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UNI MARTS INC
Form 10-Q
August 15, 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 JULY 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
(State or other jurisdiction of
Incorporation or organization)

25-1311379
(I.R.S. Employer
Identification No.)

477 EAST BEAVER AVENUE
STATE COLLEGE, PA
(Address of principal executive offices)

16801-5690
(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

7,190,895 Common Shares were outstanding at August 8, 2003.

This Document Contains 29 Pages.

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UNI-MARTS, INC. AND SUBSIDIARIES

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PART 1 - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

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

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| | JULY 3, 2003 | SEPTEMBER 30, 2002 |
|---|-----------------|-----------------------|
| | ----- | ----- |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 3,769 | \$ 6,501 |
| Accounts receivable - less allowances of \$187 and \$126, respectively | 5,880 | 8,324 |
| Inventories | 17,950 | 20,859 |
| Prepaid and current deferred taxes | 639 | 1,494 |
| Property and equipment held for sale | 40,917 | 1,098 |
| Prepaid expenses and other | 721 | 1,137 |
| | ----- | ----- |
| TOTAL CURRENT ASSETS | 69,876 | 39,413 |
| PROPERTY, EQUIPMENT AND IMPROVEMENTS - at cost, less accumulated depreciation and amortization of \$40,764 and \$64,214, respectively | 51,759 | 98,037 |
| LOAN DUE FROM OFFICER | 0 | 360 |
| INTANGIBLE ASSETS | 394 | 6,235 |
| OTHER ASSETS | 1,132 | 1,100 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 123,161 | \$ 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)

| | JULY 3, 2003 | SEPTEMBER 30, 2002 |
|--------------------------------------|-----------------|-----------------------|
| | ----- | ----- |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 12,611 | \$ 17,811 |
| Gas taxes payable | 40 | 3,460 |
| Accrued expenses | 6,558 | 7,207 |
| Revolving credit | 7,635 | 5,867 |
| Current maturities of long-term debt | 3,192 | 3,212 |

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| | | |
|--|------------|------------|
| Current obligations under capital leases | 102 | 113 |
| | ----- | ----- |
| TOTAL CURRENT LIABILITIES | 30,138 | 37,670 |
| LONG-TERM DEBT, less current maturities | 68,683 | 71,912 |
| OBLIGATIONS UNDER CAPITAL LEASES, less current maturities | 141 | 214 |
| DEFERRED TAXES | 542 | 1,797 |
| DEFERRED INCOME AND OTHER LIABILITIES | 4,441 | 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 7,453,883 and 7,420,859 shares, respectively | 745 | 742 |
| Additional paid-in capital | 23,742 | 23,803 |
| Retained (deficit) earnings | (3,510) | 5,661 |
| | ----- | ----- |
| | 20,977 | 30,206 |
| Less treasury stock, at cost - 267,106 and 291,429 shares of Common Stock, respectively | (1,761) | (1,889) |
| | ----- | ----- |
| | 19,216 | 28,317 |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$ 123,161 | \$ 145,145 |
| | ===== | ===== |

See notes to condensed 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 | | THREE QUARTERS ENDED | |
|-------------------------------|-----------------|-----------------|----------------------|--------------|
| | JULY 3, 2003 | JULY 4, 2002 | JULY 3, 2003 | JULY 2002 |
| | ----- | ----- | ----- | ----- |
| REVENUES: | | | | |
| Merchandise sales | \$ 36,223 | \$ 36,074 | \$ 104,252 | \$ 104,252 |
| Gasoline sales | 38,741 | 32,418 | 109,233 | 84,233 |
| Other income | 341 | 411 | 1,095 | 1,095 |
| | ----- | ----- | ----- | ----- |
| | 75,305 | 68,903 | 214,580 | 189,580 |
| | ----- | ----- | ----- | ----- |
| COSTS AND EXPENSES: | | | | |
| Cost of sales | 61,239 | 54,443 | 172,799 | 147,799 |
| Selling | 9,995 | 9,945 | 30,216 | 29,216 |
| General and administrative | 1,787 | 2,122 | 5,673 | 6,673 |
| Depreciation and amortization | 1,149 | 1,174 | 3,369 | 3,369 |
| Interest | 824 | 916 | 2,640 | 2,640 |

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| | 74,994 | 68,600 | 214,697 | 189 |
|---|-----------|-----------|------------|--------|
| EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND CHANGE IN ACCOUNTING PRINCIPLE | 311 | 303 | (117) | |
| INCOME TAX PROVISION | 60 | 104 | 41 | |
| EARNINGS (LOSS) FROM CONTINUING OPERATIONS BEFORE CHANGE IN ACCOUNTING PRINCIPLE | 251 | 199 | (158) | |
| DISCONTINUED OPERATIONS: | | | | |
| LOSS FROM DISCONTINUED OPERATIONS | (685) | (503) | (2,857) | (2) |
| LOSS ON DISPOSAL OF DISCONTINUED OPERATIONS | (472) | 0 | (720) | |
| INCOME TAX PROVISION (BENEFIT) | 21 | (159) | (110) | |
| LOSS ON DISCONTINUED OPERATIONS | (1,178) | (344) | (3,467) | (1) |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE, NET OF INCOME TAX BENEFIT OF \$310 | 0 | 0 | (5,547) | |
| NET LOSS | \$ (927) | \$ (145) | \$ (9,172) | \$ (1) |
| EARNINGS (LOSS) PER SHARE: | | | | |
| EARNINGS (LOSS) PER SHARE FROM CONTINUING OPERATIONS BEFORE CHANGE IN ACCOUNTING PRINCIPLE | \$ 0.03 | \$ 0.03 | \$ (0.02) | \$ |
| LOSS PER SHARE FROM DISCONTINUED OPERATIONS | (0.16) | (0.05) | (0.48) | (|
| LOSS PER SHARE FROM CHANGE IN ACCOUNTING PRINCIPLE | 0.00 | 0.00 | (0.78) | |
| BASIC AND DILUTED NET LOSS PER SHARE | \$ (0.13) | \$ (0.02) | \$ (1.28) | \$ (|
| BASIC AND DILUTED WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 7,186 | 7,112 | 7,157 | 7 |

See notes to condensed consolidated financial statements

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

THREE QUARTERS ENDED
JULY 3, 2003 JULY 4, 2002

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| | | |
|--|------------|------------|
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Cash received from customers and others | \$ 216,235 | \$ 192,541 |
| Cash paid to suppliers and employees | (214,267) | (185,222) |
| Dividends and interest received | 23 | 35 |
| Interest paid | (2,647) | (3,096) |
| Income taxes (paid) received | (21) | 4 |
| Other (payments) receipts-discontinued operations | (423) | 653 |
| | ----- | ----- |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | (1,100) | 4,915 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Receipts from sale of capital assets | 29 | 130 |
| Receipts from sale of discontinued operations | 1,446 | 0 |
| Purchase of property, equipment and improvements | (1,486) | (2,447) |
| Note receivable from officer | 360 | 60 |
| Net payments for intangible and other assets | (242) | (158) |
| Cash received for intangible and other assets | 22 | 59 |
| | ----- | ----- |
| NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES | 129 | (2,356) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Borrowings on revolving credit agreement | 1,768 | 1,252 |
| Principal payments on debt | (3,532) | (2,933) |
| Proceeds from issuance of common stock | 3 | 29 |
| | ----- | ----- |
| NET CASH USED IN FINANCING ACTIVITIES | (1,761) | (1,652) |
| | ----- | ----- |
| NET (DECREASE) INCREASE IN CASH | (2,732) | 907 |
| CASH: | | |
| Beginning of period | 6,501 | 5,075 |
| | ----- | ----- |
| End of period | \$ 3,769 | \$ 5,982 |
| | ===== | ===== |

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

THREE QUARTERS ENDED
JULY 3, JULY 4,
2003 2002

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RECONCILIATION OF NET LOSS TO NET CASH

(USED IN) PROVIDED BY OPERATING ACTIVITIES:

| | | | | |
|---|----|---------|----|---------|
| NET LOSS | \$ | (9,172) | \$ | (1,173) |
| ADJUSTMENTS TO RECONCILE NET LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES: | | | | |
| Depreciation and amortization | | 3,368 | | 3,534 |
| Discontinued operations—depreciation and amortization | | 2,434 | | 2,665 |
| Loss on sale of capital assets and other | | 386 | | 389 |
| Discontinued operations—loss on sale | | 720 | | 0 |
| Change in accounting principle | | 5,547 | | 0 |
| Change in assets and liabilities: | | | | |
| (Increase) decrease in: | | | | |
| Accounts receivable | | 2,444 | | 373 |
| Inventories | | 2,909 | | (1,114) |
| Prepaid expenses and other | | 417 | | 2,413 |
| Increase (decrease) in: | | | | |
| Accounts payable and accrued expenses | | (9,269) | | (1,861) |
| Deferred income taxes and other liabilities | | (884) | | (311) |
| | | ----- | | ----- |
| TOTAL ADJUSTMENTS TO NET LOSS | | 8,072 | | 6,088 |
| | | ----- | | ----- |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | \$ | (1,100) | \$ | 4,915 |
| | | ===== | | ===== |

See notes to condensed 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 July 3, 2003, the condensed consolidated statements of operations and the condensed consolidated statements of cash flows for the three and nine months ended July 3, 2003 and July 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 July 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

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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 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 the allowance has resulted in a 4.0% tax benefit in the first three quarters of fiscal 2003.

In accordance with the Company's plans to pursue a divestiture strategy, the Company plans to sell or sublet assets of 130 stores. In the third quarter of fiscal 2003, the Company reclassified on its balance sheet assets totaling \$40.6 million relating to these stores as property and equipment held for sale, and classified the income and expense of such stores as discontinued operations. The Company intends to continue to operate these stores pending successful negotiation of their sale or sub-lease. For the first nine months of fiscal 2003, the Company recorded a loss from discontinued operations of \$2.9 million and recorded a loss on disposal of discontinued operations of \$720,000, which includes a \$600,000 loss relating to the future disposal of certain locations.

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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 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 has intensified its divestiture strategy. The Company is currently working with its financial advisor and 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. In the event that the Company is unable to consummate proposed asset sales, on acceptable terms, there is a risk that the Company may not be able to meet future cash obligations.

C. INTANGIBLE AND OTHER ASSETS:

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

| | JULY 3, 2003 | SEPTEMBER 30, 2002 |
|-------------------------|-----------------|-----------------------|
| | ----- | ----- |
| Goodwill | \$ 0 | \$ 8,874 |
| Lease acquisition costs | 298 | 315 |

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| | | |
|-------------------------------|----------|----------|
| Noncompete agreements | 250 | 250 |
| Other intangible assets | 250 | 197 |
| | ----- | ----- |
| | 798 | 9,636 |
| Less accumulated amortization | 404 | 3,401 |
| | ----- | ----- |
| | 394 | 6,235 |
| Other assets | 1,132 | 1,100 |
| | ----- | ----- |
| | \$ 1,526 | \$ 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 in connection with the adoption of Statement of Financial Accounting Standards ("SFAS") No. 142, resulting 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.

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C. INTANGIBLE AND OTHER ASSETS (CONTINUED):

The Company's adoption of SFAS No. 142 eliminates the requirement to amortize goodwill beginning in the first quarter of fiscal 2003 (see Note G). Goodwill amortization in the first three quarters of fiscal 2002 was \$291,400, or \$0.04 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):

| | THREE QUARTERS ENDED | |
|-----------------------|----------------------|-----------------|
| | JULY 3, 2003 | JULY 4, 2002 |
| | ----- | ----- |
| Reported net loss | \$ (9,172) | \$ (1,173) |
| Add back: | | |
| Goodwill amortization | 0 | 291 |
| | ----- | ----- |
| Adjusted net loss | \$ (9,172) | \$ (882) |
| | ===== | ===== |
| Net loss per share | \$ (1.28) | \$ (0.17) |

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| | | |
|-----------------------------|-----------|-----------|
| | ===== | ===== |
| Adjusted net loss per share | \$ (1.28) | \$ (0.13) |
| | ===== | ===== |

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 revise 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 revise 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, 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 July 3, 2003. Borrowings of \$7.6 million and letters of credit of \$3.5 million were outstanding under the Agreement at July 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 July 3, 2003 was 4.63%. The Agreement is collateralized by substantially all of the Company's inventories, receivables, other personal property and selected real properties. At July 3, 2003, the net book value of these selected real properties that are pledged as collateral was \$2.4 million.

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E. LONG-TERM DEBT:

| | JULY 3, 2003 | SEPTEMBER 30, 2002 |
|--|-----------------|-----------------------|
| | ----- | |
| | (In thousands) | |
| Mortgage Loan. Principal and interest will be paid in 182 remaining monthly installments. At July 3, 2003, the coupon rate was 9.08% and the effective interest rate was 9.78%, net of unamortized fees of \$1,084,618 (\$1,204,119 in 2002) | \$ 30,084 | \$ 31,568 |
| Mortgage Loan. Principal and interest will be paid in 203 remaining monthly installments. The loan bears interest at LIBOR plus 3.75%. At July 3, 2003, the coupon rate was 5.07% and the | | |

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| | | |
|---|-----------|-----------|
| effective interest rate was 5.53%, net of unamortized fees of \$333,157 (\$364,952 in 2002) | 19,894 | 20,423 |
| Mortgage Loan. Principal and interest will be paid in 203 remaining monthly installments. At July 3, 2003, the coupon rate was 10.39% and the effective interest rate was 10.71%, net of unamortized fees of \$107,170 (\$114,683 in 2002) | 6,399 | 6,502 |
| Mortgage Loans. Principal and interest are paid in monthly installments. The loans expire in 2009, 2010, 2020 and 2021. Interest ranges from the prime rate to LIBOR plus 3.75%. At July 3, 2003, the blended coupon rate was 6.02% and the effective interest rate was 6.48%, net of unamortized fees of \$139,329 (\$144,626 in 2002) | 6,970 | 7,202 |
| Revolving Credit Agreement. Interest is paid monthly. The blended interest rate at July 3, 2003 was 4.63%. (See Note D) | 7,635 | 5,867 |
| Equipment Loans. Principal and interest will be paid in monthly installments. The loans expire in 2010 and 2011 and bear interest at LIBOR plus 3.75%. At July 3, 2003, the blended coupon rate was 5.07% and the effective interest rate was 5.67%, net of unamortized fees of \$102,590 (\$135,213 in 2002) | 7,767 | 8,506 |
| Equipment Loan. Principal and interest will be paid in 82 remaining monthly installments. The loan expires in 2010. At July 3, 2003, the coupon rate was 10.73% and the effective interest rate was 11.20%, net of unamortized fees of \$10,156 (\$13,776 in 2002) | 761 | 923 |
| | ----- | ----- |
| | 79,510 | 80,991 |
| Less current maturities | 10,827 | 9,079 |
| | ----- | ----- |
| | \$ 68,683 | \$ 71,912 |
| | ===== | ===== |

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E. LONG-TERM DEBT (CONTINUED):

The mortgage loans are collateralized by \$65,630,000 of property, at net book value, and the equipment loans are collateralized by \$4,303,900 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 | \$ 8,213 |
| 2004 | 3,159 |
| 2005 | 3,398 |
| 2006 | 3,656 |

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| | |
|------------|-----------|
| 2007 | 3,934 |
| Thereafter | 57,150 |
| | ----- |
| | \$ 79,510 |
| | ===== |

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 three quarters ended July 3, 2003 and July 4, 2002 were \$1,116,900 and \$899,000, respectively.

The Company charges an affiliate for general and administrative services provided. Such charges amounted to \$8,400 and \$8,400 in the three quarters ended July 3, 2003 and July 4, 2002, respectively.

During the first three quarters of fiscal years 2003 and 2002, the Company made payments of \$0 and \$59,600, respectively, to a director of the Company for consulting fees and reimbursement of expenses.

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.

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G. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED):

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

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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. As a result of the adoption of SFAS No. 144, the Company recognized a \$600,000 loss on disposal of certain locations in the third quarter of fiscal 2003. See "Footnote A of Notes to Condensed Consolidated Financial Statements."

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.

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.

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

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G. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED):

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,

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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 | | Three Quarters End | |
|---|-----------------|-----------------|--------------------|-----------|
| | July 3, 2003 | July 4, 2002 | July 3, 2003 | Jul 20 |
| Net loss, as reported | \$ (927) | \$ (145) | \$ (9,172) | \$ |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (7) | (40) | (9) | |
| Pro forma net loss | \$ (934) | \$ (185) | \$ (9,181) | \$ |
| Basic and diluted net loss per share as reported | \$ (0.13) | \$ (0.02) | \$ (1.28) | \$ |
| Pro forma basic and diluted net loss per share | \$ (0.13) | \$ (0.03) | \$ (1.28) | \$ |

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G. RECENT ACCOUNTING PRONOUNCEMENTS (CONTINUED):

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 and 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 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

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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 July 3, 2003.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities." This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts. This Statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative, clarifies when a derivative contains a financing component, amends the definition of an underlying to conform it to language used in FASB Interpretation ("FIN") No. 45, and amends certain other existing pronouncements. FAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. All provisions of the Statement, except those related to forward purchases or sales of "when-issued" securities, should be applied prospectively. The Company currently has no instruments that meet the definition of a derivative, and therefore, the adoption of this Statement will have no impact on the Company's financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. This Statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The Company currently has no financial instruments which meet these requirements.

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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 July 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) | | |
| Three months ending | | | |
| September 30, 2003 | \$ 37 | \$ 1,541 | \$ 195 |
| Fiscal Year 2004 | 140 | 5,815 | 622 |

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| | | | |
|-------------------------------------|--------|-----------|----------|
| 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 | 291 | \$ 26,323 | \$ 2,259 |
| | | ===== | ===== |
| Less amount representing interest | 48 | | |
| | ----- | | |
| Present value of future payments | 243 | | |
| Less current maturities | 102 | | |
| | ----- | | |
| | \$ 141 | | |
| | ===== | | |

(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.

I. CHANGES IN SECURITIES:

During the first three quarters of fiscal 2003, the Uni-Marts, Inc. Retirement Savings and Incentive Plan purchased 24,323 shares of the Company's 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 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 transactions in the first three quarters of fiscal 2003 was a decrease to additional paid-in capital of \$60,745.

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

OPERATING DATA (RETAIL LOCATIONS ONLY)

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

| | QUARTER ENDED | | THREE QUAR |
|--|---------------|---------|------------|
| | JULY 3, | JULY 4, | JULY 3, |
| | 2003 | 2002 | 2003 |
| | ----- | ----- | ----- |

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| | | | |
|---|--------|--------|--------|
| Revenues: | | | |
| Merchandise sales | 48.1% | 52.4% | 48.6% |
| Gasoline sales | 51.4 | 47.0 | 50.9 |
| Other income | 0.5 | 0.6 | 0.5 |
| | ----- | ----- | ----- |
| Total revenues | 100.0 | 100.0 | 100.0 |
| Cost of sales | 81.3 | 79.0 | 80.5 |
| | ----- | ----- | ----- |
| Gross profit: | | | |
| Merchandise (as a percentage of merchandise sales) | 30.0 | 30.7 | 30.3 |
| Gasoline (as a percentage of gasoline sales) | 7.4 | 9.2 | 8.4 |
| Total gross profit | 18.7 | 21.0 | 19.5 |
| Costs and expenses: | | | |
| Selling | 13.3 | 14.4 | 14.1 |
| General and administrative | 2.4 | 3.1 | 2.6 |
| Depreciation and amortization | 1.5 | 1.7 | 1.6 |
| Interest | 1.1 | 1.3 | 1.2 |
| | ----- | ----- | ----- |
| Total expenses | 18.3 | 20.5 | 19.5 |
| Earnings (loss) from continuing operations before income taxes and change in accounting principle | | | |
| | 0.4 | 0.5 | (0.0) |
| Income tax provision | 0.1 | 0.2 | 0.0 |
| | ----- | ----- | ----- |
| Earnings (loss) from continuing operations before change in accounting principle | 0.3 | 0.3 | (0.0) |
| | ----- | ----- | ----- |
| Discontinued operations: | | | |
| Loss from discontinued operations | (0.9) | (0.7) | (1.3) |
| Loss on disposal of discontinued operations | (0.6) | 0.0 | (0.3) |
| Income tax benefit | 0.0 | (0.2) | (0.1) |
| | ----- | ----- | ----- |
| Loss on discontinued operations | (1.5) | (0.5) | (1.5) |
| Cumulative effect of change in accounting principle, net of income tax benefit | | | |
| | 0.0 | 0.0 | (2.6) |
| | ----- | ----- | ----- |
| Net loss | (1.2)% | (0.2)% | (4.1)% |
| | ===== | ===== | ===== |

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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

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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 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

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

From April 2002 until December 2002, the Company had retained financial advisors 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 has intensified its divestiture strategy for 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. If the Company is unsuccessful in consummating proposed asset sales, the Company could encounter liquidity problems. See "Management's Discussion and Analysis of Financial Condition and Results of Operations --Liquidity and Capital Resources."

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QUARTERS ENDED JULY 3, 2003 AND JULY 4, 2002

At July 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 one non-operating location in the third fiscal quarter. The Company had six fewer convenience stores and one less Choice store in operation in the third fiscal quarter ended July 3, 2003 compared to the third fiscal quarter ended July 4, 2002.

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In the third quarter ended July 3, 2003, the Company reclassified on its balance sheet \$40.6 million in assets relating to 130 stores that the Company plans to sell or sublet, as assets of discontinued operations, and classified the income and expense of such stores as discontinued operations. Although these stores are now classified as discontinued operations, the Company intends to continue to operate these stores pending successful negotiation of their sale or sub-lease.

For the third quarter of fiscal 2003, ended July 3, 2003, total revenues from continuing operations were \$75.3 million, an increase of \$6.4 million, or 9.3%, compared to total revenues of \$68.9 million for the third quarter of fiscal 2002. The increase in revenues is principally due to a \$6.3 million, or 19.5%, increase in gasoline sales to \$38.7 million compared to gasoline sales of \$32.4 million in the third quarter of fiscal 2002. This increase is primarily the result of a 27.3 cent per gallon increase in the average retail price per gallon of petroleum sold at the Company's locations when compared to the third quarter of fiscal 2002, offset by a 1.6 million, or 5.1%, decline in the total number of gasoline gallons sold. The 27.3 cent per gallon price increase includes a 25.9 cent per gallon gasoline tax for the Company's Pennsylvania stores in June 2003 as a result of the Company's change in its payment method for gasoline taxes. Prior to June 2003, the Company did not include gasoline taxes either in its revenues or its cost of sales. The Company had the ability to defer payment of such taxes until the due date established by the Pennsylvania Department of Revenue based on sales gallons. This deferral of taxes was permitted because the Company had posted a liquid fuels tax bond with the Pennsylvania Department of Revenue. In June 2003, the bond expired and the Company began paying gasoline taxes at the time payment for the gasoline is due. Accordingly, since June 2003, the Company has included gasoline taxes in its revenues and its cost of sales. This change has no effect on gross profits. Although the Company will pay the taxes sooner, the Company will no longer incur the \$103,000 cost of the liquid fuels tax bond. Merchandise sales increased by \$149,000, or 0.4%, to \$36.2 million, compared to merchandise sales of \$36.1 million in the third quarter of fiscal 2002. Other income declined by \$70,000 to \$341,000 for the current fiscal quarter. Merchandise sales from continuing operations at comparable stores increased by 0.4%, while gasoline gallons sold from continuing operations at comparable stores declined by 1.1% in the third quarter of fiscal 2003 compared to the third quarter of fiscal 2002.

Gross profits on merchandise sales were \$10.9 million, a decline of \$225,000, or 2.0%, compared to merchandise gross profits of \$11.1 million in the third quarter of fiscal 2002. A 0.7% decline in the merchandise gross margin rate, in addition to fewer stores in operation in the current fiscal quarter, contributed to the decline in merchandise gross margins for the third quarter of fiscal 2003.

Gross profits on gasoline sales declined by \$100,000, or 3.3%, to \$2.9 million in the third quarter of fiscal 2003 compared to gasoline gross profits of \$3.0 million in the third quarter of fiscal 2002. Gasoline gross profits per gallon sold increased by 1.9%, while total gallons sold declined by 5.1% in the current fiscal quarter. Fewer stores in operation as well as the effects of poor weather conditions in the current fiscal quarter compared to the same quarter of fiscal 2002, contributed to the decline in gasoline gallon sales.

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Selling expenses increased by 0.5% to \$10.0 million, as higher maintenance costs were offset by fewer stores in operation for the third quarter of fiscal 2003. General and administrative expense declined by \$335,000, or 15.8%, to \$1.8 million due to a reduction in the number of employees and a decline in miscellaneous expenses in the current fiscal quarter. Depreciation and

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amortization expense declined by \$25,000, or 2.1%, to \$1.1 million as the result of the adoption of SFAS 142, lower levels of capital expenditures and fewer stores in operation in the current fiscal quarter. Interest expense declined by 10.0% to \$824,000 for the third quarter of fiscal 2003, due to lower borrowing rates and levels in the third fiscal quarter of 2003, in comparison to the third fiscal quarter of 2002.

For the third quarter of fiscal 2003, net earnings from continuing operations, before income taxes and change in accounting principle, were \$311,000, compared to net earnings from continuing operations, before income taxes and change in accounting principle, of \$303,000 in the third quarter of fiscal 2002. The Company recorded a provision for income taxes of \$60,000, compared to an income tax provision of \$104,000 in the third quarter of fiscal 2002. The Company reported net earnings from continuing operations before the change in accounting principle of \$251,000, or \$0.03 per share, for the third quarter of fiscal 2003, compared to net earnings from continuing operations before the change in accounting principle of \$199,000, or \$0.03 per share, for the prior year's third fiscal quarter.

The loss from discontinued operations was \$685,000 compared to a loss of \$503,000 in the third quarter of fiscal 2002. The increase in loss from discontinued operations was the result of lower gross profits on merchandise and gasoline sales, offset by lower depreciation and amortization and interest expenses. In the third quarter of fiscal 2003, a loss on disposal of discontinued operations was recorded for \$472,000, which includes a provision for loss on disposal of \$600,000 relating to the future disposals of 23 locations anticipated to be sold in the fourth quarter of fiscal 2003, offset by a gain on the sale of one non-operating location in the third fiscal quarter. The Company had no provision in the third quarter of fiscal 2002 for the loss on disposal of discontinued operations. In the third quarter of fiscal 2003, the Company recorded a tax provision of \$21,000, compared to a tax benefit of \$159,000 for the comparable period of fiscal 2002. The net loss on discontinued operations for the third fiscal quarter of 2003 was \$1.2 million, or \$0.16 per share, compared to a net loss on discontinued operations of \$344,000, or \$0.05 per share, in the third quarter of fiscal 2002.

During 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 9.6% tax provision in comparison to a 28.0% tax benefit in the third quarter of fiscal 2002.

Total net losses for the quarter ended July 3, 2003 were \$927,000, or \$0.13 per share, compared to total net losses of \$145,000, or \$0.02 per share, for the third quarter of fiscal 2002.

THREE QUARTERS ENDED JULY 3, 2003 AND JULY 4, 2002

Total revenues from continuing operations for the first three quarters of fiscal 2003 were \$214.6 million, an increase of \$24.6 million, or 13.0%, compared to total revenues of \$190.0 million for the three quarters ended July 4, 2002. Revenues increased due principally to a \$24.6 million, or 29.0%, increase in gasoline sales for the current reporting period to \$109.2 million, compared to \$84.7 million for the first nine months of fiscal 2002. The increase in gasoline sales was due to a 28.8 cent per gallon increase in the average retail price per gallon of petroleum sold in the current reporting period, as the result of higher retail petroleum prices in the first nine months of fiscal 2003. For the first nine months of fiscal 2003, merchandise sales increased slightly to \$104.3 million, compared to merchandise sales

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of \$104.1 million in the first nine months of fiscal 2002. At comparable stores, merchandise sales from continuing operations increased by 0.6% and gasoline gallons sold at comparable stores increased by 1.2% from the first nine months of fiscal 2002. Other income declined by \$117,000, or 9.7%, to \$1.1 million for the current nine-month period.

Gross profits on merchandise sales were \$31.6 million, a 2.7% decline compared to merchandise gross profits of \$32.5 million for the first nine months of fiscal 2002. A slight increase in merchandise sales levels was offset by a 0.9% decline in the merchandise gross margin rate for the first three quarters of fiscal 2003.

Gross profits on gasoline sales for the first three quarters of fiscal 2003 increased by 2.8% to \$9.1 million compared to gasoline gross profit margins of \$8.9 million reported in the first three quarters of fiscal 2002. The increase was due to a 2.5% increase in the gross margin rate per gallon sold and a 0.3% increase in gasoline gallons sold in the first nine months of fiscal 2003.

Selling expenses increased by 1.3% to \$30.2 million due to increases in credit card fees resulting from higher retail petroleum prices and higher levels of store maintenance. General and administrative expense declined by 8.0% to \$5.7 million for the first nine months of fiscal 2003 due to fewer employees, offset by increased legal and professional fees. Depreciation and amortization expense for the first nine months of fiscal 2003 declined by 4.7% to \$3.4 million due to the adoption of SFAS No. 142, lower levels of capital expenditures and fewer stores in operation. Interest expense declined by 5.0% to \$2.6 million for the first nine months of fiscal 2003 compared to \$2.8 million for the first nine months of fiscal 2002 due to lower interest rates and borrowing levels.

For the first nine months of fiscal 2003, net losses from continuing operations, before income taxes and change in accounting principle, were \$117,000, compared to net earnings from continuing operations, before income taxes and change in accounting principle, of \$234,000 for the first nine months of fiscal 2002. The Company recorded a provision for income taxes of \$41,000, compared to an income tax provision of \$79,000 for the first nine months of fiscal 2002. Net losses from continuing operations before a change in accounting principle were \$158,000, or \$0.02 per share, compared to net earnings from continuing operations before the change in accounting principle of \$155,000, or \$0.02 per share, for the first nine months of fiscal 2002.

The Company reported a loss from discontinued operations of \$2.9 million for the first nine months of fiscal 2003, compared to a net loss from discontinued operations of \$2.0 million in the first nine months of fiscal 2002. The increase in loss from discontinued operations was primarily the result of lower merchandise and gasoline gross profits, increased credit card fees resulting from higher petroleum prices and higher levels of store maintenance, offset by reductions in depreciation and amortization and interest expenses. In the three quarters ended July 3, 2003, the loss on disposal of discontinued operations was \$720,000 in comparison to no loss in the comparable period of fiscal year 2002. The Company recorded an income tax benefit of \$110,000 for the loss on discontinued operations for the first nine months of fiscal year 2003, compared to an income tax benefit of \$684,000 for the same period of fiscal year 2002. Net losses on discontinued operations for the nine months ended July 3, 2003 was \$3.5 million, or \$0.48 per share, compared to a net loss of \$1.3 million, or \$0.19 per share, for the first nine months of fiscal 2002.

The loss from change in accounting principle for the first nine-months of fiscal 2003 was a one-time, non-cash charge of \$5.5 million, or \$0.78 per share, due to

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the adoption of SFAS 142 and the write-off of the Company's goodwill.

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During 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 4.0% tax benefit in comparison to a 34.0% tax benefit in the first three quarters of fiscal 2002.

Total net losses for the three quarters ended July 3, 2003 were \$9.2 million, or \$1.28 per share, compared to total net losses of \$1.2 million, or \$0.17 per share, for the three quarters ended July 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 July 3, 2003, \$3.8 million was available for borrowing under this Agreement. See Footnote D to the Consolidated Financial Statements included in this report for additional information regarding the Agreement. In addition, the Company's liquid fuels tax bond expired in the third fiscal quarter of 2003. Due to the expiration of the bond, the Company will pay the liquid fuels tax on purchases (presently 25.9 cents per gallon) directly to the vendors within its normal 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 approximately \$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 \$8.2 million, which includes \$7.6 million in revolving credit that has been classified as current. The Company anticipates capital expenditures in the remainder of fiscal year 2003 of \$500,000, 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 \$1.5 million. These commitments for fiscal years 2004, 2005, 2006 and 2007 are approximately \$5.8 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES:

The discussion and analysis of the Company's financial condition and results of

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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

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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 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. Furthermore, in accordance with the adoption of SFAS No. 144, the Company reclassified as assets of discontinued operations \$40.6 million in assets relating to 130 stores that the Company plans to sell or sublet, and classified the income and expense of such stores as discontinued operations. In addition, the Company recognized a \$600,000 loss relating to the future disposal of certain locations that were expected to be sold in the fourth quarter of 2003. Negotiations for the sale of 18 locations, which were expected to take place in the fourth fiscal quarter, were terminated. The Company cannot be certain that sales of assets will occur at the time or for the values that the Company estimates.

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

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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.

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ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

To the extent that the Company's financial instruments expose the Company to interest rate risk, they are presented in the table below. The table presents principal cash flows and related interest rates by year of maturity for the Company's revolving credit facility, mortgage loans and equipment loans at July 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 ----- | THEREAFT ----- |
|--|---------------|---------------|---------------|---------------|---------------|-------------------|
| Interest-rate sensitive assets: | | | | | | |
| Noninterest-bearing checking accounts | \$ 2,182 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Interest-bearing checking accounts | \$ 1,587 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Average interest rate | 1.15% | | | | | |
| Total | \$ 3,769 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Total average interest rate | 0.48% | | | | | |
| Interest-rate sensitive liabilities: | | | | | | |
| Variable-rate borrowings | \$ 8,008 | \$ 1,945 | \$ 2,051 | \$ 2,164 | \$ 2,282 | \$ 24,200 |
| Average interest rate | 4.98% | 5.07% | 5.07% | 5.07% | 5.07% | 5.07% |
| Fixed-rate borrowings | \$ 205 | \$ 1,214 | \$ 1,347 | \$ 1,492 | \$ 1,652 | \$ 32,900 |
| Average interest rate | 9.34% | 9.34% | 9.34% | 9.34% | 9.34% | 9.34% |
| Total | \$ 8,213 | \$ 3,159 | \$ 3,398 | \$ 3,656 | \$ 3,934 | \$ 57,100 |

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Total average interest rate 5.09% 7.38% 7.41% 7.45% 7.49% 7.

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ITEM 4 - CONTROLS AND PROCEDURES

CEO AND CFO CERTIFICATIONS. Appearing as Exhibits 31.1 and Exhibit 31.2 of this Quarterly 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 OUR DISCLOSURE CONTROLS AND PROCEDURES. The Securities and Exchange Commission (the "SEC") requires that as of the end of the quarter covered by this Report, the CEO and the CFO must evaluate the effectiveness of the design and operation of our disclosure controls and procedures and report on the effectiveness of the design and operation of our disclosure controls and procedures.

"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 OUR INTERNAL CONTROL OVER FINANCIAL REPORTING. The SEC also requires that the CEO and CFO certify certain matters regarding our internal control over financial reporting.

"Internal control over financial reporting" means the process designed by, or under the supervision of, our CEO and CFO, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements.

Among the matters our CEO and CFO must certify in the Section 302 Certifications are whether all "significant deficiencies" or "material weakness" in the design or operation of our internal control over financial reporting that are likely to adversely affect our ability to record, process, summarize and report financial information have been disclosed to our auditors and the Audit Committee of our

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Board of Directors. "Significant deficiencies" has the same meaning as the term "reportable conditions" in auditing literature. Both terms represent deficiencies in the design or operation of internal control over financial reporting that could adversely affect a company's ability to record, process, summarize and report financial data consistent with the assertions of management in a company's financial statements. A "material weakness" is defined in the auditing literature as a particularly serious reportable condition

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where the design or operation of one or more internal control over financial reporting 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 statements and not be detected within a timely period by employees in the normal course of performing their assigned functions. A "material weakness" constitutes a greater deficiency than a "significant deficiency, but an aggregation of significant deficiencies may constitute a material weakness in a company's internal control over financial reporting.

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. As required by Rule 13a-15(b), the Company's management, including our CEO and CFO, conducted an evaluation as of the end of the period covered by this report, of the effectiveness of the Company's disclosure controls and procedures. Based on that evaluation, the CEO and CFO concluded that, subject to the limitations noted above, our disclosure controls and procedures are effective to provide reasonable assurance that the disclosure controls and procedures will meet their objectives.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING. As required by Rule 13a-15(d), the Company's management, including the CEO and CFO conducted an evaluation of the Company's internal control over financial reporting to determine whether any changes occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this

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report.

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PART II - OTHER INFORMATION

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

- 3.1 Amended and Restated Certificate of Incorporation of the Company (Filed as exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended July 4, 2002 and incorporated herein by reference thereto).
- 3.2 Amended and Restated By-Laws of the Company (Filed as exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the period ended July 4, 2002 and incorporated herein by reference thereto).
- 11 Statement regarding computation of per share loss.
- 31.1 Certification of the Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002.
- 32.1 Certification of the Chairman and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 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 April 28, 2003, announcing its financial results for the fiscal 2003 second quarter, ended April 3, 2003.

The Company filed a report on Form 8-K on June 3, 2003, announcing the execution of a letter of intent for the sale of the Company to HFL Corporation.

The Company filed a report on Form 8-K on June 19, 2003, announcing the termination of the letter of intent with HFL Corporation.

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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)

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Date August 15, 2003

/S/ HENRY D. SAHAKIAN

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

Date August 15, 2003

/S/ N. GREGORY PETRICK

N. Gregory Petrick
Executive Vice President and
Chief Financial Officer
(Principal Accounting Officer)
(Principal Financial Officer)

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UNI-MARTS, INC. AND SUBSIDIARIES
EXHIBIT INDEX

| NUMBER ----- | DESCRIPTION ----- |
|-----------------|--|
| 11 | Statement regarding computation of per share loss. |
| 31.1 | Certification of the Chairman and Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes- Oxley Act of 2002. |
| 32.1 | Certification of the Chairman and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes- Oxley Act of 2002. |

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