

WINN DIXIE STORES INC  
Form 10-Q  
February 21, 2012  
Table of Contents

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

**FORM 10-Q**

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

For the quarterly period ended January 11, 2012

OR

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

For the transition period from            to

Commission File Number 1-3657

**WINN-DIXIE STORES, INC.**

(Exact name of registrant as specified in its charter)

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|   |  |
|---|--|
| <b>Florida</b><br>(State or other jurisdiction of<br>incorporation or organization)           | <b>59-0514290</b><br>(I.R.S. Employer<br>Identification No.) |
| <b>5050 Edgewood Court, Jacksonville, Florida</b><br>(Address of principal executive offices) | <b>32254-3699</b><br>(Zip Code)                              |
| <b>(904) 783-5000</b><br>(Registrant's telephone number, including area code)                 |  |

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

|  |   |
|--|---|
| Large accelerated filer <input type="checkbox"/>   | Accelerated filer <input checked="" type="checkbox"/> |
| Non-accelerated filer <input type="checkbox"/> (do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/>    |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of February 8, 2012, 56,556,410 shares of Winn-Dixie Stores, Inc. common stock were outstanding.

**Table of Contents**

**FORM 10-Q**

**TABLE OF CONTENTS**

**Part I Financial Information**

|  | Page |
|--|------|
| Item 1. Financial Statements   |      |
| <u>Condensed Consolidated Statements of Operations (Unaudited)</u>                                   | 1    |
| <u>Condensed Consolidated Balance Sheets (Unaudited)</u>   | 3    |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>                                   | 4    |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>                              | 5    |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 13   |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>                            | 21   |
| Item 4. <u>Controls and Procedures</u>   | 21   |

**Part II Other Information**

|  |    |
|--|----|
| Item 1. <u>Legal Proceedings</u>   | 22 |
| Item 1A. <u>Risk Factors</u>   | 22 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 23 |
| Item 3. <u>Defaults Upon Senior Securities</u>                             | 23 |
| Item 4. <u>Mine Safety Disclosures</u>                                     | 24 |
| Item 5. <u>Other Information</u>   | 24 |
| Item 6. <u>Exhibits</u>  | 25 |
| <u>Signatures</u>  | 27 |

**Table of Contents****Part I Financial Information****Item 1. Financial Statements****WINN-DIXIE STORES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

| Amounts in thousands except per share data               | 16 weeks ended   |                  |
|--|------------------|------------------|
|  | January 11, 2012 | January 12, 2011 |
| Net sales  | \$ 2,143,119     | 2,095,090        |
| Cost of sales, including warehouse and delivery expenses | 1,557,611        | 1,514,753        |
| Gross profit on net sales                                | 585,508          | 580,337          |
| Operating and administrative expenses                    | 601,692          | 596,890          |
| Impairment charges                                       | 487              | 4,249            |
| Operating loss   | (16,671)         | (20,802)         |
| Interest expense, net                                    | 1,736            | 1,974            |
| Loss from continuing operations before income tax        | (18,407)         | (22,776)         |
| Income tax benefit                                       |                  | (811)            |
| Net loss from continuing operations                      | (18,407)         | (21,965)         |
| Discontinued operations:                                 |                  |                  |
| Loss from discontinued operations                        | (117)            | (1,345)          |
| Gain (loss) on disposal of discontinued operations       | 538              | (695)            |
| Net earnings (loss) from discontinued operations         | 421              | (2,040)          |
| Net loss   | \$ (17,986)      | (24,005)         |
| Basic and diluted earnings (loss) per share:             |                  |                  |
| Loss from continuing operations                          | \$ (0.33)        | (0.39)           |
| Earnings (loss) from discontinued operations             | 0.01             | (0.04)           |
| Basic and diluted loss per share                         | \$ (0.32)        | (0.43)           |
| Weighted average common shares outstanding - basic       | 56,401           | 55,700           |
| Weighted average common shares outstanding - diluted     | 56,401           | 55,700           |

*See accompanying notes to condensed consolidated financial statements (unaudited).*

**Table of Contents****WINN-DIXIE STORES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)**

| Amounts in thousands except per share data               | 28 weeks ended   |                  |
|--|------------------|------------------|
|  | January 11, 2012 | January 12, 2011 |
| Net sales  | \$ 3,733,509     | 3,637,243        |
| Cost of sales, including warehouse and delivery expenses | 2,710,918        | 2,633,590        |
| Gross profit on net sales                                | 1,022,591        | 1,003,653        |
| Operating and administrative expenses                    | 1,061,544        | 1,056,707        |
| Impairment charges                                       | 487              | 4,249            |
| Operating loss   | (39,440)         | (57,303)         |
| Interest expense, net                                    | 3,560            | 3,152            |
| Loss from continuing operations before income tax        | (43,000)         | (60,455)         |
| Income tax benefit                                       |                  | (1,977)          |
| Net loss from continuing operations                      | (43,000)         | (58,478)         |
| Discontinued operations:                                 |                  |                  |
| Loss from discontinued operations                        | (308)            | (13,336)         |
| Gain (loss) on disposal of discontinued operations       | 1,220            | (28,982)         |
| Net earnings (loss) from discontinued operations         | 912              | (42,318)         |
| Net loss   | \$ (42,088)      | (100,796)        |
| Basic and diluted earnings (loss) per share:             |                  |                  |
| Loss from continuing operations                          | \$ (0.77)        | (1.05)           |
| Earnings (loss) from discontinued operations             | 0.02             | (0.77)           |
| Basic and diluted loss per share                         | \$ (0.75)        | (1.82)           |
| Weighted average common shares outstanding - basic       | 56,173           | 55,516           |
| Weighted average common shares outstanding - diluted     | 56,173           | 55,516           |

*See accompanying notes to condensed consolidated financial statements (unaudited).*

**Table of Contents****WINN-DIXIE STORES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

| Dollar amounts in thousands except par value   | January 11, 2012    | June 29, 2011    |
|--|---------------------|------------------|
| <b>ASSETS</b>  |                     |                  |
| <b>Current assets:</b>   |                     |                  |
| Cash and cash equivalents  | \$ 129,694          | 207,764          |
| Trade and other receivables, less allowance for doubtful receivables of \$3,182 (\$3,230 at June 29, 2011)   | 71,159              | 71,082           |
| Merchandise inventories, less LIFO reserve of \$65,794 (\$55,627 at June 29, 2011)   | 581,050             | 580,089          |
| Prepaid expenses and other current assets  | 31,644              | 28,994           |
| <b>Total current assets</b>  | <b>813,547</b>      | <b>887,929</b>   |
| Property, plant and equipment, net   | 691,079             | 658,891          |
| Intangible assets, net   | 199,770             | 207,216          |
| Deferred tax assets, non-current   | 36,646              | 36,646           |
| Other assets, net  | 8,142               | 9,108            |
| <b>Total assets</b>  | <b>\$ 1,749,184</b> | <b>1,799,790</b> |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                     |                  |
| <b>Current liabilities:</b>  |                     |                  |
| Current obligations under capital leases   | \$ 17,526           | 10,888           |
| Accounts payable   | 338,474             | 345,944          |
| Reserve for self-insurance liabilities   | 79,740              | 74,837           |
| Accrued wages and salaries   | 72,603              | 73,929           |
| Deferred tax liabilities   | 44,740              | 44,740           |
| Accrued expenses   | 98,070              | 115,007          |
| <b>Total current liabilities</b>   | <b>651,153</b>      | <b>665,345</b>   |
| Reserve for self-insurance liabilities   | 108,683             | 111,622          |
| Unfavorable leases   | 76,571              | 82,390           |
| Obligations under capital leases   | 46,530              | 31,875           |
| Other liabilities  | 39,309              | 45,050           |
| <b>Total liabilities</b>   | <b>922,246</b>      | <b>936,282</b>   |
| <b>Commitments and contingent liabilities (Notes 1 and 7)</b>  |                     |                  |
| <b>Shareholders equity:</b>  |                     |                  |
| Common stock, \$0.001 par value. Authorized 400,000,000 shares; 56,667,269 shares issued and 56,554,662 shares outstanding at January 11, 2012, and 55,932,767 shares issued and 55,820,160 shares outstanding at June 29, 2011. | 57                  | 56               |
| Additional paid-in capital   | 824,778             | 819,009          |
| (Accumulated deficit) retained earnings  | (2,255)             | 39,833           |
| Accumulated other comprehensive income   | 4,358               | 4,610            |
| <b>Total shareholders equity</b>   | <b>826,938</b>      | <b>863,508</b>   |
| <b>Total liabilities and shareholders equity</b>   | <b>\$ 1,749,184</b> | <b>1,799,790</b> |

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*See accompanying notes to condensed consolidated financial statements (unaudited).*

**Table of Contents****WINN-DIXIE STORES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| Dollar amounts in thousands   | 28 weeks ended    |                  |
|---|-------------------|------------------|
|   | January 11, 2012  | January 12, 2011 |
| <b>Cash flows from operating activities:</b>                                |                   |                  |
| Net loss  | \$ (42,088)       | (100,796)        |
| Adjustments to reconcile net loss to net cash used in operating activities: |                   |                  |
| Depreciation and amortization   | 64,983            | 62,470           |
| Share-based compensation  | 5,677             | 4,990            |
| Deferred income taxes   |                   | 111              |
| Other, net  | 1,389             | (2,283)          |
| Change in operating assets and liabilities:                                 |                   |                  |
| Trade, insurance and other receivables                                      | (77)              | (2,073)          |
| Merchandise inventories   | (961)             | 59,054           |
| Prepaid expenses and other current assets                                   | (2,650)           | 668              |
| Accounts payable and accrued expenses                                       | (34,999)          | (35,982)         |
| Reserve for self-insurance liabilities                                      | 1,964             | 7,838            |
| Net cash used in operating activities                                       | (6,762)           | (6,003)          |
| <b>Cash flows from investing activities:</b>                                |                   |                  |
| Purchases of long-lived assets  | (69,508)          | (44,644)         |
| Sales of assets and other   | 1,633             | 10,316           |
| Net cash used in investing activities                                       | (67,875)          | (34,328)         |
| <b>Cash flows from financing activities:</b>                                |                   |                  |
| Gross borrowings on credit facilities                                       | 9,776             | 7,762            |
| Gross payments on credit facilities   | (9,776)           | (7,762)          |
| Increase in book overdrafts   | 6,882             | 3,258            |
| Principal payments on capital leases  | (10,333)          | (6,766)          |
| Debt issuance costs   | (75)              |                  |
| Other, net  | 93                | 74               |
| Net cash used in financing activities                                       | (3,433)           | (3,434)          |
| <b>Decrease in cash and cash equivalents</b>                                | <b>(78,070)</b>   | <b>(43,765)</b>  |
| <b>Cash and cash equivalents at beginning of period</b>                     | <b>207,764</b>    | <b>152,327</b>   |
| <b>Cash and cash equivalents at end of period</b>                           | <b>\$ 129,694</b> | <b>108,562</b>   |

*See accompanying notes to condensed consolidated financial statements (unaudited).*



**Table of Contents**

**WINN-DIXIE STORES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Dollar amounts in thousands except per share data, unless otherwise stated

**1. Summary of Significant Accounting Policies and Other Matters**

**General:** All information in this Quarterly Report on Form 10-Q should be read in conjunction with the Consolidated Financial Statements included in Item 8 of the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2011. See Note 1 to the Consolidated Financial Statements in that Form 10-K for a more detailed discussion of the Company's significant accounting policies.

**The Company:** As of January 11, 2012, the Company operated as a major food retailer in five states in the southeastern United States with 482 retail stores, with four fuel centers and 77 liquor stores at the retail stores. In support of its stores, the Company operated six distribution centers. The Company's operations are reported as a single reportable segment.

**Estimates:** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions about future events that affect the reported amounts of assets, liabilities, revenues, and expenses, and disclosure of contingent assets and liabilities. The Company cannot determine future events and their effects with certainty. Therefore, the determination of estimates requires the exercise of judgment based on various assumptions and other factors such as historical experience, current and expected economic conditions and, in some cases, actuarial calculations. The Company periodically reviews these significant factors and makes adjustments when appropriate. Actual results could differ from those estimates.

**Basis of Presentation:** The accompanying unaudited Condensed Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the 16 and 28 weeks ended January 11, 2012, are not necessarily indicative of the results that may be expected for the fiscal year ending June 27, 2012.

The Condensed Consolidated Balance Sheet as of June 29, 2011, was derived from the audited consolidated financial statements as of that date, but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 29, 2011.

**Cash and Cash Equivalents:** Cash and cash equivalents consisted of United States government obligations money market funds of \$122.5 million and cash in stores of \$7.2 million as of January 11, 2012, and United States government obligations money market funds of \$200.5 million and cash in stores of \$7.3 million as of June 29, 2011. Book

**Table of Contents**

**WINN-DIXIE STORES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Dollar amounts in thousands except per share data, unless otherwise stated

overdrafts of \$27.0 million and \$20.1 million were classified as accounts payable in the Condensed Consolidated Balance Sheets as of January 11, 2012, and June 29, 2011, respectively.

**Earnings (Loss) Per Share:** Basic earnings (loss) per common share is based on the weighted-average number of common shares outstanding for the periods presented. Diluted earnings (loss) per share is based on the weighted-average number of common shares outstanding, plus the incremental shares that would have been outstanding upon the assumed vesting and exercise of all common stock equivalents (options, restricted stock and restricted stock units, collectively "CSEs") using the treasury stock method, subject to anti-dilution limitations.

The calculation of diluted earnings (loss) per share included no potentially dilutive CSEs for the 16 and 28 weeks ended January 11, 2012, and January 12, 2011. Excluded from the calculation are approximately 4.8 million anti-dilutive CSEs for both the 16 and 28 weeks ended January 11, 2012, and approximately 5.0 million anti-dilutive CSEs for both the 16 and 28 weeks ended January 12, 2011.

**Comprehensive Loss:** Comprehensive loss was \$18.2 million and \$42.3 million for the 16 and 28 weeks ended January 11, 2012, respectively, and \$24.2 million and \$101.1 million for the 16 and 28 weeks ended January 12, 2011, respectively. Other comprehensive loss consists of changes in the Company's post-retirement benefits obligation.

**Reclassifications and Revisions:** Certain prior year amounts have been reclassified to conform to the current year's presentation.

**2. Merger Agreement with Bi-Lo LLC**

On December 16, 2011, the Company entered into an Agreement and Plan of Merger, (the "Merger Agreement"), with Opal Holdings, LLC, a Delaware limited liability company ("Parent"), and Opal Merger Sub, Inc., a Florida corporation and a wholly-owned subsidiary of Parent ("Merger Sub" and, together with Parent, the "Acquiring Parties"). Parent is a wholly-owned subsidiary of BI-LO, LLC, a Delaware limited liability company, which is itself a wholly-owned subsidiary of BI-LO Holding, LLC, a Delaware limited liability company. BI-LO Holding, LLC, is a majority-owned subsidiary of Lone Star Fund V (U.S.), L.P., a partnership that is part of the group of investment funds commonly known as Lone Star Funds.

The Merger Agreement provides for, upon the terms and subject to the conditions in the Merger Agreement, the merger of Merger Sub with and into the Company with the Company being the surviving company as a wholly-owned subsidiary of Parent (the "Merger").

**Table of Contents**

**WINN-DIXIE STORES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Dollar amounts in thousands except per share data, unless otherwise stated

Pursuant to the Merger Agreement, at the effective time of the Merger, each issued and outstanding share of common stock of the Company (other than any shares owned by the Company, the Acquiring Parties or any of their respective subsidiaries) will be cancelled and will be converted automatically into the right to receive \$9.50 per share in cash, without interest. The aggregate purchase price is approximately \$560 million.

Completion of the Merger is subject to customary closing conditions including, among others, approval by the Company's shareholders, the absence of a Company material adverse effect since the date of the Merger Agreement and absence of any order or injunction prohibiting the consummation of the Merger. A special meeting of the Company's stockholders is scheduled for March 9, 2012. The primary purpose of the meeting is to consider and vote on the proposal to approve the Agreement and Plan of Merger.

**3. Merchandise Inventories**

The Company uses the last-in, first-out ( LIFO ) method to value approximately 85% of its inventory. LIFO charges increased cost of sales for continuing operations by \$5.8 million and \$10.2 million for the 16 and 28 weeks ended January 11, 2012, respectively and by \$5.2 million and \$6.3 million for the 16 and 28 weeks ended January 12, 2011, respectively.

An actual valuation of inventory under the LIFO method is made as of the end of each fiscal year based on the inventory levels and costs as of that date. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. Because these calculations are estimates of future events and prices, interim results are subject to the final year-end LIFO inventory valuations.

**4. Impairment Charges**

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The Company uses store performance reviews for indications that changes in market factors, traffic patterns, competition and other factors have negatively impacted the operating results of store locations. Such changes resulted in the identification of underperforming stores that experienced a current period cash flow loss combined with a history of cash flow losses. The Company compared the net book value of those underperforming store assets to the Company's best estimate of the net undiscounted cash flows expected to result from the use and eventual disposition of the assets and, in some cases, the Company concluded that the net undiscounted cash flows were less than the net book value of the related assets. For those stores, the excess of the net book value of the assets over their fair value was recorded as an impairment charge.

**Table of Contents**

**WINN-DIXIE STORES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Dollar amounts in thousands except per share data, unless otherwise stated

Fair value estimates are based on assumptions the Company believes to be reasonable but are inherently uncertain, thus fall within level 3 of the fair value hierarchy. Fair value is determined using a discounted cash flow methodology, which incorporates the terminal value of equipment based on broker quotes and the market value of favorable leases and pharmacy scripts based on broker quotes.

Continuing operations impairment charges of \$0.5 million were recorded for the 16 and 28 weeks ended January 11, 2012, and continuing operations impairment charges of \$4.2 million were recorded for the 16 and 28 weeks ended January 12, 2011. Discontinued operations for the 16 and 28 weeks ended January 12, 2011, included impairment charges of \$0.2 million and \$1.1 million, respectively. No impairment charges were included in discontinued operations for the 16 and 28 weeks ended January 11, 2012.

**5. Share-Based Payments**

Under the Fiscal 2012 Equity Incentive Plan ( 2012 EIP Plan ), the Compensation Committee of the Company's Board of Directors may grant up to 6.0 million share-based payments to officers, employees and non-employee directors, among others. The 2012 EIP Plan was approved by shareholders on November 9, 2011, and is effective for all grants made subsequent to November 9, 2011.

Total compensation expense related to share-based payments was \$3.1 million and \$5.7 million for the 16 and 28 weeks ended January 11, 2012, respectively, and \$2.4 million and \$5.0 million for the 16 and 28 weeks ended January 12, 2011, respectively. As of January 11, 2012, the Company had \$14.0 million of unrecognized compensation expense related to share-based payments, which it expects to recognize over a weighted-average period of 1.5 years.

**Table of Contents****WINN-DIXIE STORES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Dollar amounts in thousands except per share data, unless otherwise stated

*Options*

Changes in options during the 28 weeks ended January 11, 2012, were as follows:

|                                    | Number<br>of<br>Shares<br>(thousands) | Weighted-<br>Average<br>Exercise<br>Price per<br>share | Weighted-<br>Average<br>Remaining<br>Contractual<br>Term (Years) | Aggregate<br>Intrinsic<br>Value |
|------------------------------------|---------------------------------------|--|--|---------------------------------|
| Outstanding as of June 29, 2011    | 4,037                                 | \$ 14.18   |  |                                 |
| Granted                            | 324                                   | 6.24   |  |                                 |
| Exercised                          | (3)                                   | 7.11   |  |                                 |
| Forfeited                          | (66)                                  | 10.77  |  |                                 |
| Expired                            | (41)                                  | 12.16  |  |                                 |
| Outstanding as of January 11, 2012 | 4,251                                 | \$ 13.65   | 3.8  | \$ 1,790                        |

The fair value of options is estimated at the grant date using the Black-Scholes option-pricing model, which requires the use of various assumptions. The risk-free interest rate is based on the U.S. Treasury yield curve in effect for the expected term of the option at the grant date. The Company assumes a dividend yield of 0%, since it does not pay dividends and has no current plans to do so. The volatility assumptions for grants issued subsequent to September 21, 2011, are based on the Company's own historical volatility. For grants issued between January 8, 2009 and September 21, 2011, the volatility assumptions are based on both historical volatilities of comparable publicly traded companies and the Company's own historical volatility. Prior to January 8, 2009, the volatility assumptions are based on historical volatilities of comparable publicly traded companies using daily closing prices for the historical period commensurate with the expected term of the option. The expected life of the options is determined based on the simplified assumption that the options will be exercised evenly from vesting to expiration. The weighted-average grant-date fair value of the options granted during the 28 weeks ended January 11, 2012, and January 12, 2011, was \$2.95 and \$3.23, respectively, which was determined using the following assumptions:

|                         | 28 weeks ended   |                  |
|-------------------------|------------------|------------------|
|                         | January 11, 2012 | January 12, 2011 |
| Risk-free interest rate | 0.75%            | 1.08%            |
| Expected dividend yield | 0.0%             | 0.0%             |
| Expected life (years)   | 4.50             | 4.50             |
| Volatility              | 58.21%           | 55.15%           |

**Table of Contents****WINN-DIXIE STORES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Dollar amounts in thousands except per share data, unless otherwise stated

*Restricted Stock Units*

Changes in the restricted stock units during the 28 weeks ended January 11, 2012, were as follows:

|  | <b>Number of<br/>Shares<br/>(thousands)</b> | <b>Weighted-Average<br/>Grant Date Fair<br/>Value per share</b> |
|--|---|---|
| Nonvested balance as of June 29, 2011    | 2,265                                       | \$ 9.89   |
| Granted                                  | 751   | 6.48  |
| Vested                                   | (720)                                       | 10.01   |
| Forfeited                                | (103)                                       | 9.91  |
| Nonvested balance as of January 11, 2012 | 2,193                                       | \$ 8.68   |

**6. Discontinued Operations**

In evaluating whether store closures qualify for discontinued operations classification, the Company considers each store to be a component of a business, as this is the lowest level at which the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes. If the cash flows of a store to be exited will not be significant to the Company's ongoing operations and cash inflows of nearby Company stores are not expected to increase significantly because of the exit, the results of operations of the store are reported in discontinued operations. Costs incurred to dispose of a location are included in gain (loss) on disposal of discontinued operations only if the location qualifies for discontinued operations classification; otherwise, such costs are reported as continuing operations.

The Company closed one non-remodeled, underperforming store during the 28 weeks ended January 11, 2012. During the 28 weeks ended January 12, 2011, the Company closed 30 non-remodeled, underperforming stores.

Results of operations for the 31 closed stores were classified as discontinued operations. Net sales from discontinued operations for the 16 and 28 weeks ended January 11, 2012, were \$0.0 million and \$2.2 million, respectively. Net sales from discontinued operations for the 16 and 28 weeks ended January 12, 2011, were \$4.0 million and \$54.2 million, respectively.

**Table of Contents****WINN-DIXIE STORES, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Dollar amounts in thousands except per share data, unless otherwise stated

The following summarizes the costs included in gain (loss) on disposal of discontinued operations:

|                                     | (33,860)              | (33,860)             |
|-------------------------------------|-----------------------|----------------------|
|                                     | <b>16 weeks ended</b> |                      |
|                                     | <b>Jan. 11, 2012</b>  | <b>Jan. 12, 2011</b> |
| Gain (loss) on sale/retirement, net | \$ 98                 | (68)                 |
| Lease termination gain (loss)       | 496                   | (362)                |
| Other location closing costs        | (56)                  | (265)                |
| Net gain (loss) on disposal         | \$ 538                | (695)                |

|                               | (33,860)              | (33,860)             |
|-------------------------------|-----------------------|----------------------|
|                               | <b>28 weeks ended</b> |                      |
|                               | <b>Jan. 11, 2012</b>  | <b>Jan. 12, 2011</b> |
| Gain on sale/retirement, net  | \$ 321                | 8,351                |
| Lease termination gain (loss) | 1,004                 | (33,860)             |
| Other location closing costs  | (105)                 | (3,473)              |
| Net gain (loss) on disposal   | \$ 1,220              | (28,982)             |

The following table presents the detail of liability activity for costs related to closed stores.

|                             | <b>Liability for<br/>Closed Stores</b> |
|-----------------------------|--|
| Balance at June 29, 2011    | \$ (34,041)                            |
| Expense                     | (1,454)                                |
| Cash payments               | 8,639                                  |
| Balance at January 11, 2012 | \$ (26,856)                            |

The balance at June 29, 2011, includes \$79 thousand of accrued expenses related to the lease of the closed store that was reclassified to the closed store lease liability in 2012. The expense amount includes the effect on operations from the accretion of the present value of the expected future rental payments and adjustments due to the settlement of two leases and other estimates offset by the additional liability of one store. The cash payments include payments made for rent and related costs.

**7. Commitments and Contingencies***Litigation and Claims*

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In January 2012, a total of eight complaints challenging the proposed merger between BI-LO, LLC, and Winn-Dixie Stores, Inc., were filed by plaintiffs seeking to represent a class of Winn-Dixie shareholders. Seven complaints have been filed in the Circuit Court of the Fourth Judicial District in and for Duval County, Florida, and one case was filed in the United States District Court for the Middle District of Florida. The cases filed in state court



**Table of Contents**

**WINN-DIXIE STORES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

Dollar amounts in thousands except per share data, unless otherwise stated

have been consolidated, a Lead Plaintiff appointed, and the Lead Plaintiff has filed an amended complaint. The plaintiffs in the consolidated case pending in state court and in the case pending in federal court generally allege, among other things, that the consideration agreed to in the Merger Agreement is inadequate and unfair to Winn-Dixie shareholders, that the proposed proxy statement contains materially misleading disclosures or omissions regarding the proposed transaction, and that the members of Winn-Dixie's Board of Directors breached their fiduciary duties in approving the Merger Agreement and issuing a proxy statement. The plaintiffs also allege that those alleged breaches of fiduciary duty were aided and abetted by Winn-Dixie and the entities affiliated with BI-LO, LLC, named in the various complaints. The plaintiffs seek equitable relief, including an injunction prohibiting consummation of the merger, and rescission or rescissory damages if the merger is consummated. The defendants' responses to these complaints are not yet due.

Various claims and lawsuits arising in the normal course of business are pending against the Company, including claims alleging violations of certain employment or civil rights laws, claims relating to both regulated and non-regulated aspects of the business and claims arising under federal, state or local environmental regulations. The Company vigorously defends these actions.

While no one can predict the outcome of any pending or threatened litigation with certainty, management believes that any resolution of these proceedings will not have a material adverse effect on its financial condition or results of operations.

**8. New Accounting Pronouncements**

In June 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2011-05, which is an update to Topic 220, Comprehensive Income . The update eliminates the option of presenting the components of other comprehensive income as part of the statement of changes in stockholders' equity. Instead, comprehensive income must be reported in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 is effective for all annual reporting periods, and interim periods within those annual periods, beginning after December 15, 2011, and is not expected to have a material impact on the Company's consolidated financial statements.

## **Table of Contents**

### **ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto included in Item 1 of this Quarterly Report on Form 10-Q. Unless specified to the contrary, all information herein is reported as of January 11, 2012, which was the end of our most recently completed fiscal quarter.

#### **FORWARD-LOOKING STATEMENTS**

Certain statements made in this report, and other written or oral statements made by us or on our behalf, may constitute forward-looking statements within the meaning of the federal securities laws. Statements regarding future events and developments and our future performance, as well as management's expectations, beliefs, plans, estimates or projections related to the future, are forward-looking statements within the meaning of these laws. These forward-looking statements include and may be indicated by words or phrases such as anticipate, estimate, plans, expects, projects, should, will, believes or intends and similar words and phrases.

All forward-looking statements, as well as our business and strategic initiatives, are subject to certain risks and uncertainties that could cause actual results to differ materially from expected results. Management believes that these forward-looking statements are reasonable. However, you should not place undue reliance on such statements. These statements are based on current expectations and speak only as of the date of such statements. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of future events, new information or otherwise. Additional information concerning the risks and uncertainties and other factors that you may wish to consider are described in Item 1A: Risk Factors in our Annual Report on Form 10-K for the fiscal year ended June 29, 2011, in Part II, Item 1A: Risk Factors in this report and elsewhere in our filings with the Securities and Exchange Commission. A number of factors, many of which are described in Item 1A: Risk Factors in the Form 10-K, could cause our actual results to differ materially from the expected results described in our forward-looking statements.

#### **OVERVIEW**

During the 16 and 28 weeks ending January 11, 2012, our sales were impacted positively by inflation and sustainable merchandising and marketing initiatives and were impacted negatively by competitive activity and other general market factors. As a result, our net sales increased 2.3% and 2.7% for the 16 and 28 weeks ended January 11, 2012, respectively, as compared to the corresponding periods in the prior fiscal year.

Our identical store sales increased 2.5% and 2.9% for the second quarter and year-to-date periods of fiscal 2012, respectively, as compared to the same period in the prior fiscal year, due primarily to a pass-through of inflationary price increases in certain categories, and to increases in sales from our fuelperks!® rewards program, computer generated ordering initiatives, and our remodeled stores. The increases were partially offset by competitive activity and other general market factors, and the continued mix shift from brand name pharmaceutical products to generics.

**Table of Contents**

Our gross profit as a percentage of net sales for the second quarter of fiscal 2012 was 40 basis points lower than the same period in the prior fiscal year due to increased charges related to pricing and promotional programs.

Our gross profit as a percentage of net sales for the year-to-date period of fiscal 2012 was 20 basis points lower than the same period in the prior fiscal year due to increased charges related to pricing and promotional programs and a higher LIFO charge offset by decreases in other costs, including warehouse costs and inventory shrink.

Operating and administrative expenses increased \$4.8 million for the 16 and 28 weeks ended January 11, 2012, as compared to the same periods in the prior fiscal year. These increases were due primarily to increases in merger related costs, payroll and payroll-related costs and depreciation offset by the payment from the Gulf Coast Claims Facility ( GCCF ) established by BP Exploration & Production, Inc. ( BP ) for damages suffered as a result of the Deepwater Horizon Oil Spill on April 20, 2010.

On December 16, 2011, we entered into the Merger Agreement with the Acquiring Parties pursuant to which each issued and outstanding share of common stock of the Company (other than any shares owned by the Company, the Acquiring Parties or any of their respective subsidiaries) will be cancelled and will be converted automatically into the right to receive \$9.50 per share in cash, without interest. See Note 2 of Notes to Consolidated Financial Statements for information related to this merger.

**Table of Contents****RESULTS OF OPERATIONS****Continuing Operations***(Dollar amounts in millions)*

|  | 16 Weeks Ended   |                  | Increase<br>(Decrease) | %     |
|--|------------------|------------------|------------------------|-------|
|  | Jan. 11,<br>2012 | Jan. 12,<br>2011 |                        |       |
| Net sales  | \$ 2,143         | 2,095            | 48                     | 2.3%  |
| Other revenue  | (13)             | (16)             | 3                      |       |
| Sales in new and closed stores                                       |                  | (2)              | 2                      |       |
| Identical store sales  | \$ 2,130         | 2,077            | 53                     | 2.5%  |
| Basket size (average sales per guest visit on identical store sales) |                  |                  |                        | 4.2%  |
| Transaction count (number of guest visits on identical store sales)  |                  |                  |                        | -1.6% |
| Gross profit on net sales  | \$ 585           | 580              | 5                      | 0.9%  |
| % of net sales   | 27.3%            | 27.7%            | -0.4%                  |       |
| Operating and administrative expenses                                | \$ 602           | 597              | 5                      | 0.8%  |
| % of net sales   | 28.1%            | 28.5%            | -0.4%                  |       |

*(Dollar amounts in millions)*

|  | 28 Weeks Ended   |                  | Increase<br>(Decrease) | %     |
|--|------------------|------------------|------------------------|-------|
|  | Jan. 11,<br>2012 | Jan. 12,<br>2011 |                        |       |
| Net sales  | \$ 3,734         | 3,637            | 97                     | 2.7%  |
| Other revenue  | (23)             | (27)             | 4                      |       |
| Sales in new and closed stores                                       | (1)              | (3)              | 2                      |       |
| Identical store sales  | \$ 3,710         | 3,607            | 103                    | 2.9%  |
| Basket size (average sales per guest visit on identical store sales) |                  |                  |                        | 4.7%  |
| Transaction count (number of guest visits on identical store sales)  |                  |                  |                        | -1.8% |
| Gross profit on net sales  | \$ 1,023         | 1,004            | 19                     | 1.9%  |
| % of net sales   | 27.4%            | 27.6%            | -0.2%                  |       |
| Operating and administrative expenses                                | \$ 1,062         | 1,057            | 5                      | 0.5%  |
| % of net sales   | 28.4%            | 29.1%            | -0.7%                  |       |

*Net sales.* Net sales for the 16 and 28 weeks ended January 11, 2012, increased as compared to the same period in the prior fiscal year due primarily to the increase in identical store sales. We define identical store sales as sales from continuing operations stores, including stores that we remodeled or enlarged during the period and excluding stores that opened or closed during the period.

**Table of Contents**

Our identical store sales for the 16 and 28 weeks ended January 11, 2012, were impacted positively by the pass-through of inflationary price increases in certain categories, and by increases in sales from our fuelperks!® rewards program, computer generated ordering initiatives, and our remodeled stores. Identical store sales were impacted negatively by competitive activity and other general market factors, and the continued mix shift from brand name pharmaceutical products to generics.

*Gross Profit on Net Sales.* Gross profit as a percentage of net sales for the 16 weeks ended January 11, 2012, decreased as compared to the same period in the prior fiscal year due primarily to increased charges related to pricing and promotional programs (40 basis points).

Gross profit as a percentage of net sales for the 28 weeks ended January 11, 2012, decreased as compared to the same period in the prior fiscal year due primarily to pricing and promotional programs (30 basis points) and a higher LIFO charge (10 basis points), offset by decreases in other costs, including warehouse costs and inventory shrink (20 basis points).

*Operating and Administrative Expenses.* The table below details the changes in operating and administrative expenses for the 16 and 28 weeks ended January 11, 2012, as compared to the same period in the prior fiscal year (in millions):

|                                      | 16 weeks ended<br>January 11, 2012 | 28 weeks ended<br>January 11, 2012 |
|--------------------------------------|------------------------------------|------------------------------------|
| <b>Increase (decrease):</b>          |                                    |                                    |
| Merger related costs                 | \$ 5.0                             | 5.0                                |
| Payroll and payroll-related expenses | 3.5                                | 2.1                                |
| Depreciation                         | 1.8                                | 2.1                                |
| Other, net                           | (0.4)                              | 0.7                                |
| Gulf Coast oil spill payment         | (5.1)                              | (5.1)                              |
|                                      | \$ 4.8                             | 4.8                                |

Operating and administrative expenses increased during the 16 and 28 weeks ended January 11, 2012, as compared to the same periods in the prior fiscal year, due primarily to increases in merger related costs, payroll and payroll-related costs and depreciation offset by the payment from the GCCF established by BP for damages suffered as a result of the Deepwater Horizon Oil Spill on April 20, 2010.

*Impairment Charges.* Impairment charges related to store facilities of \$0.5 million were recorded during both the 16 and 28 weeks ended January 11, 2012. Impairment charges related to store facilities of \$4.2 million were recorded during both the 16 and 28 weeks ended January 12, 2011. See Part I, Item 1, Note 4 for further discussion of impairment charges.

*Interest Expense, Net.* Interest expense is primarily interest related to our credit facility and capital leases, offset by interest income. Interest expense, net remained relatively unchanged for the 16 and 28 weeks ended January 11, 2012, as compared to the same periods in the prior fiscal year. Interest expense, net for the 16 weeks ended January 11, 2012, and January 12, 2011, was \$1.7 million and \$2.0 million, respectively and \$3.6 million and \$3.2 million for the 28 weeks ended January 11, 2012, and January 12, 2011, respectively.

## **Table of Contents**

*Income Taxes.* We had no income tax for the 16 and 28 weeks ended January 11, 2012. Income tax benefit was \$0.8 million and \$2.0 million for the 16 and 28 weeks ended January 12, 2011, respectively. The benefit reflected our ability to carry back certain net operating losses and certain refundable credits. Beginning in fiscal 2012, we have no further ability to carry back net operating losses.

We maintain a full valuation allowance against substantially all of our net deferred tax assets. The valuation allowance will be maintained until there is sufficient positive evidence to conclude that it is more likely than not that the net deferred tax assets will be realized.

As of January 11, 2012, we had net operating loss carryforwards ( NOLs ) for federal income tax purposes of approximately \$745.7 million that will begin to expire in fiscal 2025.

## **Discontinued Operations**

In evaluating whether store closures qualify for discontinued operations classification, we consider each store to be a component of a business, as this is the lowest level at which the operations and cash flows can be clearly distinguished, operationally and for financial reporting purposes. If the cash flows of a store to be exited will not be significant to our ongoing operations and cash inflows of our nearby stores are not expected to increase significantly because of the exit, the results of operations of the store are reported in discontinued operations. Costs incurred to dispose of a location are included in gain (loss) on disposal of discontinued operations only if the location qualifies for discontinued operations classification; otherwise, such costs are reported as continuing operations.

The Company closed one non-remodeled, underperforming store during the 28 weeks ended January 11, 2012. During the 28 weeks ended January 12, 2011, the Company closed 30 non-remodeled, underperforming stores.

Results of operations for the 31 closed stores were classified as discontinued operations. Net sales from discontinued operations for the 16 and 28 weeks ended January 11, 2012, were \$0.0 million and \$2.2 million, respectively. Net sales from discontinued operations for the 16 and 28 weeks ended January 12, 2011, were \$4.0 million and \$54.2 million, respectively.

**Table of Contents**

The following summarizes the costs included in gain (loss) on disposal of discontinued operations:

|                                     | Jan. 11, 2012         | Jan. 11, 2012        |
|-------------------------------------|-----------------------|----------------------|
|                                     | <b>16 weeks ended</b> |                      |
|                                     | <b>Jan. 11, 2012</b>  | <b>Jan. 12, 2011</b> |
| Gain (loss) on sale/retirement, net | \$ 98                 | (68)                 |
| Lease termination gain (loss)       | 496                   | (362)                |
| Other location closing costs        | (56)                  | (265)                |
| Net gain (loss) on disposal         | \$ 538                | (695)                |

  

|                               | Jan. 11, 2012         | Jan. 11, 2012        |
|-------------------------------|-----------------------|----------------------|
|                               | <b>28 weeks ended</b> |                      |
|                               | <b>Jan. 11, 2012</b>  | <b>Jan. 12, 2011</b> |
| Gain on sale/retirement, net  | \$ 321                | 8,351                |
| Lease termination gain (loss) | 1,004                 | (33,860)             |
| Other location closing costs  | (105)                 | (3,473)              |
| Net gain (loss) on disposal   | \$ 1,220              | (28,982)             |

**LIQUIDITY AND CAPITAL RESOURCES****Summary**

As of January 11, 2012, we had \$523.2 million of liquidity, comprised of \$393.5 million of borrowing availability under the Credit Agreement (defined below) and \$129.7 million of cash and cash equivalents. We anticipate our capital expenditures for the remainder of fiscal 2012 will be funded substantially by cash flows from operations, working capital improvements, and cash and cash equivalents on hand. Based on anticipated cash flow from operations and borrowing availability, we believe that we will have sufficient resources beyond fiscal 2012 to operate our business and fund capital expenditures.

**Credit Agreement**

On March 18, 2011, Winn-Dixie Stores, Inc., and certain of our subsidiaries entered into a Second Amended and Restated Credit Agreement (Credit Agreement). The Credit Agreement provides for a \$600.0 million (Maximum Credit) senior secured revolving credit facility, of which a maximum of \$300.0 million may be utilized for letters of credit. The Credit Agreement matures March 18, 2016, at which time all principal amounts then outstanding under the agreement will be due and payable. At our request, under certain conditions the facility may be increased by up to \$100.0 million. Obligations under the Credit Agreement are guaranteed by certain of our subsidiaries and are secured by senior liens on substantially all of our assets. Debt issuance costs of \$9.0 million are being amortized over the term of the Credit Agreement. This Form 10-Q contains only a general description of the terms of the Credit Agreement and is qualified in its entirety by reference to the full Credit Agreement (filed as Exhibit 10.1 to the Form 8-K filed on March 21, 2011). The following capitalized terms have specific meanings as defined in the Credit Agreement: Agent, Borrowing Base, Minimum Excess Availability, Maximum Credit and Reserves.

**Table of Contents**

We had no material borrowings on the Credit Agreement, other than fees charged by the lender, during the 28 weeks ended January 11, 2012.

Borrowing availability was \$393.5 million as of January 11, 2012, as summarized below (in thousands):

|                               | January 11, 2012  |
|-------------------------------|-------------------|
| Borrowing Base <sup>1</sup>   | \$ 558,823        |
| Outstanding letters of credit | (109,491)         |
| Minimum Excess Availability   | (55,882)          |
| Outstanding borrowings        |                   |
| <b>Borrowing availability</b> | <b>\$ 393,450</b> |

<sup>1</sup> The lesser of the value of collateral or the Maximum Credit net of Reserves.

As shown in the table above, the Borrowing Base under the Credit Facility is determined net of Reserves, which are subject to revision by the Agent to reflect events or circumstances that adversely affect the value of the Borrowing Base assets. Accordingly, a determination by the Agent to increase Reserves would reduce availability.

As of January 11, 2012, letters of credit totaling \$109.5 million were issued under the Credit Agreement. Outstanding letters of credit related primarily to insurance programs including workers' compensation.

**Historical Cash Flow Data**

The table below sets forth certain Condensed Consolidated Statements of Cash Flows data for the 28 weeks ended January 11, 2012, and January 12, 2011 (in thousands):

|                      | 28 weeks ended   |                  |
|----------------------|------------------|------------------|
|                      | January 11, 2012 | January 12, 2011 |
| Cash used in:        |                  |                  |
| Operating activities | \$ (6,762)       | (6,003)          |
| Investing activities | (67,875)         | (34,328)         |
| Financing activities | (3,433)          | (3,434)          |

*Operating Activities.* Net cash used in operating activities for the 28 weeks ended January 11, 2012, was due primarily to changes in working capital. Net cash used in operating activities for the 28 weeks ended January 12, 2011, was due primarily to operating losses from both continuing and discontinued operations and changes in working capital items.

*Investing Activities.* For the 28 weeks ended January 11, 2012, net cash used in investing activities was due primarily to capital expenditures, including our store-remodeling program. For the 28 weeks ended January 12, 2011, net cash used in investing activities was due primarily to capital expenditures, including our store-remodeling program. In addition, we received \$9.8 million in proceeds from sales of pharmacy prescription files related to the discontinued operations stores during the 28 weeks ended January 12, 2011.



**Table of Contents**

*Financing Activities.* For the 28 weeks ended January 11, 2012, and January 12, 2011, net cash used in financing activities was due primarily to payments on capital leases offset by increases in book overdrafts.

*Capital Expenditures.* In fiscal 2012, we expect capital expenditures to total approximately \$165.0 million, a reduction of \$35 million from our prior quarter estimate. Approximately \$90.0 million is for our store-remodeling program and new stores. We anticipate spending approximately \$75.0 million on other capital expenditures, including retail store maintenance, information technology, and other projects.

**CRITICAL ACCOUNTING ESTIMATES**

Our critical accounting estimates for the second quarter of fiscal 2012 are consistent with those included in our Annual Report on Form 10-K for the fiscal year ended June 29, 2011.

**Table of Contents**

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

As of January 11, 2012, we had no derivative instruments that increased our exposure to market risks for interest rates, foreign currency rates, commodity prices or other market price risks. We do not use derivatives for speculative purposes. Our current exposure to market risks results primarily from changes in interest rates, principally with respect to our Credit Agreement, which is a variable rate financing agreement. As of January 11, 2012, we had no borrowing outstanding under the Credit Agreement. We currently do not use swaps or other interest rate protection agreements to hedge this risk.

**Item 4. Controls and Procedures**

***Evaluation of Disclosure Controls and Procedures***

As of January 11, 2012, the Chief Executive Officer and the Chief Financial Officer, together with a disclosure review committee appointed by the Chief Executive Officer, evaluated the Company's disclosure controls and procedures. Based on the evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of January 11, 2012, the Company's disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the Exchange Act) and are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

***Changes in Internal Control over Financial Reporting***

There were no changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended January 11, 2012, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents**

**Part II - Other Information**

**Item 1. Legal Proceedings**

See Part I, Item 1, Note 7 for a discussion of legal proceedings.

**Item 1A. Risk Factors**

The risks described in Item 1A, Risk Factors, in our Annual Report on Form 10-K for the fiscal year ended June 29, 2011, could materially and adversely affect our business, financial condition and results of operations. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended June 29, 2011, except as mentioned below. Additional information concerning those risks and uncertainties and other factors that you may wish to consider are contained elsewhere in our filings with the Securities and Exchange Commission.

**Risks Related to the Planned Merger:**

**The closing of the merger with a subsidiary of BI-LO, LLC, is subject to customary closing conditions.**

The closing of the merger with a subsidiary of BI-LO, LLC, is subject to customary closing conditions, including, among others, approval by the Company's shareholders, the absence of a Company material adverse effect since the date of the Merger Agreement and absence of any order or injunction prohibiting the consummation of the merger. The timing of the closing of the merger is subject to factors beyond our control. While we expect to complete the merger shortly following the special shareholder meeting scheduled for March 9, 2012, the closing of the merger may not be completed by such time or at all.

**Failure to complete the merger could negatively impact the market price of our common stock and our future business and financial results.**

Failure to complete the merger with a subsidiary of BI-LO, LLC, could negatively impact the market price of our common stock to the extent that the current market price reflects an assumption that the merger will be completed. In addition, such failure could negatively impact our future business and financial results because of, among other things, the disruption that could occur as a result of uncertainties relating to a failure to complete the merger and the potential inability to recover certain transaction costs related to the merger, including a \$19.6 million termination fee that could be payable by the Company under certain conditions. In addition, the attention of our management will have been diverted to the merger instead of our operations and pursuit of other opportunities that could have been beneficial to us.

**The merger could negatively impact our current and future business and financial results.**

The Merger Agreement contains customary representations and warranties of the Company. The merger agreement also contains customary covenants and agreements, including covenants relating to (a) the conduct of the Company's business between the date of the signing of the Merger Agreement and the closing of the merger, (b) non-solicitation of competing acquisition proposals and (c) the efforts of the parties to cause the merger to be completed.

## **Table of Contents**

Compliance with the covenants outlined in the Merger Agreement could restrict our ability to operate the business or result in our failure to pursue other opportunities which could be beneficial to our business in the future, should the merger not be completed. Furthermore, management's efforts may be focused on completing the merger and diverted from the operation of the business.

**The announcement of the merger could have a negative impact on our ability to retain and, if necessary, attract key employees, which could in turn have an unfavorable impact on our financial results.**

Our success depends significantly on the continued contributions of key employees. The loss of a key employee or the inability to attract and retain experienced employees could harm our operating results. Employees may experience uncertainty about their future roles with the combined company until or after strategies for the combined company are announced or executed. These circumstances may adversely affect our ability to retain key personnel.

**Litigation has commenced against us in connection with the planned merger with a subsidiary of BI-LO, LLC.**

A total of eight complaints challenging the merger have been filed by plaintiffs seeking to represent a class of the Company's shareholders. Seven complaints have been filed in the Circuit Court of the Fourth Judicial District in and for Duval County, Florida, and one case filed in the United States District Court for the Middle District of Florida. The cases filed in state court have been consolidated, a Lead Plaintiff appointed, and the Lead Plaintiff has filed an amended complaint.

The plaintiffs in the consolidated case pending in state court and in the case pending in federal court generally allege, among other things, that the consideration agreed to in the merger agreement is inadequate and unfair to the Company's shareholders, that the proxy statement contains materially misleading disclosures or omissions regarding the proposed transaction, and that the members of the Company's Board of Directors breached their fiduciary duties in approving the merger agreement and issuing the proxy statement. The plaintiffs also allege that those alleged breaches of fiduciary duty were aided and abetted by the Company and the entities affiliated with BI-LO, LLC, named in the various complaints. The plaintiffs seek equitable relief, including an injunction prohibiting consummation of the merger, and rescission or rescissory damages if the merger is consummated. The defendants' responses to these complaints are not yet due. Based on the facts known to date, we believe the claims to be without merit and intend to defend them vigorously, including opposing any efforts to enjoin the proposed transaction. The cost of defending such lawsuit could have an adverse impact on our financial results.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

### **Item 3. Defaults Upon Senior Securities**

Not applicable.

**Table of Contents**

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Table of Contents****Item 6. Exhibits**

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>  | <b>Incorporated by Reference From</b>  |
|-----------------------|--|--|
| 2.1                   | Order Confirming Joint Plan of Reorganization of Winn-Dixie Stores, Inc. and Affiliated Debtors entered November 9, 2006.  | Previously filed as Exhibit 99.2 to Form 8-K on November 15, 2006, which Exhibit is herein incorporated by reference.          |
| 2.2                   | Agreement and Plan of Merger, dated as of December 16, 2011, by and among Opal Holdings, LLC, Opal Merger Sub, Inc. and Winn-Dixie Stores, Inc.  | Previously filed as Exhibit 2.1 to Form 8-K on December 19, 2011, which Exhibit is herein incorporated by reference.           |
| 3.1                   | Amended and Restated Certificate of Incorporation of Winn-Dixie Stores, Inc.   | Previously filed as Exhibit 3.1 to Form 8-A/A on November 21, 2006, which Exhibit is herein incorporated by reference.         |
| 3.2                   | Amended and Restated By-Laws of Winn-Dixie Stores, Inc.  | Previously filed as Exhibit 3.1 to Form 8-K on November 12, 2008, which Exhibit is herein incorporated by reference.           |
| 10.1                  | Winn-Dixie Stores, Inc. Fiscal 2012 Equity Incentive Plan.   | Previously filed as Appendix A to the Company's proxy statement on September 27, 2011, which herein incorporated by reference. |
| 10.2                  | Forms of equity award agreements under the Winn-Dixie Stores, Inc. Fiscal 2012 Equity Incentive Plan: (1) Form of Time-Vested Non-Qualified Stock Option Award; (2) Form of Time-Vested Restricted Stock Unit Award; (3) Form of Performance-Based Restricted Stock Unit Award; and (4) Form of Restricted Stock Unit Award for Directors. |  |
| 10.3                  | Executive Retention Bonus Agreement dated January 11, 2012, between BI-LO Holding, LLC, and Peter L. Lynch.  | Previously filed as Exhibit 10.1 to Form 8-K on January 13, 2012, which Exhibit is herein incorporated by reference.           |
| 10.4                  | Post-Closing Employment Agreement by and between BI-LO Holding, LLC, and Bennett L. Nussbaum dated January 25, 2012.   | Previously filed as Exhibit 10.1 to Form 8-K on January 27, 2012, which Exhibit is herein incorporated by reference.           |
| 31.1                  | Certification of the 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 Chief Executive Officer pursuant to 18 U.S.C. Section 1350.   |  |

**Table of Contents**

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>   | <b>Incorporated by Reference From</b> |
|-----------------------|---|---------------------------------------|
| 32.2                  | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350.  |                                       |
| 101                   | The following financial information from the Company's Quarterly Report on Form 10-Q, for the period ended January 11, 2012, formatted in eXtensible Business Reporting Language: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Cash Flows, (iv) Notes to Condensed Consolidated Financial Statements (1) |                                       |

- (1) Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in these exhibits are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

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.

WINN-DIXIE STORES, INC.

Date: February 21, 2012

/s/ BENNETT L. NUSSBAUM  
**Bennett L. Nussbaum**  
*Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer and  
Duly Authorized Officer)*

Date: February 21, 2012

/s/ D. MICHAEL BYRUM  
**D. Michael Byrum**  
*Vice President, Corporate Controller  
and Chief Accounting Officer  
(Principal Accounting Officer)*



**Table of Contents****EXHIBIT INDEX**

| <b>Exhibit Number</b> | <b>Description of Exhibit</b>  | <b>Incorporated by Reference From</b>  |
|-----------------------|--|--|
| 2.1                   | Order Confirming Joint Plan of Reorganization of Winn-Dixie Stores, Inc. and Affiliated Debtors entered November 9, 2006.  | Previously filed as Exhibit 99.2 to Form 8-K on November 15, 2006, which Exhibit is herein incorporated by reference.          |
| 2.2                   | Agreement and Plan of Merger, dated as of December 16, 2011, by and among Opal Holdings, LLC, Opal Merger Sub, Inc. and Winn-Dixie Stores, Inc.  | Previously filed as Exhibit 2.1 to Form 8-K on December 19, 2011, which Exhibit is herein incorporated by reference.           |
| 3.1                   | Amended and Restated Certificate of Incorporation of Winn-Dixie Stores, Inc.   | Previously filed as Exhibit 3.1 to Form 8-A/A on November 21, 2006, which Exhibit is herein incorporated by reference.         |
| 3.2                   | Amended and Restated By-Laws of Winn-Dixie Stores, Inc.  | Previously filed as Exhibit 3.1 to Form 8-K on November 12, 2008, which Exhibit is herein incorporated by reference.           |
| 10.1                  | Winn-Dixie Stores, Inc. Fiscal 2012 Equity Incentive Plan.   | Previously filed as Appendix A to the Company's proxy statement on September 27, 2011, which herein incorporated by reference. |
| 10.2                  | Forms of equity award agreements under the Winn-Dixie Stores, Inc. Fiscal 2012 Equity Incentive Plan: (1) Form of Time-Vested Non-Qualified Stock Option Award; (2) Form of Time-Vested Restricted Stock Unit Award; (3) Form of Performance-Based Restricted Stock Unit Award; and (4) Form of Restricted Stock Unit Award for Directors. |  |
| 10.3                  | Executive Retention Bonus Agreement dated January 11, 2012, between BI-LO Holding, LLC, and Peter L. Lynch.  | Previously filed as Exhibit 10.1 to Form 8-K on January 13, 2012, which Exhibit is herein incorporated by reference.           |
| 10.4                  | Post-Closing Employment Agreement by and between BI-LO Holding, LLC, and Bennett L. Nussbaum dated January 25, 2012.   | Previously filed as Exhibit 10.1 to Form 8-K on January 27, 2012, which Exhibit is herein incorporated by reference.           |
| 31.1                  | Certification of the 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 Chief Executive Officer pursuant to 18 U.S.C. Section 1350.   |  |

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