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UNI MARTS INC
Form 10-Q
May 16, 2003

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

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED APRIL 3, 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 1-11556

UNI-MARTS, INC.

(Exact name of registrant as specified in its charter)

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

| | |
|------------------------------------------|------------|
| 477 EAST BEAVER AVENUE | |
| STATE COLLEGE, PA | 16801-5690 |
| (Address of principal executive offices) | (Zip Code) |

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

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

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

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

7,186,277 Common Shares were outstanding at May 9, 2003.

This Document Contains 33 Pages.

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UNI-MARTS, INC. AND SUBSIDIARIES
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PART 1 - FINANCIAL INFORMATION

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ITEM 1 - FINANCIAL STATEMENTS

UNI-MARTS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (IN THOUSANDS)
 (UNAUDITED)

| | APRIL 3, 2003 ----- | SEPTEMBER 30, 2002 ----- |
|-------------------------------------------------------------------------------------------------------------------------------|---------------------------|--------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 3,978 | \$ 6,501 |
| Accounts receivable - less allowances of \$181 and \$126 | 6,215 | 8,324 |
| Inventories | 17,368 | 20,859 |
| Prepaid and current deferred taxes | 1,884 | 1,494 |
| Property and equipment held for sale | 1,146 | 1,098 |
| Prepaid expenses and other | 731 | 1,137 |
| Loan due from officer - current portion | 60 | 0 |
| | ----- | ----- |
| TOTAL CURRENT ASSETS | 31,382 | 39,413 |
| PROPERTY, EQUIPMENT AND IMPROVEMENTS - at cost, less accumulated depreciation and amortization of \$66,570 and \$64,214 | 93,538 | 98,037 |
| LOAN DUE FROM OFFICER | 300 | 360 |
| INTANGIBLE ASSETS | 300 | 6,235 |
| OTHER ASSETS | 1,140 | 1,100 |
| | ----- | ----- |
| TOTAL ASSETS | \$126,660 ===== | \$145,145 ===== |

(Continued)

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UNI-MARTS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
 (CONTINUED)
 (UNAUDITED)

| | APRIL 3, 2003 ----- | SEPTEMBER 30, 2002 ----- |
|--------------------------------------------------------------------------------------------|---------------------------|--------------------------------|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 11,006 | \$ 17,811 |
| Gas taxes payable | 3,374 | 3,460 |
| Accrued expenses | 7,069 | 7,207 |
| Revolving credit | 5,809 | 5,867 |
| Current maturities of long-term debt | 3,230 | 3,212 |
| Current obligations under capital leases | 103 | 113 |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 30,591 | 37,670 |
| LONG-TERM DEBT, less current maturities | 69,392 | 71,912 |
| OBLIGATIONS UNDER CAPITAL LEASES, less current maturities | 168 | 214 |
| DEFERRED TAXES | 1,721 | 1,797 |
| DEFERRED INCOME AND OTHER LIABILITIES | 4,645 | 5,235 |
| COMMITMENTS AND CONTINGENCIES (See Note H) | | |
| STOCKHOLDERS' EQUITY: | | |
| Preferred Stock, par value \$1.00 per share: | | |
| Authorized 100,000 shares | | |
| Issued none | 0 | 0 |
| Common Stock, par value \$.10 per share: | | |
| Authorized 16,000,000 shares | | |
| Issued 7,453,383 and 7,420,859 shares, respectively | 745 | 742 |
| Additional paid-in capital | 23,742 | 23,803 |
| Retained (deficit) earnings | (2,583) | 5,661 |
| | ----- | ----- |
| | 21,904 | 30,206 |
| Less treasury stock, at cost - 267,106 and 291,429 shares of Common Stock, respectively | (1,761) | (1,889) |
| | ----- | ----- |
| | 20,143 | 28,317 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$126,660 ===== | \$145,145 ===== |

See notes to consolidated financial statements

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UNI-MARTS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (IN THOUSANDS, EXCEPT PER SHARE DATA)
 (UNAUDITED)

| | QUARTER ENDED | |
|------------------------------------------------------------------------------------------------|---------------------------|---------------------------|
| | APRIL 3, 2003 ----- | APRIL 4, 2002 ----- |
| REVENUES: | | |
| Merchandise sales | \$50,734 | \$52,017 |
| Gasoline sales | 53,909 | 38,676 |
| Other income | 386 | 469 |
| | ----- | ----- |
| | 105,029 | 91,162 |
| | ----- | ----- |
| COSTS AND EXPENSES: | | |
| Cost of sales | 84,681 | 70,371 |
| Selling | 16,909 | 16,735 |
| General and administrative | 1,986 | 2,141 |
| Depreciation and amortization | 1,930 | 2,048 |
| Interest | 1,577 | 1,574 |
| | ----- | ----- |
| | 107,083 | 92,869 |
| | ----- | ----- |
| LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CHANGE IN ACCOUNTING PRINCIPLE | (2,054) | (1,707) |
| INCOME TAX BENEFIT | (108) | (593) |
| | ----- | ----- |
| LOSS FROM CONTINUING OPERATIONS BEFORE CHANGE IN ACCOUNTING PRINCIPLE | (1,946) | (1,114) |
| DISCONTINUED OPERATIONS: | | |
| LOSS FROM DISCONTINUED OPERATIONS | (99) | (37) |
| LOSS ON DISPOSAL OF DISCONTINUED OPERATIONS | (248) | 0 |
| INCOME TAX BENEFIT | (18) | (13) |
| | ----- | ----- |
| LOSS ON DISCONTINUED OPERATIONS | (329) | (24) |
| CUMMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF INCOME TAX BENEFIT OF \$310 | 0 | 0 |
| | ----- | ----- |
| NET LOSS | (\$2,275) ===== | (\$1,138) ===== |
| LOSS PER SHARE: | | |
| LOSS PER SHARE FROM CONTINUING | | |

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| | | |
|------------------------------------------------------------------------|-----------|-----------|
| OPERATIONS BEFORE CHANGE IN ACCOUNTING PRINCIPLE | (\$ 0.27) | (\$ 0.16) |
| LOSS PER SHARE FROM DISCONTINUED OPERATIONS | (0.04) | 0.00 |
| LOSS PER SHARE FROM CHANGE IN ACCOUNTING PRINCIPLE | 0.00 | 0.00 |
| | ----- | ----- |
| BASIC AND DILUTED NET LOSS PER SHARE | (\$ 0.31) | (\$ 0.16) |
| | ===== | ===== |
| BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 7,155 | 7,095 |
| | ===== | ===== |

See notes to consolidated financial statements

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UNI-MARTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

| | TWO QUARTERS ENDED | |
|-----------------------------------------------------|--------------------|------------------|
| | APRIL 3, 2003 | APRIL 4, 2002 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers and others | \$215,360 | \$191,753 |
| Cash paid to suppliers and employees | (211,998) | (184,859) |
| Dividends and interest received | 16 | 26 |
| Interest paid | (3,314) | (3,762) |
| Income taxes (paid) received | (5) | 29 |
| Other payments-discontinued operations | (129) | (29) |
| | ----- | ----- |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | (70) | 3,158 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Receipts from sale of capital assets | 27 | 109 |
| Receipts from sale of discontinued operations | 1,135 | |
| Purchase of property, equipment and improvements | (796) | (1,891) |
| Note receivable from officer | 0 | 60 |
| Cash advanced for intangible and other assets | (75) | (89) |
| Cash received for intangible and other assets | 13 | 15 |
| | ----- | ----- |
| NET CASH PROVIDED BY (USED IN) INVESTING | 304 | (1,796) |

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ACTIVITIES

| | | |
|----------------------------------------|----------|----------|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Payments on revolving credit agreement | (58) | (214) |
| Principal payments on debt | (2,701) | (2,062) |
| Proceeds from issuance of common stock | 2 | 18 |
| | ----- | ----- |
| NET CASH USED IN FINANCING ACTIVITIES | (2,757) | (2,258) |
| | ----- | ----- |
| NET DECREASE IN CASH | (2,523) | (896) |
| CASH: | | |
| Beginning of period | 6,501 | 5,075 |
| | ----- | ----- |
| End of period | \$ 3,978 | \$ 4,179 |
| | ===== | ===== |

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UNI-MARTS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (IN THOUSANDS)
 (CONTINUED)
 (UNAUDITED)

TWO QUARTERS
 APRIL 3,
 2003

| | |
|----------------------------------------------------------------------------------------------|-----------|
| RECONCILIATION OF NET LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES: | |
| NET LOSS | (\$8,244) |
| ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES: | |
| Depreciation and amortization | 3,858 |
| Discontinued operations-depreciation and amortization | 27 |
| Loss on sale of capital assets and other | 262 |
| Discontinued operations-loss on sale | 248 |
| Change in accounting principle | 5,547 |
| Change in assets and liabilities: | |
| (Increase) decrease in: | |
| Accounts receivable | 2,109 |
| Inventories | 3,491 |
| Prepaid expenses and other | 406 |
| Increase (decrease) in: | |
| Accounts payable and accrued expenses | (7,028) |
| Deferred income taxes and other liabilities | (746) |
| | ----- |

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| | |
|-------------------------------------------------------|------------------|
| TOTAL ADJUSTMENTS TO NET LOSS | 8,174 ----- |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITES | (\$ 70) ===== |

See notes to consolidated financial statements

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

A. FINANCIAL STATEMENTS:

The condensed consolidated balance sheet as of April 3, 2003, the condensed consolidated statements of operations and the condensed consolidated statements of cash flows for the six months ended April 3, 2003 and April 4, 2002, respectively, have been prepared by Uni-Marts, Inc. (the "Company") without audit. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position of the Company at April 3, 2003 and the results of operations and cash flows for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2002. Certain reclassifications have been made to the September 30, 2002 financial statements to conform to classifications used in fiscal year 2003. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for the full year.

During the first quarter of fiscal 2003, the Company increased its valuation allowance against the deferred tax asset because it has been determined that it is more likely than not that the Company will not be able to utilize the Net Operating Loss carryforwards ("NOL's"). The increase in reserve has resulted in a 5% tax benefit in the first two quarters of fiscal 2003.

B. FUTURE OPERATIONS:

The Company continues to evaluate existing stores based on their historical contribution. The Company will consider closing or selling underperforming stores or investing in facility upgrades to enhance their performance. The Company retained financial advisors in fiscal year 2002, and entered into a new contractual arrangement with one of these

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financial advisors in January 2003, to evaluate operating strategies which include the potential divestiture of certain store locations and non-operating assets. As a result of its analysis with its financial advisor, the Company intends to intensify its divestiture strategy. The Company is currently working with its financial advisor to assist in negotiations with its lenders to facilitate this divestiture program.

Management believes that cash from operations, available credit facilities and asset sales will be sufficient to meet the Company's obligations for the foreseeable future. The Company is currently in negotiations with its lenders to permit the sale of various store locations. In the event that the Company is unable to obtain required consents from its lenders for the divestiture of store locations, or consummate proposed asset sales, on acceptable terms, there is a risk that the Company may not be able to meet future cash obligations.

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C. INTANGIBLE AND OTHER ASSETS:

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

| | APRIL 3, 2003 ----- | SEPTEMBER 30, 2002 ----- |
|-------------------------------|---------------------------|--------------------------------|
| Goodwill | \$ 0 | \$8,874 |
| Lease acquisition costs | 298 | 315 |
| Noncompete agreements | 250 | 250 |
| Other intangible assets | 154 ----- | 197 ----- |
| | 702 | 9,636 |
| Less accumulated amortization | 402 ----- | 3,401 ----- |
| | 300 | 6,235 |
| Other assets | 1,140 ----- | 1,100 ----- |
| | \$1,440 ===== | \$7,335 ===== |

Goodwill represents the excess of costs over the fair value of net assets acquired in business combinations. As discussed within this report under "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Critical Accounting Policies and Estimates," the Company completed an impairment analysis during the second quarter of fiscal 2003

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and the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142 resulted in a write-off of goodwill in the amount of \$5.8 million. Lease acquisition costs are the bargain element of acquired leases and are being amortized on a straight-line basis over the related lease terms.

The Company's adoption of SFAS No. 142 eliminates the amortization of goodwill beginning in the first quarter of fiscal 2003 (see Note G). Goodwill amortization in the first two quarters of fiscal 2002 was \$194,300, or \$0.03 per share. The following table adjusts net earnings (loss) and net earnings (loss) per share for the adoption of SFAS No. 142 (in thousands, except per share data):

| | TWO QUARTERS ENDED | |
|-----------------------------|---------------------------|---------------------------|
| | APRIL 3, 2003 ----- | APRIL 4, 2002 ----- |
| Reported net loss | (\$8,244) | (\$1,029) |
| Add back: | | |
| Goodwill amortization | 0 | 194 |
| | ----- | ----- |
| Adjusted net loss | (\$8,244) | (\$ 835) |
| | ===== | ===== |
| Net loss per share | (\$1.15) | (\$0.15) |
| | ===== | ===== |
| Adjusted net loss per share | (\$1.15) | (\$0.12) |
| | ===== | ===== |

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D. REVOLVING CREDIT AGREEMENT:

On April 20, 2000, the Company executed a 3-year secured \$10.0 million revolving credit agreement (the "Agreement") with \$3.5 million available for letters of credit. Provisions of the Agreement require the maintenance of certain covenants relating to minimum tangible net worth, interest and fixed-charge coverage ratios, as measured on a quarterly basis. In addition, the Agreement places limitations on capital expenditures, additional debt and payment of dividends. In the second quarter of fiscal year 2001, the Agreement was amended to increase the total credit line to \$13.0 million, with \$3.5 million available for letters of credit, and to amend certain financial covenants. During the first quarter of fiscal year 2002, the Agreement was amended to extend the maturity date to April 20, 2004, to amend certain covenants and to provide an additional \$2.0 million for borrowing on a seasonal basis for the months January through April. As of September 30, 2002, the Agreement was amended to revise covenants relating to fixed-charge coverage and interest coverage ratios for the fourth quarter of fiscal year 2002 and the first quarter of fiscal year 2003. Effective April 1, 2003, the Company amended the Agreement to extend the maturity date to December 31,

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2004, extend the \$2.0 million seasonal borrowing increase to April 30, 2004, and revise certain financial covenants. The Company was in compliance with these covenants as of April 3, 2003. Borrowings of \$5.8 million and letters of credit of \$3.5 million were outstanding under the Agreement at April 3, 2003. This facility bears interest at the Company's option based on a rate of either prime plus 1.0% or LIBOR plus 3.0%. The blended interest rate at April 3, 2003 was 4.79%. The Agreement is collateralized by substantially all of the Company's inventories, receivables, other personal property and selected real properties. At April 3, 2003, the net book value of these selected real properties that are pledged as collateral was \$2.5 million.

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E. LONG-TERM DEBT:

| | APRIL 3, 2003 ----- | (In thousand) |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|---------------|
| Mortgage Loan. Principal and interest will be paid in 185 remaining monthly installments. At April 3, 2003, the coupon rate was 9.08% and the effective interest rate was 9.78%, net of unamortized fees of \$1,114,451 (\$1,204,119 in 2002). | \$30,295 | |
| Mortgage Loan. Principal and interest will be paid in 206 remaining monthly installments. The loan bears interest at LIBOR plus 3.75%. At April 3, 2003, the coupon rate was 5.09% and the effective interest rate was 5.52%, net of unamortized fees of \$343,755 (\$364,952 in 2002). | 20,077 | |
| Mortgage Loan. Principal and interest will be paid in 206 remaining monthly installments. At April 3, 2003, the coupon rate was 10.39% and the effective interest rate was 10.71%, net of unamortized fees of \$109,674 (\$114,683 in 2002). | 6,432 | |
| Mortgage Loans. Principal and interest are paid in monthly installments. The loans expire in 2009, 2010, 2020 and 2021. Interest ranges from the prime rate to LIBOR plus 3.75%. At April 3, 2003, the blended coupon rate was 6.03% and the effective interest rate was 6.47%, net of unamortized fees of \$141,094 (\$144,626 in 2002). | 7,045 | |
| Revolving Credit Agreement. Interest is paid monthly. The blended interest rate at April 3, 2003 was 4.79%. (See Note D) | 5,809 | |
| Equipment Loans. Principal and interest will be paid in monthly installments. The loans expire in 2010 and 2011 and bear interest at LIBOR plus | | |

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3.75%. At April 3, 2003, the blended coupon rate was 5.09% and the effective interest rate was 5.67%, net of unamortized fees of \$113,464 (\$135,213 in 2002). 7,993

Equipment Loan. Principal and interest will be paid in 85 remaining monthly installments. The loan expires in 2010. At April 3, 2003, the coupon rate was 10.73% and the effective interest rate was 11.18%, net of unamortized fees of \$10,862 (\$13,776 in 2002). 780

Less current maturities 78,431
9,039

\$69,392
=====

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E. LONG-TERM DEBT (CONTINUED):

The mortgage loans are collateralized by \$65,259,900 of property, at net book value, and the equipment loans are collateralized by \$4,687,600 of equipment, at net book value.

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

| | |
|---------------|----------|
| September 30, | |
| 2003 | \$7,134 |
| 2004 | 3,159 |
| 2005 | 3,398 |
| 2006 | 3,656 |
| 2007 | 3,934 |
| Thereafter | 57,150 |
| | ----- |
| | \$78,431 |
| | ===== |

F. RELATED PARTY TRANSACTIONS:

Certain directors and officers of the Company are also directors, officers or controlling shareholders of other entities from which the Company leases its corporate headquarters and various store and other locations under agreements classified as operating leases. In addition, the Company leases store locations from entities controlled by, or from persons related to, certain directors and officers of the Company. Aggregate rentals in connection with all such leases for the two quarters ended April 3, 2003 and April 4, 2002 were \$743,500 and \$562,200, respectively.

The Company charges an affiliate for general and administrative services provided. Such charges amounted to \$5,600 and \$5,600 in the two quarters ended April 3, 2003 and April 4, 2002, respectively.

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During the first two quarters of fiscal years 2003 and 2002, the Company made payments of \$0 and \$39,900, respectively, to a director of the Company for consulting fees and reimbursement of expenses.

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G. RECENT ACCOUNTING PRONOUNCEMENTS:

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets," which requires that such assets with indefinite lives not be amortized but be tested annually for impairment and provides specific guidance for such testing. This statement also requires disclosure of information regarding goodwill and other assets that was previously not required. In accordance with SFAS No. 142, the Company has discontinued the amortization of goodwill as of October 1, 2002 and completed its impairment test during the 2003 second fiscal quarter. As a result, the Company wrote-off its total goodwill balance of \$5,857,000.

The Company adopted SFAS No. 143, "Accounting for Asset Retirement Obligations," effective for the fiscal year ending September 30, 2003. Under the statement's provisions, (1) entities must record the fair value of a liability for an asset retirement obligation in the period in which it is incurred, (2) when the liability is initially recorded, the entity must capitalize a cost by increasing the carrying amount of the related long-lived asset, (3) over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset and (4) upon settlement of the liability, the entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. There was no impact on the Company's consolidated financial position or results of operations as a result of the adoption of SFAS No. 143.

The Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," effective October 1, 2002. SFAS No. 144 addressed the financial accounting and reporting for the impairment or disposal of long-lived assets. There was no impact on the Company's consolidated financial position or results of operations as a result of the adoption of SFAS No. 144.

The Company adopted SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," effective October 1, 2002. SFAS No. 145 rescinds SFAS No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, and SFAS No. 64, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. SFAS No. 145 also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. There was no impact on the Company's consolidated financial position or results of operations as a result of the adoption of SFAS No. 145.

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The Company adopted SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," effective January 1, 2003. SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Previous accounting guidance was provided by Emerging Issues Task Force ("EITF") No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)," which required that a liability for costs associated with an exit plan or disposal activity be recognized at the date of an entity's commitment to an exit plan. There was no impact on the Company's consolidated financial position or results of operations as a result of the adoption of SFAS No. 146.

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G. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED):

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an Amendment of FASB Statement No. 123." SFAS No. 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The disclosure requirements apply to all companies for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of SFAS No. 148 had an impact on the Company's disclosure requirements, but had no impact on the Company's consolidated financial statements.

The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations for all periods represented. Accordingly, compensation cost for stock options is measured as the excess, if any, of the fair value of the Company's common stock at the date of the grant over the amount an employee must pay to acquire the stock. The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", to stock-based employee compensation (in thousands, except per share data):

| | Quarter Ended | |
|-----------------------------------------------------------------------|------------------|------------------|
| | April 3, 2003 | April 4, 2002 |
| | ----- | ----- |
| Net loss, as reported | (\$2,275) | (\$1,138) |
| Deduct: Total stock-based employee compensation expense determined | | |

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| | | |
|-----------------------------------------------------------------------------|--------------------|--------------------|
| under fair value based method for all awards, net of related tax effects | (2) ----- | (11) ----- |
| Pro forma net loss | (\$2,277) ===== | (\$1,149) ===== |
| Basic and diluted net loss per share as reported | (\$ 0.31) | (\$ 0.16) |
| Pro forma basic and diluted net loss per share | (\$ 0.31) | (\$ 0.16) |

In September 2002, the EITF released Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor," which has two parts. The first part of the pronouncement requires that vendor allowances be categorized as a reduction of cost of sales unless they are a reimbursement of costs incurred to sell the vendor's products, in which case, the cash consideration should be characterized as a reduction of that cost. If the amount of cash consideration paid by a vendor exceeds the estimated fair value of the benefit received, that excess should be characterized as a reduction of the cost of sales when recognized in the customer's income statement. This portion of the pronouncement must be implemented by fiscal 2004.

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G. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED):

The second part of the pronouncement requires that rebates or refunds that are payable only if the customer completes a specified cumulative level of purchases should be recognized as a reduction of cost of sales based on a systematic and rational allocation over the purchase period. This portion of the pronouncement was implemented by the Company in the second quarter of fiscal 2003. There was no impact on the Company's consolidated financial position or results of operations as a result of the adoption of EITF No. 02-16.

In November 2002, the EITF reached a consensus on Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor." Issue 02-16 provides guidance on when to classify consideration received from a vendor as a reduction of the price of the vendor's products, a reimbursement of costs incurred or as revenue. In addition, Issue 02-16 provides guidance on when to recognize rebates or refunds of a specified amount of cash consideration from a vendor that are based on the achievement of a specified cumulative level of purchases or are based on the customer purchasing from the vendor for a specified period of time. The guidance in Issue 02-16 has been adopted by the Company in the second quarter of fiscal 2003. There was no impact on the Company's consolidated financial position or results of operations as a result of the guidance in 02-16.

In November of 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 requires entities to establish liabilities for certain types of

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guarantees, and expands financial statement disclosures for others. The accounting requirements of FIN No. 45 are effective for guarantees issued or modified after December 31, 2002, and the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. There was no impact on the Company's consolidated financial position or results of operations as a result of the adoption of FIN No. 45.

The FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). FIN 46 applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. Based on management's assessment as of the date of this report, the Company does not have any interests in variable interest entities as defined in FIN 46 that would require disclosure in the consolidated financial statements as of December 31, 2002.

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H. COMMITMENTS AND CONTINGENCIES:

- (1) Leases -- The Company leases its corporate headquarters, 126 of its store locations, certain equipment, offices, and maintenance and storage facilities. Future minimum lease payments under capital leases and noncancellable operating leases with initial or remaining terms in excess of one year at April 3, 2003 are shown below. Some of the leases provide for additional rentals when sales exceed a specified amount and contain variable renewal options and escalation clauses.

| | Capital Leases ----- | Operating Leases ----- | Rental Income ----- |
|--------------------------------------------|----------------------------|------------------------------|---------------------------|
| | | (In thousands) | |
| Six months ending | | | |
| September 30, 2003 | \$74 | \$3,096 | \$ 378 |
| Fiscal Year 2004 | 140 | 5,976 | 622 |
| Fiscal Year 2005 | 31 | 4,544 | 495 |
| Fiscal Year 2006 | 31 | 3,295 | 322 |
| Fiscal Year 2007 | 31 | 3,091 | 244 |
| Thereafter | 21 | 8,037 | 381 |
| | -- | ----- | --- |
| Total future minimum lease payments | 328 | \$28,039 ===== | \$2,442 ===== |
| Less amount representing interest | 57 -- | | |
| Present value of future payments | 271 | | |

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| | |
|-------------------------|-------|
| Less current maturities | 103 |
| | --- |
| | \$168 |
| | ==== |

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

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I. CHANGES IN SECURITIES:

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

During the first two quarters of fiscal 2003, the Company purchased 24,323 shares of its treasury stock for \$128,045 to fund its 401(k) retirement plan, resulting in a decline of additional paid-in capital of \$99,525. The Company also issued 31,000 shares of common stock to its non-employee directors, as part of their annual retainer, and 1,524 shares of common stock to the Company's employee stock purchase plan. The issuance of these shares resulted in an increase of \$38,780 to additional paid-in capital. The net effect of these

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transactions in the first two quarters of fiscal 2003 was a decrease to additional paid-in capital of \$60,745.

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ITEM 2

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

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

| | QUARTER ENDED | |
|----------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| | APRIL 3, 2003 ---- | APRIL 4, 2002 ---- |
| Revenues: | | |
| Merchandise sales | 48.3 % | 57.1 % |
| Gasoline sales | 51.3 | 42.4 |
| Other income | 0.4 | 0.5 |
| | --- | --- |
| Total revenues | 100.0 | 100.0 |
| Cost of sales | 80.6 | 77.2 |
| | ---- | ---- |
| Gross profit: | | |
| Merchandise (as a percentage of merchandise sales) | 30.0 | 30.5 |
| Gasoline (as a percentage of gasoline sales) | 8.8 | 11.5 |
| Total gross profit | 19.4 | 22.8 |
| Costs and expenses: | | |
| Selling | 16.1 | 18.4 |
| General and administrative | 1.9 | 2.3 |
| Depreciation and amortization | 1.9 | 2.2 |
| Interest | 1.5 | 1.7 |
| | --- | --- |
| Total expenses | 21.4 | 24.6 |
| Loss from continuing operations before income taxes and change in accounting principle | (2.0) | (1.8) |
| Income tax benefit | (0.1) | (0.6) |
| | --- | --- |
| Loss from continuing operations before change in accounting principle | (1.9) | (1.2) |
| | --- | --- |
| Discontinued operations: | | |
| Loss from discontinued operations | (0.1) | 0.0 |
| Loss on disposal of discontinued | | |

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| | | |
|--------------------------------------------------------------------------------------|----------|----------|
| operations | (0.2) | 0.0 |
| Income tax benefit | 0.0 | 0.0 |
| | --- | --- |
| Loss on discontinued operations | (0.3) | 0.0 |
| Cumulative effect of change in accounting principle, net of income tax benefit | 0.0 | 0.0 |
| | --- | --- |
| Net loss | (2.2) % | (1.2) % |
| | === | === |

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RESULTS OF OPERATIONS:

RISKS THAT COULD AFFECT FUTURE RESULTS

A number of the matters and subject areas discussed in this Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Form 10-Q that are not historical or current facts, including statements regarding the Company's plans and strategies or future financial performance, deal with potential future circumstances and developments. These forward-looking statements frequently can be identified by the use of terminology such as "believes," "expects," "may," "will," "should" or "anticipates" (or the negative or other variations thereof) or comparable terminology, or by discussions of strategy that involve risks and uncertainties. Although the Company believes that its expectations are based on reasonable assumptions within the bounds of its knowledge, investors and prospective investors are cautioned that such statements are only projections and that actual events or results may differ materially from those expressed in any such forward-looking statements. In addition to other factors described elsewhere in this report, the Company's actual consolidated quarterly or annual operating results have been affected in the past, or could be affected in the future, by factors, including, without limitation, general economic, business and market conditions; environmental, tax and tobacco legislation or regulation; volatility of gasoline prices, margins and supplies; competition and ability to maintain merchandising margins; the ability to obtain required consents from lenders and otherwise successfully consummate the Company's divestiture program; the sufficiency of cash balances, cash from operations and cash from asset sales to meet future cash obligations; volume of customer traffic; weather conditions; labor costs; and the level of capital expenditures.

OVERVIEW

Matters discussed below should be read in conjunction with "Operating Data (Retail Locations Only)" on the preceding page.

In the last twelve months, the Company continued its store evaluation and strategic initiative program. During that period, two convenience stores and one Choice Cigarette Discount Outlet ("Choice") were closed, and five convenience stores, one Choice and one non-operating location were sold. The Company also constructed two Choice stores during this period.

From April 2002 until December 2002, the Company had retained financial advisors

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to assist in the exploration and evaluation of all of its strategic alternatives to enhance stockholder value. As a result of its analysis with its financial advisors, the Company intends to intensify a divestiture strategy of certain underperforming store locations and non-operating assets. In January 2003, the Company entered into a new financial advisory agreement with one of these financial advisors to assist in negotiations with the Company's debt holders to permit the Company's ongoing divestiture plan. If the disposition of assets is successful and is in excess of certain amounts, the Company's executive officers will be eligible to receive bonuses pursuant to a Transaction Success Bonus Plan adopted by the Company. The aggregate amount of such bonuses will be based upon the total consideration received for such assets. The Company is currently in negotiations with its lenders to permit the sale of various store locations. If the Company is unsuccessful in obtaining required consents from its lenders or consummate proposed asset sales, the Company could encounter liquidity problems during fiscal year 2003. See "Management's Discussion and Analysis of Financial Condition and Results of Operations --Liquidity and Capital Resources."

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QUARTERS ENDED APRIL 3, 2003 AND APRIL 4, 2002

At April 3, 2003, the Company operated 294 stores, which were comprised of 227 Uni-Mart convenience stores and 67 Choice stores. Of these locations, three were franchised and 238 offered self-service gasoline. The Company sold four locations in the second fiscal quarter, including three convenience stores of which one was a franchise location and one Choice store. The Company had six less convenience stores and one fewer Choice store in operation in the fiscal quarter ended April 3, 2003 compared to the quarter ended April 4, 2002.

For the second quarter of fiscal 2003, ended April 3, 2003, total revenues were \$105.0 million, an increase of \$13.8 million, or 15.2%, compared to total revenues of \$91.2 million for the second quarter of fiscal 2002, ended April 4, 2002. The increase in revenues is principally due to a \$15.2 million, or 39.4%, increase in gasoline sales to \$53.9 million compared to gasoline sales of \$38.7 million in the second quarter of fiscal 2002. This increase is primarily the result of a 39.4 cent per gallon increase in the average retail price per gallon of petroleum sold during the current fiscal quarter compared to the same quarter of the prior fiscal year. Merchandise sales declined by \$1.3 million, or 2.5%, to \$50.7 million, compared to merchandise sales of \$52.0 million in the second quarter of fiscal 2002. Merchandise sales declined in part due to fewer stores in operation in the current fiscal quarter. Other income declined by \$83,000 to \$386,000 for the current quarter. Merchandise sales at comparable stores declined by 2.0% and gasoline gallons sold at comparable stores declined by 0.9% in the second quarter of fiscal 2003 compared to the second quarter of fiscal 2002.

Gross profits on merchandise sales were \$15.2 million, a decline of \$675,000, or 4.3%, compared to merchandise gross profits of \$15.9 million in the second quarter of fiscal 2002. Lower merchandise sales, due primarily to poor weather conditions and fewer stores in operation in the current fiscal quarter when compared to the same quarter of fiscal 2002, as well as a 0.6% decline in the merchandise gross margin rate, contributed to the decline in merchandise gross margins for the second quarter of fiscal 2003.

Gasoline gross profit margins increased by \$315,000, or 7.1%, to \$4.8 million in the second quarter of fiscal 2003 compared to gasoline gross profit margins of \$4.5 million in the second quarter of fiscal 2002. Gasoline gross profits per gallon sold increased by 8.6%, while total gallons sold declined by 564,000 gallons, or 1.4%, in the current fiscal quarter. Higher gasoline gross

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profit margins per gallon sold contributed to greater gasoline gross profits, while the effects of unfavorable weather and economic conditions resulted in fewer gallons sold.

Selling expenses increased by \$174,000, or 1.0%, to \$16.9 million for the fiscal 2003 second quarter, primarily due to higher credit card fees resulting from higher retail petroleum prices, and higher levels of store maintenance resulting from the harsh weather conditions in the Company's operating area, offset by fewer stores in operation. General and administrative expense declined by \$155,000, or 7.2%, to \$2.0 million due to a reduction in the number of employees in the current fiscal quarter. Depreciation and amortization expense declined by \$118,000, or 5.8%, to \$1.9 million as the result of the adoption of SFAS No. 142, lower levels of capital expenditures and fewer stores in operation in the current fiscal quarter. Interest expense remained relatively the same at \$1.6 million for the second quarter of fiscal 2003. While borrowing rates and levels were lower in the second fiscal quarter of 2003 in comparison to the second fiscal quarter of 2002, interest expense remained relatively the same at \$1.6 million. In the second quarter of fiscal 2002, the Company received a \$129,000 refund from an insurance company related to interest payments on borrowings for claims paid by the Company which were subsequently reimbursed. The amount was recorded as a credit to interest expense.

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For the second quarter of fiscal 2003, losses from continuing operations, before income taxes and change in accounting principle, were \$2.1 million, compared to losses from continuing operations, before income taxes and change in accounting principle, of \$1.7 million in the second quarter of fiscal 2002. The Company received a benefit from income taxes of \$108,000 compared to an income tax benefit of \$593,000 in the second quarter of fiscal 2002. Losses from continuing operations before the change in accounting principle were \$1.9 million, or \$0.27 per share, for the current fiscal quarter compared to losses from continuing operations before the change in accounting principle in the second quarter of fiscal 2002 of \$1.1 million, or \$0.16 per share.

The Company recorded a loss on discontinued operations of \$329,000, or \$0.04 per share, compared to a loss on discontinued operations in the second quarter of fiscal 2002 of \$24,000, or no per share loss. Discontinued operations for this period consist of the sale of three convenience stores and one Choice location in the second quarter of fiscal 2003. This loss included a loss from discontinued operations of \$99,000, a loss on disposal of discontinued operations of \$248,000 and an income tax benefit of \$18,000 for the second quarter of fiscal 2003, compared to a loss of \$37,000, \$0 and \$13,000, respectively, for the second quarter of fiscal 2002. During the first quarter of fiscal 2003, the Company increased its valuation allowance against the deferred tax asset because it was determined that it is more likely than not that the Company will not be able to fully utilize the NOL's. This increase in the reserve has resulted in a 5% tax benefit in comparison to a 35% tax provision in the second quarter of fiscal 2002. Total net losses for the quarter ended April 3, 2003 were \$2.3 million, or \$0.31 per share, compared to total net losses of \$1.1 million, or \$0.16 per share, for the quarter ended April 4, 2002.

TWO QUARTERS ENDED APRIL 3, 2003 AND APRIL 4, 2002

Total revenues for the first two quarters of fiscal 2003 were \$213.8 million, an increase of \$24.7 million, or 13.1%, compared to total revenues of \$189.1 million for the two quarters ended April 4, 2002. The principal factor in the revenues increase was a \$25.7 million, or 31.9%, increase in gasoline sales for

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the current reporting period compared to the same six-month period of fiscal 2002. Gasoline sales for the first six months of fiscal 2003 increased to \$106.2 million from \$80.5 million for the first six months of fiscal 2002, due principally to a 31.0 cent per gallon increase in the average retail price per gallon of petroleum sold in the current reporting period. Merchandise sales declined by \$882,000, or 0.8%, to \$106.8 million from \$107.7 million in the first six months of fiscal 2002 due primarily to fewer stores in operation. At comparable stores, merchandise sales declined by 0.3%, while gasoline gallons sold at comparable stores were relatively flat when compared to the first six months of fiscal 2002. Other income declined by \$58,000, or 6.4%, to \$851,000 for the current six-month period.

A 0.7% decline in the merchandise gross margin rate, combined with lower merchandise sales contributed to a \$1.0 million, or 3.0%, decline in merchandise gross margins for the first six months of fiscal 2003. Gross profit margins on merchandise sales were \$32.5 million for the first six months of fiscal 2003, compared to \$33.5 million for the first six months of fiscal 2002.

Gross profits on gasoline sales for the first two quarters of fiscal 2003 increased by 2.1% to \$9.3 million compared to gasoline gross profit margins of \$9.1 million reported in the first two quarters of fiscal 2002. A 2.9% increase in gross profit margins per gallon sold contributed to higher gasoline margin levels, offset by a decline in gasoline gallons sold of 635,000 gallons.

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Selling expenses increased by 1.8% to \$34.1 million due to increases in credit card fees resulting from higher retail petroleum prices, and higher levels of store maintenance and utilities due to poor weather conditions in the Company's operating area primarily in the second fiscal quarter, offset by fewer stores in operation. General and administrative expense declined by 3.9% to \$3.9 million for the current fiscal quarter due to fewer salaried employees, offset by increased legal and professional fees. Depreciation and amortization expense for the first six months of fiscal 2003 declined by 5.5% to \$3.9 million due to the adoption of SFAS No. 142, lower levels of capital expenditures and fewer stores in operation. Lower interest rates and borrowing levels resulted in a 5.0% decline in interest expense to \$3.2 million for the first six months of fiscal 2003 compared to \$3.4 million for the first six months of fiscal 2002.

The Company reported a net loss from continuing operations, before the effect of a change in accounting principle in connection with the Company's adoption of SFAS No. 142 effective as of October 1, 2002, of \$2.4 million compared to a net loss of \$1.5 million for the same period of fiscal 2002. The Company received a benefit for income taxes in the first six months of fiscal 2003 of \$129,000 compared to an income tax benefit of \$523,000 in the first six months of fiscal 2002. During the first quarter of fiscal 2003, the Company increased its valuation allowance against the deferred tax asset because it was determined that it is more likely than not that the Company will not be able to fully utilize the NOL's. This increase in the reserve has resulted in a 5% tax benefit in comparison to a 35% tax provision in the first two quarters of fiscal 2002. Losses from continuing operations before the change in accounting principle were \$2.3 million, or \$0.32 per share, compared to \$980,000, or \$0.14 per share, for the first six months of fiscal 2002.

The Company reported a loss on discontinued operations (the sale of three convenience stores and one Choice location in the second quarter of fiscal 2003) of \$383,000, or \$0.05 per share, for the first six months of fiscal 2003,

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compared to a loss on discontinued operations of \$49,000, \$0.01 per share, in the first six months of fiscal 2002. This loss included a loss from discontinued operations of \$156,000, a loss on disposal of discontinued operations of \$248,000 and an income tax benefit of \$21,000 for the first six months of fiscal 2003, compared to a loss from discontinued operations of \$75,000, no loss on disposal of discontinued operations and an income tax benefit of \$26,000 for the first six months of fiscal 2002.

The Company incurred a one-time charge in connection with the adoption of SFAS No. 142 during the first quarter of fiscal 2003 of \$5.8 million, before income taxes. The cumulative effect of the change in accounting principle, net of an income tax benefit of \$310,000, was \$5.5 million. Total net losses for the two quarters ended April 3, 2003 were \$8.2 million, or \$1.15 per share, compared to total net losses of \$1.0 million, or \$0.15 per share, for the two quarters ended April 4, 2002.

LIQUIDITY AND CAPITAL RESOURCES:

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

As of April 1, 2003, the Company amended its revolving credit agreement (the "Agreement") to extend the maturity date to December 31, 2004 and revise covenants relating to interest and fixed-charge coverage ratios. At April 3, 2003, \$5.7 million was available for borrowing under this Agreement. See Footnote D to the Consolidated Financial Statements included in this report for

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additional information regarding the Agreement. In addition, the Company's liquid fuels tax bond expires in the third fiscal quarter of 2003. Due to the expiration of the bond, the Company will reduce its annual insurance expense by \$103,000 and the Company will be required to pay the liquid fuels tax on purchases to the vendors within current payment terms. The Company intends to utilize its amended working capital credit facility to mitigate the cash flow impact of the liquid fuels tax bond expiration, resulting in increased borrowings of \$2.1 million on average throughout the year.

Capital requirements for debt service and capital leases for the balance of fiscal year 2003 are approximately \$7.2 million, which includes \$5.8 million in revolving credit that has been classified as current. The Company anticipates capital expenditures in the remainder of fiscal year 2003 of \$1.2 million, funded by cash flows from operations. These capital expenditures include normal replacement of store equipment and gasoline-dispensing equipment and upgrading of the Company's in-store and corporate data processing systems.

Operating lease commitments for the remainder of fiscal year 2003 are approximately \$3.1 million. These commitments for fiscal years 2004, 2005, 2006 and 2007 are approximately \$6.0 million, \$4.5 million, \$3.3 million, and \$3.1 million, respectively.

Management believes that cash from operations, available credit facilities and asset sales will be sufficient to meet the Company's obligations for the foreseeable future. In the event that the Company is unable to successfully consummate proposed asset sales, there is risk that the Company will not be able to meet future cash obligations.

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CRITICAL ACCOUNTING POLICIES AND ESTIMATES:

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

The Company believes that the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

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

Impairment -- The Company evaluates long-lived assets, including stores, for impairment quarterly, or whenever events or changes in circumstances indicate that the assets may not be recoverable. The impairment is measured by calculating the estimated future cash flows expected to be generated by the store, and comparing this amount to the carrying value of the store's assets. Cash flows are calculated

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utilizing individual store forecasts and total company projections for the remaining estimated lease lives of the stores being analyzed. Should actual results differ from those forecasted and projected, the Company may be subject to future impairment charges related to these facilities.

During the first quarter of fiscal year 2003, the Company adopted Statement of Financial Accounting Standards ("SFAS") Nos. 142 and 144. SFAS No. 142 requires that assets with indefinite lives not be amortized but tested annually for impairment and provides specific guidance for such testing. SFAS No. 144 provides additional guidance for impairment testing and determination of when an asset is considered to be for sale. The Company completed its impairment test during the second quarter of fiscal 2003 and the adoption of SFAS No. 142 resulted in the write-off of goodwill in the amount of \$5,857,000.

Income taxes -- The Company currently has NOL's that can be utilized to offset future income for federal and state tax purposes. These NOL's generate a significant deferred tax asset. However, the Company has recorded a valuation allowance against this deferred tax asset as it has determined that it is more likely than not that it will not be able to fully utilize the NOL's. Should the Company's assumptions regarding the utilization of these NOL's change, it may reduce some or all of this valuation allowance, which would result in the recording of an income tax benefit.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

To the extent that the Company's financial instruments expose the Company to interest rate risk, they are presented in the table below. The table presents principal cash flows and related interest rates by year of maturity for the Company's revolving credit facility, mortgage loans and equipment loans at April 3, 2003.

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

| | FISCAL YEAR OF MATURITY (DOLLAR AMOUNTS IN THOUSANDS) | | | | |
|------------------------------------------|----------------------------------------------------------|---------|---------|---------|---------|
| | 2003 | 2004 | 2005 | 2006 | 2007 |
| | ---- | ---- | ---- | ---- | ---- |
| Interest-rate sensitive assets: | | | | | |
| ----- | | | | | |
| Noninterest-bearing checking accounts | \$1,850 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Interest-bearing checking accounts | \$2,128 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Average interest rate | 1.15% | | | | |
| ----- | | | | | |
| Total | \$3,978 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Total average interest rate | 0.62% | | | | |
| Interest-rate sensitive liabilities: | | | | | |
| ----- | | | | | |
| Variable-rate borrowings | \$6,648 | \$1,945 | \$2,051 | \$2,164 | \$2,282 |
| Average interest rate | 5.04% | 5.09% | 5.09% | 5.09% | 5.09% |
| Fixed-rate borrowings | \$ 486 | \$1,214 | \$1,347 | \$1,492 | \$1,652 |
| Average interest rate | 9.34% | 9.33% | 9.34% | 9.34% | 9.34% |
| ----- | | | | | |
| Total | \$7,134 | \$3,159 | \$3,398 | \$3,656 | \$3,934 |
| Total average interest rate | 5.92% | 7.39% | 7.42% | 7.46% | 7.50% |

ITEM 4 - CONTROLS AND PROCEDURES

CEO AND CFO CERTIFICATIONS. Appearing immediately following the Signatures section of this Quaterly Report are two certifications, one by each of our Chief Executive Officer and our Chief Financial Officer (the "Section 302 Certifications"). This Item 4 of our Quarterly Report contains information concerning the evaluation of the Company's disclosure controls and procedures and matters regarding our internal controls that are referred to in the Section 302 Certifications. This information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

EVALUATION OF THE COMPANY'S DISCLOSURE CONTROLS AND PROCEDURES. The Securities and Exchange Commission (the "SEC") requires that within 90 days prior to the filing of this Quarterly Report on Form 10-Q, the CEO and the CFO evaluate the effectiveness of the design and operation of the Company's "disclosure controls and procedures" and report their conclusions on the effectiveness of the design and operation of the Company's disclosure controls and procedures in this report.

"Disclosure controls and procedures" mean the controls and other procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (the "Exchange Act"), such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the rules and forms promulgated by the Securities and Exchange Commission (the "SEC"). Disclosure controls and procedures are also designed with the objective of ensuring that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

EVALUATION OF THE COMPANY'S INTERNAL CONTROLS. The SEC also requires that the CEO and CFO certify certain matters regarding the Company's "internal controls."

"Internal controls" mean our procedures which are designed with the objective of providing reasonable assurance that (1) our transactions are properly authorized; (2) our assets are safeguarded against unauthorized or improper use; and (3) our transactions are properly recorded and reported, all to permit the preparation of our financial statements in conformity with generally accepted accounting principles. Our internal controls are evaluated quarterly by the Company.

Among the matters our CEO and CFO must certify in the Section 302 Certifications are whether all "significant deficiencies" or "material weaknesses" in the Company's internal controls have been disclosed to the Company's auditors and the audit committee of the Company's Board of Directors. In the professional auditing literature, "significant deficiencies" are referred to as "reportable conditions"; these are control issues that could have a significant adverse effect on an entity's ability to record, process, summarize and report financial data in the financial statements. A "material weakness" is defined in the auditing literature as a particularly serious reportable condition where the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial

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statements and not be detected within a timely period by employees in the normal course of performing their assigned functions.

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LIMITATIONS ON THE EFFECTIVENESS OF CONTROLS. The Company's management, including the CEO and CFO, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, as opposed to absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within an entity have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

CEO/CFO CONCLUSIONS ABOUT THE EFFECTIVENESS OF THE DISCLOSURE CONTROLS AND PROCEDURES. Based upon their evaluation of the disclosure controls and procedures, our CEO and CFO have concluded that, subject to the limitations noted above, our disclosure controls and procedures are effective to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries is made known to management, including the CEO and CFO, on a timely basis.

CHANGES IN INTERNAL CONTROLS. There were no significant changes to our internal controls or in other factors that could significantly affect our internal controls, subsequent to the date of our last evaluation of our internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

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PART II - OTHER INFORMATION

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Stockholders of Uni-Mart's, Inc. was held on February 27, 2003 at which time the following matters were voted upon:

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- (1) Election of three Class I directors to serve until the Annual Meeting of Stockholders in 2006.
- (2) Ratification of the appointment of independent auditors.

The results of the votes on the matters considered at the Annual Meeting of Stockholders are set forth below:

- (1) Election of Directors:

| | VOTES "FOR" ----- | VOTES "WITHHELD" ----- |
|-------------------|-------------------------|------------------------------|
| Herbert C. Graves | 5,997,504 | 868,060 |
| Henry D. Sahakian | 5,990,964 | 874,600 |
| Gerold C. Shea | 5,998,393 | 867,171 |

Class II and Class III directors whose terms of office expire in 2004 and 2005, respectively:

| CLASS II | CLASS III |
|-----------------------|-----------------------|
| Stephen B. Krumholz | M. Michael Arjmand |
| Jack G. Najarian | Frank R. Orloski, Sr. |
| Anthony S. Regensburg | Daniel D. Sahakian |

- (2) Ratification of appointment of independent auditors:

| VOTES "FOR" ----- | VOTES "AGAINST" ----- | VOTES "ABSTAIN" ----- | BROKER NON-VOTES ----- |
|-------------------------|-----------------------------|-----------------------------|------------------------------|
| 6,019,956 | 842,211 | 3,397 | 0 |

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ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

- (a) EXHIBITS

3.1

Amended and Restated Certificate of Incorporation of the Company (Filed as exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended April 4, 2002 and incorporated herein by reference thereto).

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- 3.2 Amended and Restated By-Laws of the Company (Filed as exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended April 4, 2002 and incorporated herein by reference thereto).
- 10.1 Fifth Amendment to Loan Agreement between Provident Bank and Uni-Marts, Inc. effective as of April 28, 2003.
- 10.2 Transaction Success Bonus Plan, amended and restated as of April 28, 2003.
- 11 Statement regarding computation of per share loss.
- 99.1 Certification of the Chairman and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) REPORTS ON FORM 8-K

The Company filed a report on Form 8-K on January 28, 2003 reporting its Fiscal 2003 First Quarter Financial Results for the period ended January 2, 2003 and announcing that it had entered into a new financial advisory agreement with Trefethen & Company, LLC.

The Company filed a report on Form 8-K on April 3, 2003, announcing that it has reached an agreement with The Provident Bank to amend its current revolving credit facility effective April 1, 2003.

The Company also filed a report on Form 8-K on April 28, 2003, announcing its financial results for the fiscal 2003 second quarter, ended April 3, 2003.

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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.

Uni-Marts, Inc.
(Registrant)

Date May 16, 2003

/S/ HENRY D. SAHAKIAN

Henry D. Sahakian
Chairman of the Board
(Principal Executive Officer)

Date May 16, 2003

/S/ N. GREGORY PETRICK

N. Gregory Petrick

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Executive Vice President and
Chief Financial Officer
(Principal Accounting Officer)
(Principal Financial Officer)

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CERTIFICATION

I, Henry D. Sahakian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Uni-Marts, Inc.

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls

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subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 16, 2003

/S/ HENRY D. SAHAKIAN

Henry D. Sahakian
Chief Executive Officer

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CERTIFICATION

I, N. Gregory Petrick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Uni-Marts, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal

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controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 16, 2003

/S/ N. GREGORY PETRICK

N. Gregory Petrick
Chief Financial Officer

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UNI-MARTS, INC. AND SUBSIDIARIES
EXHIBIT INDEX

| NUMBER ----- | DESCRIPTION ----- |
|-----------------|----------------------------------------------------------------------------------------------------------------------|
| 10.1 | Fifth Amendment to Loan Agreement between Provident Bank and Uni-Marts, Inc. effective as of April 1, 2003. |
| 10.2 | Transaction Success Bonus Plan, amended and restated as of April 28, 2003. |
| 11 | Statement regarding computation of per share loss. |
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| 99.2 | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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