

OCCIDENTAL PETROLEUM CORP /DE/
 Form 424B5
 June 19, 2015
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 Registration No. 333-205047

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Security	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(1)
3.500% Senior Notes due 2025	\$750,000,000	99.742%	\$748,065,000	\$86,926
4.625% Senior Notes due 2045	\$750,000,000	98.929%	\$741,967,500	\$86,217

(1) Calculated in accordance with Rule 456(b) and Rule 457(r) under the Securities Act of 1933.

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Prospectus Supplement

(To Prospectus dated June 18, 2015)

\$1,500,000,000

\$750,000,000 3.500% Senior Notes due 2025

\$750,000,000 4.625% Senior Notes due 2045

We are offering \$750,000,000 aggregate principal amount of our 3.500% senior notes due 2025 and \$750,000,000 aggregate principal amount of our 4.625% senior notes due 2045.

In this prospectus supplement, we refer to the 3.500% senior notes due 2025 as the 2025 notes and the 4.625% senior notes due 2045 as the 2045 notes and the 2025 notes and the 2045 notes together as the notes. We will pay interest on the notes of each series semi-annually in arrears on June 15 and December 15 of each year, beginning December 15, 2015. The 2025 notes will mature on June 15, 2025 and the 2045 notes will mature on June 15, 2045. We may redeem some or all of the notes of either series at our option at any time and from time to time at the applicable redemption prices described under Description of the Notes Optional Redemption in this prospectus supplement.

The notes will be our unsecured senior obligations and will rank equally in right of payment with all of our other unsecured senior indebtedness from time to time outstanding. The notes will be issued only in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

Each series of notes is a new issue of securities with no established trading market. The notes will not be listed on any securities exchange.

Investing in the notes involves risks. Please read Risk Factors beginning on page S-6 of this prospectus supplement, on page 5 of the accompanying prospectus and other information included or incorporated by reference into this prospectus supplement and the accompanying prospectus.

	Proceeds, Before		
	Public Offering Price(1)	Underwriting Discount	Expenses, to Us

Per 2025 Note	99.742%	0.450%	99.292%
Total for 2025 Notes	\$ 748,065,000	\$ 3,375,000	\$ 744,690,000
Per 2045 Note	98.929%	0.750%	98.179%
Total for 2045 Notes	\$ 741,967,500	\$ 5,625,000	\$ 736,342,500

(1) Plus accrued interest, if any, from June 23, 2015.

Neither the U.S. Securities and Exchange Commission (the SEC) nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The notes will be delivered to investors on or about June 23, 2015 in book-entry form only through the facilities of The Depository Trust Company for the accounts of its participants, which may include Clearstream Banking S.A. and Euroclear Bank S.A./N.V., against payment in New York, New York.

Joint Book-Running Managers

BofA Merrill Lynch

Citigroup

J.P. Morgan

Wells Fargo Securities

Co-Managers

SOCIETE GENERALE

Barclays

BNY Mellon Capital Markets, LLC

HSBC

Mizuho Securities

Morgan Stanley

MUFG

Scotiabank

SMBC Nikko

Standard Chartered Bank

US Bancorp

PNC Capital Markets LLC

Lebenthal Capital Markets

June 18, 2015

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ABOUT THIS PROSPECTUS SUPPLEMENT

You should rely only on the information contained or incorporated by reference into this prospectus supplement and the accompanying prospectus and any applicable free writing prospectuses. We have not, and the underwriters have not, authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement, the accompanying prospectus and any applicable free writing prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in this prospectus supplement or an offer to sell or the solicitation of an offer to buy those securities in any circumstances or jurisdiction in which such offer or solicitation is unlawful. The information contained in this prospectus supplement and the accompanying prospectus is accurate only as of the respective dates on the front covers of this prospectus supplement and the accompanying prospectus, the information contained in any related free writing prospectus will be accurate only as of the date of that document, and the information contained in any document incorporated by reference into this prospectus supplement is accurate only as the date of such document. Our business, financial condition, results of operations and prospects may have changed since those respective dates.

Unless otherwise expressly stated or the context otherwise requires, references to dollars, \$ and other similar references in this prospectus supplement, the accompanying prospectus and any related free writing prospectuses are to U.S. dollars. Unless otherwise expressly stated or the context otherwise requires, the words Occidental, we, us and our as used in this prospectus supplement refer to Occidental Petroleum Corporation and its subsidiaries. However, in the Description of the Notes section of this prospectus supplement, references to Occidental, we, us and our are Occidental Petroleum Corporation only and not to any of its subsidiaries.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein contain forward-looking statements and involve risks and uncertainties that could materially affect expected results of operations, liquidity, cash flows and business prospects. Factors that could cause results to differ materially include, but are not limited to:

global and local commodity pricing fluctuations;

supply and demand considerations for Occidental's products;

higher-than-expected costs;

the regulatory approval environment;

reorganization or restructuring of Occidental's operations;

not successfully completing, or any material delay of, field developments, expansion projects, capital expenditures, efficiency projects, acquisitions or dispositions;

lower-than-expected production from development projects or acquisitions;

exploration risks;

general economic slowdowns domestically or internationally;

governmental actions and political conditions and events;

liability under environmental regulations including remedial actions;

litigation;

disruption or interruption of production or manufacturing or facility damage due to accidents, chemical releases, labor unrest, weather, natural disasters, cyber-attacks or insurgent activity;

failure of risk management;

changes in law or regulations; and

changes in tax rates.

Words such as estimate, project, predict, will, would, should, could, may, might, anticipate, plan, expect, aim, goal, target, objective, likely or similar expressions that convey the prospective nature of events and outcomes generally indicate forward-looking statements. You should not place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus supplement or, in the case of documents incorporated by reference, as of the date of those documents. Unless legally required, we do not undertake any obligation to update any forward-looking statements, as a result of new information, future events or otherwise. Certain risks that may affect our results of operations and financial position appear under the heading "Risk Factors" and elsewhere in our most recent Annual Report on Form 10-K, which is incorporated herein by reference, as well as in any of our subsequently filed quarterly or current reports that are incorporated in this prospectus supplement and the accompanying prospectus.

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PROSPECTUS SUMMARY

This summary highlights selected information contained or incorporated by reference in this prospectus supplement or accompanying prospectus. It does not contain all of the information you should consider before making an investment decision. You should read the entire prospectus supplement, the accompanying prospectus, the documents incorporated by reference and the other documents to which we refer for a more complete understanding of our business and this offering. Please read the section entitled Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014, which is incorporated by reference in this prospectus supplement, for more information about important factors you should consider before you make your investment decision.

Occidental

Our principal businesses consist of three segments operated by our subsidiaries and affiliates. The oil and gas segment explores for, develops and produces oil and condensate, natural gas liquids (NGLs) and natural gas. The chemical segment mainly manufactures and markets basic chemicals and vinyls. The midstream, marketing and other segment (the midstream and marketing segment) gathers, processes, transports, stores, purchases and markets oil, condensate, NGLs, natural gas, carbon dioxide and power. It also trades around its assets, including transportation and storage capacity, and trades oil, NGLs, gas and power. Additionally, the midstream and marketing segment invests in entities that conduct similar activities. Our principal executive offices are located at 5 Greenway Plaza, Suite 110, Houston, Texas 77046, telephone (713) 215-7000.

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The Offering

Issuer	Occidental Petroleum Corporation.
Securities offered	\$750,000,000 aggregate principal amount of 3.500% Senior Notes due 2025 (the 2025 notes) and \$750,000,000 aggregate principal amount of 4.625% Senior Notes due 2045 (the 2045 notes and, together with the 2025 notes, the notes). The notes will be issued in minimum denominations of \$2,000 and integral multiples of \$1,000 in excess of \$2,000. We may from time to time, without the consent of the holders of the notes of any series, reopen the 2025 notes or the 2045 notes or both and issue additional notes of such series.
Maturity date	The 2025 notes will mature on June 15, 2025. The 2045 notes will mature on June 15, 2045.
Interest	Interest will accrue on the 2025 notes at 3.500% per year and interest will accrue on the 2045 notes at 4.625% per year. Interest will accrue on each series of the notes from June 23, 2015.
Interest payment dates	Interest on the notes of each series will be paid semi-annually in arrears on June 15 and December 15 of each year, beginning on December 15, 2015.
Use of proceeds	<p>We estimate that, after deducting the underwriting discounts and estimated offering expenses payable by us, our net proceeds from this offering will be approximately \$1,478 million.</p> <p>We intend to use the net proceeds of this offering for general corporate purposes. Please see Use of Proceeds.</p>
Risk factors	See Risk Factors beginning on page S-6 of this prospectus supplement and Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2014 for a discussion of the risk factors you should carefully consider before you make your investment.
Indenture	We will issue each series of the notes as a new series of debt securities under the indenture (the indenture) dated as of August 18, 2011, between

us and The Bank of New York Mellon Trust Company, N.A., as trustee.

Ranking

The notes will:

be senior unsecured obligations;

rank equally in right of payment with all of our other existing and future senior indebtedness that is not specifically subordinated to the notes;

be effectively subordinated to any of our future secured indebtedness;
and

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be effectively subordinated to all existing and future indebtedness and other liabilities, including trade payables, of our subsidiaries.

Optional redemption

We may redeem all or any part of the 2025 notes at any time prior to March 15, 2025 at the make-whole redemption price specified under Description of the Notes Optional Redemption. On or after March 15, 2025, we may redeem all or any part of the 2025 notes at a redemption price of 100% of their principal amount thereof plus accrued and unpaid interest to the date of redemption.

We may redeem all or any part of the 2045 notes at any time prior to December 15, 2044 at the make-whole redemption price specified under Description of the Notes Optional Redemption. On or after December 15, 2044, we may redeem all or any part of the 2045 notes at a redemption price of 100% of their principal amount plus accrued and unpaid interest to the date of redemption.

Form, delivery and clearance

The notes of each series will be represented by one or more global notes registered in the name of The Depository Trust Company, referred to as the Depository, or its nominee. Beneficial interests in the notes will be evidenced by, and transfers thereof will be effected only through, records maintained by participants in the Depository.

Trustee

The Bank of New York Mellon Trust Company, N.A.

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RISK FACTORS

Investing in the notes involves risks. Before you invest in the notes, you should carefully consider the following risk factors, in addition to the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. Specifically, please see Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2014 and the other information in that and the other reports that we file with the SEC that are incorporated by reference in this prospectus supplement or the accompanying prospectus for a discussion of risk factors that may affect our business.

Risks Related to the Notes

The notes will be effectively subordinated to the indebtedness and other liabilities of our subsidiaries.

Substantially all of our operations are conducted through our subsidiaries. None of our subsidiaries is a guarantor of the notes. As a result, our right to receive assets upon the liquidation or recapitalization of any of our subsidiaries, and your consequent right to benefit from our receipt of those assets, will be subject to the claims of such subsidiary's creditors. Accordingly, the notes are effectively subordinated to all indebtedness and other liabilities, including trade payables, of our subsidiaries. Even if we were recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in or other liens on the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims.

In addition, we derive substantially all of our revenues from our subsidiaries. As a result, our cash flow and our ability to service our debt and other obligations, including the notes, will depend on the results of operations of our subsidiaries and upon the ability of our subsidiaries to provide us with cash to pay amounts due on our obligations, including the notes. Our subsidiaries are separate and distinct legal entities and have no obligation to make payments on the notes or to make funds available to us for that purpose. In addition, dividends, loans or other distributions from our subsidiaries to us are dependent upon results of operations of our subsidiaries, may be subject to contractual and other restrictions, may be subject to tax or other laws limiting our ability to repatriate funds from foreign subsidiaries and may be subject to other business considerations.

The notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we may incur.

The notes will not be secured by any of our assets. As a result, the notes will be effectively subordinated to any secured debt we or our subsidiaries may incur to the extent of the value of the assets securing such debt. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our secured debt and the secured debt of our subsidiaries may assert rights against the assets pledged to secure that debt in order to receive full payment of their debt before the assets may be used to pay other creditors, including the holders of the notes.

Our credit ratings may not reflect all risks of an investment in the notes and there is no protection in the indenture for holders of the notes in the event of a ratings downgrade. A downgrade in our credit rating could negatively impact our cost of and ability to access capital.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due but they may not reflect the potential impact of all risks related to an investment in the notes. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the notes. Credit ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization in its sole discretion. We have no obligation to maintain the ratings and neither we nor any underwriter undertakes any

obligation to advise holders of notes of any change in ratings. Each agency's rating should be evaluated independently of any other agency's rating.

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We cannot assure you that our credit ratings will not be downgraded in the future. A downgrade in our credit ratings could negatively impact our cost of capital or our ability to effectively execute aspects of our strategy. If we were to be downgraded, it could be difficult for us to raise debt in the public debt markets and the cost of any new debt could be much higher than our outstanding debt.

The indenture does not limit the amount of indebtedness that we or our subsidiaries may incur.

The indenture does not limit our ability or that of our subsidiaries to incur additional indebtedness or contain provisions that would afford holders of the notes protection in the event of a decline in our credit quality or a take-over, recapitalization or highly leveraged or similar transaction. Accordingly, we and our subsidiaries could, in the future, enter into transactions that could increase the amount of indebtedness outstanding at that time or otherwise adversely affect your position in our consolidated capital structure or our credit ratings.

If an active trading market does not develop for either series of the notes, you may be unable to sell your notes or to sell your notes at a price that you deem sufficient.

Each series of notes is a new issue of securities with no established trading market, and we do not intend to list the notes on any securities exchange or automated quotation system. As a result, an active trading market for the notes may not develop, or if one does develop, it may not be sustained. If an active trading market fails to develop or cannot be sustained, you may not be able to resell your notes at their fair market value or at all.

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USE OF PROCEEDS

The net proceeds from this offering are expected to be approximately \$1,478 million, after deducting the underwriting discounts and our estimated offering expenses. We intend to use the net proceeds from the sale of the notes for general corporate purposes.

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DESCRIPTION OF THE NOTES

The 2025 notes and the 2045 notes will each constitute a separate series of senior debt securities under an indenture dated as of August 18, 2011 (the Senior Indenture), between us and The Bank of New York Mellon Trust Company, N.A., as trustee. We will issue the notes under an officers certificate pursuant to the Senior Indenture setting forth the specific terms applicable to such notes. References to the indenture in this description mean the Senior Indenture as so supplemented by such certificate.

The following description is a summary of some of the provisions of the notes and the indenture. This summary is not complete and is qualified in its entirety by reference to the indenture. You should carefully read the summary below, the description of the general terms and provisions of our senior debt securities set forth in the accompanying prospectus under the heading Description of Senior Debt Securities and the indenture before investing in the notes.

This description of the notes supplements and, to the extent it is inconsistent, replaces the description of the general provisions of the senior debt securities and the Senior Indenture in the accompanying prospectus. The notes are senior debt securities as that term is used in the accompanying prospectus and the trustee is referred to in the accompanying prospectus as the Senior Indenture Trustee. In this description, the term Securities refers to all senior debt securities that have been and may be issued under the Senior Indenture and includes the notes.

Description of the Notes

The notes are unsecured and will rank equally in right of payment with all of our other senior unsecured indebtedness. The indenture does not limit the aggregate principal amount of Securities that we may issue under the indenture and we may, without the consent of holders of outstanding Securities, issue additional Securities thereunder. In addition, the indenture does not limit the amount of other unsecured debt that we or our subsidiaries may issue or incur. Some of our outstanding senior debt that we issued under previous indentures has different terms than the notes (including different restrictive covenants and event of default provisions) and, as a result, certain events or circumstances that may constitute events of default with respect to that previously issued debt may not constitute an event of default under the indenture. The terms of the notes will only be as described in the indenture, the accompanying prospectus and this prospectus supplement. As of March 31, 2015, we had approximately \$6.8 billion of unsecured senior debt securities outstanding which ranked equally in right of payment with the notes.

Substantially all of our operations are conducted through our subsidiaries. None of our subsidiaries is a guarantor of the notes. As a result, our right to receive assets upon the liquidation or recapitalization of any of our subsidiaries, and your consequent right to benefit from our receipt of those assets, will be subject to the claims of such subsidiary's creditors. Accordingly, the notes are effectively subordinated to all indebtedness and other liabilities, including trade payables, of our subsidiaries. Even if we were recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in or other liens on the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims.

Principal, Maturity and Interest

The 2025 notes will be initially limited to \$750,000,000 aggregate principal amount, and the 2045 notes will be initially limited to \$750,000,000 aggregate principal amount. The 2025 notes will mature on June 15, 2025, and the 2045 notes will mature on June 15, 2045. We may, from time to time, without the consent of the holders of the notes of any series, reopen the 2025 notes or the 2045 notes or both and issue additional notes of such series.

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Interest on the 2025 notes will accrue at the rate of 3.500% per year, and interest on the 2045 notes will accrue at the rate of 4.625% per year. Interest on the notes of each series will be payable semi-annually in arrears on June 15 and December 15, commencing on December 15, 2015. We will make each interest payment to the holders of record of the notes at the close of business on the immediately preceding June 1 and December 1, respectively.

If any interest payment date, maturity date or redemption date for the 2025 notes or the 2045 notes falls on a day that is not a business day, the payment will be made on the next business day, and no interest will accrue on that payment for the period from and after such interest payment date, maturity date or redemption date until such following business day.

Interest on the 2025 notes and the 2045 notes will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Interest payable on any interest payment date or redemption date or on the maturity date of the 2025 notes or the 2045 notes shall be the amount of interest accrued from, and including, the immediately preceding interest payment date in respect of which interest has been paid or duly provided for on the notes of such series (or from and including the original issue date of the notes of such series, if no interest has been paid or duly provided for on the notes of such series) to, but not including, such interest payment date, redemption date or maturity date, as the case may be.

Place of Payment, Transfer and Exchange

All payments on the notes will be made, and transfers of the notes will be registrable, at the trustee's office in The City of New York, unless we designate another place for such purpose.

Optional Redemption

The 2025 notes are redeemable at our option, in whole at any time or in part from time to time, in each case prior to March 15, 2025 (the 2025 notes par call date), and the 2045 notes are redeemable at our option, in whole at any time or in part from time to time, in each case prior to December 15, 2044 (the 2045 notes par call date), at a redemption price equal to the greater of:

100% of the principal amount of the notes of such series to be redeemed; and

the sum of the present values of the remaining scheduled payments of principal and interest on the notes of such series to be redeemed through the 2025 notes par call date, in the case of the 2025 notes, or the 2045 notes par call date, in the case of the 2045 notes (not including any portion of such payments of interest accrued to, but not including, the redemption date), discounted to the redemption date on a semi-annual basis (assuming a 360-day year comprised of twelve 30-day months) at the Treasury Rate plus 20 basis points, in the case of the 2025 notes, or 25 basis points, in the case of the 2045 notes; plus, in each case, accrued and unpaid interest on the principal amount of the notes of such series being redeemed to, but not including, the redemption date.

On and after the 2025 notes par call date, the 2025 notes are redeemable at our option, in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of the 2025 notes to be redeemed, plus accrued and unpaid interest on the principal amount of the 2025 notes being redeemed to, but not including, the

redemption date.

On and after the 2045 notes par call date, the 2045 notes are redeemable at our option, in whole at any time or in part from time to time, at a redemption price equal to 100% of the principal amount of the 2045 notes to be redeemed, plus accrued and unpaid interest on the principal amount of the 2045 notes being redeemed to, but not including, the redemption date.

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Notwithstanding the foregoing, with respect to payments of interest on the 2025 notes or the 2045 notes that are due and payable on any interest payment dates falling on or prior to a redemption date for the notes of such series, we will make such payments to the persons who were record holders of such notes at the close of business on the relevant regular record dates.

We will send to each holder of the 2025 notes or the 2045 notes, as applicable, notice of any redemption of notes of such series at least 30 days but not more than 60 days before the applicable redemption date. Unless we default in payment of the redemption price (or accrued and unpaid interest) with respect to the notes to be redeemed, no interest will accrue on the notes or portions thereof so redeemed for the period on and after such redemption date. If less than all of the notes of such series are to be redeemed, the trustee will select the notes (or portions thereof) to be redeemed by such method as the trustee deems fair and appropriate (or in the case of global notes the Depositary's applicable policies and procedures).

Treasury Rate means with respect to a series of notes, on a redemption date, the rate per annum equal to:

the yield, under the heading that represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.15(519) or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption

Treasury Constant Maturities, for the maturity corresponding to the Comparable Treasury Issue; provided that if no maturity is within three months before or after the remaining term of the notes of such series to be redeemed (assuming, for that purpose, that such series of notes matured on the applicable par call date), yields for the two published maturities most closely corresponding to the Comparable Treasury Issue will be determined and the Treasury Rate will be interpolated or extrapolated from those yields on a straight-line basis rounding to the nearest month; or

if that release, or any successor release, is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that redemption date.

The Treasury Rate will be calculated at 5:00 p.m. (New York City time) on the third business day preceding the redemption date by the Quotation Agent.

Comparable Treasury Issue means, with respect to any redemption date for the 2025 notes or the 2045 notes, as applicable, the United States Treasury security selected by the Quotation Agent that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes of such series (assuming, for this purpose, that such series of note matured on the applicable par call date).

Comparable Treasury Price means, with respect to any redemption date for the 2025 notes or the 2045 notes, as applicable, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Quotation Agent obtains fewer than three Reference Treasury Dealer Quotations, the average of all such Reference Treasury Dealer Quotations, such average in any case to be determined by the Quotation Agent, or (3) if only one Reference Treasury Dealer Quotation is received, such Reference Treasury Dealer Quotation.

Quotation Agent means, with respect to any redemption date for the 2025 notes or the 2045 notes, as applicable, the Reference Treasury Dealer appointed by us.

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Reference Treasury Dealer means, with respect to any redemption date for the 2025 notes or the 2045 notes, as applicable, (1) Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated and a Primary Treasury Dealer (as defined below) selected by Wells Fargo Securities, LLC (or their respective affiliates which are primary U.S. Government securities dealers) and their respective successors; provided, however, that if any of them shall cease to be a primary U.S. Government securities dealer in the United States of America (a Primary Treasury Dealer), we will substitute for it another Primary Treasury Dealer and (2) any other Primary Treasury Dealer or Dealers selected by us.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date for the 2025 notes or the 2045 notes, as applicable, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 5:00 p.m. (New York City time) on the third business day in The City of New York preceding such redemption date.

Book-Entry; Delivery and Form

The notes will be issued in the form of one or more global notes (Global Notes) which will be held by the trustee as custodian for The Depository Trust Company (the Depository) and registered in the name of Cede & Co., as nominee of the Depository. All interests in the Global Notes will be subject to the operations and procedures of the Depository, Euroclear Bank S.A./N.V. (Euroclear) and Clearstream Banking, société anonyme (Clearstream, Luxembourg). The notes will be issued in fully registered form without coupons and will be issued in, and beneficial interests in the Global Notes must be held in, minimum denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

Notwithstanding the foregoing, if (1) the Depository notifies us that it is unwilling or unable to continue as depository for the notes of any series or if the Depository ceases to be eligible to act in such capacity and a successor depository is not appointed by us within 90 days, (2) an event of default (as defined in the indenture) with respect to the notes of any series shall have occurred and be continuing or (3) we in our sole discretion shall determine that the notes of any series will no longer be represented by Global Notes, the Global Notes of such series will be exchangeable for notes of such series in definitive form of like tenor and in an equal aggregate principal amount in authorized denominations. Such definitive notes will be registered in such name or names as the Depository instructs the trustee.

The Depository has advised us that pursuant to procedures established by it (i) upon the issuance of the Global Notes, the Depository or its custodian will credit, on its internal system, the principal amount of the individual beneficial interests represented by such Global Notes to the respective accounts of persons who have accounts with such Depository and (ii) ownership of beneficial interests in the Global Notes will be shown on, and the transfer of such ownership will be effected only through, records maintained by the Depository or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants). Ownership of beneficial interests in the Global Notes will be limited to persons who have accounts with the Depository (participants) or persons who hold interests through participants. Holders may hold their interests in the Global Notes directly through the Depository if they are participants in such system, or indirectly through organizations that are participants in such system.

So long as the Depository, or its nominee, is the registered owner or holder of the notes, the Depository or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by such Global Notes for all purposes under the indenture. No beneficial owner of an interest in the Global Notes will be able to transfer that interest except in accordance with the Depository s procedures and those provided for under the indenture.

Payments of the principal of and premium, if any, and interest on the Global Notes will be made to the Depositary or its nominee, as the case may be, as the registered owner of the Global Notes. Neither we nor the trustee or any paying agent under the indenture will have any responsibility or liability for any aspect of the

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records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Depository has advised us that its present practice is, upon receipt of any payment of principal of and premium, if any, and interest on the Global Notes, to credit participants' accounts immediately with payments in amounts proportionate to their respective beneficial interests in the principal amount of the Global Notes as shown on the records of the Depository. Payments by participants to owners of beneficial interests in the Global Notes held through such participants will be governed by standing instructions and customary practice, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants. Transfers between participants in the Depository will be effected in the ordinary way through the Depository's same-day funds settlement system in accordance with the Depository's rules and will be settled in same-day funds.

The Depository has advised us as follows: the Depository is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a clearing corporation within the meaning of the Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. The Depository was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and certain other organizations. Indirect access to the Depository system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly, or indirect participants.

Although the Depository has agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants of the Depository, it is under no obligation to perform such procedures, and such procedures may be discontinued at any time. None of us, any of the underwriters or the trustee will have any responsibility for the performance by the Depository or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Clearstream, Luxembourg and Euroclear hold interests on behalf of their participating organizations through customers' securities accounts in Clearstream, Luxembourg's and Euroclear's names on the books of their respective depositories, which hold those interests in customers' securities accounts in the depositories' names on the books of the Depository. At the present time, Citibank, N.A. acts as U.S. depository for Clearstream, Luxembourg, and JPMorgan Chase Bank, N.A. acts as U.S. depository for Euroclear (collectively, the U.S. Depositories, and each a U.S. Depository).

Clearstream, Luxembourg holds securities for its participating organizations (Clearstream Participants) and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier and the Banque Centrale du Luxembourg, which supervise and oversee the activities of Luxembourg banks. Clearstream Participants are financial institutions including investment banks, securities brokers and dealers, banks, trust companies and clearing corporations, and may include the underwriters or their affiliates. Indirect access to Clearstream, Luxembourg is available to other institutions that clear

through or maintain a custodial relationship with a Clearstream Participant. Clearstream, Luxembourg has established an electronic bridge with Euroclear as the operator of the Euroclear System (the Euroclear Operator) in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

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Distributions with respect to the notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures, to the extent received by the U.S. Depository for Clearstream, Luxembourg.

Euroclear holds securities and book-entry interests in securities for participating organizations (Euroclear Participants) and facilitates the clearance and settlement of securities transactions between Euroclear Participants, and between Euroclear Participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such participants or other securities intermediaries. Euroclear provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related services. Euroclear Participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations, and may include the underwriters or their affiliates. Non-participants in Euroclear may hold and transfer beneficial interests in a Global Note through accounts with a participant in the Euroclear System or any other securities intermediary that holds a book-entry interest in a Global Note through one or more securities intermediaries standing between such other securities intermediary and Euroclear.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law (collectively, the Terms and Conditions). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants, and has no record of or relationship with persons holding through Euroclear Participants.

Distributions on the notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions, to the extent received by the U.S. Depository for Euroclear.

Transfers between Euroclear Participants and Clearstream Participants will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Cross-market transfers between direct participants in the Depository, on the one hand, and Euroclear Participants or Clearstream Participants, on the other hand, will be effected through the Depository in accordance with the Depository's rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its U.S. Depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (European time) of such system. Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depository to take action to effect final settlement on its behalf by delivering or receiving interests in the Global Notes in the Depository, and making or receiving payment in accordance with normal procedures for same-day fund settlement applicable to the Depository. Euroclear Participants and Clearstream Participants may not deliver instructions directly to their respective U.S. Depositaries.

Due to time zone differences, the securities accounts of a Euroclear Participant or Clearstream Participant purchasing an interest in a Global Note from a direct participant in the Depository will be credited, and any such crediting will be reported to the relevant Euroclear Participant or Clearstream Participant, during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, Luxembourg) immediately following the settlement date of the Depository. Cash received in Euroclear or Clearstream, Luxembourg as a result of sales of interests in a

Global Note by or through a Euroclear Participant

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or Clearstream Participant to a direct participant in the Depositary will be received with value on the settlement date of the Depositary but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day for Euroclear or Clearstream, Luxembourg following the Depositary's settlement date.

The information in this section concerning the Depositary, Euroclear and Clearstream, Luxembourg and their book-entry systems has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy of that information.

Although Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures to facilitate transfers of interests in the Global Notes among Euroclear Participants and Clearstream Participants, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. None of us, any of the underwriters or the trustee will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective Participants of their respective obligations under the rules and procedures governing their operations.

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CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain U.S. federal income tax considerations that may be relevant to the acquisition, ownership and disposition of the notes by U.S. holders and non-U.S. holders (each as defined below). This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), applicable U.S. Treasury regulations promulgated thereunder, judicial authority and administrative interpretations, all as of the date of this document, and all of which are subject to change, possibly with retroactive effect, or are subject to different interpretations. We cannot assure you that the Internal Revenue Service, or IRS, will not challenge one or more of the tax consequences described in this discussion, and we have not obtained, nor do we intend to obtain, a ruling from the IRS or an opinion of counsel with respect to the U.S. federal tax consequences of acquiring, holding or disposing of the notes.

This discussion is limited to holders who purchase the notes in this offering for cash at a price equal to the issue price of the notes (i.e., the first price at which a substantial amount of the notes is sold for cash other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) and who hold the notes as capital assets (generally, property held for investment). This discussion does not address any U.S. federal tax considerations other than U.S. federal income tax considerations (such as estate and gift tax considerations), or the tax considerations arising under the laws of any foreign, state, local or other jurisdiction or any income tax treaty. In addition, this discussion does not address all tax considerations that may be important to a particular holder in light of the holder's circumstances, or to certain categories of investors that may be subject to special rules, such as:

dealers in securities or currencies;

traders in securities that have elected the mark-to-market method of accounting for their securities;

U.S. holders (as defined below) whose functional currency is not the U.S. dollar;

persons holding notes as part of a hedge, straddle, conversion or other synthetic security or integrated transaction;

former U.S. citizens or long-term residents of the United States;

financial institutions;

insurance companies;

regulated investment companies;

real estate investment trusts;

persons subject to the alternative minimum tax;

entities that are tax-exempt for U.S. federal income tax purposes; and

partnerships and other pass-through entities and holders of interests therein.

If an entity or arrangement treated as a partnership for U.S. federal income tax purposes holds notes, the U.S. federal income tax treatment of a partner of the partnership generally will depend upon the status of the partner and the activities of the partnership and upon certain determinations made at the partner level. If you are a partner of a partnership considering an investment in the notes, you are urged to consult your own tax advisor about the U.S. federal income tax consequences of acquiring, holding and disposing of the notes.

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INVESTORS CONSIDERING THE PURCHASE OF NOTES ARE URGED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AS WELL AS ANY TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE NOTES UNDER OTHER U.S. FEDERAL TAX LAWS OR UNDER THE LAWS OF ANY STATE, LOCAL OR FOREIGN JURISDICTION OR UNDER ANY APPLICABLE INCOME TAX TREATY.

Tax Consequences to U.S. Holders

The following summary will apply to you if you are a U.S. holder of the notes. You are a U.S. holder for purposes of this discussion if you are a beneficial owner of a note and you are for U.S. federal income tax purposes:

an individual who is a U.S. citizen or U.S. resident alien;

a corporation that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

a trust (i) the administration of which is subject to the primary supervision of a U.S. court and that has one or more United States persons that have the authority to control all substantial decisions of the trust or (ii) that has made a valid election under applicable U.S. Treasury regulations to be treated as a United States person.

Interest on the Notes

Interest on the notes generally will be taxable to you as ordinary income at the time it is received or accrued in accordance with your regular method of accounting for U.S. federal income tax purposes.

Disposition of the Notes

You will generally recognize capital gain or loss on the sale, redemption, exchange, retirement or other taxable disposition of a note equal to the difference, if any, between the proceeds you receive (excluding any proceeds attributable to accrued but unpaid interest, which will be taxable as ordinary interest income to the extent you have not previously included such amounts in income) and your adjusted tax basis in the note. The proceeds you receive will include the amount of any cash and the fair market value of any other property received for the note. Your adjusted tax basis in the note will generally equal the amount you paid for the note. Any gain or loss will be long-term capital gain or loss if you held the note for more than one year at the time of the sale, redemption, exchange, retirement or other taxable disposition. Long-term capital gains of individuals, estates and trusts currently are eligible for reduced rates of U.S. federal income tax. The deductibility of capital losses may be subject to limitation.

Information Reporting and Backup Withholding

Information reporting generally will apply to payments of interest on, and the proceeds of the sale or other disposition (including a redemption, exchange or retirement) of, notes held by you, and backup withholding will apply to such payments unless you provide to the applicable withholding agent your taxpayer identification number, certified under penalties of perjury, as well as certain other information or otherwise establish an exemption from backup withholding. Backup withholding is not an additional tax. Any amount withheld under the backup withholding rules is allowable as a credit against your U.S. federal income tax liability, if any, and a refund may be obtained from the IRS if the amounts withheld exceed your actual U.S. federal income tax liability and you timely provide the required information or appropriate claim form to the IRS.

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Additional Tax on Net Investment Income

An additional 3.8% tax is imposed on the net investment income of certain United States citizens and resident aliens, and on the undistributed net investment income of certain estates and trusts. Among other items, net investment income generally includes gross income from interest and net gain from the disposition of property, such as the notes, less certain deductions. You are encouraged to consult your tax advisor with respect to this additional tax and its applicability in your particular circumstances.

Tax Consequences to Non-U.S. Holders

The following summary will apply to you if you are a non-U.S. holder of notes. You are a non-U.S. holder for purposes of this discussion if you are a beneficial owner of notes that is, for U.S. federal income tax purposes, an individual, corporation, estate or trust that is not a U.S. holder.

Interest on the Notes

Subject to the discussion of backup withholding and FATCA withholding, below, payments to you of interest on the notes generally will not be subject to U.S. federal income tax and will be exempt from withholding of U.S. federal income tax under the portfolio interest exemption if you properly certify as to your foreign status, as described below, and:

you do not own, actually or constructively, 10% or more of the total combined voting power of all classes of our stock entitled to vote;

you are not a controlled foreign corporation that is related to us (actually or constructively);

you are not a bank whose receipt of interest on the notes is in connection with an extension of credit made pursuant to a loan agreement entered into in the ordinary course of your trade or business; and

interest on the notes is not effectively connected with your conduct of a U.S. trade or business.

The portfolio interest exemption generally applies only if you also appropriately certify as to your foreign status. You can generally meet the certification requirement by providing a properly executed IRS Form W-8BEN or IRS Form W-8BEN-E (or applicable successor form) to the applicable withholding agent. If you hold the notes through a financial institution or other agent acting on your behalf, you may be required to provide appropriate certifications to the agent. Your agent will then generally be required to provide appropriate certifications to the applicable withholding agent, either directly or through other intermediaries. Special rules apply to foreign partnerships, estates and trusts, and in certain circumstances certifications as to the foreign status of partners, trust owners or beneficiaries may have to be provided to the applicable withholding agent. In addition, special rules apply to qualified intermediaries that enter into withholding agreements with the IRS.

If you cannot satisfy the requirements described above, payments of interest made to you will be subject to U.S. federal withholding tax at a 30% rate, unless (i) you provide the applicable withholding agent with a properly executed IRS Form W-8BEN or IRS Form W-8BEN-E (or applicable successor form) claiming an exemption from (or

a reduction of) withholding under the benefits of an income tax treaty, or (ii) the payments of such interest are effectively connected with your conduct of a trade or business in the United States (and, if required by an applicable income tax treaty, are attributable to a permanent establishment maintained by you in the United States) and you meet the certification requirements described below. See [Income or Gain Effectively Connected with a U.S. Trade or Business](#).

The certifications described above and below must be provided to the applicable withholding agent prior to the payment of interest and must be updated periodically. If you do not timely provide the applicable withholding agent with the required certification, but you qualify for a reduced rate under an applicable income tax treaty, you may obtain a refund of any excess amounts withheld if you timely provide the required information or appropriate claim form to the IRS.

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Disposition of the Notes

Subject to the discussion of backup withholding and FATCA withholding, below, you generally will not be subject to U.S. federal income tax on any gain (excluding any amount attributable to accrued and unpaid interest, which generally will be treated as interest and may be subject to the rules discussed above in Interest on the Notes) realized on the sale, redemption, exchange, retirement or other taxable disposition of a note unless:

the gain is effectively connected with the conduct by you of a U.S. trade or business (and, if required by an applicable income tax treaty, you maintain a permanent establishment in the United States to which such gain is attributable); or

you are a non-resident alien individual who has been present in the United States for 183 days or more in the taxable year of disposition and certain other requirements are met.

If your gain is described in the first bullet point above, you generally will be subject to U.S. federal income tax in the manner described under Income or Gain Effectively Connected with a U.S. Trade or Business. If you are a non-U.S. holder described in the second bullet point above, you will be subject to a flat 30% (or lower applicable income tax treaty rate) U.S. federal income tax on the gain derived from the sale or other disposition, which may be offset by certain U.S. source capital losses.

Income or Gain Effectively Connected with a U.S. Trade or Business

If any interest on the notes or gain from the sale, redemption, exchange, retirement or other taxable disposition of the notes is effectively connected with a U.S. trade or business conducted by you (and, if required by an applicable income tax treaty, you maintain a permanent establishment in the United States to which such interest or gain is attributable), then the interest income or gain will be subject to U.S. federal income tax at regular graduated income tax rates generally in the same manner as if you were a U.S. holder. Effectively connected interest income will not be subject to U.S. federal withholding tax if you satisfy certain certification requireion Committee reviewed Mr. Miles performance and recommended a cash bonus of \$50,000 for fiscal 2001. In November 2000, the Company entered into a resignation agreement and contract for services with Mr. David Sheinfeld, the former Chief Executive Officer of the Company. Pursuant to the agreement, the Company paid Mr. Sheinfeld \$33,333 per month for the six months of January through June 2001. The payments decreased to \$8,333 for the last six months of 2001. See subheading "Severance Agreements" under this Item 11. This Report is submitted by the members of the Compensation Committee of the Board of Directors. Arthur Hollingsworth Greg Campbell Employment Agreements The Company has entered into employment agreements with Steven Finberg, Cheryl Taylor and Colon Washburn. These employment agreements set forth the basic terms of Mr. Finberg's, Ms. Taylor's and Mr. Washburn's employment with the Company, and also contain provisions regarding non-competition, non-solicitation of Company employees, non-solicitation of Company customers, and confidentiality of certain Company information. Mr. Finberg's agreement for employment with the Company as a Vice President Sales and Marketing has a term of three years, commencing on October 5, 2001. The term of the employment agreement may be extended by a written extension agreement signed by both parties. Mr. Finberg is obligated under the agreement to devote his full professional working time to the Company and shall not otherwise be employed or otherwise engaged in any other business or enterprise without the written permission of the Company. The agreement provides for a base salary of \$145,000 per year, which is to be reviewed annually by the Company, but which may not be decreased. In addition to the base salary, the agreement provides for, among other things, participation in 28 benefit plans and other fringe benefits applicable to similarly situated officers and managers, reimbursement for business expenses in accordance with Company policy, and

eligibility to receive a performance-based annual bonus. The bonus will be awarded beginning on the first day of the calendar year following October 5, 2001, only if the economic performance of the Company during twelve consecutive months has achieved or exceeded an "adjusted target budget" as determined by the Board of Directors and subject to adjustment as set forth in the agreement. The agreement provides that the Company may terminate Mr. Finberg for cause (as defined in the agreement) at any time. The agreement terminates automatically in the event of disability (as defined in the agreement) and also terminates automatically upon death. Termination by either the employee or the Company (except for in the event of death) requires two weeks' written notice. Ms. Taylor's agreement for employment with the Company as an Executive Vice President and the Chief Financial Officer has a term of three years, commencing on October 5, 2001. The term of the employment agreement may be extended by a written extension agreement signed by both parties. Ms. Taylor is obligated under the agreement to devote her full professional working time to the Company and shall not otherwise be employed or otherwise engaged in any other business or enterprise without the written permission of the Company. The agreement provides for a base salary of \$175,000 per year, which is to be reviewed annually by the Company, but which may not be decreased. In addition to the base salary, the agreement provides for, among other things, participation in benefit plans and other fringe benefits applicable to similarly situated officers and managers, reimbursement for business expenses in accordance with Company policy, and eligibility to receive a performance-based annual bonus. The bonus will be awarded beginning on the first day of the calendar year following October 5, 2001, only if the economic performance of the Company during twelve consecutive months has achieved or exceeded an "adjusted target budget" as determined by the Board of Directors and subject to adjustment as set forth in the agreement. The agreement provides that the Company may terminate Ms. Taylor for cause (as defined in the agreement) at any time. The agreement terminates automatically in the event of disability (as defined in the agreement) and also terminates automatically upon death. Termination by either the employee or the Company (except for in the event of death) requires two weeks' written notice. Mr. Washburn's agreement for employment with the Company as an Executive Consultant provides for a one-year term commencing on October 5, 2001, which may be renewed for up to three successive one-year periods thereafter. Renewal is automatic unless either party gives thirty days' notice prior to the expiration of the term. During Mr. Washburn's term of employment, he may continue the business relationships he already has, and any new consulting or part-time employment arrangements as may arise. He otherwise agrees to devote his full professional working time to the Company and shall not otherwise be employed or otherwise engaged in any other business or enterprise without the written permission of the Company. The agreement provides that Mr. Washburn shall receive consulting fees of \$150,000 per year, which will be reviewed and modified from time to time, but which shall not be decreased. In addition to the base salary, the agreement provides for, among other things, participation in benefit plans and other fringe benefits applicable to similarly situated employees and reimbursement for business expenses in accordance with Company policy. The agreements provides for termination by the Company for cause (as defined in the agreement), at any time. The agreement terminates automatically in the event of disability as defined in the agreement, and also terminates automatically upon death. Termination by either the employee or the Company (except for death) requires two weeks' written notice. Each of Mr. Finberg's, Ms. Taylor's and Mr. Washburn's employment agreements further provide that during the employment term, each of them shall observe a non-competition clause, and shall not without prior written consent directly or indirectly engage in or have a financial interest in any other business, continue or assume any other corporate affiliations, or pursue any other commercial activities which would in any way compete with the Company or result in a conflict of interest for the employee. For one year after termination of employment, each of them agrees not to compete with the Company or have any financial interest in any entity competing with the Company or an affiliate of the Company for which the employee performed services, within any region or locality in which the Company is then doing business or marketing its products. They further agree to non-solicitation of Company employees, non-solicitation of Company customers, and to maintain the confidentiality of the Company's confidential information (as defined in the agreement), both during their employment and for one year after termination.

29 Severance Agreements On January 25, 2002 Mr. Gary Weiner resigned from his position as the Company's Chief Operating Officer. His employment agreement with the Company was terminated as of the date of his resignation. In connection with his resignation, the Company entered into a Resignation Agreement. Pursuant to the Resignation Agreement, Mr. Weiner will receive \$53,334 to be paid \$6,667 bi-weekly for eight pay periods. On November 9, 2000, the Company and Mr. David Sheinfeld entered into a Resignation Agreement and Contract for Services in connection with Mr. Sheinfeld's resignation as Chairman of the Board of Directors and an employee of the

Company. The agreement contemplates that Mr. Sheinfeld would be engaged as an independent contractor to the Company for a period commencing on November 9, 2000 and ending December 31, 2001, unless terminated earlier pursuant to the agreement. Pursuant to the Resignation Agreement, the Company paid Mr. Sheinfeld \$33,333 per month for the six months of January through June 2001. The payments decreased to \$8,333 for the last six months of 2001. Under the terms of the Agreement, Mr. Sheinfeld was entitled to receive a severance payment of \$50,000, \$25,000 of which was paid on November 9, 2000 with the remaining \$25,000 paid on February 1, 2001. In addition, Mr. Sheinfeld was eligible to receive a bonus in the amount of \$25,000 on December 31, 2001, if, in the reasonable judgment of the Company, Mr. Sheinfeld had satisfactorily performed the services required by the Company. The Company determined that Mr. Sheinfeld was not eligible to receive a bonus in 2001. Further, the Company agreed to forgive Mr. Sheinfeld's debt to the Company in the amount of \$300,000. The Company also agreed to extend the period during which Mr. Sheinfeld may exercise his stock options to purchase 105,537 shares of the Company's Common Stock from November 9, 2000 to November 9, 2001. These options have now expired and Mr. Sheinfeld has no options. Corporate Performance Graph The Company's Common Stock currently is quoted on the Over-the-Counter Bulletin Board under the symbol FRES. On April 25, 2001, the Company received notice from The Nasdaq Stock Market, Inc. that its common stock had failed to maintain the continued listing standards as required by Nasdaq rules. After a hearing on May 10, 2001, the Company was notified that the Nasdaq staff had determined the Company's stock would be de-listed and the stock began trading on the Pink Sheets as of May 25, 2001. Once the Company's SEC reporting obligations were fulfilled during the third quarter of 2001, the Company was moved to the Over-the-Counter Bulletin Board. The following graph shows a five-year comparison of shareholder return on the Company's Common Stock based on the market price of the Common Stock (assuming reinvestment of dividends), the cumulative total returns of companies on the Nasdaq Stock Market Index of U.S. Companies and companies with standard industry classifications (SIC codes) with the same range as Fresh America's. The data was supplied by Media General Financial Services. 30 [GRAPHIC APPEARS HERE] Period Ending

	Index	12/1996	12/1997	12/1998	12/1999	12/2000	12/2001
Fresh America Corp.	100.00	120.68	100.75	29.32	6.77	.48	
Groceries and Related Products (SIC 5140-5149)	100.00	133.57	150.60	168.69	231.53	231.80	
NASDAQ Market Index (US Companies)	100.00	122.32	172.52	304.29	191.25	152.46	

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT. The following table sets forth certain information believed by the Company to be accurate based on information provided to it concerning the beneficial ownership of Common Stock by (a) each shareholder who is known by the Company to own beneficially in excess of 5% of the outstanding Common Stock, (b) each director, (c) the Company's Chief Executive Officer, (d) each of the Company's other named executive officers and (e) all executive officers and directors as a group, as of March 15, 2002. 31 COMMON STOCK SERIES D PREFERRED STOCK -----

Beneficial Owner	Amount and Nature of	Percent of Amount and Nature of	Beneficial Ownership Class(1)	Beneficial Ownership Class
North Texas Opportunity Fund LP	-0-(2) * 46,500(3)	60.4%	13355 Noel Road, Suite 2210 Dallas, TX 75240	North Texas Opportunity Fund Capital
North Texas Opportunity Fund Capital	-0-(2) * 46,500(3)	60.4%	Partners, LP 13355 Noel Road, Suite 2210 Dallas, TX 75240	NTOF LLC
NTOF LLC	-0-(2) * 46,500(3)	60.4%	13355 Noel Road, Suite 2210 Dallas, TX 75240	North Texas Investment Advisors LLC
North Texas Investment Advisors LLC	-0-(2) * 46,500(3)	60.4%	13355 Noel Road, Suite 2210 Dallas, TX 75240	John Hancock Financial Services, Inc.
John Hancock Financial Services, Inc.	-0-(4) * 27,000	35.1%	John Hancock Place, P.O. Box 111 Boston, MA 02117	Larry Martin
Larry Martin	3,166,694(5)	37.7%	-0- * 2729 Sunrise Drive Arlington, TX 76006	Gruber & McBaine Capital Management
Gruber & McBaine Capital Management	892,400(6)	10.6%	-0- * 50 Osgood Place San Francisco, CA 94133	DiMare Homestead, Inc.
DiMare Homestead, Inc.	528,300(7)	6.3%	-0- * 258 NW 1st Avenue Florida City, FL 33034	Arthur Hollingsworth
Arthur Hollingsworth	-0-(8) * 50,000(3)	64.9%	Greg Campbell	-0- * 46,500(3)
Greg Campbell	-0- * 46,500(3)	60.4%	Luke Sweetser	-0- * 46,500(3)
Luke Sweetser	-0- * 46,500(3)	60.4%	Darren L. Miles	-0- * -0- * Colon O. Washburn
Darren L. Miles	-0- * -0- * Colon O. Washburn	122,435(9)	1.4%	-0- * Cheryl Taylor
Cheryl Taylor	-0- * -0- * Gary D. Wiener	29,600(10)	* -0- * Steven C. Finberg	26,500 * -0- * Eric Janke
Steven C. Finberg	2,000 * -0- * Jerry Campbell	7,000 * -0- * All Directors and Executive Officers as a Group (10 persons)	164,935(11)	1.9%
All Directors and Executive Officers as a Group (10 persons)	164,935(11)	1.9%	-0- * ----- *Does not exceed 1% of the outstanding common stock.	32 (1)

NTOF due to the existence of a material contingency (the need for shareholder approval of the Charter Amendment) that is not within NTOF's control and that is required to be satisfied prior to exercise of the warrants. (3) North Texas Opportunity Fund LP ("NTOF") is a direct beneficial owner of 46,500 shares of Preferred Stock. North Texas Opportunity Fund Capital Partners LP ("NTOF Partners") is an indirect beneficial owner of this Preferred Stock because NTOF Partners is the general partner of NTOF. NTOF LLC ("NTOF LLC") is an indirect beneficial owner of this Preferred Stock because NTOF LLC is the general partner of NTOF Partners. North Texas Investment Advisors LLC ("NT Advisors") is an indirect beneficial owner of this Preferred Stock because NT Advisors is the investment manager of NTOF. Arthur Hollingsworth ("Hollingsworth") is the direct beneficial owner of 3,500 shares of Preferred Stock, and is an indirect beneficial owner of NTOF's 46,500 shares of Preferred Stock because Hollingsworth is a manager of NTOF LLC and NT Advisors. Luke Sweetser ("Sweetser") and Gregory Campbell ("Campbell") are both indirect beneficial owners of NTOF's 46,500 shares of Preferred Stock because Sweetser is a manager of NTOF LLC and of NT Advisors and because Campbell is a manager of NTOF LLC and of NT Advisors. (4) Does not include warrants to purchase 45,414,529 shares of Common Stock beneficially owned by the Hancock Entities and reported by the Hancock Entities in a Schedule 13D filed with the SEC on September 17, 2001, due to the existence of a material contingency (the need for shareholder approval of the Charter Amendment) that is not within the Hancock Entities' control and that is required to be satisfied prior to exercise of the warrants. (5) Based on information set forth in a Schedule 13D filed with the SEC on April 24, 2001, Mr. Martin beneficially owns 3,166,694 shares of Common Stock. (6) Based on information provided to the Company by Gruber & McBaine Capital Management, LLC ("GMCM"), Jon D. Gruber ("Gruber"), J. Patterson McBaine ("McBaine") and Thomas O. Lloyd-Butler ("Lloyd-Butler"). This group informed the Company that it beneficially owned 892,400 shares of Common Stock and that the voting and dispositive power among such group's members is as follows: Voting and Dispositive Power

----- Name Sole Shared -----

GMCM -- 689,300 Gruber 94,500 689,300 McBaine 108,600 689,300 Lloyd-Butler -- 689,300 (7) Based on information set forth in a Schedule 13D filed with the SEC on June 16, 2000, by DiMare Homestead, Inc. ("DiMare"). Paul DiMare, President of DiMare, Inc., has sole voting and dispositive power with regard to the 528,300 shares of Common Stock beneficially owned by DiMare, a wholly-owned subsidiary of DiMare, Inc. (8) Does not include warrants to purchase 5,887,069 shares of Common Stock beneficially owned by Arthur Hollingsworth due to the existence of a material contingency (the need for shareholder approval of the Charter Amendment) that is not within NTOF's control and that is required to be satisfied prior to exercise of the warrants. (9) Includes 90,753 shares subject to options issued to Mr. Colon Washburn that are exercisable within 60 days. (10) Includes options to acquire 29,500 shares of Common Stock that are exercisable within 60 days. Mr. Wiener resigned from the Company on January 25, 2002 and his 29,500 options expire on April 25, 2002, 90 days after his resignation. (11) Includes 133,523 shares subject to options issued to certain directors and executive officers of the Company that are exercisable within 60 days. ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS. The Company entered into a six-month consulting agreement with Mr. Thomas Hubbard effective October 1, 1999, at which time Mr. Hubbard was a director of the Company. The agreement paid Mr. Hubbard \$8,000 per month. The agreement called for Mr. Hubbard to provide managerial oversight of King's Onion House, a former subsidiary of the Company. The agreement was extended for an additional twelve-month period, which ended April 1, 2001. On September 5, 2001, the Company entered into a monitoring agreement with North Texas Investment Advisors ("NT Advisors"), an affiliate of NTOF, as a condition to the Series D preferred stock and warrant agreements between NTOF and the Company. In conjunction with the monitoring agreement, NT Advisors monitors the Company's progress and performance and the Company pays NT Advisors a fee of \$20,000 per month. Messrs. Hollingsworth, Campbell and Sweetser hold positions as managers of NT Advisors, as well as being partners in NTOF and directors of the Company. The terms of the monitoring agreement provide that affiliates of NT Advisors or NTOF will not be paid compensation as directors of the Company. On September 5, 2001, the Company issued an unsecured promissory note (as amended and restated, the "Martin Note") to Larry Martin, a former director and a shareholder owning more than 5% of our outstanding common stock, in the amount of \$1,239,233. The Martin Note originally bore no interest and was due and payable on the earlier of (i) January 3, 2002 or (ii) upon repayment of the Company's term note with the Senior Lender. On January 3, 2002, the Martin Note was amended and restated and now bears interest at the rate of 5% per annum, which interest is payable quarterly, and is due and payable on the earlier of (i) January 7, 2003 or (ii) the repayment or refinancing of the Company's term note with the Senior Lender. The Martin Note evidences a deferred purchase price

payment owed to Mr. Martin pursuant to a Stock Purchase Agreement entered into with Mr. Martin on December 17, 1997 pursuant to which the Company acquired Martin Bros. In August, 2001 the Company entered into a staffing agreement with Instaff Personnel, Inc. ("Instaff"), a company in which NTOF is a significant shareholder whereby, Instaff would furnish all hourly production employees at two locations. These two locations transitioned to the Instaff agreement during the fourth quarter of 2001. Arthur W. Hollingsworth is Chairman of the Board of Instaff and Gregory A. Campbell and Luke M. Sweetser serve on Instaff's Board of Directors. Fees paid to Instaff during 2001 were approximately \$ 388,000.

PART IV ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORT ON FORM 8-K. A. Documents filed as a part of this report. 1. Financial Statements. 2. Financial Statement Schedules - None. 3. Exhibits - The exhibits listed in the accompanying Exhibit Index are filed or incorporated by reference as part of this report. B. Reports on Form 8-K. No reports on Form 8-K were filed during the fourth quarter of 2001, which ended on December 29, 2001.

EXHIBITS INDEX Exhibit Number Description -----

3.1 Restated Articles of Incorporation of Fresh America Corp. (Incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 [Commission File Number 33-77620]).

3.2 Restated Bylaws of Fresh America Corp. (Incorporated by reference to Exhibit 3.2 to the Company's Form 10-Q for the quarterly period ended September 28, 2001).

4.1 Specimen of Common Stock Certificate (Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 [Commission File Number 33-77620]).

4.2 Statement of Designation for Series D Cumulative Redeemable Preferred Stock (Incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on September 20, 2001).

34 10.1 Fresh America Corp. 1993 Stock Option Award Plan (Incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 [Commission File Number 33-77620]).

10.2 Fresh America Corp 1996 Stock Option and Award Plan as Amended and Restated effective May 22, 1998 (Incorporated by reference to exhibit 4.3 to the Company's Form S-8 filed with the Securities and Exchange Commission on August 4, 1998 [Commission File Number 333-60601]).

10.3 Fresh America Corp. 2001 Stock Option Plan (Incorporated by reference to Appendix B to the Company's Definitive Proxy Statement filed with the Securities and Exchange Commission on December 3, 2001).

*10.4 Second Amendment to Stock Purchase Documents dated February 21, 2002 between Fresh America Corp. and Sam Perricone, Sr., Henry Beyer, and the Sam Perricone Children's Trust.

10.5 Amended and Restated Promissory Notes in the aggregate amount of \$450,000.00 dated July 28, 2000 with respect to Promissory Notes dated as of November 1, 1998 by Fresh America Corp. and issued to Sam Perricone, Sr., Henry Beyer, and the Sam Perricone Children's Trust (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended June 29, 2000).

10.6 Common Stock Purchase Warrant Agreements dated July 28, 2000 between Fresh America Corp. and individually, Sam Perricone, Sr., Henry Beyer, and the Sam Perricone Children's Trust (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarterly period ended June 29, 2000).

*10.7 Promissory Note in the amount of \$1,233,043.00 dated February 5, 2002 by Fresh America Corp. and issued to Mr. Joseph Cagnetti.

*10.8 Amended and Restated Promissory Note in the amount of \$1,239,233.00 dated January 3, 2002 by Fresh America Corp. and issued to Mr. Larry Martin.

10.9 Securities Exchange and Purchase Agreement, dated August 14, 2001, by and among Fresh America Corp., North Texas Opportunity Fund LP and each of John Hancock Life Insurance Company, John Hancock Variable Life Insurance Company, Signature 1A (Cayman), Ltd., Signature 3 Limited and Investors Partner Life Insurance Company (Incorporated by reference to exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on September 20, 2001).

10.10 Shareholders Agreement, dated August 14, 2001, by and among Fresh America Corp., North Texas Opportunity Fund LP and each of John Hancock Life Insurance Company, John Hancock Variable Life Insurance Company, Signature 1A (Cayman), Ltd., Signature 3 Limited and Investors Partner Life Insurance Company (Incorporated by reference to exhibit 10.2 to the Company's Form 8-K filed with the Securities and Exchange Commission on September 20, 2001).

10.11 Post-Closing Agreement dated as of September 5, 2001, by and among Fresh America Corp., North Texas Opportunity Fund LP, John Hancock Life Insurance Company, John Hancock Variable Life Insurance Company, Signature 1A (Cayman), Ltd., Signature 3 Limited and Investors Partner Life Insurance Company (Incorporated by reference to exhibit 10.3 to the Company's Form 8-K filed with the Securities and Exchange Commission on September 20, 2001).

10.12 Employment Agreement for Colon O. Washburn (Incorporated by reference to Exhibit 10.11 to Company's Form 10-Q filed with the Securities and Exchange Commission on November 13, 2001).

10.13 Employment Agreement for Steven C. Finberg (Incorporated by reference to Exhibit 10.12 to Company's Form 10-Q filed with the Securities and Exchange Commission on November 13, 2001).

35 *10.14 Resignation Agreement between Mr. Gary D. Weiner and

Fresh America Corp. dated as of January 25, 2002. 10.15 Employment Agreement for Cheryl A. Taylor (Incorporated by reference to Exhibit 10.14 to Company's Form 10-Q filed with the Securities and Exchange Commission on November 13, 2001). 10.16 Restated Business Loan Agreement between Fresh America Corp. and Bank of America Texas, N.A. dated as of February 2, 1998 (Incorporated by reference to Exhibit 99.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on February 17, 1998). 10.17 Second Amendment to the Restated Business Loan Agreement between Fresh America Corp. and Bank of America Texas, N.A. dated as of May 14, 1998 (Incorporated by reference to Exhibit 10.4 to the Company's 10-Q filed with the Securities and Exchange Commission on August 17, 1998). 10.18 Eighth Amendment to the Restated Business Loan Agreement between Fresh America Corp. and Bank of America Texas, N.A. dated as of October 31, 1999 (Incorporated by reference to Exhibit 10.12 to the Company's 10-K filed with the Securities and Exchange Commission on April 14, 2000). 10.19 Ninth Amendment to the Restated Business Loan Agreement between Fresh America Corp. and Bank of America Texas, N.A. dated as of November 15, 1999 (Incorporated by reference to Exhibit 10.13 to the Company's 10-K filed with the Securities and Exchange Commission on April 14, 2000). 10.20 Tenth Amendment to the Restated Business Loan Agreement between Fresh America Corp. and Bank of America Texas, N.A. dated as of March 31, 2000 (Incorporated by reference to Exhibit 10.4 to the Company's 10-K/A filed with the Securities and Exchange Commission on May 8, 2000). 10.21 Eleventh Amendment to the Restated Business Loan Agreement between Fresh America Corp. and Bank of America Texas, N.A. dated as of January 26, 2001 (Incorporated by reference to Exhibit 10.19 to the Company's 10-K filed with the Securities and Exchange Commission on September 12, 2001). 10.22 Twelfth Amendment to the Restated Business Loan Agreement between Fresh America Corp. and Bank of America Texas, N.A. dated as of March 15, 2001 (Incorporated by reference to Exhibit 10.20 to the Company's 10-K filed with the Securities and Exchange Commission on September 12, 2001). 10.23 Thirteenth Amendment to the Restated Business Loan Agreement between Fresh America Corp. and Bank of America Texas, N.A. dated as of September 5, 2001 (Incorporated by reference to Exhibit 10.21 to the Company's 10-K filed with the Securities and Exchange Commission on September 12, 2001). *10.24 Fourteenth Amendment to the Restated Business Loan Agreement between Fresh America Corp. and Bank of America Texas, N.A. dated as of January 2, 2002. 12.1 Statement regarding computation of per share earnings (Incorporated by reference to Note 1 to the Financial Statements included herein). *21.1 List of Subsidiary Corporations. *23.1 Consent of KPMG LLP. *Filed herewith. 36 SIGNATURES Pursuant to the requirements of Section 13 or 15(d) 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. FRESH AMERICA CORP. (Registrant) Date: June 12, 2002 By /s/ DARREN L. MILES ----- Darren L. Miles President and Chief Executive Officer Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. /s/ DARREN L. MILES Date: June 12, 2002 ----- Darren L. Miles President and Chief Executive Officer (principal executive officer) /s/ CHERYL A. TAYLOR Date: June 12, 2002 ----- Cheryl A. Taylor Executive Vice President, Chief Financial Officer and Secretary (principal financial and accounting officer) /s/ ARTHUR W. HOLLINGSWORTH Date: June 12, 2002 ----- Arthur W. Hollingsworth Chairman of the Board /s/ LUKE M. SWEETSER Date: June 12, 2002 ----- Luke M. Sweetser Director /s/ GREGORY A. CAMPBELL Date: June 12, 2002 ----- Gregory A. Campbell Director Date: ----- Colon O. Washburn Director 37 FINANCIAL STATEMENTS F1 Independent Auditors' Report The Board of Directors and Shareholders Fresh America Corp.: We have audited the accompanying consolidated balance sheets of Fresh America Corp. and subsidiaries as of December 28, 2001 and December 29, 2000, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 28, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the

consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fresh America Corp. and subsidiaries as of December 28, 2001 and December 29, 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended December 28, 2001, in conformity with accounting principles generally accepted in the United States of America. KPMG LLP Dallas, Texas March 22, 2002 F2 FRESH AMERICA CORP. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (In thousands, except share and per share amounts) December 28, December 29, December 28, December 29, 2001 2000 -----

----- ASSETS Current Assets: Cash and cash equivalents \$ 3,742 \$ 4,880 Accounts receivable, net 18,124 36,306 Inventories 2,545 6,849 Prepaid expenses 1,010 1,138 Deferred income taxes -- 297 Income tax receivable 2,086 1,084 ----- ----- Total Current Assets 27,507 50,554 Property and equipment, net 6,924 9,944 Goodwill, net of accumulated amortization of \$5,322 and \$3,655, respectively 16,141 24,843 Other assets 386 1,920 ----- ----- Total Assets \$ 50,958 \$ 87,261 ===== ===== LIABILITIES AND SHAREHOLDERS' EQUITY Current Liabilities: Notes payable and current portion of long-term debt \$ 1,474 \$ 13,788 Accounts payable 20,580 27,785 Accrued salaries and wages 1,075 2,489 Other accrued expenses 3,208 3,902 ----- ----- Total Current Liabilities 26,337 47,964 Long-term debt, less current portion 6,226 24,950 Other liabilities 444 499 ----- ----- Total Liabilities 33,007 73,413 ----- ----- 8% Series D cumulative redeemable preferred stock, \$1.00 par value (77,000 shares authorized and issued); liquidation value of \$7,700 plus accrued and unpaid dividends 2,429 -- 12% Series C redeemable cumulative preferred stock, \$1.00 par value (50,000 shares authorized and issued); liquidation value of \$5,000 plus accrued and unpaid dividends -- 4,446 Shareholders' Equity: Common stock \$.01 par value (authorized 10,000,000 shares; issued 8,410,098 and 5,243,404 shares, respectively) 84 52 Additional paid-in capital 40,512 33,564 Foreign currency translation adjustment -- (469) Accumulated deficit (25,074) (23,745) ----- ----- Total shareholders' equity 15,522 9,402 Commitments and Contingencies ----- ----- Total Liabilities and Shareholders' Equity \$ 50,958 \$ 87,261 ===== =====

The notes to consolidated financial statements are an integral part of these statements. F3 FRESH AMERICA CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (In thousands, except per share amounts) Fiscal Year Ended -----

December 28, December 29, December 31, 2001 2000 1999 ----- ----- ----- Net sales \$ 257,860 \$ 554,554 \$ 669,875 Cost of sales 229,687 496,169 591,977 ----- ----- ----- Gross profit 28,173 58,385 77,898 ----- ----- ----- Selling, general and administrative expenses 37,563 54,023 66,756 Bad debt expense (53) 1,912 6,031 Depreciation and amortization 3,151 5,506 6,244 Disposition costs and impairment of long-lived assets 9,549 12,791 13,520 Transaction costs -- -- 3,850 Settlements of lawsuits -- 1,222 805 ----- ----- ----- Total operating costs and expenses 50,210 75,454 97,206 ----- ----- ----- Operating loss (22,037) (17,069) (19,308) ----- ----- ----- Other expense: Interest expense (2,768) (5,238) (5,783) Interest income 63 374 340 Other, net (860) (76) 130 ----- ----- ----- (3,565) (4,940) (5,313) ----- ----- ----- Loss before income taxes and extraordinary item (25,602) (22,009) (24,621) Income tax expense (benefit) (497) 833 (2,630) ----- ----- ----- Loss before extraordinary item (25,105) (22,842) (21,991) Extraordinary gain on extinguishment of debt 23,776 1,905 -- ----- ----- ----- Net loss \$ (1,329) \$ (20,937) \$ (21,991) Accretion of preferred stock 1,593 698 -- ----- ----- ----- Net loss applicable to common shareholders \$ (2,922) \$ (21,635) \$ (21,991) ===== ===== ===== Basic loss per share: Loss before extraordinary item \$ (3.57) \$ (4.49) \$ (4.20) Extraordinary gain on extinguishment of debt 3.18 .36 -- ----- ----- ----- Net loss applicable to common shareholders \$ (.39) \$ (4.13) \$ (4.20) ===== ===== ===== Diluted earnings (loss) per share: Loss before extraordinary item \$ (3.57) \$ (4.49) \$ (4.20) Extraordinary gain on extinguishment of debt 3.18 .36 -- ----- ----- ----- Net loss applicable to common shareholders \$ (.39) \$ (4.13) \$ (4.20) ===== ===== =====

The notes to consolidated financial statements are an integral part of these statements. F4 FRESH AMERICA CORP. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (In thousands) Foreign Retained Additional Currency Earnings Total Paid-In Translation (Accumulated Shareholders' Common Stock Capital Adjustment Deficit) Equity ----- Balances at January 1, 1999 \$ 52 \$ 31,672 \$ (345) \$ 19,183 \$ 50,562 Stock issued in acquisitions -- 500 -- -- 500 Exercise of employee stock options -- 50 -- -- 50 Repricing of an employee's options -- 333 -- -- 333 Net loss -- -- -- (21,991) (21,991) Foreign currency translation adjustments -- -- 317 -- 317 ----- Comprehensive loss (21,674) ----- ----- Balances at December 31, 1999 52 32,555 (28) (2,808) 29,771 Issuance of warrants related to preferred Stock -- 1,104 -- -- 1,104 Issuance of warrants related to restructuring of subordinated debt -- 603 -- -- 603 Accretion of preferred stock --

(698) -- -- (698) Net loss -- -- -- (20,937) (20,937) Foreign currency translation adjustment -- -- (441) -- (441) -----
 Comprehensive loss (21,378) ----- Balances at December 29, 2000 52 33,564 (469)
 (23,745) 9,402 Issuance of warrants related to restructuring -- 4,855 -- -- 4,855 Stock issued 32 3,686 -- -- 3,718
 Accretion of preferred stock -- (1,593) -- -- (1,593) Net loss -- -- -- (1,329) (1,329) Foreign currency translation
 adjustment -- -- 469 -- 469 ----- Comprehensive loss (860) ----- Balances at December
 28, 2001 \$ 84 \$ 40,512 \$ -- \$ (25,074) \$ 15,522 ===== The notes to
 consolidated financial statements are an integral part of these statements. F5 FRESH AMERICA CORP. AND
 SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands) Fiscal Year Ended
 ----- December 28, December 29, December 31, 2001 2000 1999 -----
 ----- Cash flows from operating activities: Net loss \$ (1,329) \$(20,937) \$(21,991) Adjustments to
 reconcile net loss to net cash provided by operating activities, excluding the effects of acquisitions: Bad debt expense
 (53) 1,912 6,031 Extraordinary gain on extinguishment of debt (23,776) (1,905) -- Depreciation and amortization
 3,151 5,506 6,244 Impairment of long-lived assets 9,549 12,791 11,529 Non-cash transaction costs and interest
 expense -- -- 888 Deferred income taxes 297 (592) (437) Other 741 148 837 Change in assets and liabilities: Accounts
 receivable 11,302 23,702 15,998 Inventories 2,606 3,775 1,047 Prepaid expenses 84 480 343 Income tax receivable
 and other assets (532) 5,721 (5,852) Accounts payable (2,134) (11,492) (13,428) Accrued expenses and other current
 liabilities 125 (588) 3,833 ----- Total adjustments 1,360 40,147 26,344 ----- Net cash
 provided by operating activities 31 19,210 4,353 ----- Cash flows from investing activities: Additions
 to property and equipment (1,290) (1,491) (6,731) Cost of acquisitions, exclusive of cash acquired -- -- (2,644)
 Proceeds from sale of King's Onion House common stock 2,500 -- -- Proceeds from sale of property and equipment
 2,090 788 1,007 ----- Net cash provided by (used in) investing activities 3,300 (703) (8,368) -----
 ----- Cash flows from financing activities: Proceeds from Canadian revolving line of credit -- 40,826 89,079
 Repayments of Canadian revolving line of credit (3,756) (46,157) (79,460) Payments of short-term indebtedness (989)
 (15,288) (3,459) Proceeds from long-term indebtedness -- -- 748 Payments of long-term indebtedness (3,888) (458)
 (982) Proceeds from issuance of preferred stock and warrants 5,000 5,000 -- Securities issuance costs (1,305) -- --
 Payment of dividend on preferred stock -- (307) -- Net proceeds from exercise of employee stock options -- -- 50
 ----- Net cash provided by (used in) financing activities (4,938) (16,384) 5,976 -----
 Effect of exchange rate changes on cash 469 (440) 65 ----- Net increase (decrease) in cash and cash
 equivalents (1,138) 1,683 2,026 Cash and cash equivalents at beginning of year 4,880 3,197 1,171 -----
 ----- Cash and cash equivalents at end of year \$ 3,742 \$ 4,880 \$ 3,197 =====
 Supplemental disclosures of cash flow information: Cash paid for interest \$ 726 \$ 4,380 \$ 5,418 Cash paid for income
 taxes \$ 296 \$ 1,660 \$ 3,809 Non-cash Financing Activities: As discussed in Note 4, the Company exchanged
 subordinated debt, cumulative redeemable preferred stock and accrued interest and dividends for newly issued
 cumulative redeemable preferred stock and warrants in its September 2001 financial restructuring, and issued common
 stock with a fair value of \$3,718,000 as payment for a portion of a note payable to a shareholder in fiscal 2001. The
 notes to consolidated financial statements are an integral part of these statements. F6 FRESH AMERICA CORP.
 AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 28, 2001 and
 December 29, 2000 Note 1. Description of Business and Summary of Significant Accounting Policies Basis of
 Presentation and Consolidation Fresh America Corp. and subsidiaries ("Fresh America", or the "Company") provides
 procurement, processing, re-packing, warehousing and distribution services of fresh produce and other refrigerated
 products for a wide variety of customers in the retail, food service and food distribution businesses. The Company was
 founded in 1989 and distributes throughout the United States and Canada through 9 distribution facilities. The
 Company's fiscal year is a 52-week or 53-week period ending on the Friday closest to the calendar year end. The fiscal
 years ended December 28, 2001 (fiscal 2001), December 29, 2000 (fiscal 2000) and December 31, 1999 (fiscal 1999)
 were 52-week periods. The consolidated financial statements include the accounts of Fresh America Corp. and its
 subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. Cash and
 Cash Equivalents For purposes of the statements of cash flows, the Company considers all highly liquid investments
 with original maturities of less than three months to be cash equivalents. Fair Value of Financial Instruments The
 Company defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in
 a current transaction between willing parties. Financial instruments included in the Company's financial statements
 include cash and cash equivalents, accounts receivable, notes receivable from shareholders, other assets, accounts

payable and other current liabilities, notes payable and long-term debt. Unless otherwise disclosed in the notes to the consolidated financial statements, the carrying value of financial instruments is considered to approximate fair value due to the short maturity and characteristics of those instruments. The carrying value of long-term debt approximates fair value as terms approximate those currently available for similar debt instruments. Inventories are stated at the lower of cost or market with cost determined on a first-in, first-out basis. Property and Equipment Depreciation of property and equipment is calculated on the straight-line method over the estimated useful lives of the assets (from 5 to 40 years). Property and equipment held under capital leases and leasehold improvements are amortized on the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Impairment of Long-lived Assets The Company reviews long-lived assets, including goodwill, and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

Goodwill Goodwill, which represents the excess of purchase price over fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited, generally 15 to 20 years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

Stock Option Plan Compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price. The Company provides certain proforma disclosures for employee stock option grants made in 1995 and future years as if the fair-value-based method had been applied. Revenue Recognition Revenue is recognized at such time as the product has been delivered or the service has been rendered.

Income Taxes The Company accounts for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Earnings (Loss) Per Share Basic earnings (loss) per share ("EPS") is calculated by dividing net loss available to common shareholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Shares used in calculating basic and diluted EPS are as follows (in thousands):

	2001	2000	1999
Weighted average common shares outstanding - basic	7,471	5,243	5,243
Dilutive securities:			
Common stock option	--	--	--
Contingent shares related to acquisitions	--	--	--
Weighted average shares common outstanding - diluted	7,471	5,243	5,243

The number of weighted average common shares outstanding used in the computation of diluted EPS includes the effect of dilutive options using the treasury stock method. For fiscal years 2001, 2000 and 1999, there are 601,000, 1,484,000, and 497,000 options and warrants, respectively, to purchase common stock that were not included in the computation of diluted EPS because to do so would have been antidilutive for the fiscal years presented.

Reclassifications Certain prior year balances have been reclassified to conform to current year presentation. Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Agreement with Sam's Club The Company's relationship with Sam's was governed by the terms and conditions of a five-year agreement (the "Agreement"), which became effective December 1, 1995 and expired on October 24, 2000. Sam's began internal distribution of produce for all of its' clubs subsequent

to the expiration date. Therefore, the Agreement was not renewed. Sam's Club was the Company's largest customer during 2000 and 1999, and accounted for approximately 30% and 31% of the Company's sales for fiscal years 2000 and 1999, respectively. Subsequent to the termination of the Sam's Agreement the Company continues to have a relationship with Sam's which accounts for less than 10% of the Company's sales. The sales to Sam's in 2001 were comprised solely of value-added processing/repacking. Note 3. Termination of Merger On May 3, 1999, the Company, and Dallas-based, privately held FreshPoint Holdings, Inc. ("FreshPoint") entered into a definitive agreement pursuant to which FreshPoint would have merged with and into the Company. The transaction was to be accounted for as a reverse acquisition with FreshPoint as the accounting acquirer. In October 1999, the agreement was terminated by the Company and by FreshPoint. The Company and FreshPoint each agreed to pay their respective expenses in connection with the contemplated transaction. The Company incurred merger-related expenses of \$3,850,000 in fiscal 1999. The expenses consisted of legal and professional fees of \$2,433,000, regulatory expenses of \$63,000, severance costs paid to employees who were terminated in contemplation of the merger of \$1,259,000, and stay-to-close payments, payments to such terminated employees to remain with the Company on an interim basis in order to enable the Company to re-align its administrative functions, and other costs, aggregating \$95,000. Note 4.

Debt and Liquidity December 28, December 29, 2001 2000 ----- Subordinated note, net of unamortized discount of \$411 \$ -- \$19,589 Revolver 4,427 8,596 Canadian Revolver -- 3,756 Notes related to acquisitions 3,197 6,132 Various equipment loans with interest rates from 6.75% to 14% 76 665 ----- Total debt 7,700 38,738 ----- Current portion 1,474 13,788 ----- Long-term debt, less current portion \$ 6,226 \$24,950 =====

F9 FRESH AMERICA CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) In April 2000, the Company entered into an agreement with the Hancock Entities (as defined below) to provide additional financing through the purchase of \$5 million (50,000 shares) of the Company's 12% redeemable cumulative preferred stock ("Hancock Preferred Stock"), and to restructure the then existing subordinated notes. Cumulative preferred dividends accrued as of December 29, 2000 totaled \$0.3 million or \$6.04 per share of preferred stock. The Hancock Preferred Stock, subordinated note agreement and accrued interest and dividends were exchanged for preferred stock and warrants in September 2001, as discussed below. Throughout its operational restructuring during the past three years, the Company has pursued various financing opportunities in an effort to restructure its senior bank and subordinated debt. In September 2001, the Company completed a financial restructuring whereby North Texas Opportunity Fund LP, ("NTOF") purchased 50,000 shares of the Company's Series D cumulative redeemable preferred stock and warrants exercisable for 84,100,980 shares of our common stock for total cash proceeds of \$5 million. Arthur Hollingsworth, an affiliate of NTOF and the Company's Chairman of the Board, subsequently purchased from NTOF for the same price as paid by NTOF, 3,500 shares of Series D preferred stock and warrants exercisable for 5,887,069 shares of our common stock. In connection with the NTOF investment in the Company, John Hancock Life Insurance Company, John Hancock Variable Life Insurance Company, Signature 1A (Cayman), Ltd. and Signature 3 Limited (collectively, the "Hancock Entities") exchanged \$20 million of subordinated debt, warrants to purchase 576,134 shares of the Company's common stock, 50,000 shares of Series C cumulative redeemable preferred stock and all accrued interest and dividends for 27,000 shares of the Company's Series D cumulative redeemable preferred stock and warrants exercisable for 45,414,529 shares of our common stock. In conjunction with this restructuring the Company's senior lender, Bank of America Texas, N.A. ("Bank of America"), agreed to an extension of the maturity date of the Company's term credit facility until January 2, 2002 and a revised payment schedule. Subsequent to the financial restructuring, Bank of America assigned its interest in the credit facility to Endeavour, LLC (the "Senior Lender") and the Senior Lender extended the due date to January 6, 2003. The Company is pursuing a revolving credit facility with a new lender to replace the existing facility prior to its maturity date. There can be no assurance that the Company will be able to replace its Senior Lender as anticipated or extend its senior credit facility beyond January 2003, if that becomes necessary. See Note 12 for additional information regarding the terms of the warrants, cumulative redeemable preferred stock and other shareholder matters. Prior to its sale in March 2001, OTF had a demand agreement with Royal Bank of Canada to provide revolving credit facilities, which were collateralized by substantially all assets of OTF. This outstanding balance was fully repaid in March 2001 in conjunction with the sale of OTF's operating assets. In July 2000, the Company entered into an agreement amending the stock purchase agreement relating to the Company's November 1998 acquisition of Perricone Citrus Company. As part of the amended agreement, unsecured promissory notes owed by the Company totaling \$3.5 million and the accrued and unpaid interest therein were restructured whereby the Company agreed to the following:

payments totaling \$100,000 upon execution of the amended agreement; lump-sum payments of \$350,000 and \$150,000 on January 1, 2002 and July 1, 2002, respectively; and 24 monthly installment payments of \$37,500 totaling \$900,000. The promissory notes accrue interest at 10% per annum. However, all accrued interest will be forgiven if scheduled principal payments are made timely. Additionally, the Company issued the note holders 300,000 warrants to purchase common shares of the Company at an exercise price of \$2.50 per share. The warrants are exercisable for the duration of seven years. The issuances of these securities were exempt from registration under the Securities Act under Regulation D. The restructuring of the promissory notes and related accrued interest resulted in an extraordinary gain to the Company of \$1.9 million in the third quarter of 2000. In February 2002, the Company and the note holders agreed to amend the agreement to change the due date of all remaining payments to the earlier of (i) January 7, 2003 or (ii) the repayment or refinancing of the Company's term note with the Senior Lender. In addition, all previous accrued interest was forgiven, and the remaining principal balance began accruing interest at an annual rate of 10% in January 2002. F10 FRESH AMERICA CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) Under the terms of the purchase agreement for the acquisition of Jos. Notarianni & Co. ("Notarianni"), a portion of the purchase price was contingent upon Notarianni's earnings subsequent to its acquisitions. The contingent payment for Notarianni was equal to 1.4 times Notarianni's average annual pretax earnings over a three-year period from October 3, 1998 to October 3, 2001. On February 5, 2002, the Company issued an unsecured promissory note to Mr. Joseph Cognetti in the amount of \$1,233,043 (the "Cognetti Note"). The Cognetti Note bears interest of 5% per annum, which interest is payable in quarterly installments, and becomes due and payable on the earlier of (i) January 7, 2003 or (ii) the repayment or refinancing of the Company's term note with the Senior Lender. The Company's purchase agreement with Hereford Haven Inc. d/b/a Martin Bros. ("Martin Bros.") also contains a contingent payment component in the purchase price. The Martin Bros. contingent payment was equal to 4 times the average annual pretax earnings for the three-year period from January 3, 1998 to January 3, 2001. The total contingent payment was \$5.0 million. The payment was due March 31, 2001 and was payable in either cash, common stock or a combination of cash and common stock to the extent of 75% at the Company's option and 25% at the selling shareholder's option. In satisfaction of 75% of the contingent payment, in April 2001, the Company issued 3,166,694 shares of its common stock to Larry Martin, the former owner of Martin Bros. The issuance of these securities to Mr. Martin was exempt from registration under the Securities Act under Regulation D. At the time of issuance, the shares represented a 38% ownership interest in the Company. These shares were valued at \$1.17 per share, the market value of the Company's common stock at the time of the transaction. The remaining \$1.2 million of contingent consideration was evidenced by a promissory note and was restructured as part of the financial restructuring discussed above. It is payable in cash subject to the approval of the Company's Senior Lender. This note is due in January 2003 bears interest at an annual rate of 5%, payable quarterly. The Company is party to a master lease agreement with SunTrust Bank that has been used to provide equipment financing for several of the Company's operating units. The Company was not in compliance with certain financial covenants under the terms of the lease at December 29, 2000 and received waivers for noncompliance through January 6, 2003. There can be no assurance that the Company will be in compliance with such covenants subsequent to the waiver period or will be successful in renegotiating the covenants. The aggregate maturities of long-term debt for the fiscal years subsequent to December 29, 2001 are as follows (in thousands): 2002 - \$1,474; 2003 - \$6,226. Note 5. Disposition Costs and Impairment of Long-lived Assets Subsequent to the termination of the merger discussed in Note 3, in the fourth quarter of 1999 management of the Company initiated a process in conjunction with its business strategy to improve its cost structure, streamline operations and divest the Company of under-performing operations. The process continued during 2000 and into 2001. As a result of this ongoing process, the Company closed or sold several under-performing operations in 1999, 2000 and 2001 as follows: Fiscal 1999: Los Angeles and San Francisco, California Orlando, Florida Atlanta, Georgia Baton Rouge, Louisiana Austin and San Antonio, Texas Fiscal 2000: F11 FRESH AMERICA CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) Los Angeles, California Market Operation Fiscal 2001: King's Onion House, Phoenix, Arizona Ontario Tree Fruits, Ontario, Canada Thompson's Produce, Pensacola, Florida Bacchus Fresh International, Chicago, Illinois During 1999, the Company also decided to move its accounting and administrative functions from Houston to Dallas, Texas. The move was completed in fiscal 2000, and the related costs were charged to operations in that fiscal year. During this process, management evaluated the recoverability of the carrying value of the long-lived assets and related allocable goodwill of these operations. Impairment charges and other disposition costs recorded in fiscal 2001, 2000 and 1999 are as

follows (in thousands): 2001 2000 1999 ----- Impairment of property and equipment \$ 152 \$10,584 \$ -- Impairment of goodwill 8,213 2,207 10,553 Loss on disposition of property and equipment -- -- 976 Closure costs: Liability for future lease commitments 1,184 -- 1,161 Severance -- -- 412 Other -- -- 418 ----- \$ 9,549 \$12,791 \$13,520 ===== Note 6. Accounts Receivable Accounts receivable consist of (in thousands): December 28, December 29, 2001 2000 ----- Accounts receivable \$ 18,414 \$ 37,843 Less allowance for doubtful accounts (290) (1,537) ----- \$ 18,124 \$ 36,306 =====

===== The following table summarizes the activity in the Company's allowance for doubtful accounts in fiscal 1999 through 2001 (in thousands): Balance at Beginning Bad Debt Balance at Fiscal Year of Year Expense Write-offs End of Year ----- 2001 \$ 1,537 \$ (53) \$(1,194) \$ 290 2000 2,593 1,912 (2,968) 1,537 1999 1,697 6,031 (5,135) 2,593 Note 7. Property and Equipment Property and equipment consist of (in thousands): F12 FRESH AMERICA CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) December 28, December 29, 2001 2000 ----- Land \$ 148 \$ 606 Buildings 3,310 4,375 Machinery, furniture, fixtures and equipment 5,188 6,740 Trucks and trailers 3,015 3,567 Leasehold improvements 2,696 2,798 ----- 14,357 18,086 Less accumulated depreciation and amortization (7,433) (8,142) ----- Property and equipment, net \$ 6,924 \$ 9,944 ===== Note 8. Income Taxes ----- The components of income tax expense (benefit) consisted of (in thousands): Fiscal Year Ended December 28, December 29, December 31, 2001 2000 1999 ----- Current: Foreign \$(1,092) \$ 542 \$ 2,190 Federal -- 100 (3,979) State 298 783 (404) Deferred 297 (592) (437) ----- \$ (497) \$ 833 \$(2,630) ===== Income tax expense (benefit) differed from the amount computed by applying the U.S. federal income tax rate to income (loss) before income taxes as a result of the following (in thousands): December 28, December 29, December 31, 2001 2000 1999 ----- Federal income tax expense (benefit) at statutory rate \$(8,960) \$(7,703) \$ (8,617) Increase (reduction) in income taxes resulting from: Change in the beginning-of-the-year balance of the valuation allowance for deferred tax assets 257 7,698 4,586 Nondeductible goodwill amortization and impairment 267 113 2,092 Tax rate and other differences related to Canadian subsidiaries (154) -- 490 Reduction in tax attributes due to financial restructuring 7,424 -- -- State income taxes, net of federal income tax effect 298 192 (262) Adjustment to prior year's estimated provision and other 371 533 (919) ----- \$ (497) \$ 833 \$ (2,630) ===== The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below (in thousands): F13 FRESH AMERICA CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) December 28, December 29, 2001 2000 ----- Deferred tax assets: Net operating loss carry forwards \$ 6,490 \$ 9,360 Property and equipment, principally depreciation and impairment 1,501 1,780 Other 3,883 898 ----- Total deferred tax assets 11,874 12,038 Less valuation allowance (11,874) (11,617) ----- Net deferred tax asset -- 421 Deferred tax liabilities - income not currently taxable -- 124 ----- Net deferred tax asset \$ -- \$ 297 ===== In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent primarily upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon current projections for future U.S. taxable income over the periods which the deferred tax assets are deductible, management believes that it is more likely than not that its deferred tax assets related to U.S. operations will not be realized and a valuation allowance for such assets is required at December 28, 2001 and December 29, 2000. At December 28, 2001, the Company has a net operating loss ("NOL") carry forward for federal income tax purposes of approximately \$18,500,000. During 2001, the Company experienced two "ownership changes" as defined by the Internal Revenue Code of 1986. After an ownership change, utilization of a loss corporation's NOL carry forward is limited annually to a prescribed rate multiplied by the value of the loss corporation's stock immediately before the ownership change. In general, an ownership change occurs if ownership of more than 50% in value of the stock of the loss corporation changes during the three-year period proceeding the test date. Since the Company's stock had no value for purposes of this calculation, none of the NOL carryforward will be useable in future years. Note 9. Options ----- In July 1993, the Company adopted the Fresh America Corp. 1993 Stock Option and Award Plan (the "1993 Plan"), which reserved 450,000 shares of the Company's common stock for issuance to employees and directors. Effective May 22, 1998, the 1993 Plan was frozen, which prevents any additional options from being granted under the plan. In July 1996, the Company adopted the Fresh America Corp. 1996 Stock Option and Award

Plan (the "1996 Plan"), which reserved 150,000 shares of the Company's common stock for issuance to employees and directors. Effective May 22, 1998, the Company amended and restated the 1996 Plan, which increased the number of shares reserved from 150,000 to 625,000. At December 28, 2001 and December 29, 2000, options for 354,000 and 103,250 shares, respectively, were available for issuance. Options under the 1993 and 1996 Plans are granted at an exercise price equal to at least 100% of the fair market value of the Company's common stock on the date of grant. Unless determined otherwise by the Company's Board of Directors, each independent director is automatically granted an option to purchase 5,000 shares of F14 FRESH AMERICA CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) common stock each year. Such option grants vest immediately and will expire in ten years if not exercised. Options granted to employees generally vest in one year from the date of grant and expire after ten years if not exercised. The Plans restrict the rights to exercise based on employment status and percentage of stock ownership in accordance with Section 422 of the Internal Revenue Code. The following table summarizes stock option activity under the Plans for fiscal 1999 through fiscal 2001: Weighted Average Stock Options Option Price Range Exercise Issued Exercisable Low High Price -----

----- At January 1, 1999 373,699 315,199 \$ 3.55 \$25.50 \$11.69 Granted 20,000 13.75 13.75 13.75 Exercised (5,353) 3.55 14.00 9.41 Canceled (54,250) 5.00 17.75 13.63 ----- At December 31, 1999 334,096 319,096 \$ 3.55 \$25.50 \$11.53 Granted 413,750 2.00 4.50 \$ 3.00 Canceled (154,806) 3.55 25.50 \$ 9.66 At December 29, 2000 593,040 344,290 \$ 2.00 \$19.88 \$ 5.83 Granted -- -- -- Canceled (291,297) 2.00 19.88 6.70 ----- At December 28, 2001 301,753 301,753 \$ 2.00 \$19.88 \$ 4.99 =====

The following table summarizes information about the Company's stock options outstanding as of December 28, 2001: Options Outstanding Options Exercisable ----- Number Weighted-Average Weighted- Number Weighted- Outstanding Remaining Average Exercisable Average Range of at Dec. 28, Contractual Exercise at Dec. 28, Exercise Exercise Prices 2001 Life Price 2001 Price ----- \$ 2.00 to \$ 5.00 230,500 8.0 \$ 2.96 230,500 \$ 2.96 5.01 to 7.00 26,253 3.9 6.79 26,253 6.79 7.01 to 9.00 7,000 2.4 9.00 7,000 9.00 11.01 to 13.00 9,500 4.5 11.75 9,500 11.75 13.01 to 15.00 11,000 2.9 14.00 11,000 14.00 17.01 to 19.00 12,500 6.2 17.25 12,500 17.25 19.01 to 19.88 5,000 6.6 19.88 5,000 19.88 ----- 301,753 301,753 =====

===== The Company has adopted the disclosure-only provision of SFAS No. 123, "Accounting for Stock-Based Compensation." Accordingly, no compensation cost has been recognized for the stock option plans. Had compensation cost for the Company's two stock option plans been determined for grant dates subsequent to January 1, 1995 based on the fair value at the grant date of awards consistent with the provisions of SFAS No. 123, the Company's net earnings (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below: F15 FRESH AMERICA CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) Fiscal Year (In thousands, except earnings per share data)

----- 2001 2000 1999 ----- Net income (loss) applicable to common shareholders - as reported \$(2,922) \$(21,635) \$(21,991) Net income (loss) applicable to common shareholders - pro forma (2,946) (21,893) (22,319) Earnings (loss) per share - as reported: Basic (.39) (4.13) (4.20) Diluted (.39) (4.13) (4.20) Earnings (loss) per share - pro forma: Basic (.39) (4.18) (4.26) Diluted (.39) (4.18) (4.26) The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for fiscal 2001, 2000 and 1999 for both plans: no dividend yield; expected volatility of 58% in 2001, 58% in 2000 and 136% in 1999; risk-free interest rates of 5.9% in 2001, 5.9% in 2000 and 4.2% in 1999; and expected lives of three to five years. The weighted average fair value per share of the options granted during fiscal 2001, 2000 and 1999 is estimated to be \$1.93, \$1.93 and \$12.23, respectively. As of December 28, 2001, the weighted-average remaining contractual life of outstanding options was 7.2 years. Note 10. Employee Benefit Plan -----

Effective January 1, 1992, the Company adopted the Fresh America Corp. 401(k) Profit Sharing Plan (the "Plan"), which provides for the Company, at its option, to make a matching contribution of up to 6% of each qualifying employee's annual earnings. The Company's matching contribution under the Plan was \$220,000, \$272,000 and \$343,000 for the fiscal years 2001, 2000 and 1999, respectively. Note 11. Contingencies and Commitments -----

The Company is obligated under certain noncancelable operating leases (with initial or remaining lease terms in excess of one year). The future minimum lease payments under such leases as of December 28, 2001 are (in thousands): Fiscal years ending: 2002 \$ 4,793 2003 4,117 2004 2,975 2005 2,275 2006 1,417 Thereafter 881 ----- Total minimum lease payments \$16,458 ===== Rental expense amounted to approximately \$7,227,000, \$10,114,000 and \$12,569,000 for the fiscal years 2001, 2000

and 1999, of which approximately \$2,499,000, \$3,978,000 and \$5,653,000 relates to truck and trailer rental which is included in cost of sales. The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity. F16 FRESH AMERICA CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) Note 12.

Shareholders' Equity ----- The warrants issued to NTOF, Mr. Hollingsworth and the Hancock Entities discussed in Note 4 cannot be exercised until the Company's articles of incorporation are amended to increase the Company's authorized common stock from 10 million shares to 250 million shares and decrease the common stock's stated par value from \$.01 to \$.0001 per share (the "Charter Amendment"). In connection with the financial restructuring, the Company held a special meeting of the shareholders which was adjourned on December 28, 2001, and reconvened on December 29, 2001. The Company's shareholders were asked to approve the Charter Amendment. At the special meeting, the Charter Amendment failed to receive the necessary approval of the holders of a supermajority of the shares of the issued and outstanding stock; therefore, the Company's articles of incorporation were not amended at the special meeting. Because the Charter Amendment was not approved, the holders of the Series D preferred stock received increased rights under the terms of the Series D preferred stock (as described below) and the warrants are not exercisable. The Board of Directors has approved such amendment but the holders of the Company's issued and outstanding capital stock entitled to vote must approve it. The warrants are exercisable for a ten-year period that commenced on August 14, 2001 and ends August 14, 2011. The exercise price of the warrants is \$.0001 per share and the warrants are subject to anti-dilution provisions providing adjustment in the event of any recapitalization, stock dividend, stock split, reorganization, merger or similar transaction or certain issuances of shares below their market value. Initially, each share of the 77,000 shares of Series D preferred stock had the right to receive cumulative dividends, payable monthly in cash and calculated on the basis of an annual dividend rate of \$8 for each share plus interest on any accrued but unpaid dividends. Because the Charter Amendment was not approved at the special meeting, the annual dividend rate increased to \$18 per share on December 31, 2001. However, the Company has obtained a waiver for the enhanced dividend amount from the Series D preferred stockholders for the period from December 29, 2001 until January 3, 2003. Therefore, the annual dividend rate will not increase to \$18 per share during this period, but will remain at the original annual dividend rate of \$8 for each share of preferred stock. The Company may not declare a dividend on any other class of capital stock so long as any accrued dividends for the preferred stock have not been paid. If the Company pays a dividend to holders of any other class of the Company's capital stock, then the Company will pay a dilution fee to the holders of the preferred stock. When the Charter Amendment was not approved at the special meeting, the holders of preferred stock became entitled to vote as a separate class for all matters on which the holders of common stock are entitled to vote, with each share entitled to one vote per share; however, where applicable law prevents class voting, holders of the preferred stock are entitled to vote together with the holders of common stock with each share of preferred stock entitled to 250 votes per share, being 11,625,000 votes for NTOF, 875,000 for Mr. Hollingsworth and 6,750,000 for the Hancock Entities. The Series D preferred stockholders have a put right on the Series D preferred stock after August 14, 2004, and immediately upon any breach by the Company of the financial restructuring agreements or any sale, merger or change of control of the Company at \$100 per share plus accrued and unpaid dividends. Because the requisite shareholder approval for the Charter Amendment was not obtained, the holders of Series D preferred stock have the right to exercise their put right at three times the face value of the preferred stock, such amount being \$13,950,000 for NTOF, \$1,050,000 for Mr. Hollingsworth and \$8,100,000 for the Hancock Entities plus accrued and unpaid dividends. Additionally, the holders of the preferred stock, have the right to redeem their shares of preferred stock on the same terms of the put right after April 30, 2007 or immediately upon the occurrence of any sale, merger or change of control of the Company, any qualified public offering with net proceeds of at least \$20,000,000 or any private equity financing with net proceeds of at least \$20,000,000. Each share of Series D preferred stock has a preference upon liquidation, dissolution, winding up or sale of the Company equal to \$100.00 per share plus accrued and unpaid interest. Because the requisite shareholder approval for the Charter Amendment was not obtained, the holders of the preferred stock have the right to a liquidation preference payment equal to the face value of the preferred stock plus 90% of the fair market value of the remaining property of the Company and the holders of the common stock will have the right to a F17 FRESH AMERICA CORP. AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued) liquidation preference payment equal to the remaining 10% of the fair market value of the remaining

property of the Company. Under the terms of the Series D preferred stock and the Shareholders Agreement dated August 14, 2001 by and among the Company, NTOF and the Hancock Entities, NTOF has the right to appoint three directors to the Board of Directors and the Hancock Entities have the right to appoint one director to the Board of Directors, unless it waives such right. Because the Hancock Entities waived its right to appoint a director, NTOF appointed four members to the Company's Board of Directors in October 2001. The current Board of Directors consists of five members. In addition, NTOF and the Hancock Entities each have the right to designate one observer to attend all meetings of the Board of Directors. Under the Shareholders Agreement, the Company granted each holder of preferred stock the preemptive right to purchase, pro rata, all or any part of new securities offered by the Company. The Shareholders Agreement also grants each holder of preferred stock the right of first offer and co-sale rights in the event another holder of preferred stock elects to sell its stock. Prior to a public offering with net proceeds of at least \$20,000,000, if the holder of 50% or more of the outstanding capital stock of the Company elects to sell all of its shares, then the holder will have pull-along rights with respect to the non-selling holders of preferred stock. Under the Securities Exchange and Purchase Agreement dated August 14, 2001 (the "Purchase Agreement") by and among the Company, NTOF and the Hancock Entities, the Company has granted registration rights to NTOF and the Hancock Entities. The registration rights granted include two rights to demand that the Company register the holder's shares for resale to the public pursuant to the Securities Act of 1933, an unlimited number of rights to register the holder's shares for resale to the public pursuant to other public offerings and, upon the Company's eligibility for use of Form S-3 under the Securities Act of 1933, an unlimited number of rights to register the holder's shares for resale to the public on Form S-3. The Purchase Agreement also requires the Company to obtain NTOF's and/or the Hancock Entities' consent prior to taking certain actions in the operation of its business other than pursuant to the terms of the financial restructuring. These actions include, but are not limited to, amending the Company's organizational documents adversely to NTOF and the Hancock Entities, declaring any dividends, selling or leasing any assets of the Company outside of the ordinary course of business, selling any additional capital stock of the Company (except pursuant to existing warrants and under the Company's stock option plan for employees), entering into any transactions with affiliates (other than in arms-length transactions), paying any management or consulting fees, acquiring any debt or equity interest in another entity, increasing the compensation of any executive officer by 5% or more, terminating any key employee, adopting a new employee benefit plan or employment agreement, acquiring any property for more than \$500,000 or making any capital expenditure greater than \$250,000 individually or \$1,000,000 in the aggregate. The Company intends to submit the Charter Amendment to the Company's shareholders at its 2002 Annual Meeting of Shareholders. The Series D preferred stock represents 68% of the combined voting power of the Company's capital stock entitled to vote on the Charter Amendment and therefore holds a sufficient number of shares needed to approve the Charter Amendment without any other shareholder vote in favor of the Charter Amendment. The Company believes that the holders of the Series D preferred stock currently intend to vote their shares in favor of the Charter Amendment. The Shareholders Agreement also requires the Company, upon receiving an "unlocking proposal" as defined, representing a bona fide offer from an unrelated third party to enter into a sale transaction, and upon receiving notice from either NTOF or the Hancock Entities, to use good faith and commercially reasonable efforts to consummate the proposed transaction or, if the Company fails to accept the unlocking proposal, the holder will have the right to require the Company to purchase such shareholder's capital stock based upon the price that would have been paid to such holder in the sale transaction. Note 13. Quarterly Financial Data (Unaudited)

----- F18 FRESH AMERICA CORP. AND SUBSIDIARIES NOTES TO
 CONSOLIDATED FINANCIAL STATEMENTS (Continued) Summarized quarterly financial data is as follows (in thousands, except earnings per share data): Fiscal 2001 (a)

	First Qtr.	Second Qtr.	Third Qtr.	Fourth Qtr.
Net sales	\$ 86,901	\$ 70,218	\$ 52,544	\$ 48,197
Gross profit	8,698	8,647	6,143	4,685
Gross margin	10.0%	12.30%	11.70%	9.72%
Net income (loss)	(4,727)	(2,946)	20,219	(13,875)
Net income (loss) applicable to common shareholders	\$ (4,983)	\$ (3,204)	\$ 19,808(b)	\$ (14,543)(c)
Earnings (loss) per share - basic	(.95)	(.41)	2.36	(1.73)
Earnings (loss) per share - diluted	(.95)	(.41)	.38	(1.73)
----- Fiscal 2000 (a)				
Net sales	\$ 142,652	\$ 163,585	\$ 138,458	\$ 109,859
Gross profit	15,149	18,507	14,074	10,655
Gross margin	10.6%	11.3%	10.16%	9.70%
Net income (loss)	(1,881)	811	(596)	(19,271)
Net income (loss) applicable to common shareholders	\$ (1,881)	\$ 633	\$ (856)	\$ (19,531)
Earnings per share - basic	(.36)			

.12 (.16) (3.73) Earnings per share - diluted (.36) .08 (.16) (3.73) ----- (a) Each quarter in the 52-week year contains 13 weeks (b) The Company recorded an extraordinary gain of \$ 23.8 million in the third quarter of 2001 related to its financial restructuring. (c) The Company recorded an impairment charge related to property and equipment and goodwill of \$8.3 million and a \$1.2 million charge for lease commitments on idle facilities in the fourth quarter of 2001. Note 14. Segment and Related Information SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," establishes standards for the way public business enterprises report information about products and services. Because of the general focus of the Company's business of handling fresh produce and the interrelated nature of the Company's business activities, all of which are generally conducted at each of the Company's locations, management of the Company does not capture the financial results of the interrelated business activities in its financial information systems by type of activity at each location or for the Company as a whole. The management of the Company measures performance based on the gross margins and pretax income generated from each of the Company's operations. Pretax income for the purpose of management's analysis does not include corporate overhead such as selling, general and administrative expenses and income tax expense. Since the business units have similar economic characteristics and are engaged in procurement, processing and distribution of produce, they have been aggregated into one reportable segment for reporting purposes. See Note 2 - "Agreement with Sam's Club" for discussion of the Company's major customer. Summarized information regarding the Company's significant operations in different geographic areas, including domestic operations, as of and for the three fiscal years ended December 28, 2001 follows (in thousands):

Long-Lived Net Sales Assets -----	December 28, 2001	United States \$253,242	\$ 23,451	Canada 4,618	-- -----	Total \$257,860	\$ 23,451	=====
-----	December 29, 2000	United States \$498,665	\$ 34,704	Canada 55,889	2,003 -----	Total \$554,554	\$ 36,707	=====
=====	December 31, 1999	United States \$576,658	\$ 46,976	Canada 93,217	3,985 -----	Total \$669,875	\$ 50,961	=====

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