

FRIENDLY ICE CREAM CORP  
Form 10-Q  
April 28, 2003

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended March 30, 2003**

or

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

**For the transition period from \_\_\_\_\_ to  
Commission file number 0-3930**

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**FRIENDLY ICE CREAM CORPORATION**

(Exact Name of Registrant as Specified in Its Charter)

**Massachusetts**

(State or Other Jurisdiction of Incorporation or Organization)

**04-2053130**

(IRS Employer Identification No.)

**1855 Boston Road, Wilbraham, Massachusetts**

(Address of Principal Executive Offices)

**01095**

(Zip Code)

**(413) 543-2400**

(Registrant's Telephone Number, Including Area Code)

**Not Applicable**

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

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Class

Outstanding at April 21, 2003

Common Stock, \$.01 par value

7,434,346 shares

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

|  | March 30,<br>2003 | December 29,<br>2002 |
|--|-------------------|----------------------|
|  | (unaudited)       |                      |
| <b>ASSETS</b>  |                   |                      |
| <b>CURRENT ASSETS:</b>   |                   |                      |
| Cash and cash equivalents  | \$ 30,128         | \$ 34,341            |
| Accounts receivable  | 9,653             | 10,853               |
| Inventories  | 17,352            | 17,278               |
| Deferred income taxes  | 7,771             | 7,771                |
| Prepaid expenses and other current assets                                | 3,340             | 3,062                |
| <b>TOTAL CURRENT ASSETS</b>  | <b>68,244</b>     | <b>73,305</b>        |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation and amortization | 157,758           | 158,373              |
| INTANGIBLE ASSETS AND DEFERRED COSTS, net of accumulated amortization    | 19,194            | 19,642               |
| OTHER ASSETS   | 5,849             | 5,878                |
| <b>TOTAL ASSETS</b>  | <b>\$ 251,045</b> | <b>\$ 257,198</b>    |
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>                             |                   |                      |
| <b>CURRENT LIABILITIES:</b>  |                   |                      |
| Current maturities of long-term debt                                     | \$ 1,041          | \$ 1,031             |
| Current maturities of capital lease and finance obligations              | 1,033             | 1,362                |
| Accounts payable   | 22,698            | 23,902               |
| Accrued salaries and benefits  | 10,201            | 9,329                |
| Accrued interest payable   | 6,637             | 1,961                |
| Insurance reserves   | 12,761            | 11,330               |
| Restructuring reserves   | 818               | 937                  |
| Other accrued expenses   | 15,017            | 22,885               |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>70,206</b>     | <b>72,737</b>        |

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|  | March 30,<br>2003 | December 29,<br>2002 |
|--|-------------------|----------------------|
|  | <u>          </u> | <u>          </u>    |
| DEFERRED INCOME TAXES  | 954               | 1,533                |
| CAPITAL LEASE AND FINANCE OBLIGATIONS, less current maturities | 4,890             | 5,044                |
| LONG-TERM DEBT, less current maturities                        | 231,554           | 231,830              |
| ACCRUED PENSION COST   | 15,995            | 16,281               |
| OTHER LONG-TERM LIABILITIES                                    | 32,445            | 33,475               |
| COMMITMENTS AND CONTINGENCIES                                  |                   |                      |
| STOCKHOLDERS' DEFICIT:   |                   |                      |
| Common stock   | 74                | 74                   |
| Additional paid-in capital                                     | 140,166           | 139,974              |
| Accumulated other comprehensive loss                           | (14,559)          | (14,559)             |
| Accumulated deficit  | (230,680)         | (229,191)            |
|  | <u>          </u> | <u>          </u>    |
| TOTAL STOCKHOLDERS' DEFICIT                                    | (104,999)         | (103,702)            |
|  | <u>          </u> | <u>          </u>    |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT                    | \$ 251,045        | \$ 257,198           |
|  | <u>          </u> | <u>          </u>    |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

(In thousands, except per share data)

|   | For the Three Months Ended |                   |
|---|----------------------------|-------------------|
|   | March 30,<br>2003          | March 31,<br>2002 |
|   | <u>          </u>          | <u>          </u> |
| REVENUES  | \$ 128,690                 | \$ 129,174        |
| COSTS AND EXPENSES:                                   |                            |                   |
| Cost of sales   | 45,977                     | 46,040            |
| Labor and benefits                                    | 38,128                     | 37,918            |
| Operating expenses                                    | 25,063                     | 24,040            |
| General and administrative expenses                   | 9,288                      | 8,599             |
| Write-downs of property and equipment                 |                            | 120               |
| Depreciation and amortization                         | 5,627                      | 6,686             |
| Loss on disposal of other property and equipment, net | 573                        | 512               |
|   | <u>          </u>          | <u>          </u> |
| OPERATING INCOME                                      | 4,034                      | 5,259             |
| Interest expense, net                                 | 6,102                      | 6,337             |
|   | <u>          </u>          | <u>          </u> |
| LOSS BEFORE BENEFIT FROM INCOME TAXES                 | (2,068)                    | (1,078)           |
| Benefit from income taxes                             | 579                        | 670               |
|   | <u>          </u>          | <u>          </u> |
| NET LOSS AND COMPREHENSIVE LOSS                       | \$ (1,489)                 | \$ (408)          |

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|  | <b>For the Three Months Ended</b> |                       |
|--|-----------------------------------|-----------------------|
|  | <b>March 31, 2003</b>             | <b>March 31, 2002</b> |
| <b>BASIC AND DILUTED NET LOSS PER SHARE</b>      | \$ (0.20)                         | \$ (0.06)             |
| <b>WEIGHTED AVERAGE BASIC AND DILUTED SHARES</b> | 7,415                             | 7,353                 |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)

|   | <b>For the Three Months Ended</b> |                       |
|---|-----------------------------------|-----------------------|
|   | <b>March 30, 2003</b>             | <b>March 31, 2002</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                   |                       |
| Net loss  | \$ (1,489)                        | \$ (408)              |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                                   |                       |
| Stock compensation expense  | 65                                | 70                    |
| Depreciation and amortization   | 5,627                             | 6,686                 |
| Write-downs of property and equipment   |                                   | 120                   |
| Deferred income tax benefit   | (579)                             | (340)                 |
| Loss on disposal of other property and equipment, net                                     | 573                               | 512                   |
| Changes in operating assets and liabilities:  |                                   |                       |
| Accounts receivable   | 1,200                             | (776)                 |
| Inventories   | (74)                              | (3,916)               |
| Other assets  | (229)                             | 318                   |
| Accounts payable  | (1,204)                           | 727                   |
| Accrued expenses and other long-term liabilities  | (2,324)                           | (3,386)               |
| <b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>                                | <b>1,566</b>                      | <b>(393)</b>          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                   |                       |
| Purchases of property and equipment   | (5,157)                           | (1,563)               |
| Proceeds from sales of property and equipment   |                                   | 964                   |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>  | <b>(5,157)</b>                    | <b>(599)</b>          |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                   |                       |
| Repayments of debt  | (267)                             | (380)                 |
| Repayments of capital lease and finance obligations                                       | (482)                             | (464)                 |
| Stock options exercised   | 127                               | 13                    |

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|  | For the Three Months Ended |           |
|--|----------------------------|-----------|
|  | 2003                       | 2002      |
| NET CASH USED IN FINANCING ACTIVITIES          | (622)                      | (831)     |
| NET DECREASE IN CASH AND CASH EQUIVALENTS      | (4,213)                    | (1,823)   |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 34,341                     | 16,342    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD       | \$ 30,128                  | \$ 14,519 |
| SUPPLEMENTAL DISCLOSURES:                      |                            |           |
| Cash paid (refunded) during the period for:    |                            |           |
| Interest                                       | \$ 1,325                   | \$ 1,343  |
| Income taxes                                   | 686                        | (3)       |

The accompanying notes are an integral part of these condensed consolidated financial statements.

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**FRIENDLY ICE CREAM CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

*Interim Financial Information*

The accompanying condensed consolidated financial statements as of March 30, 2003 and for the three months ended March 30, 2003 and March 31, 2002 are unaudited, but, in the opinion of management, include all adjustments which are necessary for a fair presentation of the consolidated financial position, results of operations, cash flows and comprehensive loss of Friendly Ice Cream Corporation ("FICC") and subsidiaries (unless the context indicates otherwise, collectively, the "Company"). Such adjustments consist solely of normal recurring accruals. Operating results for the three months ended March 30, 2003 and March 31, 2002 are not necessarily indicative of the results that may be expected for the entire year due, in part, to the seasonality of the Company's business. Historically, higher revenues and operating income have been experienced during the second and third fiscal quarters. The Company's consolidated financial statements, including the notes thereto, which are contained in the 2002 Annual Report on Form 10-K should be read in conjunction with these condensed consolidated financial statements. Capitalized terms not otherwise defined herein should be referenced to the 2002 Annual Report on Form 10-K.

*Use of Estimates in the Preparation of Financial Statements*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The critical accounting policies and most significant estimates and assumptions relate to revenue recognition, insurance reserves, recoverability of accounts receivable, restructuring reserves, valuation allowances and pension and other post-retirement benefits expense. Actual amounts could differ significantly from the estimates.

*Revenue Recognition*

The Company's revenues are derived primarily from the operation of full-service restaurants, the distribution and sale of frozen desserts through retail and institutional locations and franchising. The Company recognizes restaurant revenue upon receipt of payment from the customer and retail revenue, net of allowances, upon delivery of product. Reserves for discounts and allowances from retail sales are estimated and accrued when revenue is recorded. Actual amounts could differ materially from the estimates. Franchise royalty income, based on net sales of franchisees, is payable monthly and is recorded on the accrual method. Initial franchise fees are recorded as revenue upon completion of all significant services, generally upon opening of the restaurant.

*Restructuring Reserves*

On October 10, 2001, the Company eliminated approximately 70 positions at corporate headquarters. In addition, approximately 30 positions in the restaurant construction and fabrication areas were eliminated by December 30, 2001. The purpose of the reduction was to streamline functions and reduce redundancy among its business segments. As a result of the elimination of the positions and the outsourcing of certain functions, the Company reported a pre-tax restructuring charge of

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approximately \$2,536,000 for severance, rent and unusable construction supplies in the year ended December 30, 2001.

In March 2000, the Company's Board of Directors approved a restructuring plan that provided for the immediate closing of 81 restaurants at the end of March 2000 and the disposition of an additional 70 restaurants over the next 24 months. As a result of this plan, the Company reported a pre-tax restructuring charge of approximately \$12,100,000 for severance, rent, utilities and real estate taxes, demarking, lease termination costs and certain other costs associated with the closing of the locations, along with a pre-tax write-down of property and equipment for these locations of approximately \$17,000,000 in the year ended December 31, 2000. The Company reduced the restructuring reserve by \$400,000 and \$1,900,000 during the years ended December 29, 2002 and December 30, 2001, respectively, since the reserve exceeded estimated remaining payments.

As of March 30, 2003, the remaining restructuring reserve was \$818,000. The restructuring reserve may be increased or decreased based upon remaining payments, which could vary materially from the estimates depending upon the timing of restaurant closings and other factors.

*Pension and Other Post-Retirement Benefits*

The determination of the Company's obligation and expense for pension and other post-retirement benefits is dependent upon the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among other things, the discount rate, expected long-term rate of return on plan assets and rates of increase in compensation and health care costs. In accordance with accounting principles generally accepted in the United States, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods. Significant differences in actual experience or significant changes in the assumptions may materially affect the future pension and other post-retirement obligations and expense.

*Inventories*

Inventories were stated at the lower of first-in, first-out cost or market. Inventories at March 30, 2003 and December 29, 2002 were (in thousands):

|                  | March 30,<br>2003 | December 29,<br>2002 |
|------------------|-------------------|----------------------|
|                  | <u>          </u> | <u>          </u>    |
| Raw materials    | \$ 1,832          | \$ 801               |
| Goods in process | 96                | 203                  |
| Finished goods   | 15,424            | 16,274               |
|                  | <u>          </u> | <u>          </u>    |
| Total            | \$ 17,352         | \$ 17,278            |
|                  | <u>          </u> | <u>          </u>    |

*Long-Lived Assets*

In accordance with Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company reviews its 1988 Non-Friendly Marks, which were assigned to the Company by Hershey in September 2002, for impairment on a

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quarterly basis. The Company recognizes impairment has occurred when the carrying value of the 1988 Non-Friendly Marks exceeds the estimated future undiscounted cash flows of the trademarked products.

The Company reviews each restaurant property quarterly to determine which properties will be disposed of, if any. This determination is made based on poor operating results, deteriorating property values and other factors. In addition, the Company reviews all restaurants with negative cash flow for impairment on a quarterly basis. The Company recognizes an impairment has occurred when the carrying value of property reviewed exceeds its estimated fair value, which is estimated based on the Company's experience selling similar properties and local market conditions, less costs to sell for properties to be disposed of.

### *Concentration of Credit Risk*

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist principally of accounts receivable. The Company performs ongoing credit evaluations of its customers and generally requires no collateral to secure accounts receivable. The credit review is based on both financial and non-financial factors. The Company maintains a reserve for potentially uncollectible accounts receivable based on its assessment of the collectibility of accounts receivable.

### *Insurance Reserves*

The Company is self-insured through retentions or deductibles for the majority of its workers' compensation, automobile, general liability, employer's liability, product liability and group health insurance programs. Self-insurance amounts vary up to \$500,000 per occurrence. Insurance with third parties, some of which is then reinsured through Restaurant Insurance Corporation ("RIC"), the Company's wholly-owned subsidiary, is in place for claims in excess of these self-insured amounts. RIC reinsured 100% of the risk from \$500,000 to \$1,000,000 per occurrence through September 2, 2000 for FICC's workers' compensation, general liability, employer's liability and product liability insurance. Subsequent to September 2, 2000, the Company discontinued its use of RIC as a captive insurer for new claims. FICC's and RIC's liabilities for estimated incurred losses are actuarially determined and recorded in the accompanying condensed consolidated financial statements on an undiscounted basis. Actual incurred losses may vary from the estimated incurred losses and could have a material affect on the Company's insurance expense.

### *Income Taxes*

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. A valuation allowance is recorded for deferred tax assets whose realization is not likely.

### *Derivative Instruments and Hedging Agreements*

The Company enters into commodity option contracts from time to time to manage dairy cost pressures. The Company's commodity option contracts do not meet hedge accounting criteria as

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defined by SFAS No. 133 and, accordingly, are marked to market each period, with the resulting gains or losses recognized in cost of sales.

### *Net Loss Per Share*

Basic net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is calculated by dividing net loss by the weighted average number of shares of common stock and common stock equivalents outstanding during the period. Common stock equivalents are dilutive stock options and warrants that are assumed exercised for calculation purposes. The number of common stock options which could dilute basic earnings per share in the future, that were not included in the computation of diluted loss per share because to do so would have been antidilutive, was 332,000 and 288,000 for the three months ended March 30, 2003 and March 31, 2002, respectively.

### *Stock-Based Compensation*

The Company accounts for stock-based compensation for employees under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and elected the disclosure-only alternative under SFAS No. 123, "Accounting for Stock-Based Compensation." No stock-based compensation cost is included in net loss, as all options granted during periods presented had an exercise price

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equal to the market value of the stock on the date of grant. In accordance with SFAS No. 148, "Accounting for Stock Based Compensation-Transition and Disclosure," the following table presents the effect on net loss and net loss per share had compensation cost for the Company's stock plans been determined consistent with SFAS No. 123:

|   | <b>March 30,<br/>2003</b> | <b>March 31,<br/>2002</b> |
|---|---------------------------|---------------------------|
| Net loss, as reported   | \$ (1,489,000)            | \$ (408,000)              |
| Less stock based compensation expense determined under fair value method for all stock options, net of related income tax benefit | (31,000)                  | (21,000)                  |
| <b>Pro forma net loss</b>   | <b>\$ (1,520,000)</b>     | <b>\$ (429,000)</b>       |
| <i>Basic and diluted loss per share:</i>  |                           |                           |
| Basic and diluted loss per share, as reported   | \$ (0.20)                 | \$ (0.06)                 |
| Basic and diluted loss per share, pro forma   | \$ (0.20)                 | \$ (0.06)                 |

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Fair value was estimated on the grant date using the Black-Scholes option pricing model with the following assumptions for options issued in July 2002. There have been no options issued during the quarter ended March 30, 2003.

|                         | <b>2002</b> |
|-------------------------|-------------|
| Risk free interest rate | 3.60%       |
| Expected life           | 5 years     |
| Expected volatility     | 79.97%      |
| Dividend yield          | 0.00%       |
| Fair value              | \$4.99      |

### *Reclassifications*

Certain prior year amounts have been reclassified to conform with current year presentation.

## **2. SEGMENT REPORTING**

Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision-maker is the Chief Executive Officer and President of the Company. The Company's operating segments include restaurant, foodservice and franchise. The revenues from these segments include both sales to unaffiliated customers and intersegment sales, which generally are accounted for on a basis consistent with sales to unaffiliated customers. Intersegment sales and other intersegment transactions have been eliminated in the accompanying condensed consolidated financial statements.

The Company's restaurants target families with children and adults who desire a reasonably priced meal in a full-service setting. The Company's menu offers a broad selection of freshly-prepared foods which appeal to customers throughout all dayparts. The menu currently features over 100 items comprised of a broad selection of breakfast, lunch, dinner and afternoon and evening snack items. Foodservice operations manufactures frozen dessert products and distributes such manufactured products and purchased finished goods to the Company's restaurants and franchised operations. Additionally, it sells frozen dessert products to distributors and retail and institutional locations. The Company's franchise segment includes a royalty based on franchise restaurant revenue. In addition, the Company receives rental income from various franchised restaurants. The Company does not allocate general and administrative expenses associated with its headquarters operations to any business segment. These costs include expenses of the following functions: legal, accounting, personnel not directly related to a segment, information systems and other headquarters activities.

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The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies except that the financial results for the foodservice operating segment, prior to intersegment eliminations, have been prepared using a management approach, which is consistent with the basis and manner in which the Company's management internally reviews financial information for the purpose of assisting in making internal operating decisions. The Company evaluates performance based on stand-alone operating segment income (loss) before income taxes and generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

During the three months ended March 30, 2003, the foodservice segment no longer charged additional zone pricing to the restaurant and franchise segments. As a result, intercompany zone pricing of approximately \$109,000 was reclassified for the quarter ended March 31, 2002 to conform with current year presentation. Additionally, certain second and third quarter ice cream promotion marketing costs that were funded by the foodservice segment in 2002 will be reclassified to the restaurant segment.

EBITDA represents net income before (i) benefit from income taxes, (ii) interest expense, net, (iii) depreciation and amortization, (iv) write-downs of property and equipment and (v) other non-cash items. The Company has included information concerning EBITDA in this Form 10-Q because the Company's management incentive plan pays bonuses based on achieving EBITDA targets and the Company believes that such information is used by certain investors as one measure of a company's historical ability to service debt. EBITDA should not be considered as an alternative to, or more meaningful than, earnings (loss) from operations or other traditional indications of a company's operating performance.

|   | <b>For the Three Months Ended</b> |                           |
|---|-----------------------------------|---------------------------|
|   | <b>March 30,<br/>2003</b>         | <b>March 31,<br/>2002</b> |
|   | (in thousands)                    |                           |
| <b>Revenues before elimination of inter-segment revenues:</b> |                                   |                           |
| Restaurant  | \$ 103,168                        | \$ 104,256                |
| Foodservice   | 52,326                            | 51,712                    |
| Franchise   | 2,255                             | 2,129                     |
|   | <b>\$ 157,749</b>                 | <b>\$ 158,097</b>         |
| <b>Intersegment revenues:</b>                                 |                                   |                           |
| Restaurant  | \$                                | \$                        |
| Foodservice   | (29,059)                          | (28,923)                  |
| Franchise   |                                   |                           |
|   | <b>\$ (29,059)</b>                | <b>\$ (28,923)</b>        |
| <b>Revenues:</b>  |                                   |                           |
| Restaurant  | \$ 103,168                        | \$ 104,256                |
| Foodservice   | 23,267                            | 22,789                    |
| Franchise   | 2,255                             | 2,129                     |
|   | <b>\$ 128,690</b>                 | <b>\$ 129,174</b>         |

| <b>For the Three Months Ended</b> |                           |
|-----------------------------------|---------------------------|
| <b>March 30,<br/>2003</b>         | <b>March 31,<br/>2002</b> |

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For the Three Months Ended

(in thousands)

|  |                   |                   |
|--|-------------------|-------------------|
| <b>EBITDA:</b>   |                   |                   |
| Restaurant   | \$ 10,081         | \$ 12,105         |
| Foodservice  | 3,189             | 3,566             |
| Franchise  | 1,561             | 1,381             |
| Corporate  | (4,764)           | (4,402)           |
| Loss on property and equipment, net, excluding write-downs of property and equipment | (341)             | (515)             |
| <b>Total</b>   | <b>\$ 9,726</b>   | <b>\$ 12,135</b>  |
| Interest expense, net-Corporate  | \$ 6,102          | \$ 6,337          |
| <b>Depreciation and amortization:</b>  |                   |                   |
| Restaurant   | \$ 3,799          | \$ 4,097          |
| Foodservice  | 736               | 843               |
| Franchise  | 39                | 74                |
| Corporate  | 1,053             | 1,672             |
| <b>Total</b>   | <b>\$ 5,627</b>   | <b>\$ 6,686</b>   |
| <b>Other non-cash expenses:</b>  |                   |                   |
| Corporate  | \$ 65             | \$ 70             |
| Write-downs of property and equipment  |                   | 120               |
| <b>Total</b>   | <b>\$ 65</b>      | <b>\$ 190</b>     |
| <b>Income (loss) before income taxes:</b>  |                   |                   |
| Restaurant   | \$ 6,282          | \$ 8,008          |
| Foodservice  | 2,453             | 2,723             |
| Franchise  | 1,522             | 1,307             |
| Corporate  | (11,984)          | (12,481)          |
| Loss on property and equipment, net, including write-downs of property and equipment | (341)             | (635)             |
| <b>Total</b>   | <b>\$ (2,068)</b> | <b>\$ (1,078)</b> |

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March 30, 2003      December 29, 2002

(in thousands)

|  |          |           |
|--|----------|-----------|
| <b>Capital expenditures, including assets acquired under capital leases:</b> |          |           |
| Restaurant   | \$ 4,286 | \$ 15,386 |
| Foodservice  | 832      | 1,667     |
| Corporate  | 39       | 1,039     |

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|               | March 30,<br>2003           | December 29,<br>2002        |
|---------------|-----------------------------|-----------------------------|
|               | <u>                    </u> | <u>                    </u> |
| Total         | \$ 5,157                    | \$ 18,092                   |
|               | <u>                    </u> | <u>                    </u> |
| Total assets: |                             |                             |
| Restaurant    | \$ 146,134                  | \$ 144,927                  |
| Foodservice   | 38,277                      | 39,631                      |
| Franchise     | 8,129                       | 9,062                       |
| Corporate     | 58,505                      | 63,578                      |
|               | <u>                    </u> | <u>                    </u> |
| Total         | \$ 251,045                  | \$ 257,198                  |
|               | <u>                    </u> | <u>                    </u> |

### 3. NEW ACCOUNTING PRONOUNCEMENTS

In January 2003, the Emerging Issues Task Force ("EITF") issued EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," which states that cash consideration received from a vendor is presumed to be a reduction of the prices of the vendor's products or services and should, therefore, be characterized as a reduction of cost of sales when recognized in the statement of operations. That presumption is overcome when the consideration is either a reimbursement of specific, incremental, identifiable costs incurred to sell the vendor's products, or a payment for assets or services delivered to the vendor. EITF Issue No. 02-16 is effective for arrangements entered into after November 21, 2002. The adoption of EITF Issue No. 02-16 had no material impact on net earnings in 2003.

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 allows for three methods of transition for those companies that adopt SFAS No. 123's provisions for fair value recognition. SFAS No. 148's transition guidance and provisions for annual disclosures are effective for fiscal years ending after December 15, 2002. The Company did not adopt fair value accounting for employee stock options under SFAS No. 123 and SFAS No. 148, but will continue to disclose the required pro-forma information in the notes to the consolidated financial statements.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS No. 146 and EITF Issue No. 94-3 relates to the timing of liability recognition. Under SFAS No. 146, a liability for a cost associated with an exit or disposal activity is recognized when the liability is incurred. Under EITF Issue No. 94-3, a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No. 146 had no material effect on the Company's financial position or results of operations.

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In April 2002, the FASB issued SFAS No. 145, "Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections." SFAS No. 4 required all gains and losses from the extinguishment of debt to be reported as extraordinary items and SFAS No. 64 related to the same matter. SFAS No. 145 requires gains and losses from certain debt extinguishment not to be reported as extraordinary items when the use of debt extinguishment is part of a risk management strategy. SFAS No. 44 was issued to establish transitional requirements for motor carriers. Those transitions are completed, therefore SFAS No. 145 rescinds SFAS No. 44. SFAS No. 145 also amends SFAS No. 13 requiring sale-leaseback accounting for certain lease modifications. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002. The provisions relating to sale-leaseback accounting are effective for transactions occurring after May 15, 2002. The adoption of SFAS No. 145 had no material effect on the Company's financial position or results of operations.

### 4. RESTRUCTURING RESERVES

The following represents the reserve and activity associated with the March 2000 and October 2001 restructurings (in thousands):

For the Three Months Ended March 30, 2003

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|                                 | <b>Restructuring<br/>Reserves as of<br/>December 29, 2002</b> | <b>Costs Paid</b> | <b>Restructuring<br/>Reserves as of<br/>March 30, 2003</b> |
|---------------------------------|---|-------------------|--|
| Rent                            | \$ 679  | \$ (64)           | \$ 615   |
| Utilities and real estate taxes | 121   | (23)              | 98   |
| Equipment                       | 77  | (31)              | 46   |
| Other                           | 60  | (1)               | 59   |
| <b>Total</b>                    | <b>\$ 937</b>   | <b>\$ (119)</b>   | <b>\$ 818</b>  |

**For the Three Months Ended March 31, 2002**

|               | <b>Restructuring<br/>Reserves as of<br/>December 30, 2001</b> | <b>Costs Paid</b> | <b>Restructuring<br/>Reserves as of<br/>March 31, 2002</b> |
|---------------|---|-------------------|--|
| Severance pay | \$ 516  | \$ (408)          | \$ 108   |
| Rent          |   |                   |  |