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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended October 2, 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 November 2, 2001 there were 9,767,926 shares of Common Stock outstanding.

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FURR'S RESTAURANT GROUP, INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

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

	(Unaudited) October 2, 2001
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ -
Accounts and notes receivable, net	2,077
Inventories	7,476
Prepaid expenses and other	2,819
Total current assets	12,372
PROPERTY, PLANT AND EQUIPMENT, NET	45,840
DEFERRED TAX ASSETS	19,321
DEFERRED LOAN COSTS, NET	2,611
OTHER ASSETS	628
TOTAL ASSETS	$ 80,772

(Continued)

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

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

	(Unaudited) October 2, 2001
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	
CURRENT LIABILITIES:	
Current maturities of long-term debt	$ 4,825
Trade accounts payable	9,201
Other payables and accrued expenses	12,329
Derivative liability, current	470
Reserve for store closings, current	714
Total current liabilities	27,539
RESERVE FOR STORE CLOSINGS, NET OF CURRENT MATURITIES	1,853
LONG-TERM DEBT, NET OF CURRENT PORTION	35,675
OTHER PAYABLES	9,671
DERIVATIVE LIABILITY, NET OF CURRENT PORTION	174
EXCESS OF FUTURE LEASE PAYMENTS OVER FAIR VALUE, NET OF AMORTIZATION	1,195
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	(3,933)
Accumulated deficit	(47,907)
Total stockholders' equity (deficit)	4,665
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 80,772

See accompanying notes to condensed consolidated financial statements.

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THIRTEEN WEEKS ENDED OCTOBER 2, 2001 AND SEPTEMBER 26, 2000
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Thirte
	October 2, 2001
Sales	$ 45,351
Costs and expenses:	
Cost of sales (excluding depreciation)	13,040
Selling, general and administrative	27,965
Depreciation and amortization	2,354
	43,359
Operating income	1,992
Gain on disposal of assets	(22)
Interest expense	1,128
Earnings before income taxes	886
Income tax expense (benefit)	(349)
Net income	$ 1,235
Weighted average number of shares of common stock outstanding:	
Basic	9,767,926
Diluted	9,771,203
Net income per share:	
Basic	$ 0.13
Diluted	$ 0.13

See accompanying notes to condensed consolidated financial statements.

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THIRTY-NINE WEEKS ENDED OCTOBER 2, 2001 AND SEPTEMBER 26, 2000
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Thirty-ni
	October 2, 2001
Sales	$ 140,393
Costs and expenses:	
Cost of sales (excluding depreciation)	40,332
Selling, general and administrative	86,179
Depreciation and amortization	8,002
	134,513
Operating income	5,880
Gain on disposal of assets	(366)
Interest expense	2,307
Earnings before income taxes and extraordinary item	3,939
Income tax expense	89
Earnings before extraordinary item	3,850
Extraordinary gain on retirement of debt	3,640
Net income	$ 7,490
Weighted average number of shares of common stock outstanding:	
Basic	9,759,345
Diluted	9,761,169
Earnings before extraordinary item per share:	
Basic	$ 0.40
Diluted	$ 0.40
Extraordinary item per share:	
Basic	$ 0.37

Diluted	$ 0.37
Net income per share:	
Basic	$ 0.77
Diluted	$ 0.77

See accompanying notes to condensed consolidated financial statements.

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FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES
IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE THIRTY-NINE WEEKS ENDED OCTOBER 2, 2001
(DOLLARS IN THOUSANDS)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulate Other Comprehens Loss
BALANCE, JANUARY 2, 2001	$ -	$ 98	$ 56,386	$ (3
Change in fair value of estimated cash flows related to interest rate swap, net of tax				
Reclassification of interest rate swap to earnings, net of tax				
Stock issued			21	
Net income	-	-	-	
BALANCE, OCTOBER 2, 2001	$ -	$ 98	$ 56,407	$ (3

See accompanying notes to condensed consolidated financial statements.

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FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

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

	Thirty-nin
	October 2, 2001
Cash flows from operating activities:	
Net income	$ 7,490
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	8,002
Amortization of deferred loan costs	313
Deferred tax expense	89
Gain on disposal of assets	(366)
Extraordinary gain on debt refinancing	(3,640)
Changes in operating assets and liabilities:	
Accounts and notes receivable	(703)
Inventories	(568)
Prepaid expenses and other	(2,270)
Reserve for store closings	(498)
Trade accounts payable, other payables, accrued expenses and other liabilities	(2,952)
Net cash provided by operating activities	4,897
Cash flows from investing activities:	
Purchases of property, plant and equipment	(1,968)
Proceeds from the sale of property, plant and equipment	2,975
Net cash provided by (used in) investing activities	1,007
Cash flows from financing activities:	
Payment of indebtedness	(11,079)
Payment of loan costs	(2,924)
Increase in cash overdraft	2,384
Issuance of stock	21
Net cash used in financing activities	(11,598)

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 $2,746 in 2000 classified as payment of indebtedness.)	$ 4,790
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.

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FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(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 2, 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 October 2, 2001 and September 26, 2000.

	Thirteen Weeks Ended		Thirty-n
	October 2, 2001	September 26, 2000	October 2, 2001
Weighted average common shares outstanding-basic	9,767,926	9,757,918	9,759,345
Options	3,277	640	1,824
Weighted average common shares outstanding-diluted	9,771,203	9,758,558	9,761,169

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		Thirty-n
	October 2, 2001	September 26, 2000	October 2, 2001
Options	531,000	890,415	558,000
Warrants	-	512,246	-

COMPREHENSIVE INCOME

The following table sets forth the components of comprehensive income for the periods ended October 2, 2001 and September 26, 2000:

	Thirteen Weeks Ended		Thirty-
	October 2, 2001	September 26, 2000	October 2, 2001
Net income	$1,235	$1,722	$7,490
Fair value of estimated cash flows			

related to interest rate swap, net of tax	(195)	-	(412)
	$1,040	$1,722	$7,078

INCOME TAXES

The Company has provided income tax expense (benefit) of ($349) and $89 for the thirteen weeks and thirty-nine weeks ended October 2, 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.

As a result of retiring the 12% Senior Secured Notes, the Company reported an extraordinary gain of $3,640 in the second quarter of fiscal 2001.

BUSINESS SEGMENTS

Following is a summary of segment information of the Company for the thirteen weeks ended October 2, 2001 and September 26, 2000:

	CAFETERIAS	DYNAMIC FOODS	TOTAL
2001:			
External revenues	$ 44,857	$ 494	$ 45,351
Intersegment revenues	-	12,764	12,764
Depreciation and amortization	2,096	258	2,354
Segment profit	1,744	270	2,014
2000:			
External revenues	$ 49,130	$ 467	$ 49,597
Intersegment revenues	-	15,386	15,386
Depreciation and amortization	2,463	271	2,734
Segment profit	1,951	219	2,170

Following is a summary of segment information of the Company for the thirty-nine weeks ended October 2, 2001 and September 26, 2000:

	CAFETERIAS	DYNAMIC FOODS	TOTAL
2001:			
External revenues	$ 139,068	$ 1,325	$ 140,393
Intersegment revenues	-	42,539	42,539
Depreciation and amortization	7,220	782	8,002
Segment profit	5,137	1,109	6,246
2000:			
External revenues	$ 144,339	$ 1,210	$ 145,549
Intersegment revenues	-	45,523	45,523
Depreciation and amortization	7,261	786	8,047
Segment profit	7,196	635	7,831

Following is a reconciliation of reportable segments to the Company's consolidated totals for the periods ended October 2, 2001 and September 26, 2000:

	Thirteen Weeks Ended		Thirty-nine Weeks En	
	October 3, 2001	September 26, 2000	October 2, 2001	Septembe 200
Revenues				
Total revenues of reportable segments	$ 58,115	$ 64,983	$ 182,932	$ 191
Elimination of inter-segment revenue	(12,764)	(15,386)	(42,539)	(45
Total consolidated revenues	$ 45,351	$ 49,597	$ 140,393	$ 145

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 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 OCTOBER 2, 2001 COMPARED TO THIRTEEN WEEKS ENDED SEPTEMBER 26, 2000:

Sales for the third fiscal quarter of 2001 were $45.4 million, a decrease of $4.2 million from the same quarter of 2000. Operating income for the third quarter of 2001 was $2.0 million compared to $2.1 million in the comparable period in the prior year. Net income for the third quarter of 2001 was $1.2 million compared to $1.7 million in the third quarter 2000.

SALES. Restaurant sales in comparable units (units open a minimum of 16 months) decreased $1.0 million, or 2.24%, in the third quarter of 2001 over the same quarter of 2000. Two factors contributed to the slightly more negative sales in this quarter. First, sales were temporarily impacted in the days immediately following the tragedies of September 11, and secondly, the Company did not promote the same price discount strategy as it did during the prior year. Sales of nine units closed subsequent to the third quarter of 2000 were $2.7 million during the third quarter of 2000 accounting for almost two-thirds of the sales decrease in the third quarter of 2001. Sales by Dynamic Foods to third parties were $494 thousand in the third quarter of 2001, $27 thousand higher than third quarter of 2000.

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COST OF SALES. Cost of sales was 28.8% of sales for the third quarter of 2001, a 70 basis point improvement from the 29.5% of sales for the third quarter of 2000. Cost of sales in third quarter of 2000 was negatively impacted by the price discounting promotions run during that quarter.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative ("SG&A") expense was lower in the aggregate by $2.2 million in the third quarter of 2001 as compared to 2000, principally due to fewer restaurants in operation in the current year. The change in SG&A expense included decreases of $1.4 million in labor related expenses, $.2 million in repairs and maintenance, $.2 million in supplies expense and $.3 million in other store expense.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense was lower by $392 thousand in the third quarter of 2001 due to the closure of nine units since third quarter 2000.

INTEREST EXPENSE. Interest expense was $1.0 million higher in the third quarter of 2001 due to the interest associated with the 12% Senior Secured Notes reported as additional debt rather than interest expense during 2000 pursuant to SFAS 15.

INCOME TAXES. Income tax expense (benefit) of ($349) thousand and $361 thousand was provided in the third 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. The third quarter 2001 income tax benefit is due to a reduction in the estimated effective income tax rate for fiscal 2001 compared to the previous estimate which is accounted for prospectively during the fiscal year.

THIRTY-NINE WEEKS ENDED OCTOBER 2, 2001 COMPARED TO THIRTY-NINE WEEKS ENDED SEPTEMBER 26, 2000:

Sales for the first thirty-nine weeks of 2001 were $140.4 million, a decrease of $5.2 million from the same period of 2000. Operating income for the first thirty-nine weeks of 2001 was $5.9 million compared to $7.2 million in the comparable period in the prior year. Net income for the first thirty-nine weeks of 2001 was $7.5 million compared to $6.2 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 (units open a minimum of 16 months) decreased $2.2 million, or 1.6%, in the first thirty-nine weeks of 2001 over the same period of 2000. The nine closed units represented year-to-date sales of $6.2 million in the prior year. New units represented additional sales of $2.7 million for 2001. Sales by Dynamic Foods to third parties were $115 thousand higher in the first thirty-nine weeks of 2001 than that of the comparable period of 2000.

COST OF SALES. Cost of sales was 28.7% of sales for the first thirty-nine weeks of 2001, a 70 basis point improvement from the 29.4% of sales for the same period of 2000. As a percentage of sales, cost of sales during 2000 was negatively impacted by price discounting promotions run periodically throughout the year.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative ("SG&A") expense was lower in the aggregate by $1.2 million in the first thirty-nine weeks of 2001 as compared to 2000. The change in SG&A expense included increases of $866 thousand in utility expense and $361 thousand in marketing expense, and decreases of $1.9 million in labor and related expenses, $359 thousand in repairs and maintenance and $498 thousand in supplies expense.

INTEREST EXPENSE. Interest expense was $2.0 million higher for the first 39 weeks of 2001 due to the interest associated with the 12% Senior Secured Notes reported as additional debt rather than interest expense during 2000 pursuant to SFAS 15.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense was lower by $45 thousand in the first thirty-nine weeks of 2001. Included in depreciation for the first thirty-nine weeks of 2001 is a $583 thousand write down of impaired assets.

INCOME TAXES. Income tax expense of $89 thousand and $1,326 thousand was provided in the thirty-nine 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. During the third quarter 2001, the Company reduced its estimated effective tax rate for fiscal 2001, the effect of which is accounted for prospectively during the fiscal year.

EXTRAORDINARY GAIN ON RETIREMENT OF DEBT. As a result of retiring the 12% senior Secured Notes, the Company reported an extraordinary gain of $3.6 million in the second quarter of fiscal 2001.

LIQUIDITY AND CAPITAL RESOURCES

During the thirty-nine weeks ended October 2, 2001, cash provided by operating activities was $4.9 million compared to $10.7 million in the same period of 2000. We made capital expenditures of $2.0 million during the first thirty-nine weeks of 2001 compared to $11.6 million during the same period of 2000. The $11.6 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 ($2.4) million at October 2, 2001 compared to cash and temporary investments of $2.2 million at September 26, 2000 and $5.7 million at January 2, 2001. Our current ratio was .45:1 at October 2, 2001 compared to .46:1 at September 26, 2000 and .57:1 at January 2, 2001. Total assets at October 2, 2001 aggregated $80.8 million, compared to $88.9 million at September 26, 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 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 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 October 2, 2001, there is no impact to the Company's financial statements as we have not entered into any business combinations and have not acquired goodwill.

Also, the FASB has recently issued Statement No. 143 "Accounting for Asset Retirement Obligations," and Statement No. 144 "Accounting for the Impairment of Disposal of Long-Lived Assets." Statement 143 establishes requirements for the accounting of removal-type costs associated with asset retirements and Statement 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Statement 143 is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged and Statement 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years.

The Company is currently assessing the impact of these standards 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.

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, 3, 4 and 5 are not applicable and have been intentionally omitted.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

11.1 Employment Agreement, dated as of October 9, 2001, between Craig S. Miller and Furr's Restaurant Group, Inc.

11.2 Nonqualified Stock Option Agreement, effective as of October 9, 2001, between Craig S. Miller and Furr's Restaurant Group, Inc.

11.3 Stock Grant Agreement, effective as of of November 5, 2000, between Craig S. Miller and Furr's Restaurant Group, Inc.

(b) Reports on Form 8-K

A report on Form 8-K was filed on October 17, 2001 with respect to the appointment of Craig S. Miller as President and Chief Executive Officer of the Company and his election as a member of the Company's Board of Directors.

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: November 14, 2001

FURR'S RESTAURANT GROUP, INC.

/s/ Craig S. Miller

Craig S. Miller
President and Chief Executive Officer

/s/ Nancy Ellefson

Nancy Ellefson
Vice President - Finance