FURRS RESTAURANT GROUP INC
Form 10-Q
May 17, 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 April 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 INDENTIFICATION 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 May 1, 2001, there were 9,758,743 shares of Common Stock outstanding.

1

FURR'S RESTAURANT GROUP, INC.

INDEX

2

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

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

(Unaudited)

	April 3, 2001	January 2, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,412	$ 5,694
Accounts and notes receivable, net	1,200	1,260
Inventories	7,225	6,908
Prepaid expenses and other	770	887
Total current assets	16,607	14,749
PROPERTY, PLANT AND EQUIPMENT, NET	50,102	54,876
DEFERRED TAX ASSETS	18,639	19,178
OTHER ASSETS	615	628
TOTAL ASSETS	$ 85,963	$ 89,431

(Continued)

3

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

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

	(Unaudited) April 3, 2001	January 2, 2001
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES:		
Current maturities of long-term debt	$ 4,250	$ 3,000
Trade accounts payable	7,011	6,051
Other payables and accrued expenses	12,212	15,859
Reserve for store closings, current	754	795
Total current liabilities	24,227	25,705
RESERVE FOR STORE CLOSINGS, NET OF CURRENT MATURITIES	2,175	2,270
LONG-TERM DEBT, NET OF CURRENT MATURITIES	48,223	52,219
OTHER PAYABLES	10,060	10,197
EXCESS OF FUTURE LEASE PAYMENTS OVER FAIR VALUE, NET OF AMORTIZATION	1,381	1,474

STOCKHOLDERS' DEFICIT:		
Preferred Stock, $.01 par value; 5,000,000 shares authorized, none issued	-	-
Common Stock, $.01 par value; 15,000,000 shares authorized, 9,757,918 shares issued and outstanding	98	98
Additional paid-in capital	56,386	56,386
Accumulated other comprehensive loss	(3,521)	(3,521)
Accumulated deficit	(53,066)	(55,397)
Total stockholders' deficit	(103)	(2,434)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$ 85,963	$ 89,431

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 APRIL 3, 2001 AND MARCH 28, 2000
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	Thirteen weeks ended	
	April 3, 2001	March 28, 2000
Sales	$ 47,487	$ 47,764
Costs and expenses:		
Cost of sales (excluding depreciation)	13,322	14,036
Selling, general and administrative	29,040	28,459
Depreciation and amortization	2,600	2,646
	44,962	45,141
Operating income	2,525	2,623
Gain on disposal of assets	(439)	-
Interest expense	94	85
Earnings before income taxes	2,870	2,538
Income tax expense	539	442
Net income	$ 2,331	$ 2,096

Weighted average number of shares

of common stock outstanding:		
Basic	9,757,918	9,747,599
Diluted	9,757,918	9,754,349
Net income per share:		
Basic	$ 0.24	$ 0.22
Diluted	$ 0.24	$ 0.21

See accompanying notes to condensed consolidated financial statements.

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
FOR THE THIRTEEN WEEKS ENDED APRIL 3, 2001
(DOLLARS IN THOUSANDS)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit
BALANCE, JANUARY 2, 2001	$ -	$ 98	$ 56,386	$ (3,521)	$ (55,397)
Net income	-	-	-	-	2,331
BALANCE, APRIL 3, 2001	$ -	$ 98	$ 56,386	$ (3,521)	$ (53,066)

See accompanying notes to condensed consolidated financial statements.

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

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

	Thirteen weeks ende	
	April 3, 2001	Marc 20
Cash flows from operating activities:		

Net income	$ 2,331	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,600	
Deferred tax expense	539	
Gain on disposal of assets	(439)	
Changes in operating assets and liabilities:		
Accounts and notes receivable	60	
Inventories	(317)	
Prepaid expenses and other	130	
Reserve for store closings	(136)	
Trade accounts payable, other payables, accrued expenses and other liabilities	(2,824)	(
Net cash provided by operating activities	1,944	
Cash flows from (used in) investing activities:		
Purchases of property, plant and equipment	(517)	(
Proceeds from the sale of property, plant and equipment	3,037	
Net cash provided by (used in) investing activities	2,520	(
Cash flows from financing activities:		
Payment of indebtedness	(2,746)	
Net cash used in financing activities	(2,746)	
Increase (decrease) in cash and cash equivalents	1,718	
Cash and cash equivalents at beginning of period	5,694	
Cash and cash equivalents at end of period	$ 7,412	$
Supplemental disclosure of cash flow information:		
Cash paid for interest (including $2,746 in 2001 classified as payment of indebtedness)	$ 2,906	$
Cash paid for income taxes	-	

See accompanying notes to condensed consolidated financial statements.

FURR'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

NOTES TO 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.

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 thirteen week periods ended April 3, 2000 and March 28, 2000.

	April 3, 2001	March 28, 2000
Weighted average common shares outstanding-basic	9,757,918	9,747,599
Options	-	6,750
Warrants	-	-
Weighted average common shares outstanding-diluted	9,757,918	9,754,349

For the thirteen weeks ended April 3, 2001 and March 28, 2000, outstanding options totaling 743,000 and 647,663, respectively, and outstanding warrants totaling 0 and 512,246, respectively, were not included in the computation of diluted earnings per share because their effect would have been anit-dilutive.

INCOME TAXES

We have provided income tax expense of $539 and $442 for the thirteen weeks ended April 3, 2001 and March 28, 2000, respectively. The effective income tax rate is lower than the statutory Federal rate of 35% due to interest expense on restructured debt reduction, which is reported as debt rather than interest expense pursuant to Statement of Financial Accounting Standards No. 15, "Troubled Debt Restructurings".

DEBT REFINANCING

On April 10, 2001, the Company 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 the Company defeased and gave notice of redemption of its 12% Senior Secured Notes due December 31, 2001 and repaid in full the $2.6 million of 10.5% Notes

due December 31, 2001. Accordingly, the balance of these notes, less the current portion of the new term loan, has been classified as long term at April 3, 2001 and January 2, 2001. After the redemption of the 12% Notes and the repayment in full of the 10.5% Notes, the Company had $44 million 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 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. 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 defeasing the 12% Senior Secured Notes, the Company has been legally released as obligors and will report an extraordinary pre-tax gain of approximately $3.5 million in the second quarter of fiscal 2001.

BUSINESS SEGMENTS

Following is a summary of segment information of the Company for the thirteen weeks ended April 3, 2001 and March 28, 2000:

	Cafeterias	Dynamic Foods	Total
2001:			
External revenues	$ 47,078	$ 409	$ 47,487
Intersegment revenues	-	14,424	14,424
Depreciation and amortization	2,337	263	2,600
Segment profit	2,014	511	2,525
2000:			
External revenues	$ 47,438	$ 326	$ 47,764
Intersegment revenues	-	15,099	15,099
Depreciation and amortization	2,392	254	2,646
Segment profit	2,442	181	2,623

Following is a reconciliation of reportable segments to the Company's consolidated totals for the thirteen weeks ended April 3, 2001 and March 28, 2000:

	April 3, 2001	March 28, 2000
Revenues		
Total revenues of reportable segments	$ 61,911	$ 62,863
Elimination of inter-segment revenue	(14,424)	(15,099)
Total consolidated revenues	$ 47,487	$ 47,764

RECENT ACCOUNTING MATTERS

The Company has adopted SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended. This statement establishes accounting and reporting standards for derivative instruments and hedging activities and requires the Company to recognize all derivatives on its balance sheet at fair value. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivatives are either offset against the change in fair value of the hedged item through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. As of January 3, 2001, the date of adoption, and April 3, 2001, the Company was not a party to any derivative financial instruments.

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

RESULTS OF OPERATIONS

Sales for the first fiscal quarter of 2001 were $47.5 million, a decrease of $.3 million from the same quarter of 2000. Operating income for the first quarter of 2001 was $2.5 million compared to $2.6 million in the comparable period in the prior year. The net income for the first quarter of 2001 was $2.3 million, which includes a $.4 million gain on disposal of assets, compared to $2.1 million in the first quarter 2000.

SALES. Restaurant sales in comparable units decreased $.3 million, or .6% in the first quarter of 2001 compared to the same quarter of 2000. First quarter 2000 was the best first quarter in Company history, with first quarter 2001 being the second best. First quarter sales for the three new units opened after first quarter 2000 were $1.9 million, an increase of $50 thousand over the aggregate sales of the 5 units that were closed after first quarter 2000. Sales by Dynamic Foods to third parties were $83 thousand higher in the first quarter 2001 than that of first quarter 2000.

COST OF SALES. Excluding depreciation, cost of sales were 28.1% of sales for the first quarter of 2001 as compared to 29.4% for the same quarter of 2000. The decrease in the percentage of sales was the result of lower product costs and operational efficiencies at Dynamic Foods.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative ("SG&A") expense was higher in the aggregate by $581 thousand in the first quarter of 2001 as compared to 2000. The change in SG&A expense included an increase of $512 thousand in utility expenses and $239 thousand in marketing expense. We had a decrease of $200 thousand in labor and related benefits.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expense was lower by $46 thousand in the first quarter of 2001.

INCOME TAXES. Income tax expense of $.5 million was provided in the first quarter of 2001 compared to $.4 million provided in the first quarter of 2000. Our effective tax rate is lower than the statutory Federal rate of 35% due to interest expense on restructured debt reduction, which is reported as debt rather than interest expense pursuant to Statement of Financial Accounting Standard No. 15, "Troubled Debt Restructurings."

LIQUIDITY AND CAPITAL RESOURCES

During the thirteen weeks ended April 3, 2001, cash provided by operating activities was $2.0 million compared to $3.6 million in the same period of 2000. We made capital expenditures of $.5 million during the first thirteen weeks of 2001 compared to $3.6 million during the same period of 2000. Cash and temporary investments were $7.4 million at April 3, 2001 compared to $5.1 million at March 28, 2000 and $5.7 million at January 2, 2001. Our current ratio was .69:1 at April 3, 2001 compared to .49:1 at March 28, 2000 and .57:1 at January 2, 2001. Total assets at April 3, 2001 aggregated $86.0 million, compared to $90.0 million at March 28, 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. Our obligations under the Credit Agreement are secured by a security interest in and liens upon substantially all of our assets.

As a result of defeasing the 12% Senior Secured Notes, we have been legally released as obligors and will report an extraordinary pre-tax gain of approximately $3.5 million in the second quarter of fiscal 2001.

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.

Our long-term debt does not expose us to market risk as all interest accrues at fixed rates. We do not use derivative financial instruments to manage overall borrowing costs.

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 Proceeding

None.

Items 2, 3, 4 and 5 are not applicable and have 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: May 14, 2001 FURR'S RESTAURANT GROUP, INC.

/s/ Phillip Ratner

Phillip Ratner
President and Chief Executive Officer

/s/ Paul G. Hargett

Paul G. Hargett
Chief Financial Officer