

FRESH BRANDS INC  
Form 10-Q  
August 24, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 16, 2005

Commission File Number 000-32825

**FRESH BRANDS, INC.**  
(Exact name of registrant as specified in its charter)

<u>WISCONSIN</u>	<u>39-2019963</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2215 Union Avenue Sheboygan, Wisconsin	53081
(Address of principal executive offices)	(Zip Code)

Telephone number, including area code: (920) 457-4433

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 filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:** Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of August 19, 2005, 4,931,934 shares of Common Stock, \$0.05 par value, were issued and outstanding.

## FRESH BRANDS, INC.

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## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

FRESH BRANDS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(unaudited)

*(In thousands, except share and per share data)*

Assets	July 16, 2005	January 1, 2005
Current assets:		
Cash and equivalents	\$ 7,028	\$ 5,870
Receivables, net of allowance for doubtful accounts	13,033	16,098
Inventories	36,482	38,172
Other current assets	6,607	7,038
Deferred income taxes	5,156	5,059
<b>Total current assets</b>	<b>68,306</b>	<b>72,237</b>

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(In thousands, except share and per share data)

Capital sublease receivables	27,857	28,629
Property and equipment	30,606	34,299
Property under capital leases	38,396	39,463
Goodwill	21,455	21,455
Other assets	6,551	6,896
<b>Total assets</b>	<b>\$ 193,171</b>	<b>\$ 202,979</b>

Liabilities and Shareholders' Investment

Current liabilities:		
Accounts payable	\$ 31,513	\$ 32,196
Accrued liabilities	18,903	17,619
Current portion of revolving credit facility	5,000	5,000
Current maturities of capital lease obligations	3,039	2,899
Current maturities of long-term debt	2,894	2,968

<b>Total current liabilities</b>	<b>61,349</b>	<b>60,682</b>
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Capital lease obligations	69,816	71,322
Revolving credit facility	6,000	15,300
Other long-term debt	5,915	6,394
Deferred income taxes	679	602
Other noncurrent liabilities	477	480
Minority interests	880	580

Shareholders' investment:

Common stock, \$0.05 par value, authorized 20,000,000 shares, issued 8,750,342 shares as of July 16, 2005 and January 1, 2005	438	438
Additional paid-in capital	15,575	15,575
Retained earnings	77,121	76,715
Treasury stock at cost, 3,818,408 shares as of July 16, 2005 and 3,822,928 shares as of January 1, 2005	(45,079)	(45,109)

<b>Total shareholders' investment</b>	<b>48,055</b>	<b>47,619</b>
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<b>Total liabilities and shareholders' investment</b>	<b>\$ 193,171</b>	<b>\$ 202,979</b>
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See notes to consolidated financial statements.

FRESH BRANDS, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)

(In thousands, except per share data)

	For the 12-weeks ended		For the 28-weeks ended
	July 16, 2005	July 17, 2004	July 16, 2005
			July 17, 2004

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(In thousands, except per share data)

Net sales	\$	164,227	\$	163,157	\$	361,885	\$	359,543
Cost of products sold		127,153		129,762		280,281		283,841
Gross profit		37,074		33,395		81,604		75,702
Selling and administrative expenses		31,457		28,282		70,487		65,640
Repositioning and impairment charges		1,048		1,314		1,048		2,629
Depreciation and amortization		2,736		2,705		6,418		6,393
Operating income		1,833		1,094		3,651		1,040
Interest expense		1,013		853		2,448		2,225
Minority interest in earnings of consolidated franchises		497		114		534		64
Income (loss) from continuing operations before income tax		323		127		669		(1,249)
Income tax provision (benefit)		128		227		263		(451)
Income (loss) from continuing operations		195		(100)		406		(798)
Loss from discontinued operations, net of tax		--		(2,068)		--		(2,928)
Cumulative effect of change in accounting principle		--		--		--		(136)
Net income (loss)	\$	195	\$	(2,168)	\$	406	\$	(3,862)
Earnings (loss) per basic share:								
Income (loss) from continuing operations	\$	0.04	\$	(0.02)	\$	0.08	\$	(0.16)
Loss from discontinued operations		--		(0.42)		--		(0.60)
Cumulative effect of change in accounting principle		--		--		--		(0.03)
Earnings (loss) per basic share	\$	0.04	\$	(0.44)		0.08	\$	(0.79)
Earnings (loss) per diluted share:								
Income (loss) from continuing operations	\$	0.04	\$	(0.02)	\$	0.08	\$	(0.16)
Loss from discontinued operations		--		(0.42)		--		(0.60)
Cumulative effect of change in accounting principle		--		--		--		(0.03)
Earnings (loss) per diluted share	\$	0.04	\$	(0.44)	\$	0.08	\$	(0.79)
Weighted average shares and equivalents outstanding:								
Basic		4,920		4,914		4,920		4,913
Diluted		4,920		4,914		4,920		4,913

See notes to condensed financial statements.

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FRESH BRANDS, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (unaudited)

(In thousands)

	For the 28-weeks ended	
	July 16, 2005	July 17, 2004
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 406	\$ (3,862)
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	1,048	1,550
Depreciation and amortization	6,418	6,559
Provisions for store closures	1,048	4,359
Property and equipment impairment charges	--	1,422
Deferred income taxes	(20)	29
Minority interests	534	64
Cumulative effect of change in accounting principles	--	136
Changes in assets and liabilities:		
Receivables, net	2,030	(1,044)
Inventories	2,582	5,311
Other current assets	553	(948)
Accounts payable	(683)	(5,167)
Accrued liabilities	184	(1,281)
<b>Net cash flows provided by operating activities</b>	<b>14,100</b>	<b>7,128</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(1,082)	(3,261)
Acquisition of stores by consolidated franchisees, net of cash	(1,137)	--
Expenditures for land and buildings under development	--	(1,895)
Proceeds from sale of land and buildings under development	--	6,430
Receipt of principal amounts under capital subleases	700	641
<b>Net cash flows (used for) provided by investing activities</b>	<b>(1,519)</b>	<b>1,915</b>
<b>Cash flows from financing activities:</b>		
Net change in revolver activity	(9,300)	(650)
Principal payments on capital lease obligations	(1,366)	(1,325)
Principal payments of consolidated franchise debt	(970)	(1,461)
Principal payments on long-term debt	(118)	(191)
Long-term debt proceeds of consolidated franchisees	535	--
Deferred financing costs	--	(512)
Distributions to minority interests	(234)	(159)
Other financing activities	30	148
<b>Net cash flows used for financing activities</b>	<b>(11,423)</b>	<b>(4,150)</b>
<b>Cash and equivalents:</b>		
Net change	1,158	4,893
Cash of consolidated franchises at beginning of period	--	115
Balance, beginning of period	5,870	1,323

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(In thousands)

Balance, end of period	\$	7,028	\$	6,331
Supplemental cash flow disclosures:				
Interest paid	\$	(2,456)	\$	(2,242)
Income taxes refunded		1,731		1,500
See notes to condensed consolidated financial statements.				

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FRESH BRANDS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(1) Basis of Presentation

The condensed consolidated financial statements included herein have been prepared by us without audit. Although certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted, we believe that the disclosures are adequate to make the information presented not misleading. The interim financial statements furnished with this report reflect all adjustments (consisting of a normal recurring nature), which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. It is suggested that these financial statements be read in conjunction with the financial statements and the notes thereto included in our Form 10-K for the fiscal year ended January 1, 2005.

Annually, our fiscal year ends on the Saturday closest to December 31. As such, the current fiscal year and the prior fiscal year are both 52-week periods. Consistent with 2004, our first quarter of 2005 is comprised of 16-weeks and the second, third, and fourth quarters are comprised of 12-weeks each.

Certain 2004 amounts have been reclassified to conform to the presentation for 2005.

(2) Consolidation of Certain Franchisees

In December 2003, the FASB issued revised Interpretation No. 46 (FIN 46R), Consolidation of Variable Interest Entities an interpretation of Accounting Research Bulletin No. 51. FIN 46R is intended to clarify the application of the majority voting interest requirement of ARB No. 51, Consolidated Financial Statements, to certain entities in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. These entities are deemed to be variable interest entities (VIEs) under FIN 46R. The controlling financial interest in a VIE may be achieved through arrangements that do not involve voting interests.

In the past, we have provided credit enhancements to certain of our franchisees in the form of lease and sublease arrangements and loan guarantees. As a result, we completed an evaluation of the financial arrangements with our franchisees and concluded that we are required to consolidate certain of these franchisees, primarily as a result of our loan guarantees to these entities. We adopted the requirement to consolidate these entities as of January 4, 2004. Prior to 2004, we recorded our exposure to losses through these credit enhancement arrangements through our provisions for bad debts. The cumulative-effect adjustment of \$136,000 represents the difference between consolidating these entities as January 4, 2004 and the allowance for doubtful accounts that was provided for these franchisees at that date.

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There are currently 19 franchise entities, which own 21 stores, that are consolidated under FIN 46R. The following table reflects the summarized results of operations for the consolidated franchise entities for the quarterly periods.

(In thousands)

	For the 12-weeks ended		For the 28-weeks ended	
	July 16, 2005	July 17, 2004	July 16, 2005	July 17, 2004

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(In thousands)

Retail sales of consolidated franchise entities	\$	36,423	\$	27,796	\$	74,439	\$	60,331
Operating income of consolidated franchise entities	\$	926	\$	226	\$	409	\$	117
Interest expense of consolidated franchise entities		324		264		736		632
Net income (losses) of consolidated franchise entities		602		(38)		(327)		(515)
Less: Minority interest in earnings		497		114		534		64
Net impact on consolidated income from continuing operations before income taxes	\$	105	\$	(152)	\$	(861)	\$	(579)

The following table reflects the summarized balance sheet amounts for the consolidated entities as of July 16, 2005 and January 1, 2005.

(In thousands)

	July 16, 2005	January 1, 2005
Current assets	\$ 12,561	\$ 11,721
Property and equipment, net	6,441	7,094
Property under capital leases, net	11,733	11,986
Goodwill	1,175	1,175
Other noncurrent assets	186	285
<b>Total assets</b>	<b>\$ 32,096</b>	<b>\$ 32,261</b>
Accounts payable to Fresh Brands	\$ 9,004	\$ 9,784
Other current liabilities	3,991	3,866
Capital lease obligations to Fresh Brands	12,336	12,415
Notes payable to Fresh Brands	2,150	1,609
Other debt	8,250	8,686
Minority interests	880	580
Accumulated deficits	(4,515)	(4,679)
<b>Total liabilities and shareholders' investment</b>	<b>\$ 32,096</b>	<b>\$ 32,261</b>

The balances payable to Fresh Brands are eliminated in consolidation. Substantially all of the other long-term debt of these consolidated franchise entities is guaranteed by Fresh Brands.

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(3) Repositioning and Other Impairment Charges

Repositioning and other impairment charges related to continuing operations included the following:

(In thousands)

For the 12-weeks ended

For the 28-weeks ended

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(In thousands)

	July 16, 2005	July 17, 2004	July 16, 2005	July 17, 2004
Impairment of property and equipment, including capital lease assets	\$ --	\$ 1,314	\$ --	\$ 1,314
Repositioning expenses	1,048	--	1,048	1,315
<b>Total repositioning and other impairment charges</b>	<b>\$ 1,048</b>	<b>\$ 1,314</b>	<b>\$ 1,048</b>	<b>\$ 2,629</b>

We estimate repositioning and termination expenses associated with the closure, replacement, or disposal of stores in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. The following table reflects the changes in the retail repositioning reserve for the 28 weeks ended July 16, 2005.

(In thousands)

	Balance January 1, 2005	Provision	Usage	Balance July 16, 2005
Lease costs	\$ 2,783	\$ 1,048	\$ 1,646	\$ 2,185
Severance costs	200	--	200	--
<b>Total</b>	<b>\$ 2,983</b>	<b>\$ 1,048</b>	<b>\$ 1,846</b>	<b>\$ 2,185</b>

The provision for lease costs for the 28 weeks ended July 16, 2005 represents the exit costs related to two franchise stores that were closed during the second quarter of 2005. The total repositioning provisions for 2005 and 2004 were charged to our operating segments as follows:

(In thousands)

	For the 28-weeks ended	
	July 16, 2005	July 17, 2004
Operating segments:		
Wholesale	\$ 1,048	\$ 1,315
<b>Total continuing operations</b>	<b>1,048</b>	<b>1,315</b>
Discontinued operations	--	3,044
<b>Total provision</b>	<b>\$ 1,048</b>	<b>\$ 4,359</b>

(4) Discontinued Operations

Discontinued operations include the operating results of stores that we have closed or sold where we no longer have continuing involvement in those specific markets. These operations include one store closed in December 2003, five stores closed in May 2004, and one store sold in August 2004 that we no longer supply.

The following table reflects the components of discontinued operations:



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(In thousands)

	For 12-weeks ended July 17, 2004		For the 28-weeks ended July 17, 2004	
Sales	\$	3,545	\$	16,410
Loss from operations	\$	(638)	\$	(2,048)
Loss on disposal		(3,044)		(3,044)
Operating loss		(3,682)		(5,092)
Income tax provision (benefit)		(1,614)		(2,164)
Loss from discontinued operations	\$	(2,068)	\$	(2,928)

(5) Stock-Based Compensation

We account for stock-based compensation plans under the intrinsic value method in accordance with the recognition and measurement principles of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations ( *APB Opinion 25* ). We have recorded no compensation expense in our 2005 or 2004 condensed consolidated statements of operations.

We have adopted the disclosure requirements of SFAS No. 123. Had we determined compensation cost based on the fair value at the grant date for stock options under SFAS No. 123, our net earnings (loss) would have been reduced (increased) to the following pro forma amounts below:

(In thousands)

	For the 12-weeks ended		For the 28-weeks ended	
	July 16, 2005	July 17, 2004	July 16, 2005	July 17, 2004
Net earnings (loss)				
As reported	\$ 195	\$ (2,168)	\$ 406	\$ (3,862)
Less: Stock-based compensation expense under fair value based method, net of related tax effects	(49)	(69)	(106)	(153)
Pro forma	\$ 146	\$ (2,237)	\$ 300	\$ (4,015)
Earnings (loss) per share-diluted				
As reported	\$ 0.04	\$ (0.44)	\$ 0.08	\$ (0.79)
Pro forma	\$ 0.03	\$ (0.46)	\$ 0.06	\$ (0.82)

(6) Long-term Debt and Guarantees

Long-term debt at July 16, 2005 and January 1, 2005 consisted of the following:

(In thousands)

	July 16, 2005	January 1, 2005

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*(In thousands)*

Revolving credit facility	\$	11,000	\$	20,300
Consolidated franchisee debt		8,250		8,686
Other notes payable, 3.0% interest		559		676
		19,809		29,662
Less amounts classified as current maturities:				
Consolidated franchisee debt maturities		(2,649)		(2,725)
Other notes payable maturities		(245)		(243)
Current portion of revolving credit facility		(5,000)		(5,000)
Long-term debt	\$	11,915	\$	21,694

Our \$40,000,000 revolving credit facility is secured by substantially all of our assets. The availability under the revolving credit facility is based on a borrowing base formula equal to the sum of 80% of eligible accounts receivable, 60% of eligible inventory, and 60% of eligible owned real estate, less outstanding letters of credit. As of July 16, 2005, net of outstanding letters of credit of \$8,801,000, our available borrowings were \$31,199,000 and our outstanding borrowings were \$11,000,000. While the entire facility remains available for us to borrow, we have classified \$5,000,000 of the July 16, 2005 balance as current based on our expectations to continue to reduce our borrowings under the facility over the next year. Our borrowings throughout 2005 will vary based on operating cash flows and the timing of capital expenditures, term debt repayments and seasonal working capital requirements. The revolving credit facility matures March 18, 2007.

The interest rate on borrowings under the revolving credit facility is based, at our option, on either a defined base rate or the London Interbank Offered Rate (LIBOR) plus applicable margins based on a senior debt to cash flow ratio. At July 16, 2005, our borrowing rates were LIBOR plus 2.00% (5.31%) or base plus 0.50% (6.75%). Commitment fees, ranging from 0.25% to 0.50% per annum, are payable on the average daily unused balance of the revolving credit facility. The revolving credit facility contains various financial covenants including, among others, a fixed charge coverage ratio, a total senior debt cash flow leverage ratio, and a paid sublease ratio. In addition, the revolving credit facility limits our ability to obtain additional debt and incur other liabilities including capital lease obligations, prohibits us from guaranteeing additional franchisee bank debt, prohibits the payment of cash dividends, and limits our ability to repurchase common stock. At July 16, 2005, we were in compliance with all financial covenants and terms of our revolving credit facility.

The consolidated franchisee debt consists primarily of 15 bank term loans that have interest rates ranging from 3.75% to 7.35% and aggregate monthly principal payments of approximately \$100,000. The loans mature at various dates between November 25, 2005 and July 31, 2008. Fresh Brands, Inc. has guaranteed \$6,589,000 of the consolidated franchisee debt.

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In addition to the guaranteed loans of the consolidated franchisees, we have guaranteed 12 bank loans of other franchisees and certain of their affiliates. These guarantees were made to support the business growth of the franchise and our wholesale operations. The guarantees are for the term of the respective loan agreements. Under these guarantees, we generally would be required to make the loan payments if the franchisee defaults on a payment. Generally, the guarantees are secured by corporate indemnification agreements and personal guarantees of the franchisee owner and are substantially collateralized with equipment and inventory, and in certain cases, with buildings. At July 16, 2005 these additional franchise loan balances were \$4,997,000 and our guarantees of those loans were \$4,188,000. Fresh Brands has issued a \$4,000,000 letter of credit in support of its guarantees of both the consolidated franchise and other franchise loans.

Interest expense consisted of the following:

*(In thousands)*

	For the 12-weeks ended		For the 28-weeks ended	
	July 16, 2005	July 17, 2004	July 16, 2005	July 17, 2004
Interest on capital lease obligations	\$ 709	\$ 617	\$ 1,655	\$ 1,419
Interest on long-term debt	161	167	434	439
Amortization of deferred issuance costs	45	53	104	53
Interest on debt of consolidated franchisees	88	138	281	339
Other	10	(122)	(26)	(25)

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(In thousands)

Interest expense	\$	1,013	\$	853	\$	2,448	\$	2,225
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(7) Segment Reporting

Our operations are classified into three segments: wholesale, corporate retail and franchise retail. Our wholesale business derives its revenues primarily from the sale of grocery products to our corporate and franchised supermarkets and independent supermarket customers. We supply these products to our supermarkets through two distribution centers in Sheboygan, Wisconsin and through a third-party distribution facility in Milwaukee, Wisconsin. Additionally, we distribute bakery and deli items made in our Platteville, Wisconsin centralized production facility. As of July 16, 2005 our corporate retail business consists of our 20 owned supermarkets and 2 convenience stores. Our retail revenue is generated by our corporate supermarkets selling grocery products to retail consumers. There are currently 19 consolidated franchise entities, which own 21 stores, that comprise the franchise retail segment.

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Summarized financial information for the second quarters and year-to-date periods of 2005 and 2004 concerning our reportable segments is shown in the following tables:

(In thousands)

	For the 12-weeks ended		For the 28-weeks ended	
	July 16, 2005	July 17, 2004	July 16, 2005	July 17, 2004
Net sales				
Wholesale	\$ 113,662	\$ 115,945	\$ 254,351	\$ 262,755
Corporate Retail	64,603	69,965	144,323	156,155
Franchise Retail	36,423	27,796	74,439	60,331
Intersegment eliminations:				
Sales to corporate retail	(32,861)	(37,265)	(74,436)	(89,852)
Sales to franchise retail	(17,600)	(13,284)	(36,822)	(29,846)
Total net sales	\$ 164,227	\$ 163,157	\$ 361,885	\$ 359,543

	For the 12-weeks ended		For the 28-weeks ended	
	July 16, 2005	July 17, 2004	July 16, 2005	July 17, 2004
Income (loss) from continuing operations before income tax				
Wholesale	\$ 719	\$ 2,465	\$ 4,545	\$ 3,296
Corporate Retail	188	(1,597)	(1,303)	(2,373)
Franchise Retail	926	226	409	117
Total operating income	1,833	1,094	3,651	1,040
Interest expense	689	589	1,712	1,593
Interest expense of consolidated franchises	324	264	736	632
Minority interest in earnings of consolidated franchises	497	114	534	64
Income (loss) from continuing operations before income tax	\$ 323	\$ 127	\$ 669	\$ (1,249)

During the second quarter of 2004, in connection with our change in management and the shift in our operational focus to our wholesale operations, we reevaluated our approach to reporting the results of our operating segments and decided to no longer allocate wholesale operating profits to our retail segment. This approach is consistent with how our management reviews the results of operations for our operating units. As a result of this change, we also reassessed the allocation of goodwill that arose in connection with the Dick's Supermarkets acquisition and allocated \$11,495,000 of goodwill to our wholesale segment. Prior year segment information has been restated to conform to the current presentation.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

**General**

As of July 16, 2005, we owned 20 supermarkets and two convenience stores and franchised an additional 75 supermarkets. This compares to 24 owned supermarkets, two owned convenience stores and 77 franchised supermarkets as of July 17, 2004. Eleven of our corporate supermarkets operate under the Piggly Wiggly® banner and nine of them operate under the Dick's® Supermarkets banner. All of our franchised supermarkets operate under the Piggly Wiggly banner. We are the primary supplier to all of these supermarkets and also serve as a wholesaler to a number of smaller, independently operated supermarkets and convenience stores. All of our supermarkets and other wholesale customers are located in Wisconsin, northern Illinois and northeastern Iowa.

Our operations are classified into three segments: wholesale, corporate retail and franchise retail. Our wholesale business derives its revenues primarily from the sale of groceries and other products to our corporate and franchised supermarkets and independent retail customers through two distribution centers in Sheboygan, Wisconsin and through a third-party distribution facility in Milwaukee, Wisconsin. Additionally, we distribute items made in our Platteville, Wisconsin centralized bakery/deli production facility to our corporate supermarkets, franchisees, and independent customers.

Our corporate retail business consists of 20 corporate-owned supermarkets and two convenience stores. Our convenience stores include fuel stations and are located on properties adjacent to our stores. We earn our retail revenue by selling products purchased from our wholesale segment and other merchandise to retail consumers. Compared to our wholesale segment, our corporate retail segment generates higher gross profit margins, but has higher operating expenses.

As discussed in the notes to the condensed consolidated financial statements, we were required to consolidate the financial statements of certain of our franchise entities in our consolidated financial statements as of January 4, 2004 even though we have no equity interests in these franchises. There are currently 19 franchise entities, which own 21 supermarkets, that comprise our franchise retail segment. Similar to our corporate retail segment, our franchise retail segment generates higher gross profit margins, but has higher operating expenses compared to our wholesale segment.

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**Results of Operations**

The following tables set forth certain selected items from our results of operations for the second quarter and year-to-date periods of 2005 and 2004:

*(In thousands, except percentages)*

	For the 12-weeks ended		For the 28-weeks ended	
	July 16, 2005	July 17, 2004	July 16, 2005	July 17, 2004
Net sales	\$ 164,227	\$ 163,157	\$ 361,885	\$ 359,543
Gross profit <sup>(1)</sup>	37,074	33,395	81,604	75,702

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(In thousands, except percentages)

Operating income	1,833	1,094	3,651	1,040
Income (loss) from continuing operations	195	(100)	406	(798)
Loss from discontinued operations, net of tax	--	(2,068)	--	(2,928)
Cumulative effect of change in accounting principle	--	--	--	(136)
Net income (loss)	\$ 195	\$ (2,168)	\$ 406	\$ (3,862)

Net sales by segment:				
Wholesale segment	\$ 113,662	\$ 115,945	\$ 254,351	\$ 262,755
Corporate retail segment	64,603	69,965	144,323	156,155
Franchise retail segment	36,423	27,796	74,439	60,331
Intersegment eliminations:				
Sales to corporate retail	(32,861)	(37,265)	(74,436)	(86,852)
Sales to franchise retail	(17,600)	(13,284)	(36,822)	(29,846)
Net sales	\$ 164,227	\$ 163,157	\$ 361,885	\$ 359,543

Operating income (loss) by segment:				
Wholesale segment	\$ 719	\$ 2,465	\$ 4,545	\$ 3,296
Corporate retail segment	188	(1,597)	(1,303)	(2,373)
Franchise retail segment	926	226	409	117
Operating income	\$ 1,833	\$ 1,094	\$ 3,651	\$ 1,040

Comparable store sales increases:				
Corporate stores	1.6%		0.9%	
Consolidated franchise stores	0.0%		(1.0)%	
Other franchise stores <sup>(2)</sup>	4.2%		3.5%	
Combined corporate and franchised stores <sup>(2)</sup>	2.7%		2.0%	

- (1) Our gross profits may not be comparable to others in our industry because some entities may include all of the costs related to their distribution network in cost of products sold and others exclude all or a portion of such costs from gross profit, instead including them in an operating expense category such as selling and administrative expenses. Our cost of products sold includes product costs and the production labor in our bakery/deli production facility. Other costs, including purchasing and receiving costs, inspection costs, warehousing costs, internal transfer costs, and other costs of our distribution network are included in our selling and administrative expenses.
- (2) While franchised store sales are not recorded as revenue by us, we believe they are important in understanding our financial performance because their sales volumes generate additional wholesale sales volume and franchise fees and they are indicative of the financial health of our franchise base and the effectiveness of our in-store value proposition.

**Wholesale segment**

(In thousands, except percentages)

	For the 12-weeks ended		For the 28-weeks ended	
	July 16, 2005	July 17, 2004	July 16, 2005	July 17, 2004
Sales	\$ 113,662	\$ 115,945	\$ 254,351	\$ 262,755
	13,507	11,453	31,603	26,962

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*(In thousands, except percentages)*

Gross profit				
Gross margin	11.9%	9.9%	12.4%	10.3%
Selling and administrative expenses	10,813	8,151	23,815	20,408
As a percent of sales	9.5%	7.0%	9.4%	7.8%
Repositioning and other impairment charges	1,048	--	1,048	1,315
As a percent of sales	0.9%	0.0%	0.4%	0.5%
Depreciation and amortization	927	837	2,195	1,943
As a percent of sales	0.8%	0.7%	0.9%	0.7%
Operating income	\$ 719	\$ 2,465	\$ 4,545	\$ 3,296
Operating margin	0.6%	2.1%	1.8%	1.3%

Wholesale sales decreased \$2.3 million, or 2.0%, during the second quarter of 2005 and \$8.4 million, or 3.2%, for the year-to-date period of 2005 compared to the same periods of 2004. The decreases primarily reflect the impact of closing three franchise stores and six corporate stores since the first quarter of 2004 and selling one corporate store in August 2004. As a partial offset to these decreases, we added several new customers during this same time period. In addition, wholesale sales to our continuing store base increased consistent with the increased sales throughout the corporate and franchised stores.

For the second quarter, wholesale operating income decreased from \$2.5 million in 2004 to \$0.7 million in 2005 and the operating margin decreased from 2.1% in 2004 to 0.6% in 2005. For the year-to-date periods, wholesale operating income increased from \$3.3 million in 2004 to \$4.5 million in 2005 and the operating margin increased from 1.3% in 2004 to 1.8% in 2005. The changes were primarily attributable to the following:

An improved gross margin and an increased selling and administrative expense rate were the result of changes to our manufacturer cooperative advertising program and our promotional activities in connection with our implementation of the value proposition strategy. The changes resulted in increased manufacturer allowances and reduced cost of goods, which have been directed at increased merchandise sales, and less income used to offset other advertising costs. As a result of these changes, we also significantly reduced our direct funding of retail promotions.

Lease exit charges of \$1.0 million in the second quarter of 2005 related to the closure of two franchise stores.

A \$1.3 million lease exit charge related to the closure of one franchise store in the first quarter of 2004.

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Our provisions for potentially uncollectible franchise receivables were \$0.4 million for the second quarter of 2005 compared to \$0.4 million for the second quarter of 2004 and \$1.0 million for the year-to-date period of 2005 compared to \$1.6 million for the same period in 2004. Each quarter, we estimate the provisions for potentially uncollectible franchise receivables based on a review of the underlying financial performance of the franchisees and our expectations for additional actions that may be taken for underperforming stores. During the second quarter of 2005, we facilitated the closure of two additional underperforming franchise stores which resulted in the majority of the provision for this period. Without the charges for those two locations, the provision for the second quarter of 2005 reflects significant improvement in the underlying financial performance of the franchise stores during this period.

### Corporate retail segment

*(In thousands, except percentages)*

For the 12-weeks ended	For the 28-weeks ended
July 16, 2005	July 17, 2004
July 16, 2005	July 17, 2004

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Sales	\$	64,603	\$	69,965	\$	144,323	\$	156,155
Gross profit		15,192		16,056		33,393		35,921
Gross margin		23.5%		23.0%		23.1%		23.0%
Selling and administrative expenses		13,734		14,929		31,735		33,721
As a percent of sales		21.3%		21.3%		22.0%		21.6%
Repositioning and other impairment charges		--		1,314		--		1,314
As a percent of sales		0.0%		1.9%		0.0%		0.8%
Depreciation and amortization		1,270		1,410		2,961		3,259
As a percent of sales		2.0%		2.0%		2.1%		2.1%
Operating income (loss)	\$	188	\$	(1,597)	\$	(1,303)	\$	(2,373)
Operating margin		0.3%		(2.3)%		(0.9)%		(1.5)%

Corporate retail store sales decreased \$5.4 million, or 7.7%, during the first quarter of 2005 and \$11.8 million, or 7.6%, during the year-to-date period of 2005 compared to the same periods of 2004. The decreases were primarily the result of the conversion of two corporate stores in September 2004 to franchise ownership and the closure of one of our Sheboygan area stores in March 2005. Our comparable store sales increases were 1.6% for the quarter and 0.9% for the year-to-date period. These increases reflect substantial increases in our corporate Piggly Wiggly stores as a result of our value proposition strategy and improved weekly promotions during the second quarter of 2005. The increases in our corporate Piggly Wiggly stores were offset by flat sales in our nine corporate Dick's Supermarkets stores, in which we have not implemented the value proposition.

For the second quarter, corporate retail operating income improved from a \$1.6 million operating loss in 2004 to \$0.2 million of operating income in 2005 and the operating margin increased from (2.3)% in 2004 to 0.3% in 2005. For the year-to-date periods, corporate retail operating loss improved from a \$2.4 million operating loss in 2004 to \$1.3 million operating loss in 2005 and the operating margin improved from (1.5)% in 2004 to (0.9)% in 2005. The changes were primarily attributable to the following:

Improved gross profits due to the pricing and marketing efforts commenced in November 2004 that resulted in an enhanced sales mix, such as increased sales of non-promoted items and increased sales in our perishable departments that generally are at higher gross margins.

An impairment charge of \$1.3 million recognized in the second quarter of 2004 in connection with the conversion to franchise ownership of two corporate stores.

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**Franchise retail segment**

*(In thousands, except percentages)*

	For the 12-weeks ended		For the 28-weeks ended					
	July 16, 2005	July 17, 2004	July 16, 2005	July 17, 2004				
Sales	\$	36,423	\$	27,796	\$	74,439	\$	60,331
Gross profit		8,902		6,502		17,809		14,385
Gross margin		24.4%		23.4%		23.9%		23.8%
Selling and administrative expenses		7,396		5,723		16,043		12,981
As a percent of sales		20.3%		20.6%		21.6%		21.5%
Depreciation and amortization		580		553		1,357		1,287
As a percent of sales		1.6%		2.0%		1.8%		2.1%
	\$	926	\$	226	\$	409	\$	117

Franchise retail segment

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(In thousands, except percentages)

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Operating income				
Operating margin	2.5%	0.8%	0.5%	0.2%

Our franchise retail segment is comprised of the franchise entities that we are required to consolidate with our own operations primarily because of loans to these entities or loan guarantees for them and their financial condition at the time the loans or loan guarantees were made. Our operating results for the second quarter of 2005 include the results of 21 consolidated franchise stores and the operating results for the second quarter of 2004 include the results for 16 consolidated franchise stores. With continued improvement in operating performance, we believe these entities can be financially independent entities in the long-term.

Franchise retail sales for the first quarter of 2005 increased \$8.6 million, or 31.0%, compared to the first quarter of 2004. The increase was primarily due to the five additional stores included in this consolidated group. Sales of comparable stores were unchanged for the quarter and decreased 1.0% for the year-to-date period as a competitive impact that affected two locations offset gains comparable to the unconsolidated franchise store group. Gross margin for the consolidated franchise stores increased 100 basis points compared to the second quarter of 2004 based on the improved sales mix from the value proposition initiative.

Additional sales increases are needed to improve the operating results of certain stores within the franchise retail segment. Subject to local market competitive conditions and industry factors, we believe the operating results for these franchise entities may continue to improve over time with further sales growth and the continued close management of operational expenses.

### Retail Stores

We continue to review all remaining underperforming corporate and franchise stores to determine appropriate actions to be taken for those locations that are not meeting our performance expectations. To the extent that our corporate and franchise retail stores are not able to substantially achieve expected sales, operating income, or cash flows, we could be required to record asset impairment or other charges and we may decide to sell or close additional stores. The range of any such potential charges, which could be significant, would be based on a number of factors, primarily related to the stores' current and projected operating performance, future required capital expenditures, interest rates, and long-term growth assumptions. We will continue to review the results of our initiatives to improve the operating results for these stores throughout 2005 and monitor the valuation of our long-lived assets for these stores and the corporate retail segment, as a whole, and the adequacy of our provision for potentially uncollectible franchise receivables.

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### Interest Expense

Interest expense increased primarily due to the interest on the capital lease obligation for the new bakery/deli production facility.

### Income Tax Provision

Our effective tax rate for income from continuing operations was 39.3% for 2005 and 36.1% for 2004.

### Discontinued Operations

Discontinued operations include the operating results for stores that we have closed or sold and as to which we will have no continuing involvement in those specific markets. They include the operating results of one store that we closed in December 2003, five stores that we closed in May 2004 and one store that we sold in August 2004 that we will no longer supply.

### Liquidity and Capital Resources Summary

As of July 16, 2005, we had \$20.2 million of availability under our revolving credit facility. We believe that our cash flow from operations and availability under our revolving credit facility will be sufficient to meet our normal expected working capital requirements, planned capital expenditures, and term debt payments for 2005.



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The following tables summarize our cash flow during the year-to-date periods of 2005 and 2004 and other information related to our liquidity and capital resources (in thousands, except for ratios):

	2005	2004
Cash and cash equivalents at beginning of year	\$ 5,870	\$ 1,323
Cash provided by operating activities	14,100	7,128
Cash provided by (used in) investing activities	(1,519)	1,915
Cash provided by (used in) financing activities	(11,423)	(4,150)
Cash of consolidated franchises at beginning of period	--	115
Cash and cash equivalents at end of period	\$ 7,028	\$ 6,331

We have a \$40,000,000 revolving credit facility that is secured by substantially all of our assets. The availability under the revolving credit facility is based on a borrowing base formula equal to the sum of 80% of eligible accounts receivable, 60% of eligible inventory, and 60% of eligible owned real estate, less outstanding letters of credit. As of July 16, 2005, net of outstanding letters of credit of \$8,801,000, our available borrowing capacity was \$31,199,000 and our outstanding borrowings were \$11,000,000. While the entire facility remains available for us to borrow, we have classified \$5,000,000 of the July 16, 2005 balance as current based on our expectations to continue to reduce our borrowings under the facility over the next year. Our borrowings throughout 2005 will vary based on operating cash flows and the timing of capital expenditures, term debt repayments and seasonal working capital requirements. The revolving credit facility matures March 18, 2007.

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The interest rate on borrowings under the revolving credit facility is based, at our option, on either a defined base rate or the London Interbank Offered Rate (LIBOR) plus applicable margins based on a senior debt to cash flow ratio. At July 16, 2005, our borrowing rates were LIBOR plus 2.00% (5.31%) or base plus 0.50% (6.75%). Commitment fees, ranging from 0.25% to 0.50% per annum, are payable on the average daily unused balance of the revolving credit facility. The revolving credit facility contains various financial covenants including, among others, a fixed charge coverage ratio, a total senior debt cash flow leverage ratio, and a paid sublease ratio. In addition, the revolving credit facility limits our ability to obtain additional debt and incur other liabilities, including capital lease obligations, prohibits us from guaranteeing additional franchisee bank debt, prohibits the payment of cash dividends, and limits our ability to repurchase common stock.

At July 16, 2005, we were in compliance with all financial covenants and terms of our revolving credit facility. The following table summarizes our ratios under the key financial covenants:

<u>Financial Covenant<sup>(1)</sup></u>	<u>Required Ratio</u>	<u>Ratio as of July 16, 2005</u>	<u>Ratio as of January 1, 2005</u>
Fixed Charge Coverage Ratio <sup>(2)</sup>	At least 1.25:1	4.30:1	5.01:1
Total Senior Debt Cash Flow Leverage Ratio <sup>(3)</sup>	No more than 2.00:1	1.18:1	1.48:1
Paid Sublease Ratio <sup>(4)</sup>	At least 0.90:1	0.95:1	0.98:1

(1) Each of these ratios is defined in our revolving credit agreement.

(2) Our Fixed Charge Coverage Ratio is a measure of our cash flow compared to our fixed charges.

(3) Our Total Senior Debt Cash Flow Leverage Ratio is a measure of our senior debt compared to our cash flow.

(4) Our Paid Sublease Ratio is a measure of the number of our franchisees who sublease their stores from us who are current on their rent payments.

### Cash Flows From Operating Activities

Cash provided by operating activities was \$14.1 million in 2005 compared to \$7.1 million in 2004. This change was largely the result of cash generated in 2005 improved operating results and improved collections of trade receivables as a result of their improved operating results.

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Cash provided by operating activities before changes in operating assets and liabilities was \$9.4 million in 2005, compared to \$10.3 million in 2004.

### Cash Flows From Investing Activities

Our aggregate capital expenditures were \$1.1 million for 2005, compared to \$3.3 million for 2004.

Our 2005 capital budget is approximately \$6.1 million. Approximately \$1.7 million of our 2005 budget has been committed for implementing our retail pricing technology that is intended to allow us to more strategically manage competitive prices and ultimately enhance our gross margins. Our remaining capital budget has been allocated as follows: \$2.2 million for remodeling and maintaining our corporate stores, \$0.8 million for our distribution centers and our new bakery/deli manufacturing facility, and \$1.4 million for other technology-related projects and office renovations. We are not currently anticipating the purchase of any unaffiliated retail stores in 2005, but we may acquire supermarkets from one or more of our franchisees that may decide to exit the supermarket business. Any amounts that we spend in such transactions would be in addition to our current 2005 capital budget.

We have used sale and leaseback arrangements to finance substantially all of our retail facility projects. Under these arrangements, we capitalize the costs incurred for land and buildings under development until project completion. Upon completion, the facilities are sold and lease arrangements are established. In the first quarter of 2004, we completed the sale and leaseback for the corporate store opened in January 2004 and we were reimbursed for some interim funding related to the replacement bakery/deli production facility. We currently have no further commitments for any additional new or replacement facilities.

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### Cash Flows From Financing Activities

Cash used for financing activities primarily reflects net borrowing or repayments under our revolving credit facility, and payments of capital lease obligations and term debt. During 2005, we used cash to reduce our borrowings under our revolving credit facility by \$9.3 million and to pay \$2.5 million in capital lease obligations and term debt. In 2004, we paid \$3.0 million for capital lease obligations and term debt and reduced our borrowings under our revolving credit facility by \$0.7 million. Due to credit facility restrictions, and our focus on reducing our debt, we do not currently anticipate paying any dividends or making any additional repurchases under our stock repurchase plan during 2005.

### Special Note Regarding Forward-Looking Statements

*Certain matters discussed in this filing, particularly in the section titled Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, are forward-looking statements intended to qualify for the safe harbors from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as we believe, anticipate, expect or words of similar import. Similarly, statements that describe our future plans, objectives, strategies or goals are also forward-looking statements. Specifically, forward-looking statements include statements about: (a) our expectations regarding the anticipated benefits of our new operational focus, particularly our new in-store value proposition and pricing and marketing strategy, including the impact that they will have on our future financial performance and condition, including on our net sales and gross profit margins and comparable store sales; (b) the anticipated benefits that our new in-store value proposition and specific marketing plans and other operating goals will have on our underperforming corporate and franchised supermarkets and the potential consequences if such anticipated benefits are not realized; (c) the number of expected owned and franchisee supermarket closings in 2005, the amount of charges we expect to incur in connection with such supermarket closings and the potential effect that such charges could have on our future financial performance and condition; (d) the annual savings that we expect to realize as a result of our full integration of our Dick's Supermarkets operations; (e) the anticipated impact that our new headquarters pricing system will have on our pricing strategy; (f) our ability to continue to grow our wholesale operations; (g) our belief that our existing bank credit facility will provide us with sufficient liquidity to meet our normal, expected working capital requirements, planned capital expenditures, and term debt payments for 2005; and (h) the potential that we may incur impairment charges for long-lived assets or goodwill and the potential magnitude of such charges. Such forward-looking statements are subject to certain risks and uncertainties that may materially adversely affect our anticipated results. Such risks and uncertainties include, but are not limited to, the following: (1) our realizing the expected benefits of our new in-store value proposition and the likely material adverse consequences to our financial results and condition if they are not realized or not realized in a timely manner; (2) the possibility that the our vendors may adversely change the terms on which they extend credit to sell us products; (3) our limited liquidity under our revolving credit facility; (4) our significant capitalized lease and guarantee amounts; (5) the presence of intense competitive market activity in our market areas, including competition from warehouse club stores and deep discount supercenters; (6) the cost advantages that many of our competitors have as a result of their larger purchasing power and, in many cases, non-union workforces; (7) our ability to identify and convert new franchisee stores; (8) our continuing ability to obtain reasonable vendor marketing funds for promotional purposes; (9) the potential recognition of repositioning and/or other charges resulting from potential closures, conversions and consolidations of retail stores due principally to the competitive nature of the industry and to the quality of our retail store operators; (10) the potential recognition of additional charges relating to uncollectible accounts receivable from our franchise operators; (11) the potential recognition, if we are not able to achieve our operating plans*

### Cash Flows From Financing Activities

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*for certain of our corporate retail stores, of additional potentially significant impairment charges for long-lived assets or goodwill; and (12) our costs to continue to comply with the Sarbanes-Oxley Act of 2002. Shareholders, potential investors and other readers are urged to consider these risks carefully in evaluating the forward-looking statements made herein and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date of this annual report on Form 10-K and we disclaim any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.*

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### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our only variable rate financial instrument subject to interest rate risk is our revolving credit facility, which permits borrowings at interest rates based on either the bank's prime rate or adjusted LIBOR. As a result of the amounts owed pursuant to our revolving credit facility, increases in market interest rates would cause our interest expense to increase and our earnings from continuing operations before income taxes to decrease. Based on our credit facility borrowings as of July 16, 2005, a 100 basis point increase in market interest rates would increase our annual interest expense by approximately \$110,000. Similarly, a 100 basis point decrease in the market interest rate would reduce our annual interest expense by approximately \$110,000.

We believe that our exposure to other market risks including risks related to changes in foreign currency exchange rates, commodity prices, equity prices, and trade accounts receivable is not significant.

### Item 4. Controls and Procedures

#### a. Evaluation of disclosure controls and procedures:

Based on their respective evaluations as of the end of the fiscal quarter to which this Quarterly Report on Form 10-Q relates, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934 (the Exchange Act)) are effective to ensure that information required to be disclosed by us in reports that we file or submit 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 control over financial reporting:

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(b) of the Exchange Act that occurred during the fiscal quarter to which this quarterly report relates that have materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

### Item 2. Changes in Securities and Use of Proceeds

In January 1992, our board of directors instituted a share repurchase plan. Since then, the aggregate amount of our common stock that we can repurchase pursuant to this plan has been increased several times, most recently to its current \$30.0 million limit. During the quarter ended July 16, 2005, we did not repurchase any shares of our common stock. Although the plan does not have any expiration date, due to credit facility restrictions, and our focus on reducing our debt, we do not currently anticipate making significant additional repurchases under this plan during 2005.

Pursuant to covenants in our revolving credit facility, we are prohibited from paying cash dividends on our common stock and are limited in our ability to repurchase our common stock.

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

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Our 2005 annual meeting of shareholders was held on May 26, 2005. At the meeting, the shareholders re-elected R. Bruce Grover, William E. May, Jr. and Thomas M. Stemlar to our Board of Directors for the three-year terms expiring at our 2008 annual meeting of shareholders and until their successors are duly elected and qualified. Also at the meeting, the shareholders turned down the proposal to extend the term of the 1995 Equity Incentive Plan. As of the March 30, 2005 record date for the annual meeting, 4,931,934 shares of Common Stock were outstanding and eligible to vote. Of these, 4,073,989 shares of Common Stock voted at the meeting in person or by proxy. Following are the final votes on the matters presented for shareholder approval at the meeting:

### Election of Directors

	For		Withheld	
	Votes	Percentage	Votes	Percentage
R. Bruce Grover	3,824,892	93.9%	249,097	6.1%
William E. May, Jr	3,846,848	94.4%	227,141	5.6%
Thomas M. Stemlar	2,910,398	71.4%	1,163,591	28.6%

### Extension of 1995 Equity Incentive Plan

	Votes	Percentage
For	598,967	14.7%
Against	1,992,811	48.9%
Abstain	78,304	1.9%
Broker non-vote	1,403,907	34.5%

Our continuing directors are Walter G. Winding and Louis E. Stinebaugh, whose terms expire in 2006.

### Item 6. Exhibits

- 31.1 Certification by the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certifications of Periodic Financial Report by the Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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### SIGNATURES

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

FRESH BRANDS, INC.

Dated: August 23, 2005

By: /s/ Louis E. Stinebaugh  
Louis E. Stinebaugh,  
President and Chief Operating Officer

Dated: August 23, 2005

By: /s/ John H. Dahly  
John H. Dahly,

Executive Vice President, Chief Financial Officer,  
Secretary and Treasurer