
Total stockholders' equity	265,186	264,865
	-----	-----
Total liabilities and stockholders' equity	\$ 588,590	\$ 582,341
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

SMART & FINAL INC.
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share amounts)

Twelve Weeks Ended

-----	-----
March 25, 2001	March 26, 2000

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	----- (Unaudited) -----	
Sales	\$ 424,168	\$ 399,361
Cost of sales, buying and occupancy	366,115	345,138
	-----	-----
Gross margin	58,053	54,223
Operating and administrative expenses	53,811	50,013
	-----	-----
Income from operations	4,242	4,210
Interest expense, net	3,067	3,245
	-----	-----
Income before provision for income taxes	1,175	965
Provision for income taxes	425	373
	-----	-----
Income from consolidated subsidiaries	750	592
Equity earnings in unconsolidated subsidiary	120	44
	-----	-----
Net income	\$ 870	\$ 636
	=====	=====
Earnings per common share	\$ 0.03	\$ 0.02
	=====	=====
Weighted average common shares	29,216,756	29,163,185
	=====	=====
Earnings per common share, assuming dilution	\$ 0.03	\$ 0.02
	=====	=====
Weighted average common shares and common share equivalents	29,492,458	29,176,666
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

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SMART & FINAL INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	----- Twelve Weeks Ended -----	
	March 25, 2001	March 26, 2000

Cash Flows From Operating Activities:	(Unaudited)	

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Net income	\$ 870	\$ 636
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on disposal of fixed assets	(7)	(39)
Depreciation and amortization	7,794	7,701
Deferred tax benefit	(520)	--
Amortization of deferred financing costs	390	444
Equity earnings in unconsolidated subsidiary	(120)	(44)
Decrease (increase) in:		
Trade notes and accounts receivable	(2,679)	1,431
Inventories	1,064	3,364
Prepaid expenses and other	(901)	90
Increase (decrease) in:		
Accounts payable	1,343	(3,255)
Accrued liabilities	(4,915)	1,217
Other liabilities	(2,084)	(600)
	-----	-----
Net cash provided by operating activities	235	10,945
	-----	-----
Cash Flows From Investing Activities:		
Acquisition of property, plant and equipment	(13,223)	(5,467)
Proceeds from disposal of property, plant and equipment	26	52
Other	(557)	(338)
	-----	-----
Net cash used in investing activities	(13,754)	(5,753)
	-----	-----
Cash Flows From Financing Activities:		
Payments on bank line of credit	--	(17,500)
Borrowings on bank line of credit	17,500	--
Payments on notes payable	(385)	(395)
	-----	-----
Net cash provided by (used in) financing activities	17,115	(17,895)
	-----	-----
Increase (decrease) in cash and cash equivalents	3,596	(12,703)
Cash and cash equivalents at beginning of period	23,328	42,936
	-----	-----
Cash and cash equivalents at end of period	\$ 26,924	\$ 30,233
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

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SMART & FINAL INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Smart & Final Inc. (the "Company") is a Delaware corporation and is a 57.0

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percent owned subsidiary of Casino USA, Inc. (the "Parent"). Casino Guichard-Perrachon, S.A. ("Casino France"), a publicly traded French joint stock limited liability company, is the principal shareholder of the Parent. Collectively, Casino France and its subsidiaries currently own approximately 60.0 percent of the Company's common stock.

The consolidated balance sheet as of March 25, 2001 and the consolidated statements of income and cash flows for the twelve weeks ended March 25, 2001 and March 26, 2000 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of these financial statements in conformity with accounting principals generally accepted in the United States have been included. Such adjustments consisted of normal recurring items as well as the accounting change to adopt Statement of Financial Accounting Standards ("SFAS") 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". Interim results are not necessarily indicative of results for a full year.

These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2000.

2. Fiscal Years

The Company's fiscal year ends on the Sunday closest to December 31. Each fiscal year consists of twelve-week periods in the first, second and fourth quarters and a sixteen-week period in the third quarter.

3. Accounting Change

Effective January 1, 2001, the Company adopted SFAS No. 133, as amended by SFAS No. 138, which established accounting and reporting standards for derivative instruments and hedging activities. All derivative instruments are required to be measured at fair values and recognized on the balance sheet. Changes in fair values of derivative instruments designated as fair value hedges are recognized in current earnings. The effective portions of changes in fair values of derivative instruments designated as cash flow hedges are recorded as other comprehensive income ("OCI") and are reported on the statement of income when the hedged forecasted transaction affects earnings or the hedged item becomes ineffective. The ineffective portions of cash flow hedges are recognized in current earnings.

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SMART & FINAL INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The Company uses interest rate collar agreements to minimize the negative impact of interest rate fluctuations on the Company's cash flows. These agreements are designated as cash flow hedges and are considered fully effective. The adoption of SFAS 133 on January 1, 2001 resulted in a cumulative pretax reduction of \$480,000 recorded in OCI as of January 1, 2001, representing cumulative losses on the fair values of these derivative instruments since inception.

4. Derivatives

As of March 25, 2001, the Company had interest rate collar agreements with various banks to limit the impact of interest rate fluctuations on revolving debt. These agreements hedge principal amounts of up to an aggregate of \$100

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million. The agreements limit LIBOR fluctuations to interest rate ranges from 4.70% to 8.00% and expire during various periods from October 2002 to September 2004. For the first quarter of 2001, a pretax reduction of \$930,000 was recorded to OCI as a result of changes in the fair values of these agreements. The decrease in fair values of these cash flow hedges during the current quarter is attributable to the declining market interest rates. As of March 25, 2001, the Company did not have other derivative financial instruments.

5. Stockholders' Equity

In the fourth quarter of 2000, the Company's board of directors approved a program for the voluntary exchange (the "Exchange Program") of certain outstanding options having an exercise price of \$14.00 or higher per share for shares of common stock issued as "Restricted Stock" under the terms of the Company's Long-Term Equity Compensation Plan. All options surrendered as a result of an election under the Exchange Program were canceled and returned to the respective plan under which the canceled options were first granted. The Exchange Program expired on March 9, 2001. A total of 178,510 shares of Restricted Stock were issued. The related compensation expense to be recognized over the vesting periods of one year or three years is \$1.6 million.

6. Comprehensive Income (Loss)

Comprehensive income (loss) was computed as follows, amounts in thousands:

	Twelve Weeks Ended	
	March 25, 2001	March 26, 2000
	-----	-----
Net income	\$ 870	636
Other comprehensive income (loss):		
Cumulative effect of accounting change, net of tax	(305)	-
Net gain (loss) on derivative instruments, net of tax	(585)	-
Foreign currency translation adjustments	(128)	73
	-----	-----
Total other comprehensive income (loss)	(1,018)	73
	-----	-----
Total comprehensive income (loss)	\$ (148)	\$ 709
	=====	=====

SMART & FINAL INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

See Note 3 regarding cumulative effect of accounting change resulting from adoption of SFAS 133 and Note 4 for change in OCI during the reporting period due to changes in fair values of derivative instruments designated as cash flow hedges.

In accordance with generally accepted accounting principles, the functional currency for the Company's Mexico operations has been the Mexican Peso. As such, foreign currency translation gains and losses are included in OCI.

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7. Interest Expense

Interest expense was incurred primarily on borrowings under the Company's revolving credit facilities and a loan from its Parent. The Company paid \$2.8 million and \$3.5 million in interest in the twelve-week periods ended March 25, 2001 and March 26, 2000, respectively.

8. Income Taxes

The Company and the Parent are parties to a tax sharing arrangement covering income tax obligations in the state of California. Under this arrangement, based upon pre-tax income, the Company made tax sharing payments of \$745,000 and \$133,000 to the Parent in the twelve weeks ended March 25, 2001 and March 26, 2000, respectively. The Company paid \$5,000 state income taxes for states other than California in the twelve-week period ended March 25, 2001 and did not pay state income taxes for states other than California in the twelve weeks ended March 26, 2000. The Company paid \$1,150,000 and \$550,000 of federal income taxes in the twelve-week periods ended March 25, 2001 and March 26, 2000, respectively.

9. Earnings per Common Share

Earnings per common share is based on the weighted average number of common shares outstanding. Earnings per common share, assuming dilution includes the weighted average number of common stock equivalents outstanding related to employee stock options and other stock agreements.

10. Segment Reporting

The Company has two reportable segments: Stores and Foodservice. The stores segment provides food and related items in bulk sizes and quantities through non-membership grocery warehouse stores. The foodservice distribution segment provides delivery of food, restaurant equipment and supplies to mainly restaurant customers and Smart & Final stores. Corporate Expense is comprised primarily of the Company's corporate expenses incidental to the activities of the reportable segments and rental income from Smart & Final Stores. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each segment requires different technology and marketing strategies.

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SMART & FINAL INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The Company does not allocate interest, income taxes or nonrecurring gains and losses to the reportable segments. These costs are included in Corporate Expense below. The Company evaluates performance based on profit or loss from operations before income taxes not including nonrecurring gains and losses.

The revenues, profit or loss and other information of each segment are as follows, amounts in thousands:

For the twelve weeks ended March 25, 2001:

Stores	Foodservice	Corporate Expense	Total
-----	-----	-----	-----

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Revenues from external customers	\$324,573	\$99,595	\$ -	\$424,168
Intercompany real estate charge (income)	3,211	-	(3,211)	-
Interest income	-	-	125	125
Interest expense	-	-	3,192	3,192
Pre-tax income (loss)	6,938	(2,330)	(3,433)	1,175

The basis for allocating distribution expense to stores was changed in 2001, reducing Foodservice pre-tax income and increasing Stores pre-tax income by \$300,000.

For the twelve weeks ended March 26, 2000:

	Stores	Foodservice	Corporate Expense	Total
	-----	-----	-----	-----
Revenues from external customers	\$303,470	\$95,891	\$ -	\$399,361
Intercompany real estate charge (income)	3,167	-	(3,167)	-
Interest income	-	-	393	393
Interest expense	-	-	3,638	3,638
Pre-tax income (loss)	5,808	208	(5,051)	965

11. Legal Actions

The Company has been named as a defendant in various legal actions arising in the normal conduct of its business. In the opinion of management, after consultation with counsel, none of these actions are expected to result in significant liability to the Company.

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

Management's discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and notes thereto and the Company's Form 10-K for the year ended December 31, 2000.

Summary

Smart & Final Inc. (the "Company") reported net income of \$0.9 million, or \$0.03 per diluted share, for the twelve weeks ended March 25, 2001, compared to net income of \$0.6 million, or \$0.02 per diluted share, for the twelve weeks ended March 26, 2000.

Operating earnings were \$4.2 million in both the current year quarter and the first quarter of the prior year. For first quarter 2001, when compared to the first quarter of 2000, store operating results increased \$1.1 million despite a \$2.2 million year to year increase in marketing expense and foodservice operating results declined \$2.5 million due to restructuring costs in the northern California unit.

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Interest expense, net decreased \$0.2 million in the first quarter of 2001 compared to first quarter 2000 as a result of lower average outstanding debt and rate reductions caused by the Company's improved financial ratios and declining market rates.

Results of Operations

The following table shows, for the periods indicated, certain condensed consolidated income statement data, expressed as a percentage of sales. Totals may not aggregate due to rounding.

	Twelve Weeks Ended	
	March 25, 2001	March 26, 2000
	----	----
Sales:		
Stores	76.5%	76.0%
Foodservice	23.5	24.0
	-----	-----
Sales, consolidated total	100.0	100.0
Cost of sales, buying and occupancy	86.3	86.4
	-----	-----
Gross margin	13.7	13.6
Operating and administrative expenses	12.7	12.5
	-----	-----
Income from operations	1.0	1.1
Interest expense, net	0.7	0.8
	-----	-----
Income before provision for income taxes	0.3	0.2
Provision for income taxes	0.1	0.1
	-----	-----
Income from consolidated subsidiaries	0.2	0.1
Equity earnings in unconsolidated subsidiaries	-	-
	-----	-----
Net income	0.2%	0.2%
	=====	=====

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The following table sets forth pre-tax profit or loss, in millions, for each of the Company's various reportable segments:

	Twelve Weeks Ended	
	March 25, 2001	March 26, 2000
	----	----
Stores	\$ 6.9	\$ 5.8
Foodservice	(2.3)	0.2
	-----	-----
Segment totals	4.6	6.0

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Interest and other corporate expenses	(3.4)	(5.0)
	-----	-----
Consolidated pre-tax income	\$ 1.2	\$ 1.0
	=====	=====

Stores segment improved as a result of strong sales and margin rates. Foodservice segment reported a loss due to costs related to restructuring northern California distribution operations. The basis for allocating distribution expense to stores was changed in 2001, reducing Foodservice pre-tax income and increasing Stores pre-tax income by \$0.3 million.

Background

During the quarter, the Company opened four new stores and relocated one store. New store growth is planned to continue in the remainder of fiscal 2001.

	Quarter Ended		Year Ended
	March 25, 2001	March 26, 2000	December 31, 2000
	----	----	----
USA:			
Beginning store count	214	212	212
Stores opened:			
New stores	4	-	2
Relocations	1	1	1
Stores relocated or closed	(1)	(1)	(1)
	----	----	----
Ending store count	218	212	214
	----	----	----
MEXICO:			
Beginning store count	7	6	6
New stores opened	-	-	1
	----	----	----
Ending store count	7	6	7
	----	----	----
Grand Total	225	218	221
	=====	=====	=====

Mexico operations are not consolidated and are reported on the equity basis of accounting.

Management continually assesses each store's profitability on a pre-tax profit basis after allocation of all corporate expenses. Stores not meeting strategic management objectives for profitability, market penetration, and/or other measures are evaluated for closure or relocation.

Generally, stores opened in mature markets are expected to achieve profitability within 18 months of operations. However, there can be no assurance that the Company will be able to open new stores in a timely manner; hire, train and integrate employees; continue locating and obtaining favorable store sites; or adapt distribution, management information and other operating systems

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sufficiently to grow in a successful and profitable manner.

Each of the Company's fiscal years consists of twelve-week periods in the first, second and fourth quarters of the fiscal year and a sixteen-week period in the third quarter.

Comparison of Twelve Weeks Ended March 25, 2001 with Twelve Weeks Ended March 26, 2000.

Sales. First quarter 2001 sales were \$424.2 million, up 6.2% from \$399.4 million in the first quarter of 2000.

Store sales increased 7.0%, from \$303.5 million in first quarter 2000 to \$324.6 million in first quarter 2001. Comparable store sales for the first quarter of 2001 increased 6.4% over the prior year's same quarter. Average comparable transaction size also increased, by 3.1%, to \$37.98 in the first quarter of 2001.

Foodservice distribution sales increased 3.9%, from \$95.9 million in the first quarter of 2000 to \$99.6 million in the current year's first quarter. Florida foodservice sales increased 15.4% while northern California foodservice sales declined 9.9% in part as a result of the restructuring program now in progress.

Gross Margin. Gross margin improved 7.1%, from \$54.2 million in the first quarter of 2000 to \$58.1 million in the current year quarter. As a percentage of sales, gross margin improved from 13.6% in the prior year's first quarter to 13.7% in first quarter 2001. The primary factors of the increase in gross margin rates were lower purchase costs due to the continuing effort in national procurement and corporate brand expansion programs, better store assortment mix and reduced distribution costs resulting from improved efficiency at the Commerce distribution center and cost reductions at Florida foodservice. These improvements were largely offset by costs incurred at northern California foodservice related to re-racking the facility and restructuring the operation.

Operating and Administrative Expenses. Operating and administrative expenses for the first quarter of 2001 were \$53.8 million, up \$3.8 million, or 7.6%, over the first quarter of 2000. These expenses, as a percentage of sales, increased from 12.5% in the first quarter of 2000 to 12.7% in the first quarter of 2001. Expenses increased mainly due to a \$2.2 million increase in marketing expense, \$0.7 million increase in California utility expenses and to a lesser extent, the costs associated with restructuring the northern California foodservice operation. These increases were largely offset by \$1.9 million of consulting fees incurred during the prior year's first quarter. There were no consulting fees in the first quarter of 2001.

Interest expense, net. Interest expense, net decreased from \$3.2 million recorded in first quarter 2000 to \$3.1 million in the first quarter of 2001 due to the lower average outstanding debt

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and rate reductions as a result of the Company's improved financial ratios and declining market rates.

Financial Condition

Cash and cash equivalents were \$23.3 million at December 31, 2000, and \$26.9 million at March 25, 2001. Operating activities provided cash of \$0.2 million for the twelve weeks ended March 25, 2001. For the quarter, net borrowings on bank and other debt were \$17.1 million and investments in fixed

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asset and other additions were \$13.8 million.

During the twelve weeks ended March 25, 2001, inventories decreased by \$1.1 million while the related accounts payable increased \$1.3 million. Trade notes and accounts receivable increased \$2.7 million. Other changes in operating assets and liabilities generally reflect the timing of receipts and disbursements.

Stockholders' equity increased by \$0.3 million to \$265.2 million at March 25, 2001 as a result of the \$0.9 million net income for the first quarter of 2001 plus \$0.4 million due to the issuance of restricted stock and other stock agreements and \$1.0 million decrease in accumulated OCI. The decrease in accumulated OCI includes \$0.3 million, net of tax cumulative effect of accounting change as a result of adoption of SFAS 133, \$0.6 million, net of tax reduction in fair values of interest rate collar agreements and \$0.1 million translation adjustment.

Liquidity and Capital Resources

Historically, the Company's primary source of liquidity has been cash flows from operations. In addition, the Company has availability under bank facilities. Net cash provided by operating activities was \$0.2 million in the first quarter of 2001. At March 25, 2001, the Company had cash of \$26.9 million, compared to \$23.3 million at December 31, 2000. The Company had \$133.2 million of debt, excluding capital leases, at March 25, 2001, compared to \$115.7 million at December 31, 2000, and stockholders' equity of \$265.2 million at March 25, 2001.

The Company had \$219.0 million committed under its Senior Secured Credit Facilities ("Credit Facilities") at March 25, 2001 and December 31, 2000. At March 25, 2001, the Company's borrowings under these facilities totaled \$189.1 million compared with \$171.6 million at December 31, 2000. At March 25, 2001, the Company had available \$29.9 million of unused credit under these facilities.

As of the end of first quarter 2001, the Company was in substantial compliance with all financial covenants contained in its loan agreements, as amended.

The Credit Facilities expire in November of 2001. The Company is currently restructuring and extending these facilities. Given the Company's significantly improved financial position and excellent relationship with its lending group, the Company expects a successful restructuring process.

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The Company expects to be able to fund future acquisitions and other cash requirements by a combination of available cash, cash from operations, lease financing and other borrowings and proceeds from the issuance of equity securities. The Company believes that its sources of funds are adequate to provide for working capital, other capital expenditures, and debt service requirements for the foreseeable future.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company is exposed to market risks relating to fluctuations in interest rates and the exchange rate between the U.S. Dollar and Mexican Peso. The Company's objective of financial risk management is to minimize the negative impact of interest rate fluctuations on the Company's earnings and cash flows.

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The Company's exposure to foreign currency risk is limited. The Company does not hold or issue financial instruments for trading purposes, nor engage in other speculative or leveraged transactions. See Note 3 and Note 4 to the consolidated financial statements regarding the adoption of SFAS 133, as amended.

Interest Rate Risk

Interest rate risk is managed through the use of four interest rate collar agreements to hedge principal amounts of up to an aggregate of \$100 million. These agreements limit LIBOR fluctuations to interest rate ranges from 4.7% to 8.0% and expire during various periods from October 2002 to September 2004. These agreements are entered into with major financial institutions thereby minimizing risk of credit loss.

Foreign Currency Risk

The Company's exposure to foreign currency risk is limited to the Company's operations under Smart & Final Mexico and the equity earnings in its Mexico joint venture. The Company's other transactions are conducted in U.S. dollars and are not exposed to fluctuations in foreign currency. The Company does not hedge foreign currency and therefore is not exposed to such hedging risk.

Credit Risk

The Company is exposed to credit risk on accounts receivable. The Company provides credit primarily to foodservice distribution customers in the ordinary course of business and performs ongoing credit evaluations. Concentrations of credit risk with respect to trade receivables are limited due to the number of customers comprising the Company's customer base. The Company currently believes its allowance for doubtful accounts is sufficient to cover customer credit risks.

Forward-Looking Statements

From time to time Smart & Final may publish forward-looking statements about anticipated results. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that such forward-looking statements are based upon internal estimates which are subject to change because they reflect preliminary information and management assumptions, and that a variety of factors could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements. The factors which could cause actual results or outcomes to differ from such expectation include the extent of the company's success in (i) changing market

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conditions (ii) unforeseen costs and expenses (iii) ability to attract new customers and retain existing customers (iv) gain or losses from sales along with the uncertainties (v) increases in interest rates of the Company's cost of borrowing and other factors, including unusually adverse weather conditions, described from time to time in the company's SEC filing and reports. This report includes "forward-looking statements" including, without limitation, statements as to the Company's liquidity and availability of capital resources.

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PART II - OTHER INFORMATION

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Item 1. Legal Proceedings

Not applicable.

Item 2. Changes in Securities and Use of Proceeds

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable

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

Not Applicable

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit Number	Description of Exhibit
-----	-----

Not applicable

(b) Reports on Form 8-K

The Company filed a Current Report on Form 8-K, dated February 26, 2001, with the Securities and Exchange Commission reporting on the Company's program to exchange certain outstanding stock options for restricted shares of the Company's common stock.

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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.

SMART & FINAL INC.

By:

Date: May 4, 2001

/s/ MARTIN A. LYNCH

Martin A. Lynch
Executive Vice President,
Chief Financial Officer, and
Principal Accounting Officer of the Company

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