

Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

FURRS RESTAURANT GROUP INC  
Form 10-Q  
August 16, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended July 3, 2001

OR

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

COMMISSION FILE NO. 1-10725

FURR'S RESTAURANT GROUP, INC.

INCORPORATED IN DELAWARE

IRS EMPLOYER IDENTIFICATION  
NO. 75-2350724

3001 E. PRESIDENT GEORGE BUSH HWY., SUITE 200, RICHARDSON, TEXAS 75082

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (972) 808-2923

-----  
Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

YES X NO

-- --

-----  
As of July 31, 2001 there were 9,767,926 shares of Common Stock  
outstanding.

FURR'S RESTAURANT GROUP, INC.

INDEX

# Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

## PART I. FINANCIAL INFORMATION

- Item 1. Financial Statements
- Condensed Consolidated Balance Sheets -  
July 3, 2001 (Unaudited) and January 2, 2001
- Unaudited Condensed Consolidated Statements of  
Operations - For the thirteen weeks ended  
July 3, 2001 and June 27, 2000
- Unaudited Condensed Consolidated Statements of Operations-  
For the twenty-six weeks ended July 3, 2001 and June 27, 2000
- Unaudited Condensed Consolidated Statement of Changes in  
Stockholders' Equity (Deficit) - For the twenty-six weeks ended  
July 3, 2001
- Unaudited Condensed Consolidated Statements of  
Cash Flows - For the twenty-six weeks ended  
July 3, 2001 and June 27, 2000
- Notes to Unaudited Condensed Consolidated  
Financial Statements
- Item 2. Management's Discussion and Analysis of Financial  
Condition and Results of Operations
- Item 3. Quantitative and Qualitative Disclosure About Market Risk

## PART II. OTHER INFORMATION

- Item 1. Legal Proceedings
- Item 4. Submission of Matters to a Vote of Security Holders

## SIGNATURES

2

## PART I. FINANCIAL INFORMATION

- Item 1. Financial Statements

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS  
JULY 3, 2001 AND JANUARY 2, 2001  
(DOLLARS IN THOUSANDS, EXCEPT PAR VALUE AMOUNTS)

Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

	(Unaudited) July 3, 2001
	-----
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ -
Accounts and notes receivable, net	1,759
Inventories	7,511
Prepaid expenses and other	2,357
	-----
Total current assets	11,627
	-----
PROPERTY, PLANT AND EQUIPMENT, NET	47,422
DEFERRED TAX ASSETS	18,861
DEFERRED LOAN COSTS, NET	2,549
OTHER ASSETS	621
	-----
TOTAL ASSETS	\$ 81,080
	=====

(Continued)

3

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
JULY 3, 2001 AND JANUARY 2, 2001  
(DOLLARS IN THOUSANDS, EXCEPT PAR VALUE AMOUNTS)

	(Unaudited) July 3, 2001
	-----
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	
CURRENT LIABILITIES:	
Current maturities of long-term debt	\$ 4,550
Trade accounts payable	6,920
Other payables and accrued expenses	15,256
Derivative liability, current	187
Reserve for store closings, current	717
	-----
Total current liabilities	27,630
	-----
RESERVE FOR STORE CLOSINGS, NET OF CURRENT MATURITIES	2,080

Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

LONG-TERM DEBT, NET OF CURRENT PORTION	36,450
OTHER PAYABLES	9,856
DERIVATIVE LIABILITY, NET OF CURRENT PORTION	151
EXCESS OF FUTURE LEASE PAYMENTS OVER FAIR VALUE, NET OF AMORTIZATION	1,288
STOCKHOLDERS' EQUITY (DEFICIT):	
Preferred Stock, \$.01 par value; 5,000,000 shares authorized, none issued	-
Common Stock, \$.01 par value; 15,000,000 shares authorized, 9,767,926 shares issued and outstanding	98
Additional paid-in capital	56,407
Accumulated other comprehensive loss	(3,738)
Accumulated deficit	(49,142)
	-----
Total stockholders' equity (deficit)	3,625
	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 81,080
	=====

See accompanying notes to condensed consolidated financial statements.

4

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE THIRTEEN WEEKS ENDED JULY 3, 2001 AND JUNE 27, 2000  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Thirteen
	-----
	July 3, 2001
	-----
Sales	\$ 47,555
Costs and expenses:	
Cost of sales (excluding depreciation)	13,970
Selling, general and administrative	29,174
Depreciation and amortization	3,048
	-----
	46,192
	-----
Operating income	1,363
Loss (gain) on disposal of assets	95
Interest expense	1,085
	-----

Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

Earnings before income taxes and extraordinary gain	183
Income tax expense (benefit)	(101)
	-----
Earnings before extraordinary item	284
Extraordinary gain on retirement of debt	3,640
	-----
Net income	\$ 3,924
	=====
Weighted average number of shares of common stock outstanding:	
Basic	9,767,926
	=====
Diluted	9,770,066
	=====
Earnings before extraordinary item per share:	
Basic	\$ 0.03
	=====
Diluted	\$ 0.03
	=====
Extraordinary item per share:	
Basic	\$ 0.37
	=====
Diluted	\$ 0.37
	=====
Net income per share:	
Basic	\$ 0.40
	=====
Diluted	\$ 0.40
	=====

See accompanying notes to condensed consolidated financial statements.

5

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
FOR THE TWENTY-SIX WEEKS ENDED JULY 3, 2001 AND JUNE 27, 2000  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	-----
	Twenty-
	July 3,
	2001
	-----
Sales	\$ 95,042
Costs and expenses:	
Cost of sales (excluding depreciation)	27,292

Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

Selling, general and administrative	58,214
Depreciation and amortization	5,648
	-----
	91,154
	-----
Operating income	3,888
Gain on disposal of assets	(344)
Interest expense	1,179
	-----
Earnings before income taxes and extraordinary item	3,053
Income tax expense	438
	-----
Earnings before extraordinary item	2,615
Extraordinary gain on retirement of debt	3,640
	=====
Net income	\$ 6,255
	=====
Weighted average number of shares of common stock outstanding:	
Basic	9,767,926
	=====
Diluted	9,769,267
	=====
Earnings before extraordinary item per share:	
Basic	\$ 0.27
	=====
Diluted	\$ 0.27
	=====
Extraordinary item per share:	
Basic	\$ 0.37
	=====
Diluted	\$ 0.37
	=====
Net income per share:	
Basic	\$ 0.64
	=====
Diluted	\$ 0.64
	=====

See accompanying notes to condensed consolidated financial statements.

6

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES  
 UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES  
 IN STOCKHOLDERS' EQUITY (DEFICIT)  
 FOR THE TWENTY-SIX WEEKS ENDED JULY 3, 2001  
 (DOLLARS IN THOUSANDS)

Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

	Preferred Stock -----	Common Stock -----	Additional Paid-In Capital -----	Accumulated Other Comprehensive Loss -----
BALANCE, JANUARY 2, 2001	\$ -	\$ 98	\$ 56,386	\$ (3,521)
Change in fair value of interest rate swap, net of tax				(225)
Reclassification of interest rate swap to earnings, net of tax				8
Stock issued			21	
Net income	-	-	-	
BALANCE, JULY 3, 2001	\$ -	\$ 98	\$ 56,407	\$ (3,733)

See accompanying notes to condensed consolidated financial statements.

7

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(DOLLARS IN THOUSANDS)

	Twenty-six ----- July 3, 2001 -----
Cash flows from operating activities:	
Net income	\$ 6,255
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	5,648
Amortization of deferred loan costs	135

7

## Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

Deferred tax expense	438
Gain on disposal of assets	(344)
Extraordinary gain on debt refinancing	(3,640)
Changes in operating assets and liabilities:	
Accounts and notes receivable	(385)
Inventories	(603)
Prepaid expenses and other	(1,463)
Reserve for store closings	(268)
Trade accounts payable, other payables, accrued expenses and other liabilities	446
	-----
Net cash provided by operating activities	6,219
	-----
Cash flows from investing activities:	
Purchases of property, plant and equipment	(1,155)
Proceeds from the sale of property, plant and equipment	3,005
	-----
Net cash provided by (used in) investing activities	1,850
	-----
Cash flows from financing activities:	
Payment of indebtedness	(10,579)
Payment of loan costs	(2,684)
Increase in cash overdraft	(521)
Issuance of stock	21
	-----
Net cash used in financing activities	(13,763)
	-----
Decrease in cash and cash equivalents	(5,694)
Cash and cash equivalents at beginning of period	5,694
	-----
Cash and cash equivalents at end of period	\$ -
	=====
Supplemental disclosure of cash flow information:	
Cash paid for interest (including \$3,364 in 2001 and \$2,747 in 2000 classified as payment of indebtedness.)	\$ 4,794
	=====
Cash paid for income taxes	\$ -
	=====
Noncash investing and financing activities:	
Receivable related to involuntary equipment conversion	\$ 114
	=====

See accompanying notes to condensed consolidated financial statements.



# Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

(Unaudited)  
(Dollars in Thousands)

## BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and note disclosures required by generally accepted accounting principles. These statements should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended January 3, 2001. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of interim financial position and results of operations.

Interim results of operations may not be indicative of the results that may be expected for a full fiscal year.

## EARNINGS PER SHARE

The following table reconciles the denominators of basic and diluted earnings per share for the periods ended July 3, 2001 and June 27, 2000.

	Thirteen Weeks Ended		Twenty-six
	July 3, 2001	June 27, 2000	July 3, 2001
Weighted average common shares outstanding-basic	9,767,926	9,757,918	9,767,926
Options	2,140	-	1,341
Weighted average common shares outstanding-diluted	9,770,066	9,757,918	9,769,267

The following table sets forth the options and warrants that were not included in the computation of diluted earnings per share because their exercise price was greater than the average market price of the common shares and therefore, the effect would be anti-dilutive.

	Thirteen Weeks Ended		Twenty-six
	July 3, 2001	June 27, 2000	July 3, 2001
Options	758,000	699,413	758,000
Warrants	-	512,246	-

## Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

### COMPREHENSIVE INCOME

The following table sets for the components of comprehensive income for the periods ended July 3, 2001 June 27, 2000:

	Thirteen Weeks Ended		Twenty-six
	July 3, 2001	June 27, 2000	July 3, 2001
Net income	\$3,924	\$2,428	\$6,255
Fair value of interest rate swap, net of tax	(217)	-	(217)
	\$3,707	\$2,428	\$6,038

### INCOME TAXES

The Company has provided income tax expense of (\$101) and \$438 for the thirteen weeks and twenty-six weeks ended July 3, 2001, respectively. The effective income tax rate is lower than the statutory Federal rate of 35% due to interest expense reported as additional debt rather than interest expense pursuant to Statement of Financial Accounting Standards No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings" ("SFAS 15"). There is no income tax expense associated with the extraordinary gain as this represents early disposition of remaining restructured debt interest under SFAS 15.

### DEBT REFINANCING

On April 10, 2001, the Company entered into a new \$55,000 Revolving Credit and Term Loan Agreement (Credit Agreement) with various banks and lenders. Concurrent with the execution of this new agreement the Company defeased and gave notice of redemption of its 12% Senior Secured Notes due December 31, 2001 and repaid in full the \$2,600 of 10.5% Notes due December 31, 2001. Accordingly, the balance of these notes, less the current portion of the new term loan, was classified as long term at January 2, 2001. After the redemption of the 12% Notes and the repayment in full of the 10.5% Notes, the Company had \$44,000 outstanding under the new Credit Agreement. The Credit Agreement contains covenants with regard to maintaining certain leverage ratios, achieving certain levels of EBITDA, operating cash flow and limits on capital expenditures. In addition there are certain restrictions on the payment of dividends and additional indebtedness. The Credit Agreement allows the Company to borrow at either a Federal Funds Rate plus an applicable margin or at a Eurocurrency Reserve Rate plus an applicable margin.

The Credit Agreement provides that the Company can borrow up to \$20,000 on a revolving basis until April, 2006, of which \$9,000 was drawn at closing, with the remaining \$11,000 of available borrowings to be used for working capital and capital expenditures. The Credit Agreement contains a \$30,000 Term Loan A and a \$5,000 Term Loan B. The Term Loan A and Term Loan B provide for quarterly amortization through April, 2006 and April, 2007, respectively, with the remaining amounts outstanding then due. The Company's obligations under the Credit Agreement are secured by a security interest in and liens upon substantially all of the Company's assets.

## Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

As a result of retiring the 12% Senior Secured Notes, the Company has been legally released as obligors and reported an extraordinary gain of \$3,640 in the second quarter of fiscal 2001.

10

### BUSINESS SEGMENTS

Following is a summary of segment information of the Company for the thirteen weeks ended July 3, 2001 and June 27, 2000:

	CAFETERIAS	DYNAMIC FOODS	TOTAL
2001:			
External revenues	\$ 47,134	\$ 421	\$ 47,555
Intersegment revenues	-	15,531	15,531
Depreciation and amortization	2,787	261	3,048
Segment profit	1,818	328	2,146
2000:			
External revenues	\$ 47,771	\$ 417	\$ 48,188
Intersegment revenues	-	15,038	15,038
Depreciation and amortization	2,406	261	2,667
Segment profit	2,803	235	3,038

Following is a summary of segment information of the Company for the twenty-six weeks ended July 3, 2001 and June 27, 2000:

	CAFETERIAS	DYNAMIC FOODS	TOTAL
2001:			
External revenues	\$94,212	\$ 830	\$ 95,042
Intersegment revenues	-	29,775	29,775
Depreciation and amortization	5,124	524	5,648
Segment profit	4,271	839	5,110
2000:			
External revenues	\$95,209	\$ 743	\$ 95,952
Intersegment revenues	-	30,137	30,137
Depreciation and amortization	4,798	515	5,313
Segment profit	5,245	416	5,661

Following is a reconciliation of reportable segments to the Company's consolidated totals for the periods ended July 3, 2001 and June 27, 2000:

Thirteen Weeks Ended		Twenty-six Weeks Ended
July 3, 2001	June 27, 2000	July 3, 2001

## Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

Revenues			
Total revenues of reportable segments	\$ 62,906	\$ 63,226	\$124,817
Elimination of inter-segment revenue	(15,351)	(15,038)	(29,775)
	-----	-----	-----
Total consolidated revenues	\$ 47,555	\$ 48,188	\$ 95,042

### INTEREST RATE RISK MANAGEMENT

The Company uses variable-rate debt to finance its operations. In particular, it has borrowed money under a Credit Agreement providing for variable-rate interest to retire the bonds and notes due December 31, 2001. This debt obligation exposes the Company to variability in interest payments due to

11

changes in interest rates. If interest rates increase, interest expense increases and conversely, if interest rates decrease, interest expense also decreases.

Management believes it is prudent to limit the variability of a portion of its interest payments. It is the Company's objective to hedge between 50 and 70 percent of its variable-rate long-term note interest payments. The Company's Credit Agreement also requires that the Company hedge at least \$20,000 for a period of two years.

To meet this requirement, the Company has entered into a derivative instrument, in the form of an interest rate swap, to manage fluctuations in cash flows resulting from interest rate risk. The interest rate swap changes the variable-rate cash flow exposure to fixed-rate cash flows by entering into a receive-variable, pay-fixed interest rate swap. Under the interest rate swap, which has a notional amount of \$20,000 and a two-year term, the Company receives variable interest rate payments based on LIBOR and makes fixed interest rate payments at 4.99%. The Company accounts for the interest rate swap in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. SFAS No. 133 requires that all derivative instruments be recorded in the balance sheet at fair value. The interest rate swap is a cash flow hedge under SFAS No. 133 and, accordingly, changes in fair value are reported in other comprehensive income and such amounts are reclassified into interest expense as a yield adjustment in the same period in which the related expense on the variable rate debt affects operations.

The Company does not enter into derivative instruments for any purpose other than cash flow hedging purposes. That is, the Company does not speculate using derivative instruments.

The Company assesses interest rate cash flow risk by identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities.

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

### RESULTS OF OPERATIONS

THIRTEEN WEEKS ENDED JULY 3, 2001 COMPARED TO THIRTEEN WEEKS ENDED JUNE 27,

## Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

2000:

Sales for the second fiscal quarter of 2001 were \$47.6 million, a decrease of \$.6 million from the same quarter of 2000. Operating income for the second quarter of 2001 was \$1.4 million compared to \$2.6 million in the comparable period in the prior year. Net income for the second quarter of 2001 was \$3.9 million compared to \$2.4 million in the second quarter 2000 and includes an extraordinary gain of \$3.6 million realized as a result of early retirement of debt and the associated interest that had been classified as additional debt pursuant to SFAS 15.

SALES. Restaurant sales in comparable units increased \$.7 million, or 1.6%, in the second quarter of 2001 over the same quarter of 2000 due to two units opened during the second quarter of 2000 now included in the comparable unit category. Second quarter 2001 sales for the new units opened since second quarter 2000 were \$394 thousand, while the second quarter 2000 sales of the units that were closed after second quarter 2000 were \$1.7 million, resulting in a net decrease of \$1.3 million in second quarter 2001 sales. Sales by Dynamic Foods to third parties were \$421 thousand in the second quarter of 2001, \$4 thousand higher than second quarter of 2000.

COST OF SALES. Excluding depreciation, cost of sales was 29.4% of sales for the both second quarter of 2001 and 2000. Cost of sales in second quarter 2001 was negatively impacted by the increased cost associated with the six week "All you can eat steak" promotion run during the quarter.

12

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative ("SG&A") expense was higher in the aggregate by \$.4 million in the second quarter of 2001 as compared to 2000. The change in SG&A expense included an increase of \$441 thousand in utility expense, \$97 thousand in marketing expense and \$123 thousand in other store expense. We had decreases of \$101 thousand in repairs and maintenance and \$151 thousand in supplies expense.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense was higher by \$381 thousand in the first quarter of 2001. Included in depreciation for the second quarter of 2001 is a \$583 thousand write down of impaired assets.

INCOME TAXES. Income tax (benefit) expense of (\$101) thousand and \$523 thousand was provided in the second quarter of 2001 and 2000, respectively. Our effective tax rate is lower than the statutory Federal rate of 35% due to interest expense on restructured debt, which is reported as additional debt rather than interest expense pursuant to SFAS 15.

TWENTY-SIX WEEKS ENDED JULY 3, 2001 COMPARED TO TWENTY-SIX WEEKS ENDED JUNE 27, 2000:

Sales for the first twenty-six weeks of 2001 were \$95.0 million, a decrease of \$1.0 million from the same period of 2000. Operating income for the first twenty-six weeks of 2001 was \$3.9 million compared to \$5.2 million in the comparable period in the prior year. Net income for the first twenty-six weeks of 2001 was \$6.3 million compared to \$4.5 million in the same period of 2000 and includes an extraordinary gain of \$3.6 million realized as a result of early retirement of debt and the associated interest that had been classified as additional debt pursuant to SFAS 15.

SALES. Restaurant sales in comparable units increased \$1.2 million, or 1.3%, in the first twenty-six weeks of 2001 over the same period of 2000

## Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

due to two units opened during the second quarter of 2000 now included in the comparable unit category. Year to date sales for the new units opened since second quarter 2000 was \$.9 million, while the year to date 2000 sales of the units that were closed after second quarter 2000 were \$3.6 million, resulting in a net decrease of \$2.7 million in year to date 2001 sales. Sales by Dynamic Foods to third parties were \$87 thousand higher in the first twenty-six weeks of 2001 than that of the comparable period of 2000.

**COST OF SALES.** Excluding depreciation, cost of sales was 28.7% of sales for the first twenty-six weeks of 2001 as compared to 29.4% for the same period of 2000. The decrease in the percentage of sales was the result of lower product costs.

**SELLING, GENERAL AND ADMINISTRATIVE.** Selling, general and administrative ("SG&A") expense was higher in the aggregate by \$1.0 million in the first twenty-six weeks of 2001 as compared to 2000. The change in SG&A expense included an increase of \$953 thousand in utility expense, \$392 thousand in marketing expense and \$202 thousand in other store expense. We had decreases of \$171 thousand in repairs and maintenance and \$306 thousand in supplies expense.

**DEPRECIATION AND AMORTIZATION.** Depreciation and amortization expense was higher by \$335 thousand in the first twenty-six weeks of 2000. Included in depreciation for the first twenty-six weeks of 2001 is a \$583 thousand write down of impaired assets.

**INCOME TAXES.** Income tax expense of \$438 thousand and \$965 thousand was provided in the twenty-six weeks of 2001 and 2000, respectively. Our effective tax rate is lower than the statutory Federal rate of 35% due to interest expense on restructured debt, which is reported as additional debt rather than interest expense pursuant to SFAS 15.

13

### LIQUIDITY AND CAPITAL RESOURCES

During the twenty-six weeks ended July 3, 2001, cash provided by operating activities was \$6.2 million compared to \$7.5 million in the same period of 2000. We made capital expenditures of \$1.2 million during the first twenty-six weeks of 2001 compared to \$8.2 million during the same period of 2000. The \$8.2 million spent in 2000 included capital expenditures on three new units and expenditures on the final phase of our re-imaging program. Due to the cash management provision under our new revolving credit facility, cash and temporary investments were \$0 and cash overdraft (included in accounts payable) was (\$.5) million at July 3, 2001 compared to cash and temporary investments of \$2.3 million at June 27, 2000 and \$5.7 million at January 3, 2001. Our current ratio was .42:1 at July 3, 2001 compared to .48:1 at June 27, 2000 and .57:1 at January 2, 2001. Total assets at July 3, 2001 aggregated \$81.1 million, compared to \$90.3 million at June 27, 2000 and \$89.4 million at January 2, 2001.

Our restaurants are a cash business. Funds available from cash sales are not needed to finance receivables and are not generally needed immediately to pay for food, supplies and certain other expenses of the restaurants. Therefore, the business and operations of the Company have not historically required proportionately large amounts of working capital, which is generally common among similar restaurant companies.

On April 10, 2001, we entered into a new \$55 million Revolving Credit and Term Loan Agreement (Credit Agreement) with various banks and lenders. Concurrent with the execution of this new agreement we defeased and

## Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

gave notice of redemption of our 12% Senior Secured Notes due December 31, 2001 and repaid in full the \$2.6 million of 10.5% Notes due December 31, 2001. The Credit Agreement contains covenants with regard to maintaining certain leverage ratios, achieving certain levels of EBITDA, operating cash flow and limits on capital expenditures. In addition there are certain restrictions on the payment of dividends and additional indebtedness. The Credit Agreement allows us to borrow at either a Federal Funds Rate plus an applicable margin or at a Eurocurrency Reserve Rate plus an applicable margin. Our obligations under the Credit Agreement are secured by a security interest in and liens upon substantially all of our assets.

The Credit Agreement provides that we can borrow up to \$20 million on a revolving basis until April, 2006, of which \$9 million was drawn at closing, with the remaining \$11 million of available borrowings to be used for working capital and capital expenditures. The Credit Agreement contains a \$30 million Term Loan A and a \$5 million Term Loan B. The Term Loan A and Term Loan B provide for quarterly amortization through April, 2006 and April, 2007, respectively, with the remaining amounts outstanding then due.

As a result of retiring the 12% Senior Secured Notes, we have been legally released as obligors and reported an extraordinary pre-tax gain of \$3.6 million in the second quarter of fiscal 2001.

In order to hedge exposure to cash flow risk associated with variable interest rates, we entered into an interest rate swap with a notional amount of \$20 million for a two-year term. Under the interest rate swap, we receive variable interest rate payments based on LIBOR and make fixed interest rate payments at 4.99%.

### RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001 the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards No. 141 "Business Combinations" and No. 142 "Goodwill and Other Intangible Assets." Statement 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method, and Statement 142 requires that goodwill no longer be amortized to earnings, but instead be reviewed for impairment. As of June 30, 2001, there is no impact to the

14

Company's financial statements as we have not entered into any business combinations and have not acquired goodwill.

Also, the FASB has voted to issue Statement No. 143 "Accounting for Asset Retirement Obligations" which establishes requirements for the accounting of removal-type costs associated with asset retirements. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. The Company is currently assessing the impact on its financial statements.

### Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are exposed to market risk from changes in commodity prices. We purchase certain commodities used in food preparation. These commodities are generally purchased based upon market prices established with vendors. These purchase arrangements may contain contractual features that limit the price paid by establishing certain price floors or caps. We do not use financial instruments to hedge commodity prices because these purchase arrangements help control the ultimate cost paid and any commodity price aberrations are generally short term in nature.

## Edgar Filing: FURRS RESTAURANT GROUP INC - Form 10-Q

We are exposed to market risk from changes in interest rates affecting our variable rate debt. We use an interest rate swap to manage the cash flow risk on \$20 million of our variable rate debt. The impact on our results of operations for the quarter of a one point interest rate change on the outstanding balance of our variable rate debt is approximately \$100 thousand. We do not use derivatives for trading purposes.

This market risk discussion contains forward-looking statements. Actual results may differ materially from this discussion based upon general market conditions and changes in domestic and global financial markets.

### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

None.

Items 2 and 3 are not applicable and have been intentionally omitted.

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

The 2001 Annual Meeting of Stockholders was held on May 22, 2001. At the meeting, Stockholders voted to elect seven directors to serve one-year terms.

Following is a summary of the votes cast for each Director nominee:

	FOR -----	AGAINST -----	WITHHELD -----
Margaret B. Hampton	8,367,895	-	12,602
Damien Kovary	8,367,889	-	10,748
Robert N. Dangremond	8,366,041	-	10,754
Max Pine	8,366,883	-	11,760
Phillip Ratner	8,366,876	-	11,767
Barry W. Ridings	8,366,866	-	11,777
Robert Sullivan	8,366,396	-	12,247

15

Item 5. is not applicable and has been intentionally omitted.

#### Item 6. Exhibits and Reports on Form 8-K

None.

### SIGNATURES

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

DATE: August 15, 2001      FURR'S RESTAURANT GROUP, INC.



/S/ PAUL G. HARGETT

-----  
Paul G. Hargett  
Executive Vice President and Chief Financial Officer

/S/ NANCY ELLEFSON

-----  
Nancy Ellefson  
Principal Accounting Officer